

# Moving the Microenterprise Field Forward

## Priorities, Strategies and Roles

***Supplement:  
Wiki Postings by Participants  
on Context and Strategies***



*These discussion papers were prepared by participants in advance of a meeting of practitioners, intermediaries, and funders that took place on February 13, 2009 to generate consensus on priorities and key strategies for the microenterprise industry at this historic moment of political and economic change.*

For a summary of the consensus, please see: **Moving the Microenterprise Field Forward: Priorities, Strategies and Roles**,  
<http://fieldus.org/Projects/pdf/MovingMicroForward.pdf>

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## ***Postings on Context***

- 1. Association for Enterprise Opportunity**
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- 5. Nebraska Enterprise Fund**
- 6. RUPRI Center for Rural Entrepreneurship**
- 7. Welthy Soni, Interim Director, Virginia Microenterprise Network**

## AEO Posting on Context:

### **How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?**

At this early point in time, it's not completely clear what the affect will be.

However, there are some educated guesses that can be made, based on President Obama's official positions and the efforts during the past two years of a new majority Democratic Congress.

President Obama has stated that he plans to provide more funding for the CDFI Fund and various programs at the SBA, although he has not specifically mentioned any of the microenterprise related programs at the SBA. President Obama's mother was also involved in microenterprise work in Indonesia, so this is an issue that he is familiar with.

Given those statements, we believe that the new Obama Administration will no longer submit annual budgets with microenterprise related federal programs slated for elimination or severe cuts. He would be expected to support additional funding for these programs. We expect a different type of conversation with the new Administration, one that at its base is favorable toward government support of the microenterprise industry, but one that also challenges the field.

The flip side of the situation is the extremely poor financial situation that the country finds itself in and impact that this will have on the federal budget. With so many competing requests for support, including the huge amount of federal dollars being directed to help the financial and automotive sectors, federal dollars will be scarcer than we would have expected a year ago.

The new Administration has stated that it will examine each federal program and only support funding for those that it deems to be working and worthwhile. We need to be prepared to make the case that the federal programs that our field relies upon have proven themselves worth of increased funding.

This is a time of opportunity for us, as after eight years we have a President who is naturally inclined to support microenterprise development. The challenge will be to make a convincing enough case that his Administration will support an increase in federal support for our field.

The longer term affect will depend at least partly on how well the economic situation in the country improves during President Obama's turn. A worsening or continuing of the current situation would make it more difficult to increase the funding for our field to the level that we would hope. An improvement of the economic situation would make it much easier for him to be responsive to our field's needs.

The extensive use of newer technology and the emphasis on receiving direct input from individuals by the Obama Administration will offer new opportunities for the whole microenterprise field to communicate in ways that were unavailable before.

The 110<sup>th</sup> Congress started to reverse the cuts to federal programs that support microenterprise development. However, due to conflicts between the two political parties, the FY 2009 appropriations levels are still awaiting final resolution. The chairs of the Senate and House appropriations subcommittees that handle appropriations levels for the CDFI Fund and SBA programs remain in place and have been supportive of increases in funding and can be expected to remain allies.

One change with the new 111<sup>th</sup> Congress is that there will be several new members of these appropriations subcommittees and we will need to educate each of them on the benefits of our programs.

**How will the recession and financial crisis affect the field and/or your organization now and in the future?**

It will make competition for federal dollars more difficult. We will need to gather more data that can show the impact of our field in order to have the best chance to compete for funds.

The financial crisis has also impacted the banking sector very strongly. Banks have been the source of financial support and local partnerships with many microenterprise development organizations. This can be expected to lead to a reduction in grants by banks, as they cut costs and in some instances merge with other institutions.

Conference calls with Microloan Program Intermediaries have shown that the recession has impacted them, albeit in different ways. Some groups report many more loan requests and therefore a real need for access to more capital. Some have also reported that the quality of the applications are better, as people who previously could access bank loans are now being turned away. Other groups have reported that entrepreneurs are afraid to take on more debt and don't want more loans. There is a need for increasing the loan loss reserves that groups need to maintain.

A common statement is that many more people are requesting technical assistance (which the groups don't have funding to cover) and that the need to refinance and renegotiate loans has increased substantially. Groups are also receiving more requests relating to credit building and have seen an increase in the need for financial literacy.

The recession will also make fundraising more challenging for AEO, as decreased profits and depressed stock values will cut into the grant funds available from banks, corporations and foundations. There will be a need to look at other potential funding sources, outside of where we have traditionally focused.

## CFED Posting on Context

### **How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?**

While it is too early to tell at this writing (48 hours after the inauguration) how precisely the changes in government will affect the microenterprise field and CFED, microenterprise organizations (practitioners, State Microenterprise Associations and national intermediaries like CFED) must define, with clear metrics and messages, specific job creation impacts. The field recognizes that there are often two complementary and competing goals – job creation and poverty alleviation. The Administration's priority will be for job creation and economic growth which will override other policy frames. President Obama has true commitments to improving the quality of life in high-poverty neighborhoods, providing comprehensive services for ex-offenders, promoting expanded access to jobs and supporting entrepreneurial job creation. This bodes well for an expanded role for a number of federal programs the microenterprise field relies upon including the Department of Treasury's CDFI Fund, the HHS Administration for Children and Families' Office of Community Services and the Small Business Administration's Microloan, PRIME and Women's Business Center programs. Obama will invest \$1 billion over five years in transitional jobs and career pathway programs that implement proven methods of helping low-income Americans succeed in the workplace. We need to make the case that microenterprise training is one such career pathway program.

### **How will the recession and financial crisis affect the field and/or your organization now and in the future?**

There are a number of threats to organizations that seek to provide microenterprise opportunities to low-income individuals and in low-income communities. These include unemployment, shrinking access to capital and a loss of personal savings.

- High levels of unemployment have historically affected low-income workers and communities the most. African American, Native American and Latino communities frequently bear even higher levels of unemployment nationally.
- Many financial institutions are dramatically cutting back loans and grants. Individuals and firms which relied on these sources have had to struggle to meet payroll and afford longer term investment. Also, organizations that rely upon financial institutions as partners and grantmakers face limited or complete absence of a core partner. On the positive side, a number of lending organizations report that firms that had graduated are coming back for advances and investment. The quality of these loans is quite high which strengthens the economy and the CDFI. The vast majority of CDFIs in the nation report being loaned out and hungry for capital.
- Individual development account programs provide financial education and matched savings for business start up. We are hearing anecdotal reports that a number of savers are losing their jobs or facing financial hardships that require them to drop out of the program and remove their savings.

