ASSOCIATION FOR ENTERPRISE OPPORTUNITY

MICROENTERPRISE DEVELOPMENT IN THE U.S.

Economic Independence through Self-Employment: Overview of a Successful Strategy

What is a microenterprise?

A microenterprise is a business with five or fewer employees that is small enough to require initial capital of $35,000 or less. Most microenterprises are sole proprietorships, which create employment for the owner and, often, other family members. Some grow into larger businesses as well, employing other members of the community. Microenterprises can be any number of businesses including repair services, cleaning services, specialty foods, jewelry, arts and crafts, gifts, clothing and textiles, computer technology, child care, and environmental products and services. Typical microenterprise loans are $15,000 and under. Most loans are paid back on time and with interest, and the default rate on microloans is often no higher than it is on commercial loans.

What are microenterprise development programs?

Microenterprise development programs provide business development services to people who are interested in starting or expanding a microenterprise but who have difficulty accessing capital or obtaining the management assistance they need. Most microenterprise development programs provide core services including business training and technical assistance, and credit or access to credit. Other services may include specialized business management assistance, such as access to markets and technology, as well as asset development services like Individual Development Accounts (IDAs).

Microenterprise programs are operated by a wide variety of non-profit organizations, ranging from stand-alone microenterprise organizations whose primary purpose is to provide microenterprise development services, to multi-service organizations that may focus on broader employment, economic development, and anti-poverty strategies. Such organizations include community development corporations, loan funds, Community Action Agencies, women's business centers, community development financial institutions, small business development centers, community development credit unions, and social service organizations among others.

Who do microenterprise development programs serve?

Microenterprise development programs generally focus on underserved populations who have had difficulty accessing business development services or credit through traditional institutions. These populations include public assistance recipients, people with low-income, welfare recipients, women, persons of color, people with disabilities, and immigrants and refugees. Some microenterprise programs focus their services specifically on just one of these target populations or target communities.

Why does microenterprise development receive public and private support?

- Self-employment allows people in low wage jobs to supplement their income at a lesser cost than public assistance.
- Structural unemployment, such as plant closings and corporate downsizing, has dislocated many workers, leading many to create their own jobs.

- Banks in the U.S. find it difficult to make profitable microenterprise loans – loans under $35,000. Reasons for this include the high transaction costs on loans and compliance with safety and soundness issues of federal and state regulators.
- Self-employment offers a variety of groups the flexibility to balance work and family responsibilities.
- An analysis of the U.S. microenterprise industry sponsored by the International Labor Organization (ILO), estimates that return on investment in microenterprise development ranges from $2.06 to $2.72 for every dollar invested

What are the outcomes of microenterprises in the U.S?

- Survival rates of microbusinesses compare very favorably to the general population of small businesses. One study conducted by the Self Employment Learning Project (SELP) of the Aspen Institute, showed 57 percent of businesses surviving after five years, with average revenues increasing 27 percent and profits doubling in that period.
- 72% of poor microentrepreneurs increased their household income over five years.[1]
- More than half — 53% — of poor entrepreneurs moved over the poverty line.[2]

Microenterprise Works!

Microenterprise in America:

- Provides people with an innovative path out of poverty;
- Assists people to become more self-sufficient; and
- Offers America a successful poverty alleviation and economic development strategy.

Microenterprise also contributes to our national economy through public tax revenues, private income increases, and reduced dependence on public assistance.

What is the Association for Enterprise Opportunity?

AEO is the national industry association representing nearly 500 microenterprise development programs. The mission of AEO is to support the development of strong and effective U.S. microenterprise programs to assist underserved entrepreneurs start, stabilize, and expand businesses. AEO members receive the following services:

- **Policy, Advocacy and Research:** AEO mobilizes members to take effective action in support of the industry at the local and national level. AEO collects data on the industry to demonstrate its impact in creating jobs, generating income and building assets.
- **Training and Technical Assistance:** AEO provides quality training, technical assistance and consultation services to help build the competitiveness of our members.
- **Member Communications:** AEO stays in constant contact with its members though its website, newsletters and listserv.

For more information, visit AEO at www.microenterpriseworks.org, or call us at 703-841-7760 or e-mail us at aeo@assoceo.org. Listserv: aeoworks@yahoogroups.com.

[1] Clark and Kays, *Microenterprise and the Poo*r, The Aspen Institute, 1999.

[2] Ibid.

1601 North Kent Street, Suite 1101, Arlington, Virginia 22209 703.841.7760/Fax 703.841.7748
Email: aeo@assoceo.org Web site: www.microenterpriseworks.org