

FIELD Funder Guide



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Microenterprise Programs and Job Creation

Listen to almost any discourse on the state of the U.S. economy and you will hear one word repeated relentlessly – jobs. We hear that we are in a jobless recovery, and we hear that the consequences are severe, not just for the economy, but also for the psychological well-being of those affected.¹ The U.S. government places a high value on projects that can retain and create jobs, and the American Recovery and Reinvestment Act requires a detailed and transparent accounting to the public of jobs supported by government funding. Attention has focused on small businesses, with official research indicating that they are responsible for between 65 and 90 percent of all job creation depending on the source cited.² Economic development strategies that can create and retain jobs are, obviously, most in demand.

In this context, where does microenterprise fit? By definition, these are very small businesses with five or fewer employees, and often are sole proprietorships. How do they contribute to job creation? If they create jobs, what type of jobs do they create? To what extent should they be seen as part of the antidote to a jobless recovery? If their role in job creation can be enhanced, what might it take?

This Funder Guide summarizes the results of recent research on microenterprises and jobs, and points to strategies that may demonstrate how job creation may be supported. Over the last six years, the FIELD Program of the Aspen Institute has helped microenterprise development organizations (MDOs) collect data on the outcomes their clients experience after receiving program services. The 2009 data collection effort, which captured outcomes as of the end of 2008, included additional questions designed to provide a more detailed look at the number of jobs supported by clients' microbusinesses and the wages that were paid to workers. In addition, FIELD staff analyzed its database of 7,046 interviews (collected between 2004 and 2009) to isolate and understand the experience of long-term clients, those who were interviewed five years after first entering programs. In all, 24 MDOs provided data on 1,379 clients who reported their outcomes as of the end of 2008, and 36 MDOs provided data on 240 clients who were in the five-year client pool.³ The data offer positive findings, but also raises questions regarding the place of microenterprise in job creation.

Key findings

Microenterprises create jobs. Among entrepreneurs surveyed in 2009 about the status of their businesses in 2008, 45 percent of the businesses provided paid work for others and were responsible for 2,239 paid jobs. From intake to survey, a mean period of about 1.6 years, the net number of jobs supported by firms was double the number at intake (an increase of 103 percent).

Across all the respondents (including both sole proprietorships and employee businesses), the number of jobs per business was 3.1. That figure included the job of the owner and anyone who was paid for work, whether as an employee or contractor of the firm.

¹ See "How a New Jobless Era will Transform America," *The Atlantic Monthly* (March 2010), 42-56.

² "According to the Bureau of Labor Statistics, small businesses create about 65 percent of the net new jobs (Business Employment Dynamics figures); according to the Bureau of the Census, they create about 90 percent (Statistics of U.S. Businesses)." U.S. Small Business Administration Office of Advocacy, *Small Business Research Summary: An Analysis of Small Business and Jobs* (March 2010), No. 359, 2.

³ Clients interviewed as of the end of 2008 included individuals who entered the program in different years. The common denominator was that they all received services in 2007. Their mean length of time since intake was 1.6 years. The five-year group included clients who were interviewed in different years, but all were five years from intake at the time of the year on which the survey was focused. For more information on each of these surveys, please see references at the end of this Guide.

Fast Job Facts from Microentrepreneur Surveys

In 2008, among clients surveyed by 24 microenterprise programs:

- 76 percent were in business
- The mean number of jobs supported was 3.1 per business, including the owner
- 51 percent of those in business paid themselves
- 45 percent paid workers
- 39 percent of paid jobs were full-time
- The median hourly wage was \$10.00

National data reinforce the notion that microenterprises create jobs. The Association for Enterprise Opportunity examined U.S. Census Bureau and Department of Commerce data for 2006, and determined that, across the United States, the average number of employees per microenterprise was 1.68. Although the Census Bureau counts only employees, while FIELD's data include all paid workers (both employees and contractors), both point to the role that microenterprises can play in job creation. Looked at in tandem, these data sources suggest that enterprises assisted by microenterprise development organizations may produce more paid work for others than the broader population of microenterprises. Forty-five percent of firms in FIELD's dataset provided work for others in addition to the owner, compared to only 17 percent in the national dataset constructed by the Association for Enterprise Opportunity.⁴

Job creation grows over time for microentrepreneurs who have sustained relationships with microenterprise development programs. When FIELD analyzed its multiyear database of interviews, it found that 41 percent of entrepreneurs surveyed one year after intake reported having employees, and the mean number of paid workers (not including the owner) was 1.68. On the other hand, 52 percent of entrepreneurs surveyed five years after intake reported having employees, and the mean number of paid workers was 3.05. The longer-term clients were more likely to be borrowers, to have had a business at intake and to have completed a business plan, suggesting that their greater employment effects may be a result of inherent capacities that enabled them to take advantage of the financing and other services that microenterprise programs offer. Nevertheless, the data suggest that a subset of microenterprises, with the right support, can continue to grow.