In the future, many of the financial crisis' effects are likely to become even more acute. We expect that more individuals will turn to self employment as the labor market

restricts. This could lead to greater demand for TA and lending services for microenterprise organizations (practitioners, State Microenterprise Associations and national intermediaries like CFED). We will need to encourage that these businesses start correctly, paying appropriate taxes and getting the resources they need to thrive. We expect that default savings through employers will continue to increase creating more individual wealth for those households with access to an employer-provided retirement account. This could result in greater resources for individuals who decide to start a business. They will have greater savings from retirement than they can use as either a hardship withdrawal or a loan to start a business.

## CFED-NFED SETI on Context

### **How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?**

[CFED-NFED's Self-Employment Tax Initiative (SETI) is submitting a separate response to these context questions. ]

An important opportunity presented by the Obama Administration to the microenterprise field may be its use of the tax code as the primary vehicle for impacting public policy. The growing recession and need for systemic stimulus is likely to accentuate this tax code focus. For example, the "Making Work Pay" (MWP) tax credit, announced originally during the Obama campaign, is now part of the stimulus package, and, if passed, it could provide an unique opportunity for the microenterprise field to mount a national effort to take advantage of these direct tax credits to serve microenterprises.

While this proposed tax credit needs analysis, we understand that it can function, in effect, like a tax credit for the net profit of every unincorporated microbusinesses. Like the EITC which provides tax credits (up to \$4,000+) for the microbusiness net profits of qualifying households, the broader MWP tax credit will provide additional support (\$500 or \$1000) that can help with the regressivity of Social Security and Medicare taxes, which hit the self-employed particularly hard, and could induce non-filing "informal" businesses to formalize their businesses. If the MWP passes, it could provide the microenterprise field with an unprecedented marketing opportunity for next year's tax prep season (January – April 2010). On a separate note, CFED has proposed a "Start Your Business Right" tax credit that would be available to "first time" microbusiness filers.

Another opportunity during the upcoming years, may be the perennial call for tax simplification. As the Treasury Secretary-designate's tax woes show, self-employment tax laws are complex and contain a "tax trap" that catches many first-time self-employed filers by surprise. Since there is no good way to "withhold" or otherwise estimate and collect Social Security and Medicare taxes from new start-up businesses, many first-time filers are caught up in meeting this liability. While difficult to prove, this peculiar feature of self-employment tax laws creates a potentially business-threatening Social Security tax liability and may be responsible for driving many would-be microenterprise tax filers into non-compliance status. "Tax simplification" for self-employed filers could help turn the tax code and "tax day" into an annual marketing event for other related microenterprise financial services.

### **How will the recession and financial crisis affect the field and/or your organization now and in the future?**

While we have little data to make the case, we expect that more households turn to self-employment during recessionary times to make ends meet. Much of this new self-employment may be temporary, as households "patch" together incomes from self-employment waiting for job opportunities. That certainly doesn't diminish the

importance of self-employment, and it argues that self-employment may function as an important stimulus during recessionary times. Self-help jobs help stabilize household consumption levels and add new stimulus where these new self-help jobs lead to purchases of new equipment and services needed by most new businesses.

Additional information about SETI: For those who are not familiar with SETI's premise, we are exploring the use of self-employment tax laws as a vehicle both for advancing policy support and delivering needed financial assistance to microbusinesses. This approach would complement conventional microenterprise approaches by: (1) opening new public policy rationales (to be discussed in a later wiki post); (2) expanding partnership opportunities to new a set of partners -- primarily community-based free tax preparation sites (through VITA and AARP); and (3) develop strategies for using mandated tax laws to potentially reach millions more microbusinesses directly with financial products. For those interested in more information about SETI, go to [www.cfed.org/go/seti](http://www.cfed.org/go/seti).

## FIELD/Aspen Institute on Context:

**Question: How will the recession and financial crisis affect the field and/or your organization now and in the future?**

FIELD's remarks on this question derive from conversations and experiences with our Scale Academy grantees. The comments below are from a piece we're currently working on that is due to be published soon. Our grantees are currently reviewing the document, so there may be changes as it is completed.

We found that perhaps the most important lesson from the first years of the Scale Academy is that an organization's ability to scale will be deeply affected and conditioned by the context in which it is operating. The past year has seen enormous changes in our country's financial and economic systems that have and will continue to have a profound effect on the strategies and success of the Scale Academy grantees.

One of the significant changes is the crisis in our financial markets. Interestingly, some initial warning signs of this emerging problem surfaced in early discussions among the Scale Academy grantees, perhaps a year before the crisis hit. Even then, Academy grantees focused on lending were beginning to see increasing numbers of clients who were burdened by heavy levels of consumer, and in some cases, mortgage debt. While these lenders were accustomed to taking on risk that traditional lenders might not, the levels of debt were significant enough to raise the question as to whether – or what level of – debt would be appropriate for these entrepreneurs. More recently, lenders are seeing existing loan clients who are struggling to meet mortgage payments that have escalated. As a result, Scale Academy grantees with the most aggressive lending goals have had difficulty meeting their targets: both because it is harder to find new clients who can take on and manage debt, and because they are being forced to spend more time working to maintain the quality of their existing loan portfolios.

Later on in the year, as the financial crisis hit and the extent of the recession became clear, the experiences of the grantees and their clients changed again. Entrepreneurs who earlier in the year might have been planning for growth were now seeking strategies to survive the recession. Some also were reported to be seeking help in switching marketing strategies, looking to go beyond local markets in an effort to attract more customers. In some cases, entrepreneurs who might have previously been able to secure bank financing were coming to grantees in search of capital; sometimes these inquiries were driven by banks that were now seeking a partner rather than funding the deal in full. In other cases, new inquiries for both loans and business development services came from individuals who had lost their jobs or were looking to create a secondary source of income. However, while demand from these sources was increasing, some grantees found that funding commitments and opportunities were delayed or disappeared as corporate and philanthropic donors were forced to cut back due to declining earnings and endowments.

