

# FIELD Funder Guide



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## Making the Economic Development Connection

Many economic development policy makers are more inclined to think of microenterprise development as a poverty alleviation strategy than as an economic development strategy. The rationale for that association is clear: Microenterprise programs are well-known for focusing on opening enterprise opportunity to disadvantaged individuals, and research findings provide evidence that many of their clients live at or below the poverty line, or are among the working poor when they enter programs. Studies also show that many low-income microentrepreneurs report increased earnings supporting their households after participating in program services, and that the percent of individuals living in poverty is reduced. Participants also appear more adept at sustaining employment, as they can move between self- and wage employment, focusing on whichever is more remunerative and appropriate given local economic conditions and their family situation.<sup>1</sup>

But microenterprise development can be an important component of economic development strategy as well. And its contribution can be multi-faceted:

### *Microenterprise development supports business creation.*

Studies have found that rates of business ownership increase after participants received microenterprise assistance. The businesses survive at rates comparable to other small businesses, and most grow over time.<sup>2</sup>

### *Microbusinesses create employment for the owners and sometimes for others.*

While most businesses remain small, generating 1.5 jobs on average, some grow substantially, producing greater economic development benefits. For example, among businesses supported by Ms. Foundation-funded programs,<sup>3</sup> a set of 15 high-performing businesses reported median sales of \$127,000, and employed a total of 95 people. These are “gazelle-like” businesses – defined as companies that grow at 20 percent per year or greater for at least a five-year period, and which are responsible for high job growth.<sup>4</sup> But whether many microenterprises grow at that level or not, their aggregate

## Some Economic Effects of Microenterprise Development

Economists studying ACCION Texas estimated that a cumulative investment of \$22.2 million in loans to microbusinesses created 604 new jobs, resulted in \$13.5 million in labor compensation and resulted in \$2.4 million in new state and local taxes. In addition, the investment resulted in \$35.4 million in economic activity, including effects that are:

- direct (a tourist pays a hotel operator and a taxi driver for services);
- indirect (the hotel operator buys more cleaning supplies and the taxi driver more gas); and
- induced (the hotel operator, taxi driver, purveyor of cleaning supplies and gas station owner have more money to spend in the local economy).

– Texas Perspectives Inc., *The Economic and Community Impact of ACCION Texas Lending*, February 2004

<sup>1</sup> Data supporting these statements can be found in 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), 64-70.

<sup>2</sup> Edgcomb and Klein, 59-62, 69.

<sup>3</sup> The Ms. Foundation for Women coordinates a Collaborative Fund for Women's Economic Development with investments by donors interested in women's economic empowerment. The Fund invested in nine microenterprise programs between 2001 and 2004.

<sup>4</sup> Carl J. Schramm, “Making the Turn: Entrepreneurial Capitalism and Its European Promise: Remarks Prepared For April 8, 2006 Meeting of European Union Finance Ministers, Vienna” (Kansas City: Ewing Marion Kauffman Foundation, 2006), 15.

contribution to job creation can be substantial. For example, a MicroTest study drawing on data collected from 17 microenterprise development organizations in 2004 found that the 560 businesses in the data set on which both sales and employment data were available generated \$43,844,178 in revenues, \$6,805,193 in income for owners, and 648 full-time equivalent employees in addition to the owners in 2003.<sup>5</sup>

In some places, microenterprises and small businesses are the lifeblood of new job creation. During 2001, for example, Ohio lost 70,000 jobs. This figure, however, would have been considerably higher if it had not been for businesses with less than nine employees, which created almost 25,000 jobs during the same year.<sup>6</sup>

*Many microentrepreneurs belong to the “creative economy,” increasingly being understood as an engine for progress in many communities.*

Creative economy firms are defined as those “in which art or design is the product, where art or design is the distinguishing feature or competitive advantage of a product or company, [or] that sell, reproduce distribute, supply, or support firms with art or design intensive goods or services.”<sup>7</sup> Their contributions can be considerable. For example, in North Carolina the arts and design sector employs 41,800 people, of whom 42 percent are self-employed, and includes some 19,300 firms. By comparison, the biotechnology industry in the state contributes employment to 41,500 people; the computer and electronics industry 41,200, and the apparel industry 30,800 people.<sup>8</sup> Creative economy firms create business opportunities that extend beyond themselves. For example, in Oregon, craft microbreweries have generated a larger cluster of businesses that include inns, restaurants, equipment makers, design and labeling firms, marketing and so on. In North Carolina, the extended arts and design business cluster is estimated to represent 110,000 jobs and 32,000 firms. The sector also has been determined to be a significant factor in tourism. These creative enterprises are characterized as smaller and more entrepreneurial than traditional firms, less stable due to changing consumer tastes, and more dependent on social capital and reputation.<sup>9</sup> But as some economic development professionals have come to realize, when supported they can revitalize local economies and attract not only tourists, but new residents and other businesses as well. There are a number of microenterprise programs that have developed special focuses on businesses in this sector.