Most of the jobs are part-time. In both datasets that FIELD analyzed, about two-fifths of the jobs supported by the microentrepreneurs were full-time (39 percent in the group surveyed in 2009; 41 percent in the group of five-year clients). The rest were part-time jobs.

Median and mean wages exceed minimum wage. Respondents to the 2009 survey provided wage data for about 50 percent of workers (1,128 out of 2,239 positions), and for that group, the median hourly wage was \$10.00, and the mean was \$13.00. The median is 53 percent higher than the \$6.55 Federal minimum wage in effect in 2008, although 36 percent below the median hourly wage of \$15.57. The median annual payments were \$6,400 for part-time workers and \$16,608 for full-time workers (the means were \$8,007 and \$17,188 respectively).

In addition, 51 percent of business owners compensated themselves in the form of an owner's draw in 2008. The median and mean payments were \$17,000 and \$23,319. The median and mean hourly rates, calculated based on owners' reported work schedules, were \$10.77 and \$14.06.⁵

Thirty-nine percent of the jobs of owners and workers paid hourly wages that met or exceeded the federal poverty threshold for a household of four, which was \$10.19 in 2007. In comparison, nationally, 22 percent of all jobs are in an occupation paying wages that fall below the federal poverty threshold.⁶ Because the household size of all workers paid by surveyed microentrepreneurs is unknown, it is not possible to determine how many actually match the demographic used in this yardstick. Still, it suggests that for many individuals these jobs likely must serve as one component of a household's income stream rather than as household-sustaining jobs in and of themselves. Only 20 percent of all jobs for which wages were known met or exceeded the national median hourly wage of \$15.57 in 2008.

⁴ See Association for Enterprise Opportunity, *Microenterprise Employment Statistics in the United States*; available from <http://aeoworks.org/images/uploads/pages/MEES-US-2006.pdf>; Internet.

⁵ Respondents who indicated they work part-time at their business (less than 35 hours a week), provided the average number of hours they worked in a week. Respondents working full-time were estimated to have worked 40 hours a week, for 52 weeks.

⁶ Working Poor Families Project, *Still Working Hard, Still Falling Short: New Findings on the Challenges Confronting America's Working Families* (2008), 4. Available from <http://www.aecf.org/-/media/PublicationFiles/NationalDataBriefFINAL.pdf>; Internet.

Please note that 36.6 percent of surveyed owners took draws that put them at or above this threshold. And, 41.2 percent of workers paid by these entrepreneurs had wage rates at or above that threshold.

It is also likely that most of these positions do not include health benefits. Among entrepreneurs surveyed in the most recent data collection, only 10 percent of owners reported having health coverage paid for by their businesses. This suggests a very small percentage of owners would be providing health insurance coverage for others.

In conclusion, the data demonstrate that microenterprises can and do create jobs and provide income for owners and others. Although many jobs are part-time, two-fifths are full time, and a portion can generate wages above the standard household poverty threshold for their occupants, and some substantially more. As the field of microenterprise development has matured, and as attention on job creation has grown, some programs have begun to develop services more directed to growth-oriented, job producing enterprises as part of their portfolio of businesses, and are increasingly concerned with creating the conditions for higher-quality jobs within them. For funders interested in job creation, encouraging organizations to enhance their program services with these goals in mind makes good sense.

What funders can do

Encourage and support programs to extend their continuum of services. Traditionally, microenterprise programs have focused more on business start-up and early-stage business assistance. Even microlending programs have naturally tended to work with business owners with less-established track records. While this orientation remains important – the field is about encouraging entrepreneurial opportunity among the underserved – programs should try to build services that foster further growth and employment-generation among the subset of its businesses that have this potential. Some organizations, like Mountain BizWorks (MBW) in Asheville, North Carolina, have added specially-designed coaching services for such high-potential businesses. In fact, MBW offers two: the “Go” program that aims to help new businesses to transition successfully from basic training into operations; and the “EDGE” program, designed to serve growth-oriented businesses. In EDGE, staff provides an assessment followed by one-on-one coaching/technical assistance customized to the organization’s specific challenges. In addition to providing detailed recommendations for changes in operations and management, the organization is also able to lend up to \$50,000 to support working capital and other investments.