These dramatic changes in context impose constraints on programs, but they also create opportunities. Grantees are clearly experiencing increased demand for their training, technical assistance and access to markets services, and several have offered new, or modified existing services, to respond to that demand, as is described below. Even on the lending side, while grantees may be wary of providing their existing business loan products to customers who may lack the wherewithal to repay, there are efforts to provide financial literacy and credit building and repair products that can help these customers position themselves to be stronger loan customers in the future. Of course, responding to these opportunities requires that grantees not only switch strategies, but also raise or redeploy resources to cover the marketing, product development, capital and other expenses associated with these additional products and services.

Finally, while the changing context has already had major impacts on the Scale Academy grantees, what may be most challenging in terms of the grantees' scale up efforts is that their full implications remain unclear. There is a great deal of uncertainty not only about the full effects of the changes that have already taken place, but also regarding how future economic trends will play out and affect microenterprise programs and their clients. For example, it is not clear to what extent the tightening of bank credit will affect loan demand and activity among the microenterprise lenders. Some microlenders – perhaps those in regions served by banks that were less involved in the sub-prime mortgage market – have not seen much of a change in bank lending activity. Other microlenders have experienced more demand, but largely from customers who they believe are not presently creditworthy – due to high levels of debt, lack of secondary sources of income for repayment, or because their businesses are in industries that are likely to be deeply affected by the recession. Looking to the future, it is also not clear to what extent existing loan portfolios will deteriorate, and credit markets will tighten, as the recession and financial crisis continue to play out. And as the Scale Academy grantees look to react to the changing context, each must face its own decision as to whether this is the right time to seek to grow – because if in this environment they are unable to raise the resources required to finance a larger organizational budget, they can endanger their future capacity and sustainability.

**How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?**

The change in administration, stronger Democratic control in Congress and our current economic situation pose opportunities for new policy initiatives and collaborations that previously were not possible. These opportunities relate to policies that can directly affect /assist entrepreneurs in important ways. Examples include health care reform: how can we ensure that new policies/programs fit the needs of microentrepreneurs? Initiatives around energy efficiency/green energy: how can we help to connect entrepreneurs to these opportunities? Hopefully in the discussion on policy we can talk as a group about how it might be possible to move forward in these areas; from the context perspective what is important is that there will be many new opportunities.

## Nebraska Enterprise Fund on Context

### 1. How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?

Improving the economy in the coming months is vital. We anticipate increased funding from this administration for micro work, but if the economy continues to stumble, federal funds for supporting services for businesses will likely be threatened with cuts. We would like to see increased funds from the federal government for providing technical assistance/training to businesses. Investing in those businesses with the greatest potential for creating jobs will be important to communities.

This administration could find solutions for affordable health insurance a major expense and in many cases roadblock to being self-employed. A solution to assist in the legalization of immigrants will be important with regards to starting businesses and to attracting and retaining a quality workforce. Support for the development of alternative sources of energy from the smallest to the largest projects is needed. A rework of tax policy that favors the micro/small businesses is needed. There is a need for faster Internet service and an even greater need for education to help individuals maximize their use of the Internet in their businesses.

### 2. How will the recession and financial crisis affect the field and/or your organization now and in the future?

The impact of the current financial crisis varies from program to program and from one area of the state to the other, depending on their products. One program is reporting little or no loan demand. Their primary loan product is gap financing in conjunction with banks. The banks are not doing deals so the program's pipeline has dried up for now. This is requiring the program to readjust how they do business to get banks to make referrals of any customers. Another like (legal structure) organization in another part of the state that makes direct loans to customers has robust demand. They recently surveyed over 1,000 businesses and as a result have more contacts.

We are hearing that those programs with demand are seeing applications of lesser quality than a year ago. Many report that bankruptcies are up, thus impacting repayment, but for the most part, delinquencies/defaults have not risen significantly. Programs have also shared that because of Nebraska's conservative, risk adverse nature, people are not wanting to borrow at this time.

Regarding impacts to NEF, if programs are not lending it impacts demand for loan capital. In addition, the State of Nebraska has been an important source of grant dollars for supporting grantee program operating expenses. The overall health of Nebraska's economy is good due to higher income in the ag sector the last two years. Also, Nebraska did not participate in the sub-prime mortgage game at the level of other states. We are beginning to see layoffs (businesses related to the automotive industry, railroad).

For this reason, the Governor is saying no new expenditures and has removed the increase given to micro two years ago from his budget (he promised he would do that when we received the increase in funds). Our cash fund is very healthy, but traditional development will use the threat of a weakening economy to shift dollars to their priorities. If these funds are not reinstated, it will mean that we have 1/3 as much funding for pass through grants and for the NEF administrative portion of state funds. This will not be good for programs trying to increase scale.

NEF is finding that some programs are struggling to meet performance goals set out in grant applications as a result of changes in their market. The performance of the network of programs is very important in maintaining state funding.

It is unclear how the current financial crisis is going to impact the banks we work with daily. Equity Equivalent Investments have been a good source of loan capital and banks make referrals to programs. Programs also receive small operating grants from time-to-time. We want to see those activities continue without interruption.

We anticipate more start-ups to increase demand for program services. The small businesses can play important roles in strengthening the economy through new start-ups, innovation and jobs.

## **RUPRI Center for Rural Entrepreneurship on Context**

**Deb Markley and Karen Dabson**

### **How will the Obama administration and a new Congress affect the microenterprise field/and or your organization now and in the future?**

We see the new administration as an opportunity for the field of enterprise development and, specifically, rural entrepreneurship. There appears to be increased recognition of the importance of small businesses to the health and vitality of the national economy, as demonstrated by the proposed investments in small business credit and technical assistance identified in the stimulus plan. Equally important, based on our work in rural communities, are the proposed investments in economic development assistance and infrastructure (including broadband, education and housing) that are so important for rural places. We also see the focus on developing and investing in alternative energy sources as a potential opportunity for both rural businesses and rural communities. Rural places continue to be prime locations for green energy – witness the wind farms dotting our rural landscape – and there is an opportunity with new federal investment to see local companies develop or evolve to take advantage of these opportunities.

The opportunity that the new administration creates for the Center is directly tied to these new investments. If rural communities are to position themselves to benefit from stimulus investments, and to help their businesses benefit, they will need to build their own capacity for economic development, generally, and for enterprise development and entrepreneurship, more specifically. The Center continues to develop tools and to assess the field of entrepreneurship development so that we can work with rural communities to enhance their capacity to build a sustainable future based on entrepreneurship. This work includes understanding model practices in microenterprise development and recognizing the role that microenterprise organizations play as one part of the support infrastructure for entrepreneurship particularly in rural communities.