*Microenterprises can be the seedbed for future entrepreneurs.*

As some states and local communities, particularly in rural areas, have come to realize, changes in the global economy have made strategies focused on industrial recruitment and traditional agriculture less viable. Locally grown entrepreneurship is the key to revitalizing local economies, and can be increased with the right policies and programs. These include encouraging an inclusive approach to fostering entrepreneurial skill development, and supporting systems and organizations to develop a pipeline of entrepreneurial talent, detecting and serving entrepreneurs at different stages of experience and growth potential. While the microenterprise sector may be dominated by survival and lifestyle entrepreneurs, it has always included talented individuals with new and creative products who are focused on growth. The MicroTest study found for example that the top 20 percent of businesses tracked (121 of them) accounted for 82 percent of all revenues generated by businesses in the data set – \$35,767,690, as well as for 77 percent of full-time and 65 percent of part-time and seasonal employment for the sample as a whole.<sup>10</sup> While these entrepreneurs may outgrow the program services provided by these organizations, the microenterprise organizations have contributed to their development and can serve as the portal to other support.

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<sup>5</sup> David Black, *Monitoring Client Outcomes: A Report from MicroTest's 2004 Data Collection* (Washington, D.C.: The Aspen Institute/FIELD, September 2005), 8. The revenue figure was considerably higher than would be expected for businesses with median revenues of \$20,000. This was due to a subset of larger businesses in the data set, including several with revenues in excess of \$1 million in 2003.

<sup>6</sup> June Holley, “Entrepreneurship in Appalachian Ohio: Facts and Figures,” (Athens, Ohio: Appalachian Ohio Regional Investment Coalition, October 2005), citing data available from [http://www.census.gov/csd/subs/usst00\\_01.xls](http://www.census.gov/csd/subs/usst00_01.xls); Internet.

<sup>7</sup> Stuart Rosenfeld of Regional Technology Strategies Inc., “Entrepreneurs in Creative Economies,” presentation at the Exploring Rural Entrepreneurship: Imperatives and Opportunities for Research Conference, October 26-27, 2006, Washington, D.C. available from [http://www.energizingentrepreneurs.org/content/cr\\_9/2\\_000232.pdf](http://www.energizingentrepreneurs.org/content/cr_9/2_000232.pdf); Internet.

<sup>8</sup> Rosenfeld.

<sup>9</sup> Rosenfeld.

<sup>10</sup> Black, 11.

## What strategies do microenterprise organizations use to support economic development?

Programs employ a variety of strategies to enhance the economic development effects of their work. They:

- Offer simple entrepreneurial readiness assessments to enable clients to understand their preparedness for entrepreneurship and to chart a course to build skills
- Provide basic and advanced business development training and consulting services
- Offer loans, microequity awards, Individual Development Accounts, and loan packaging services to help entrepreneurs access capital. Some programs have moved from strictly offering microloans to also offering mid-level loans (in some cases up to \$100,000) to compensate for gaps at that level in their marketplaces.
- Provide coaching and mentoring services, and access to business networks. Some programs have recognized that entrepreneurs seek more than basic skills development; they seek services that strengthen their strategic abilities. Therefore, programs connect them to information, people and resources that can open the doors to larger markets.
- Develop specialization in sectors (such as specialty foods, and arts and crafts) that are important to local economies, offering technical services, tailored financing, and connections to markets.
- Participate in, and sometimes lead, “regional flavor” initiatives designed to create “unique, vibrant communities” that attract more people (residents and tourists) and economic investment. As reported by the Association for Enterprise Opportunity, through regional flavor strategies, “rural development work is tied together across sectors, geographic boundaries and other divisions, accelerating the growth of new economic opportunities.” Programs engage enterprise and economic development organizations, tourism and historic preservation entities, and other community institutions in a process that: builds on an area's specific assets and finds ways to add value to them; supports locally owned business to increase their uniqueness; and weaves together artists, specialty food producers, local heritage and recreational opportunities – all with a goal of creating a new “branded experience” attractive to both visitors and residents.<sup>11</sup>
- Contribute to the development of entrepreneurship development systems designed to create “no wrong door” entrepreneurial and business development services for entrepreneurs in a region: to foster community and state support for entrepreneurship; fill gaps in coverage; and ensure that entrepreneurs are supported at all points along the continuum.