Encourage the development of partnerships to extend services beyond the scope of the microenterprise program. Not all organizations can develop and fund advanced services, but all can develop opportunities for collaboration among complementary service providers. This strategy has been used particularly in rural settings, where services are scarcer and clients geographically dispersed. “Entrepreneurship development systems” is the label provided to strategies like these, which focus on not only increasing the number of entrepreneurs, but also helping more of them to move along the growth continuum. A key element of these strategies is increasing collaboration among service providers so that gaps in services are reduced, especially for those poised to grow. The Northeast Entrepreneur Fund in Minnesota provides an example of a microenterprise program that has taken the lead in developing an entrepreneurship development system. Staff created a program called the “Greenstone Group,” which provides long-term coaching coupled with peer learning for groups of similarly-experienced entrepreneurs. An array of service providers has agreed to meet the varying needs of these entrepreneurs as they grow, allowing the Northeast Entrepreneur Fund to focus on the entrepreneurial development process and its traditional services. One foundation, the John S. & James L. Knight Foundation, has committed ten years of financial support to the initiative, recognizing that achieving substantial change in terms of economic development and job creation will require time.

Consider supporting incubators for intensive support. A small number of microenterprise development programs have added incubators to their complement of services, recognizing that some entrepreneurs who engage in a close, supportive relationship from the start can achieve substantial growth. Some incubators are sector-focused, like kitchen incubators, and assist both subsistence and growth businesses that need the equipment and technical services that these facilities offer. Others are more general and focus on providing below-market rate office space, technical assistance, training, and opportunities for peer engagement to their clients as they develop their businesses. WESST in Albuquerque, New Mexico, has launched an incubator that has job creation as its stated purpose, in part with strong financial support from the state of New Mexico.

Help programs increase their capacity to capture key data on jobs and job creation. Microenterprise programs need to be able to document and evaluate their job creation outcomes with greater precision than ever before. And they need to

understand and be able to speak to the characteristics of those jobs. Not only are stakeholders seeking information on the number of jobs supported, but they also want to know the wages, hours, benefits of the jobs, and how the jobs benefit both the worker (in terms of skills development and career paths) and the household (in terms of how wages contribute to the total economic portfolio of the household). One particularly challenging element for microenterprise programs is that funders use different measures of jobs, making the data collection and measurement challenge even more complex. If funders could work to unify indicators in this area, it would ease data collection for programs and lead to more accurate reporting across institutions.

Building a Permanent Engine for Job Creation with Innovative Financial Support

On January 1, 2009, WESST Corp. opened a mixed-use small business incubator in Albuquerque, New Mexico. Funded by the State of New Mexico, the City of Albuquerque, the Economic Development Authority, and private funders, the building was the culmination of a six-year planning and development process. The intent was to accelerate the growth of start-up companies that could generate jobs for their owners and others – with at least 51 percent of all jobs targeted for those with low to moderate incomes. In support of that goal, the City – as the key funder – developed a creative partnership with the organization. While the City maintains ownership of the building and land, WESST has a 20-year agreement to manage it and the incubator program. WESST can acquire title through several means (including outright purchase), but most significantly can earn equity through job creation and other financial investments it makes toward program costs. The organization gets a \$20,000 credit (\$25,000 if the employee is low-income) for every job created.

Since launch, WESST has offered below-market rate space, office services, business consulting, training and access to capital to emerging businesses. As of April 2010, ten companies were in residence, with total revenues of \$5.58 million. The companies had created 55 new jobs, and in all employed 67 full-time workers and 26 part-time workers. As a long-established, successful microenterprise program, WESST found that the program has both meshed with, and stretched, its traditional capacities. Businesses have ranged from a biomedical company developing a new test for lung cancer detection to a medical billing services firm that is a woman-owned start-up with 12 employees drawn from the target income demographic. In the first instance, while the company's product was sophisticated, the owners were still navigating the challenges of business start-up, and had not developed an on-line marketing strategy. WESST's strong experience in Internet marketing helped the company develop a social media strategy and increase its networking. The medical billing company's owner has participated in WESST's regular marketing training, and accessed one-on-one consulting and a \$50,000 loan. WESST has found that many incubator tenants find it valuable to participate in its core activities as well as receive tailored services from the organization.

While WESST is still early in this job strategy, it is optimistic about what it can accomplish. At the end of the period, thanks to the innovative funding provided by the City of Albuquerque, hopefully WESST will have full ownership of the building, and a job creation engine created by a microenterprise organization will be a permanent part of the state's landscape.

For more information

At the Five Year Mark: Outcomes Reported by U.S. Microenterprise Clients (March 2010) discusses job creation, owner's draw and other business status indicators as reported by clients five years after first entering a microenterprise program. Available from <http://fieldus.org/Publications/MultiyearDataRpt09.pdf>; Internet.

Microenterprises and Employment: 2008 MicroTest Outcomes (February 2010) discusses employment generated by microenterprises assisted by programs in 2007. Available from <http://fieldus.org/Publications/MTOutcomesFactSheet5.pdf>; Internet.

Association for Enterprise Opportunity, *Microenterprise Employment Statistics in the United States*. Presents spreadsheet of employment data by state as well as rural and urban classifications. Detailed description of data methodology also included. Available from http://www.aeoworks.org/index.php/site/page/category/Microenterprise_statistics/; Internet.

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