### **How will the recession and financial crisis affect the field and/or your organization now and in the future?**

We see an increasingly important role for enterprise development, including microenterprise, in rural communities in response to the financial crisis. We hear, anecdotally, from business service providers in many states that the demand for their services is up – existing businesses are seeking help in staying afloat and individuals who have lost jobs are considering entrepreneurship as an alternative way to make a living in these troubling times. As more unemployed individuals seek out job training and re-training opportunities, it is more important than ever to identify those who have entrepreneurial aspirations and provide them with the support that they need to create their own business future.

At the same time that the demand for support services is increasing, the resources available to meet that demand are dwindling. State budget cuts, reductions in foundation endowments, and constraints on local charitable giving all make it more difficult for

existing service providers to expand their services to meet this new demand. This constraint places greater value on collaboration among service providers and requires greater emphasis by communities to building a system of support for their new and existing businesses. This crisis creates an opportunity to develop a more collaborative, inclusive approach to enterprise development that brings together microenterprise and other business service providers across the public, private and non-profit sectors.

## Welthy Soni on Context

- **How will the recession and financial crisis affect the field and/or your organization now and in the future?**

The recession and financial crisis will have multiple effects upon the microenterprise field, some negative and some positive. All will cause stresses at multiple points along the continuum of service delivery.

The first effect will be unpredictability. The tried and true may no longer work or will work in unforeseen ways. This will be true both for the businesses assisted by MDO's as well as the organizations themselves. Business owners will find entirely new demands upon them as customers start changing their buying habits. This in turn is going to make predictions about success factors much less viable for business trainers and lenders alike. Rural programs, especially those located in one or two industry towns, may suddenly find that the unemployment rate in a community hits double digits virtually overnight, creating economic havoc and hardship for small businesses throughout the community. This unpredictability will mean that programs must be willing to be extremely flexible and creative with the types of lending products they are offering microenterprise owners as well as the terms for those products.

It is very likely that lending organizations are going to see an entirely new customer demographic; people with excellent employment histories, a strong skill base and previously good credit. Even if they are still able to maintain house payments, they may not be able to afford health care any longer, a fact which could have a strong impact upon their performance. In the past, many low income clients while worried about health care, have been resourceful at finding ways to get some assistance. This new group of entrepreneurs may be somewhat bewildered by the new world into which they have suddenly been delivered, creating an entirely new set of concerns and barriers. MDO's may suddenly find themselves becoming referral centers and/or case managers. This will compound the cost of service delivery in a time of shrinking support dollars. Then, of course, there is the loss in state dollars and other sources of support. In Virginia the allocation for microenterprise is one-third what it was ten years ago and this year alone was cut 10%. The state legislature is still trying to balance the budget in the state and everything is still on the chopping block which means that all dollars for the microenterprise program are a potential target. This goes back to the unpredictable part. MDO sites in the state have just submitted grant requests for the biennium with no assurance that, if funded, they will in fact receive any money.

On the positive side is the prospect of increased demand for services and money, especially as the economy bottoms out. If, as hoped, more federal dollars become available this could mean increased opportunity for MDO's and the microenterprise entrepreneur alike.

Welthy Soni-Myers, Interim Director  
Virginia Microenterprise Network

## ***Postings on Policy***

- 1. Association for Enterprise Opportunity**
- 2. Microenterprise Anti-Poverty Coalition (MAP)**
- 3. CFED**

## AEO on Federal Policy

- **What are the challenges and opportunities with respect to this issue?**

The challenges that have been identified include:

- A weakened economy
- Greater demand for services while there may be a shrinking supply of resources for the field
- Increased need to provide data, as the new administration seeks to eliminate programs that are not proven to be effective
- Increased need to re-position the field within a broader context
- Increased demand from other industries for federal dollars

### **Opportunities:**

It is generally agreed that the new Administration and Congress are more aware of microenterprise development and its potential impact. Collaborative efforts including tax-credits, asset development, rural enterprise, and green enterprise can open up new resources for the field. Additionally the legislative priorities of the field for the past decade could be funded at levels not previously possible.

However, it seems also apparent that the real challenge and opportunity for the field is to move beyond the status quo. We hear this in the postings from the practitioners; a call to wake up to what is possible. To seize this moment as a renaissance for microenterprise throughout America, where communities large and small will be embracing locally grown and produced products and many of our citizens will turn to self-employment as a solution for their families. Coming together as an industry, with all of our diverse approaches and needs, and calling for resources, focus, and awareness at a level equal to the impact of microenterprise on new job growth and the economic infrastructure is our challenge and our opportunity.

To rebuild the economic infrastructure, the Obama administration is seeking ideas and approaches that can meet multiple challenges, are broad reaching, and have both immediate and long-term impacts on individuals, families, and their communities. Strategies that can impact young and old; protect the middle class and improve conditions of the poor; rural, urban, and suburban; highly educated and street-wise; and use a combination of hands-on and technology-based solutions are being sought.

- **What should be the field's goal(s) with respect to this issue?**

Three complementary approaches were discussed in the postings:

- 1) Funding of current legislative priorities: Our goal should not be to simply increase the amount of funding available from federal programs to a level that is above what the field has received in the past but to seek appropriate funding and partnerships that will allow the field to build its capacity; invest in research,

development and innovation; and to identify and explore new collaborative cross sector models that can have far reaching impact.

- 2) Look at systematic approaches as suggested by several of the postings including the tax-code, health-care, energy, asset development, and even language within the current legislative priorities - making some technical corrections where needed to microenterprise related programs, and getting PRIME funding at an appropriate level to fund it as a national program once again.
- 3) The creation of an Office for Microenterprise. AEO proposed to the membership, and Aspen has echoed it here, that the field should call for the creation of an Office of Microenterprise. A significant investment in an Office of Microenterprise modeled after the one operated by USAID which supports microenterprise in developing nations. As Joyce so nicely articulates in her earlier posting: “The Office would receive and deploy a significant level of resources, targeted at both building the organizational capacity of practitioner organizations, and making the field-level investments required to increase scale and performance. Like USAID, this office would invest significantly in capacity building and research, with a strong focus on developing best practices and tools, working through various intermediaries and with practitioners.”