## What funders can do

Funders interested in expanding the use of microenterprise development as a tool for economic development can focus their efforts in three ways:

*Invest in better documentation of the outcomes and impacts of microenterprise development from an economic development perspective.*

While there is some data that demonstrates how microenterprise development creates businesses and jobs, there is only limited research that attempts to capture the full economic effects of investments in this strategy. Such work will require not only better outcomes tracking by programs, but also more in-depth research by academics and researchers.

*Invest in program development that increases the economic development effectiveness of specific organizations.*

This includes supporting market research and strategic analysis that can enable programs to add or strengthen services that contribute to specific economic challenges and opportunities in their communities. This may include increasing sectoral specialization in some products and services, and helping to create clusters of entrepreneurs engaged in the same industry. It can involve increasing focus on entrepreneurship training, expanding financing products, or strengthening coaching, mentoring and networking services that create a more sustained support for entrepreneurial growth.

*Connect microenterprise grantees with others in the economic and enterprise development fields.*

Emerging work in demonstration entrepreneurship development systems sites (see case study) has shown how microenterprise support organizations can partner with others to nurture and cultivate entrepreneurs in rural regions, to coordinate and fill gaps in capital access and other services, and help entrepreneurs grow to their full potential by providing services that meet their needs from start-up through high-growth. While challenging to implement, these systems build on research showing that entrepreneurship can be taught, that entrepreneurs respond positively to a set of community and policy supports, and that growth can be enhanced when a more complete set of services is available.

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<sup>11</sup> Association for Enterprise Opportunity, *Regional Flavor: Marketing Rural America's Unique Assets*, (Arlington, Va.: Association for Enterprise Opportunity, 2006), 4.

There is broad interest across the country in exploring these approaches, and funders can help by fostering connections, underwriting inventories of business development assets, facilitating joint planning, and funding pilots of coordinated efforts. Similar connections can be fostered to explore and develop “regional flavor” initiatives in rural communities.

## Making a Difference through Entrepreneurship Development Systems (EDS)

In honor of its 75th anniversary, the W.K. Kellogg Foundation made six \$2 million investments in entrepreneurship development systems demonstration sites (some of which involve multiple states) in Nebraska, New Mexico, North Carolina, Oregon, South Dakota and Wyoming, and West Virginia, Kentucky and Ohio. The collaborative groups implementing each of these systems combine a range of business development service providers, including public and nonprofit entities serving the full range of entrepreneurs. Microenterprise development programs have been significant members in most of them, and include Good Work in North Carolina, the Lakota Fund in the Oweesta Collaborative of South Dakota and Wyoming, REAP in Nebraska, ACCION New Mexico and WESST Corp in New Mexico, and Lane MicroBusiness Development in Oregon, among others.

Entrepreneurship development systems aspire to be:

- Entrepreneur focused – driven by the true needs of entrepreneurs;
- Inclusive – of all types of entrepreneurial talent, of underrepresented populations and communities; and in terms of leadership;
- Asset based – building on the region's assets;
- Collaborative – with leadership across private, public and nonprofit sectors;
- Comprehensive and integrated – addressing all elements of entrepreneurial development and integrating it into regional economic development.

As part of this, the systems also focus strongly on youth engagement, seek to foster policy change and enhance community support for local entrepreneurs.

As the EDS collaboratives have developed their work, microenterprise development organizations have played roles: targeting financial and business services to specific communities that are the focus of the EDS; developing better referral systems between organizations to ensure that entrepreneurs get timely and appropriate assistance; and organizing regional-level planning and visioning activities.

To foster learning between collaborative partners and among collaboratives, the Kellogg Foundation has supported six site evaluations to provide ongoing feedback on implementation, has organized annual learning meetings convening multiple representatives from each site to explore common issues, and offered technical assistance through CFED.

The EDS program also will be the subject of a national study to document accomplishments and share what has been learned about practice. The Foundation has funded FIELD to complete that work.

### 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. See especially pages 45-53 and 104-107. Available from: <http://www.fieldus.org/publications/FulfillingthePromise.pdf>.

For more on the EDS, please see the W.K. Kellogg Foundation at <http://www.wkkf.org/default.aspx?tabid=100&CID=357&CatID=357&NID=211&LanguageID=0>

For past funder guides and information on a donors group, please see <http://fieldus.org/Projects/donorResources.html>.

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