

# STATE MICROENTERPRISE SUPPORT

## OVERVIEW

Business ownership and high-quality job opportunities play important roles in helping individuals and families earn income and build wealth over time. Small business creation has consistently been a path to America's middle class – particularly for minorities, immigrants and the economically disadvantaged. Business equity is second only to homeownership as a share of household wealth nationally. Successful new businesses also lead to the creation of new jobs, a crucial element of improving the American economic climate.

Very small businesses, or microenterprises,<sup>1</sup> are proving grounds for new entrepreneurs and key income generation and economic revitalization strategies in communities with weak job prospects.<sup>2</sup> For the individual, a microenterprise can be an important source of supplementary income. Microenterprises provide an opportunity for low-income households to build assets. Microenterprises increase income for the poor, help people move out of poverty and off of public assistance and help poor households build both business and personal assets over time.<sup>3</sup> Research also suggests that low-income self-employed individuals are more likely to purchase a home compared to low-income wage earners.<sup>4</sup>

The Aspen Institute estimates that there are 20 million Americans who operate microenterprises, and that at least 10 million of these microentrepreneurs face disadvantages in establishing and operating their own businesses, including women, minorities, low-income individuals and people with disabilities.<sup>5</sup>

## WHAT STATES CAN DO

States can fund microenterprise programs. These programs, in turn, capitalize microloan funds<sup>6</sup> or provide training, education and business services to entrepreneurs. Funding can come through general fund appropriations, allocation of discretionary funds by state agencies or allocation of federal funds such as the Community Development Block Grant, Temporary Assistance for Needy Families and the Workforce Investment Act.

States can fund State Microenterprise Associations (SMAs) to streamline, more efficiently utilize and leverage state microenterprise funding.<sup>7</sup> SMAs are institutional frameworks that function as intermediaries for microenterprise programs and most often provide assistance with fundraising, organizational capacity building, program improvement and advocacy.

States can also provide entrepreneurs with access to public assistance and job readiness programs that puts them on an equal footing with wage earners. Finally, states are beginning to use the tax code to both deliver support to new entrepreneurs and encourage these new businesses to file taxes.<sup>8</sup>

<sup>1</sup> In the United States, a microenterprise is defined as a business that requires \$35,000 or less in start-up capital and that has five or fewer employees. However, the majority of microenterprises employ just the owner. *Microenterprise Development in the United States: An Overview*. (2005). Arlington, VA: Association for Enterprise Opportunity. Retrieved from [www.microenterpriseworks.org/microenterpriseworks/files/cclibraryFiles/FileName/000000000276/fact%20sheet%20series%201.pdf](http://www.microenterpriseworks.org/microenterpriseworks/files/cclibraryFiles/FileName/000000000276/fact%20sheet%20series%201.pdf).

<sup>2</sup> For example, a study by the Center for Rural Affairs found that nearly 60% of new jobs created in rural Great Plains farm counties between 1990 and 2000 were in non-farm self-employment. Bailey, J. & Preston, K. (2003). *Swept Away: Chronic Hardship and Fresh Promise on the Rural Great Plains*. Lyons, NE: Center for Rural Affairs. Retrieved from [www.cfra.org/pdf/Swept\\_Away.pdf](http://www.cfra.org/pdf/Swept_Away.pdf).

<sup>3</sup> The Aspen Institute's Self-Employment Learning Project and Microenterprise Welfare to Work Learning Assessment. Findings summarized in *Association for Enterprise Opportunity*, p. 6.

<sup>4</sup> Edgcomb, E. & Klein, J. (2005, February). *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. Washington, DC: The Aspen Institute. Retrieved from <http://fieldus.org/Publications/FulfillingthePromise.pdf>.

<sup>5</sup> Ibid.

<sup>6</sup> A microloan fund makes loans of \$35,000 or less to microentrepreneurs to start or expand a small business. The features of the loan—such as collateral requirements, size and term—are typically tailored to the needs of low-income, higher-risk borrowers, who cannot access conventional business credit. *Business Capital for Microentrepreneurs: Providing Microloans*. (2000). Arlington, VA: Association for Enterprise Opportunity. Retrieved October 30, 2006 from [www.microenterpriseworks.org/microenterpriseworks/files/cclibraryFiles/FileName/000000000278/Fact%20sheet%20series%203.pdf](http://www.microenterpriseworks.org/microenterpriseworks/files/cclibraryFiles/FileName/000000000278/Fact%20sheet%20series%203.pdf).