These three approaches build on the field’s success, increase impact to millions of entrepreneurs, and create a new investment strategy for the microenterprise development industry. In a shaken economy, where many of the resources for microenterprise are shrinking while demand for the approach is increasing, the Obama administration and Congress are calling for change. Change to create a unified approach that is based on the rich history of our industry. Change the way business is currently being done so that it can be done better.

- **What strategies or actions do we need to implement or support?**

Build a consensus among the industry to call for the Office of Microenterprise.

Reposition microenterprise not as a third tier extension of another strategy, but as a unique part of the overall strategy for an improved and healthy economic infrastructure within the United States.

Capture the wave of technology-based information and data sharing. Social networking, success sharing, peer exchange and learning communities.

Look at the models already created within the industry and see how they can be applied for success elsewhere. These would include the work being done by the Scale Academy participants, Regional Flavor Learning Clusters, Green/local economies / and buy local campaigns, corporate collaborations, and enterprise collaborations.

The field needs to collect more data, especially impact data that is as representative of the whole field as possible. In order to compete for scarce resources, we need to be able to show that microenterprise development organizations produce significant results and deserve a significant level of federal resources.

Increase our visibility in the media, which can directly help us to persuade policy makers of the value of what our field does. However, this is tied to the need for more data. The media is hungry for statistics. If we can provide the type of data they seek, we increase our credibility as an industry, and also help build strong relationships with the media.

We need to have both a short term and long term strategy for federal policy. The short term strategy should deal with appropriations for the immediate fiscal year, ensuring that current programs (including the new RMAP program at USDA) serve our field as well as possible, reauthorizing the SBA and making some technical corrections where needed to microenterprise related programs. We must also open up additional funding sources for technical assistance, organizational capacity, and loan funds.

As national approaches to funding and collaborations are developed, work within the industry infrastructure through AEO, CFED, and the SMAs to build understanding of how to capture these funds and relationships at the state and local levels.

We need to continue to meet with the staffs of key federal policy makers regarding our funding and other policy needs. One challenge this year is that the change in Congress has meant changes in the composition of the key appropriations subcommittees and now several new Senators and Representatives and their staffs need to be educated about the value and impact of MDOs.

## The MAP (Microenterprise Anti-Poverty Consortium) Policy Agenda

MAP is an informal collaboration of organizations that come together, about once a month, to discuss and coordinate efforts in support of microenterprise policy. MAP was formed over a decade ago, and includes CFED, AEO, FIELD, the Center for Rural Affairs, and a representative of the SMAs.

Early last year the MAP members came together to create a policy agenda that could take advantage of what we hoped would be a dramatically different national policy landscape after the presidential election. The following is a summary of that agenda. For more detail, you can review an article published in the most recent edition of the San Francisco Federal Reserve's *Community Investments* journal, at [http://www.frbsf.org/publications/community/investments/0812/klein\\_wayman.pdf](http://www.frbsf.org/publications/community/investments/0812/klein_wayman.pdf).

### The Agenda

As we move into a new presidential administration, there are number of opportunities for public policy to help microenterprise programs support emerging entrepreneurs as they contend with the current economic environment. As we describe below, policy can play a key role in five areas:

- Expand the existing infrastructure of community-based microenterprise programs that provide technical assistance and financing;
- Implement policies that expand access to private markets and sources of capital;
- Craft tax policies that aid emerging entrepreneurs;
- Enable low-income individuals to use entrepreneurship as a pathway out of poverty; and
- Provide access to affordable health care to small and microenterprises.

**Expand the existing infrastructure of community-based non-profit microenterprise and financial organizations that support entrepreneurs.** We recommend expansion of the existing federal programs that support microenterprise organizations including SBA Microloan, PRIME, Women's Business Centers, the Community Development Financial Institutions (CDFI) Fund, the USDA's Rural Business Enterprise Grants and Intermediary Relending programs, HHS' Job Opportunities for Low Income Individuals, and the Community Development Block Grant. In addition, we recommended that the, the federal government can provide additional sources of sorely needed capital for microenterprise and other community and economic development efforts through the following three initiatives:

- The [Housing and Economic Recovery Act of 2008](#) (PL: 110-289) enabled Treasury-certified CDFIs to join the Federal Home Loan Bank system. Membership provides CDFIs with access to collateral. Lenders are eager to review the rules developed by the Federal Housing Finance Agency.

- The Full Faith in Our Communities Act of 2007 (S. 2528) would provide below market-rate capital in the form of a bond guaranteed by the U.S. Treasury Department to a nonprofit lender for community or economic development purposes for low-income people and communities.
- Advocates are supporting efforts to permit Congress to create an economic development grant program analogous to the Affordable Housing Program. Funding would begin after Resolution Funding Corporation (REFCORP) payments are fully repaid.

**Implement policies that expand access to private markets and sources of capital.**

The federal government can also play an important role in expanding the ability of low-income entrepreneurs to access private sources of capital. Specific recommendations in this area include:

- Expansion of CRA to require the reporting of small business loans.
- Amending the Telecom Act of 1996 to allow and support full reporting of utility and telecom payment information.
- Allowing individuals to access their retirement accounts for business.
- Improving enforcement of the HUB Zone program and small business contracting targets.
- Ensuring that efforts to improve energy efficiency and implement green technologies recognize the roles that very small businesses can play.

**Create tax policies that support emerging entrepreneurs.** In her 2006 Report to Congress, the National Taxpayer Advocate stated that the IRS's Small Business/Self-Employed division was not adequately helping small business filers. There are several ways the IRS could create a more welcoming environment:

- Create a self-employment tax credit. President-elect Obama has proposed the creation of a "Making Work Pay" tax credit that will assist all workers, including the self-employed. With the tax credit, each worker in America would receive a \$500 tax credit to offset federal income and payroll taxes.
- Encourage the IRS to actively extend the capacity of its successful VITA program to serve low-income taxpayers with self-employment income. Currently many IRS offices discourage or forbid volunteers from filing Schedule C self-employment returns.
- Advocate that the recently passed "community VITA" appropriation be used to establish VITA demonstration projects to serve low-income, self-employed households.
- Require the IRS Small Business/Self-Employment division to expand its "first-time filer" initiative through "get your business right" demonstration projects that would explore how the IRS and non-profits can better serve this constituency; and
- Ask Congress and the IRS to study the specific needs of first-time filers and how to better resolve the cash-flow dilemma faced by the self-employed.

