Microenterprise Development

★ Microenterprise development programs are cost effective investments that help create jobs and reduce reliance on public assistance.

★ 2004 POLICY SUMMARY ★

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Summary

- **For low-income families, self-employment is a significant source of jobs and income.**
- **Most low-income workers who want to start microenterprises cannot do so without help.**
- **Policies encouraging the creation of microenterprises help low-income families become economically self-sufficient.**
- **Microenterprise development programs are cost-effective investments that help create jobs and reduce reliance on public assistance.**
- **Training and technical assistance are the most urgent needs for microentrepreneurs.**
- **States are beginning to recognize the need to fund microenterprise development.**

For low-income families, self-employment is a significant source of jobs and income.

Of the 10.5 million self-employed individuals in the United States, 2 million are low-income. Often, a small business is started in order to supplement income from a low-wage job, or to create a job when a worker becomes unemployed. For many low-income Americans, starting a microenterprise is the most effective way to support their families.

Most low-income workers who want to start microenterprises cannot do so without help.

There is a large unmet demand for microenterprise technical assistance, training and financing services in low-income communities. Community-based organizations exist in every state, offering some type of microenterprise development program targeted at non-traditional entrepreneurs, such as women of color, welfare recipients, immigrants, the disabled, and /or inner-city residents. But 90 percent of the existing low-income microentrepreneurs in the United States do not have access to these programs.[1]

Policies encouraging the creation of microenterprises can help low-income families become economically self-sufficient.

A large-scale study of low-income micro-entrepreneurs found that 72 percent experienced a substantial rise in pay—raising average annual household incomes from $13,889 to $22,374 over five years. More than 53 percent of low-income entrepreneurs gained enough income to move their families out of poverty.[2]

Microenterprise development programs are cost-effective investments that create jobs and reduce reliance on public assistance.

Low-income workers who start a microenterprise reduce their families' dependence on public assistance by up to 61 percent. According to the U.S. Small Business Administration, businesses created by low-income entrepreneurs have high survival rates—ranging from 57 to 90 percent over a five-year span—higher than the 47 percent survival rate for all small businesses.[3] A study of ten microenterprise programs supported by the Charles Stewart Mott Foundation found that participants' reliance on public assistance declined from 94 percent to 35 percent in just one year.[4]

Training and technical assistance are the most urgent needs for microentrepreneurs.

In microenterprise development programs, training and technical assistance are greatly in demand. On average, 89 percent of microenterprise program clients seek training and technical assistance in areas such as business management and economic literacy.[5] Currently, there is only one small source of federal funding for training and technical assistance services to low-income entrepreneurs. The Small Business Administration's Program for Investment in Microentrepreneurs was allocated just $5 million by Congress for fiscal year 2004.

States are beginning to recognize the need to fund microenterprise development.

Twenty states currently allocate funding for microenterprise program operations, training and technical assistance. Other programs offer direct loans to microenterprises. Vermont's Job Start Program, the oldest state microenterprise effort in the nation, administers a centralized loan pool through the state Economic Development Authority and uses state funds to support five local community action agencies which provide assistance and training to local entrepreneurs. Nebraska's longstanding microenterprise program created over 500 jobs in 2001 at a cost of only $729 per job. Oregon enacted legislation in 2001 that provides grants, technical assistance, and training to microentrepreneurs.

The Microenterprise Development Act helps support nonprofit organizations that provide training and technical assistance to low-income microentrepreneurs.

The Act directs the state economic development agency to create a grant program for nonprofit microenterprise development assistance programs. These programs will give low-income microentrepreneurs the support they need to succeed, including business planning, marketing, and financial management skills. All state funds must be matched at least dollar-for-dollar by other funding sources.

This policy summary relies in large part on information from the Corporation for Enterprise Development.

Endnotes

[1] Aspen Institute, "Microenterprise and the Poor: Findings from the Self-Employment Learning Project Five-Year Study of Microentrepreneurs," 1999.

[2] Ibid.

