



Fulfilling the Microenterprise Promise: Background for Funders

In the small towns of rural Nebraska, along the coast of Maine, in the immigrant centers of New York, Chicago, Los Angeles and San Antonio, and in a myriad of places in between, you'll find microentrepreneurs – owners of small businesses with five or fewer employees – engaged in earning a livelihood. They are street vendors and small shop owners, house and office cleaners and child-care providers. They grow, sell or transform food crops, herbs and flowers into high-demand specialty products. They are craft producers and tailors. They perform medical billing, run transport services, and create graphic designs.

Across the United States, there are some 22 million such entrepreneurs creating economic opportunities that offer a chance to move out of low-paying wage work and build an asset a family can be proud of. In most instances, their enterprises provide a significant piece of revenue in households that patch together income from a variety of sources to survive. And these entrepreneurs create jobs for others as well – U.S. Census Bureau and Department of Commerce data reveal that they're responsible for 17.2 percent of all private (non-farm) employment in the nation.

An array of economic trends suggests that this livelihood strategy will remain important in the U.S. for some time to come. Key among those trends are:

The loss of well paying, secure "middle class" jobs, and along with it, the potential for advancement and wage growth, benefits and job security.

Outsourcing and increasing use of temporary workers, which push some who have lost jobs to start microenterprises and pull others into self-employment in hopes of filling a lucrative niche.

Declines in the economic foundation of many rural communities, which spur business creation as many families choose to stay rooted where they have strong family and community ties.

Changes in the social safety net that encourage or require recipients of many forms of cash assistance to work and lead some to choose self-employment to meet that requirement.

A need to balance work and family, as the number of hours worked by women and couples with children has increased dramatically, seeking many to value the flexibility that self-employment can offer to better accommodate family responsibilities.

Growth in immigration, which continues to fuel growth in the overall number of immigrant-owned firms, and

Aging of the population, which will lead to an increase in self-employment as the "Baby Boomers" move toward retirement (Workers over 50 have a higher rate of self-employment than others in the population.)

Microenterprise in the U.S.: Key Facts

A microenterprise is defined as a business with five or fewer employees, including the owner. Start-up financing needs are generally under \$35,000.

22 million microenterprises were responsible for 28,127,825 jobs in 2002.

10 million microentrepreneurs could benefit from the financing and business development services that microenterprise programs provide.

Although these and other factors are prompting millions in America to pursue self-employment, many face barriers to credit, knowledge and networks that are available to better-off entrepreneurs. Helping these individuals get a foothold in small business development are more than 500 programs in the U.S. offering financial and business development services. And while these programs help a significant number of emerging entrepreneurs (estimates are that up to a quarter million took advantage of services in 2002), there is evidence that there are some 10 million individuals who fit their client profile and might benefit from assistance, yet are not being reached. Who makes up that target market? They include: women, minority and low-income entrepreneurs, individuals with disabilities, immigrants, welfare recipients, unemployed workers, and others who see the creation of a very small business as critical to their families' economic progress.

FIELD's research into the microenterprise industry has found that entrepreneurs targeted by microenterprise programs can do well: they start and grow businesses, show more resilience in the labor market and increase their income and assets. Their businesses show strong survival rates and create jobs for others. These and other outcomes – coupled with the trends described above – have led us to three compelling reasons for funders, policy makers and others to take note of and provide support for microenterprise:

Given the current economic environment, there is a segment of the population for whom self-employment is a necessary – and in some cases is the best – source of employment and income.

By assisting individuals to build businesses and assets, microenterprise can open wealth and ownership opportunities to individuals who have been excluded from these in our economy.

And, microenterprise can play a role in the revitalization of local economies.

Still, if the microenterprise industry is to help more individuals seize the opportunity to become business owners, then some much-needed change will be required. Whether small or large, microenterprise programs will need to increase their investment in market research and marketing, significantly expand their products and services and increase program quality. These efforts will require further changes – the adoption and use of technology, organizational restructuring, greater focus on cost recovery and revenue generation, and new partnerships with others engaged in economic development.

Donors have a critical role to play as the field moves in these directions. They can support the industry by: making new and different kinds of investments; promoting and rewarding higher performance; and supporting the development of the organizational capacity that is required for programs to grow and innovate.

Future editions of this Funders' Guide series will explore, in greater depth, the challenges for programs seeking to make these changes, and identify opportunities for investors to help the field make steady and significant advancements.

For more information

Elaine L. Edgcomb and Joyce A. Klein. *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. Washington, D.C.: The Aspen Institute/FIELD, February 2005. Pages 9-17 provide supporting data for the trends cited here. Available from: <http://www.fieldus.org/fulfillingthepromise>.

Association for Enterprise Opportunity, Microenterprise Employment Statistics; available from:

http://www.microenterpriseworks.org/services/policy/mees/us_sheet.htm. Also Microenterprise Employment Statistics (MEES) – Three Year Analysis; available from: <http://www.microenterpriseworks.org/services/policy/mees/documents/Summaryanalysis3.pdf>.

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