**Enable low-income individuals to use microenterprise as a pathway out of poverty.**

Many of our lowest income Americans turn to self-employment as a means to create a

job or to supplement a low-wage job. But too often federal programs that support these individuals – by providing a safety net or workplace skills – fail to recognize that self-employment can and should be an option. We recommend four steps that policymakers can take to open the self-employment path for our poorest Americans.

- Reform the asset means tests in public assistance programs
- Promote microenterprise as an eligible activity for recipients of Temporary Assistance for Needy Families (TANF) and Social Security Disability Insurance.
- Encourage microenterprise as a prisoner re-entry strategy.
- Expand matched savings accounts for business capitalization.

**Ensure that health coverage reforms address the particular needs of low-income entrepreneurs.** We urged that policymakers consider the special needs and circumstances of self-employed entrepreneurs in crafting health care reform proposals.

Since creating this agenda, MAP members have been working to identify opportunities to connect the above recommendations with specific legislative and advocacy opportunities. For example, we have pushed for increased funding for key microenterprise programs in the appropriations process, advocated for a number of the above ideas within the context of the stimulus plan, and encouraged practitioners to hold discussions with their entrepreneurs as part of the Obama transition team's community health care discussions. Prompted by a context that is dramatically different than what we envisioned last January when we began this process, as well as some of AEO's recent policy initiatives, MAP is also currently considering whether we might envision a bolder initiative for direct investment into the microenterprise field.

Carol Wayman, CFED  
MAP Chair

## CFED on State Asset and Microenterprise Policy

### State Assets Policy

Given the importance of assets for economic stability and mobility, the measure of asset poverty expands the traditional notion of income poverty to include a minimum threshold of wealth needed for financial security. CFED's definition of asset poverty measures the proportion of households in a state that lack sufficient net worth to sustain themselves at the poverty level for three months should they lose their primary source of income.

Because this measure includes all assets and not just liquid financial assets, it is considered to be a very conservative estimate of asset poverty. Nationally in 2006, 22% of all US households, 24% of female-headed households, and 44% of minority households were asset poor. CFED's *Assets and Opportunity Campaign* data indicates that the states generally rank mixed in terms of their support for assets.

Three of the state policies promoted and monitored by CFED's *Assets and Opportunity Campaign* are squarely targeted at reducing asset poverty by removing barriers and incentivizing savings for low and moderate income households. They include:

- Removal/Reduction in asset limits for public benefit programs

Asset limits can discourage anyone receiving public benefits from pursuing asset-building activities. If a family has assets over the state or federal government limit, it must "spend down" longer-term savings to receive what is often short-term public assistance. Between February 2007 and July 2008, nine states took legislative or regulatory action to eliminate or significantly raise asset limits, or to exempt certain categories of assets from consideration in public assistance asset tests. Three states – Arizona, Georgia, and New York – used categorical eligibility to eliminate asset limits in the Food Stamps program, with another state using categorical eligibility to significantly raise its Food Stamp asset limit. Four other states exempted specific types of accounts from consideration in asset tests, with three states applying the exemption to all public assistance and the fourth limiting the exemption to TANF. The most common account type exempted was 529 college savings plans. Finally, Texas increased its SCHIP asset limit.

- State support for Individual Development Account (IDA) programs

IDAs have been successful in moving a number of individuals and families out of poverty through asset accumulation. In addition, they have spurred the creation or expanded usage of a wide range of matched savings accounts aimed at helping low-income people build greater wealth, including children's development accounts, matched savings accounts for foster youth, matched 529 college savings accounts, and employer-based matched savings accounts linked to auto-enrollment retirement plans. Eight states began or increased funding for IDA programs between February 2007 and July 2008, while two states decreased their funding for IDAs in that time period. Ten other states maintained their IDA funding at approximately the same levels as in FY 2007. Oregon allocated \$6 million for IDAs through its state tax credit in 2007, and was one of six states to allocate at least \$1 million to support IDA programs. In other noteworthy policy developments, Illinois launched its new state-supported IDA program in fall 2007; New Mexico established a stable funding source for IDAs; and Arkansas more than tripled its IDA funding; and three states introduced legislation to create IDA programs.

## □ **State Earned Income Tax Credit**

A state-level Earned Income Tax Credit (EITC) reduces workers' tax burdens and supplements their earnings, creating more opportunities to get out of debt and start saving for the future. Each state can determine the amount of the credit, its coverage and family size adjustments, as well as whether it will be refundable. States can also provide a bonus to families if they save all or part of their refund in a savings product such as an individual retirement account or an individual development account. This flexibility gives states the opportunity to design the credit according to their populations' needs and available resources. It also gives states the opportunity to improve upon an already effective federal program. Sixteen states introduced or enacted legislation related to a state earned income tax (EITC) between February 2007 and July 2008. Four of those states enacted legislation to create a state EITC and eight others expanded an existing EITC. Louisiana, New Mexico, North Carolina, and Washington all enacted legislation to create a new credit, bringing the number of states with a state EITC to 24. Most noteworthy among these is Washington, which became the first state without an income tax to create an EITC.

## **State Microenterprise Policy**

CFED's *Assets and Opportunity Campaign* data indicates that the states generally rank poorly in generating microbusinesses and in terms of supportive policies and programs for microenterprise. There is an opportunity for the states to capture leadership roles in support for microenterprise. Now more than ever, it is critical to invest in microenterprise development strategies because they assist low-income Americans in building, maintaining and preserving financial stability. The sub-prime mortgage crisis, which is impacting financial markets worldwide, has disproportionately affected low-income and minority communities. In the wake of this crisis, supporting wealth creation and retention for these communities through business development – an income generation approach that gains traction during economic downturns – assumes greater urgency. New data from the U.S. Department of Housing and Urban Development reveal that three states – Arizona, Maine, Wisconsin – allocated Community Development Block Grant (CDBG) funds to support microenterprise in Program Year 2006 after not having done so the previous year. In all, 17 states allocated CDBG funds for microenterprise, led by New York, which allocated \$4.2 million. California and Wisconsin were the only other two states to allocate at least 4% or \$500,000 of their CDBG funds to support microenterprise. Four states, meanwhile, did not use CDBG funds for microenterprise in PY 2006 after having done so in PY 2005.