[3] Aspen Institute, "Microenterprise Development Works: Outcomes for Clients," 2002.

[4] Aspen Institute, "Welfare to Work: Microenterprise as Welfare to Work Strategy, One Year Findings," 2002.

[5] Aspen Institute, "Assessing the Effectiveness of Training and Technical Assistance," 1999.

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For more information...

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777 North Capitol Street NE, Suite 800
Washington, DC 20002
202-408-9788
www.cfed.org

Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination
The Aspen Institute
One Dupont Circle NW, Suite 700
Washington, DC 20036
202-736-5800
www.fieldus.org

Small Business Administration
409 3rd Street SW
Washington, DC 20416
202-401-9600
www.sba.gov

Microenterprise Development Act

SECTION 1. SHORT TITLE

This Act shall be called the "Microenterprise Development Act."

SECTION 2. FINDINGS AND PURPOSE

(A) FINDINGS – The legislature finds that:

1. There is a need to develop and expand businesses in economically distressed communities in both rural and urban areas, and there is a need to assist residents who are unemployed, underemployed or in low-income jobs.

2. Microenterprises can provide a means for unemployed, underemployed or low-income individuals to find and sustain productive work, and they can provide opportunities for economically distressed communities to thrive, one microentrepreneur at a time.

3. There is a lack of access to capital, training and technical assistance for low-income microentrepreneurs. Many low-income microentrepreneurs need technical assistance to start, operate or expand their businesses.

4. Local microenterprise support organizations have demonstrated cost-effective delivery methods to provide technical assistance.

5. Charitable foundation support, federal program funding, and private sector support can be leveraged by a statewide program for development of microenterprises.

(B) PURPOSE – This law is enacted to strengthen the [STATE] economy and enable low-income residents to become self-sufficient by encouraging microenterprise development.

SECTION 3. MICROENTERPRISE DEVELOPMENT

After section XXX, the following new section XXX shall be inserted:

(A) DEFINITIONS—In this section:

1. "Secretary" means the Secretary of the Department of [Economic Development].

2. "Microenterprise" means a sole proprietorship, partnership, or corporation that has fewer than five employees and generally lacks access to conventional loans, or other banking services.

3. "Microenterprise development organization or program" means a nonprofit entity, or a program administered by such an entity, including community development corporations or other nonprofit development organizations and social service organizations, that provides services to low-income microenterprises.

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4. "Training and technical assistance" means services and support provided to low-income owners and operators of microenterprises, such as assistance for the purpose of enhancing business planning, marketing, management, financial management skills, and assistance for the purpose of accessing financial services.

5. "Low income person" means a person with income adjusted for family size that does not exceed:
   a. For metropolitan areas, 80 percent of median income; or
   b. For nonmetropolitan areas, the greater of 80 percent of the area median income or 80 percent of the statewide nonmetropolitan area median income.

(B) ESTABLISHMENT OF MICROENTERPRISE DEVELOPMENT PROGRAM

1. The Secretary shall establish a microenterprise technical assistance and capacity building grant program to provide assistance in the form of grants to qualified organizations.

2. A qualified organization shall use grants made under this program to provide training and technical assistance to low-income entrepreneurs.

3. To be eligible for a grant, a qualified organization shall be a nonprofit microenterprise development organization that has a demonstrated record of delivering services to low-income individuals.

4. The Secretary shall ensure that not less than 50 percent of the funds made available are used to benefit persons whose income, adjusted for family size, is not more than 150 percent of the poverty line as defined in 42 U.S.C. 9902(2).

5. A qualified organization must provide at least one dollar in matching funds for every dollar of state financial assistance. Grants and gifts from public or private sources may be used to comply with the matching funds requirement.

6. The Secretary shall establish by regulation such requirements as may be necessary to carry out this section.

SECTION 4. AUTHORIZATION

During fiscal year 2005, $XXXXX is authorized to be appropriated to the Secretary to carry out this Act.

SECTION 5. EFFECTIVE DATE

This Act shall take effect on July 1, 2004.