## ELEMENTS OF A STRONG POLICY

CFED considers a state's microenterprise policy strong if it meets the following criteria:

- 1. Does the state codify its support for microenterprise in law?** Codifying support for microenterprise signals that the activity is a priority for the state and lays the groundwork for future funding. States should either reference microenterprise as part of a balanced approach to economic development in their economic development plans, or they should explicitly codify the state's support for disadvantaged entrepreneurs, programs to support disadvantaged entrepreneurs or microenterprise programs.
- 2. Is funding sufficient to make a meaningful impact?** Ideally, microenterprise programs are funded by a combination of state, federal and philanthropic sources. Yet, as a field, these programs are under-resourced; even the most well-funded programs lack the resources to completely meet demand for services. Based on current levels of state funding nationally and estimates of potential demand, states should provide at least 25% of the total amount it takes microenterprise programs to provide services to entrepreneurs who face disadvantages in establishing and operating a business and who need or want assistance.<sup>9</sup>
- 3. Are funding levels stable over time?** To provide consistent, reliable services, microenterprise programs and loan funds need to be able to plan for the future without fear that funding will disappear in the next fiscal year. To do so, it is important that state funding levels be consistent, or increase, over time and come from a stable and protected source.<sup>10</sup>
- 4. Does the state provide funding for training and technical assistance as well as loan capital?** Access to capital is a significant challenge for many microentrepreneurs as traditional credit markets are often unwilling to lend to those they perceive as higher-risk borrowers or they find loans below \$35,000 unprofitable. However, entrepreneurship training and technical assistance are often key to making a business successful. States should provide funding for both purposes to ensure that microenterprises get the support and services they need.

## WHAT STATES HAVE DONE

Twenty-three states have codified microenterprise in state law. Eighteen support microenterprise with Community Development Block Grant monies; 14 do so with flexible general fund revenues. Eight states offer a Self-Employment Assistance program<sup>11</sup> as an option for the unemployed. In some states, funding is earmarked for the capitalization of microenterprise loan funds; in others, it is used for operational costs. Several states provide population-specific microloan programs for women, minorities, farmers and people with disabilities. In total, 34 states allocate funding for microenterprise development.<sup>12</sup>

<sup>7</sup> *Developing State Microenterprise Associations*. CFED. Retrieved July 23, 2009 from <http://www.cfed.org/publications/effectivePractice/Developing%20SMAs.pdf>.

<sup>8</sup> See CFED's New Entrepreneur Tax Credit Innovative Policy Brief, at [www.scorecard.cfed.org](http://www.scorecard.cfed.org), for discussion of elements of a strong tax credit, state precedents and suggestions for what states can do.

<sup>9</sup> According to data from MicroTest, an initiative of the Aspen Institute's FIELD Program, it costs microenterprise organizations an average of \$2,000 to support a business, and sufficient state funding is defined as \$500 – or 25% of the total average cost – per microenterprise in target markets. Edgecomb & Klein (2005), estimated that 50% of microentrepreneurs are in programs' target markets. CFED assumes that only 10% of those 50% want or seek services. In 2006, this number equaled more than 1.2 million entrepreneurs nationally.

<sup>10</sup> In the *2009-2010 Assets & Opportunity Scorecard*, funding trends were determined by reviewing funding levels for the last three fiscal years. If funding remained the same, increased over time, or if an average of all three years was within 10% of the peak year, funding was considered to be stable. In addition, however, if CFED was aware, as of June 30, 2009, that funding would be substantially cut for the following fiscal year (FY 2010), its funding was not considered stable.

<sup>11</sup> Self-Employment Assistance encourages unemployed workers to create their own jobs by starting their own small businesses. Under these programs, states pay a self-employed allowance instead of regular unemployment insurance benefits to help unemployed workers while they are establishing businesses.

<sup>12</sup> CFED collected data on state funding for microenterprise in May and June 2009, through an online and telephone survey of state agencies, SMAs and microenterprise practitioners. Additional document review of state budgets and plans was conducted where necessary.

For more information on this policy measure, State Microenterprise Support, and more, go to <http://scorecard.cfed.org>.

In the *2009-2010 Assets & Opportunity Scorecard*, the 50 states and the District of Columbia were rated on their existing microenterprise-related policies and funding. The ratings were based on the criteria described above.