## **The Unique Role of State Microenterprise Associations (SMAs) in State Microenterprise Policy**

Since 1993, the Charles Stewart Mott Foundation has invested in the development of State Microenterprise Associations as a means of building capacity for the microenterprise field. State Microenterprise Associations (SMAs) is a term which encompasses various statewide associations, coalitions, or networks with varying organizational structures, funding, staffing, membership, and activities. In many cases,

the catalyst for creating an SMA is the desire to affect state policy. Practitioners come together to influence a specific piece of legislation or program, or to work proactively to create stronger policy support for microenterprise development. SMAs can make the case for microenterprise at the state level and promote microenterprise as a community development, poverty alleviation, and human capital development strategy. Representing the state's microenterprise practitioners and drawing upon individual and collective experiences of their members, SMAs are equipped to provide policymakers with anecdotal and statistical evidence of microenterprise development's success.

Over the years, Mott, AEO and CFED have supported the creation of over 25 state networks of microenterprise practitioners. There have been modest subgrants to support the operations and policy efforts of SMAs, yearly convenings, Effective State Policy and Practice bulletins, regular conference calls, a listserv, and customized technical assistance. This has resulted in an enduring base in eleven states: Alabama, California, Georgia, Maine, Maryland, Missouri, Nebraska, Oregon, Pennsylvania, Washington and Vermont. There are numerous emerging and re-emerging SMAs as well. There have been many key policy and performance outcomes, including over \$7 million in federal funding, over \$10 million dollars in state funding, state policy blueprints and state policy academies, a demonstration of the potential impact of a self-employment tax credit program for low-income entrepreneurs and aggregating and using statewide data on microenterprise program performance and business outcomes for advocacy and marketing purposes.

## ***Postings on the Making Work Pay Tax Credit***

### **1. CFED – NFED SETI**

## CFED-NFED SETI: *Using the Tax Code to Deliver New Support to Microenterprises*

### 1. What are the challenges and opportunities of a microenterprise tax credit?

#### Challenges:

1. The microenterprise field continues to struggle to reach a sustainable scale; most efforts focus on the more effective deployment of the current product mix of microlending and business training. (*Challenge: Is there a new product mix worth considering? Specifically, could microenterprise tax preparation add to the product mix?*)
2. While the tax code (think EITC) has emerged as both an important policy vehicle and a scaled-up delivery system for directly supporting disadvantaged citizens, the microenterprise field has not explored tapping into the tax code in the same way. (*Challenge: Could the tax code be used as complementary policy development and delivery system for supporting microenterprises?*)
3. Microenterprise taxation is a complex and an unfamiliar arena. (*Challenge: Is it realistic for microenterprise programs to re-tool their products and provide microenterprise tax preparation? What would other microenterprise tax prep-based “wrap-around” products look like? And how would they fit in with current lending and business training products?*)
4. The current microenterprise tax prep market is largely populated by private sector tax preparers, many of whom charge high fees (\$300-\$500) for poor, even predatory service. (*Challenge: How would the non-profit sector fit into this pre-existing delivery system? Would we compete with H&R Block or try to influence them?*)

#### Opportunities:

1. Every year from January to April, a self-defined market of 11 million low-income microbusinesses are driven to business tax preparation by the mandates of the tax code. Two million of these are “first-time” business filers who are either brand-new start-ups or pre-existing informal, non-compliant businesses. At tax season, this scaled-up, captive market of microenterprises is desperate for financial advice and business assistance.
2. VITA programs are low-income tax prep experts, and some have enthusiastically adopted self-employment tax preparation as a new product, but, with a few exceptions, these programs know very little about microenterprise development. This seems like the seeds of an important complementary partnership, which has been borne out by SETI’s experience with its grantees. (Note: these VITA programs are already developing the next generation of tax prep-based wrap-around microenterprise products; so far, primarily sector-specific bookkeeping, retirement planning and IDA savings.)
3. IRS Form 1040’s adoption of refund splitting reinforces the growing role of tax preparation and tax day as the focal point of a national financial planning moment. For microbusiness owners, this is a natural time to take stock of their business and plan for next year. Aligning microenterprise business training with the tax prep season could enhance marketing opportunities and delivery scale. As it happens, the sole proprietor tax form, Schedule C, is a basic Profit and Loss

Statement which means that the actual act of tax preparation is a just-in-time “chapter” out of the microenterprise field’s business training manuals.

4. As mentioned in some of the other key issues papers, the current recession is likely to prompt more and more dislocated employees and low-income households into self-employment. This uptick provides a timely educational and policy opportunity.
5. **(Finally, and the “icing on the cake”)** The Obama Administration’s *Making Work Pay* tax credit provides a unique opportunity for conducting a pilot national campaign. The tax credit, originally proposed before the market crash, has been refashioned into one of the central pieces of the current stimulus package. It provides a \$500 tax credit (\$1000 joint, if both earners) for both microenterprise and wage income, and by SETI’s initial calculation, would be available to 10.8 million taxpayers with self-employment income.

SETI’s initial understanding is that the *MWP* credit, if and when passed, would be distributed to W-2 workers immediately through reduced withholding thereby serving as an “stimulus” for the rest of tax year 2009. But, because of the nature of microenterprise taxation, new microenterprises (2-3 million) will not realize the benefits of the tax credit until next year’s tax prep season (Jan-April 2010). This means there is an opportunity for a focused **“Start Your Business Right”** campaign built around a sub-theme of “and get your microenterprise tax credit now.”

## 2. What should be the field’s goals & objectives for a national microenterprise tax campaign?

1. Determine the viability and goals of a national, multi-partnered campaign that would use the *Making Work Pay* tax credit as the hook and focus on next year’s microenterprise tax prep season (January-April 2009).
2. Launch the national microenterprise tax campaign consisting of: (1) 2-5 pilot-regions to serve 3-4,000 microenterprises per region and delivering an minimum of \$14 million (estimated) in combined EITC and *MWP* tax credits (2 sites x 3500 microbusinesses x \$2000).
3. Use the campaign to recruit new strategic allies into supporting tax strategies for support microenterprise.  
(NCTC, IRS, AARP, United Way, NASE, Benefit Bank, Beehive, New America Foundation, private sector tax preparers, others?).
4. Lay the groundwork for a permanent national platform from which both microenterprise and community free tax prep programs can seek support for product and model development as well as tax return quality control.
5. Raise local awareness of the role of microenterprise through highly visible tax season-based campaign recruitment.
6. Develop microenterprise tax policy reforms based on national campaign results; these could provide funding and support for microenterprise tax prep practitioners serving low-income self-employed filers.
7. Develop evaluation methodology. Develop tax code-based measurements which can be used to evaluate both pilot-regions; and, by using IRS data, the nationwide take-up of the *MWP* tax credit by microenterprises.

### 3. What strategies or actions do we need to implement or support?

(The following list includes “actions” as well as more specific “activities.” Numbers reference the above goals)

- 1: Identify and convene potential partners to brainstorm the viability, goals and support for a national tax strategy campaign based on a ***Making Work Pay*** tax credit for microenterprises.
- 2a: Determine if interested partners, using current resources, have the capacity to implement the campaign in at least 2 (but up to 5) separate regions by December 2009.
- 2b: Based on current promising practices, establish a web-based microenterprise tax preparation service to help site practitioners from pilot regions develop necessary campaign modules for the Jan-April 2010 season. These would include: marketing and outreach, tax preparation training, customer processing and screening, and, importantly, tax return quality control.
- 3a: Each organization listed in objective 3 (above) could have a different but important roles in making the connection between microenterprise and the ***MWP*** tax credit strategy. Some are indispensable to the success of a national campaign. The National Community Tax Coalition (NCTC) should be included early on as a campaign collaborator and sponsor since initial microenterprise tax prep expertise at campaign sites is likely to reside at local EITC-VITA program-members of NCTC.
- 3b: Similarly, IRS support or neutrality is important. Local IRS officials’ involvement should be invited and encouraged at every opportunity. Each pilot-region will need to develop a meaningful relationship with local IRS’s “stakeholder liaison” staff. At the national level, IRS officials, including VITA officials, the National Taxpayer Advocate’s office, and staff of the Small Business/Self Employment division all need to engaged in the campaign.
- 3c: As appropriate, national associations of CPAs and national tax preparation chains need to be engaged for advice and potential partnering relationships.
- 4: Current key partners already have important, but disconnected pieces of a virtual platform that can be consolidated and coordinated for launching a national campaign and become a permanent support center. Components that could become part of a more dedicated platform include:
  - (1) AEO’s network of listservs, blogs, and SMA communication channels (mobilized to explain this strategy.)
  - (2) CFED-NFED’s SETI re-granting program and website along with its SMA work.
  - (3) Aspen’s evaluation experiences as well as its new web-based “EITC Platform” that provides a tax return quality control system useful for winning IRS support for the campaign.
  - (4) NCTC’s tax preparation expertise, IRS relationships, and practitioner-directed listservs and blogs.
5. Visible local campaigns will enhance local awareness of self-employment both as part of the planning process and during the actual marketing campaign. During recessionary times, self-employment job creation is likely to increase, making this campaign particularly cogent over the next two (or more?) years. Public affairs materials should be developed to help local, state and federal government representatives and leadership understand the important business and community development, tax revenue generation and constituent service implications of this campaign.

6: The campaign is very likely to surface inefficient tax practices and potential reforms. SETI has already identified significant shortcomings in microenterprise tax policies and has proposed a “Start Your Business Right (SYBR) tax credit. This work needs to continue.

The national campaign should also explore the availability of Congress-provided funding for tax preparation for the low-income microenterprises. Note that VITA programs as well as AARP-operated Tax Counseling for the Elderly (TCE) program receives federal funding for providing tax preparation services to the low-income and elderly.

7a: Because campaign sites will use computer-based intake processes as well as tax preparation software and web-based filing, a wealth of useful business-specific data is built into the tax preparation intake and filing process. Specific data points should be cooperatively identified by pilot-region sites and collection methods discussed. This evaluation process will be set up in advance of the tax season, and special activities will need to address the increasingly stringent IRS-dictated privacy protections that prohibit use and aggregation of taxpayer data without individual waivers.

7b: A separate capacity should be developed to collect data on the nationwide up-take of the *MWP* tax credit.

## ***Postings on Rural Enterprise Development and Entrepreneurship***

1. **RUPRI Center for Rural Entrepreneurship**

## RUPRI Center for Rural Entrepreneurship: Rural Enterprise Development and Entrepreneurship

Deb Markley and Karen Dabson

The RUPRI Center has been learning about and advocating for enterprise development as a core rural economic development strategy since its establishment in 2001. The Center's work in communities and regions across rural America has informed three core beliefs that guide our vision for the future:

- Entrepreneurship development is a necessary component of rural economic development – it may be the **most promising** strategy for rural places.
- Creating an entrepreneurial environment requires culture change – replacing “waiting to be saved” with “growing our own” mentality.
- Entrepreneurship development requires a systems approach – a collaborative, regional approach of “connecting the dots”.

We also believe that entrepreneurs in rural America encompass a broad spectrum of individuals, from microentrepreneurs seeking self-employment or making lifestyle choices to entrepreneurs committed to growing their businesses in rural regions to civic entrepreneurs who are dedicated to building a sustainable future for their communities.

With this context as background, we offer the following thoughts about rural enterprise development and entrepreneurship.

**Challenges and opportunities.** While entrepreneurs everywhere, both business and civic, are challenged by our current economic environment, rural entrepreneurs continue to face challenges of isolation – most notably from markets, peers and mentors, service providers, and sources of capital. Often they face infrastructure challenges that urban entrepreneurs do not – lack of Broadband access for example. At the same time, these challenges create opportunities as discussed earlier on this wiki – identifying entrepreneurial opportunities within the alternative energy sector, the local foods movement, eco- and heritage tourism, niche manufacturing (e.g., custom furniture, “green certified” products). There is also an imperative for rural enterprise development – industrial recruitment in most rural regions has been a failed economic development strategy. Many rural regions have little choice but to invest in supporting entrepreneurs who can tap regional assets as they build businesses and create wealth that is rooted in rural places.

**Goals for the Field.** If the “field” is defined narrowly as rural microenterprise development, a primary goal should be to identify collaborative partners in rural regions and create a systems approach to enterprise development, integrating microenterprise practitioners into the broader field of rural entrepreneurship or enterprise development. If the “field” is defined more broadly as rural entrepreneurship or enterprise development, there are three significant goals:

1. Build a collaborative, regional enterprise development system that connects the dots among service providers, brings individual communities into a broader regional network, and identifies the value case for linking rural entrepreneurs and markets to their urban counterparts.
2. Articulate and measure the outcomes of entrepreneurship development investments as fuel for both policy advocacy and improvement of the practice of enterprise development.
3. Craft supportive public policies that advantages enterprise development work at the regional, state and national levels.

**Strategies or Actions.** There is a great deal of innovation within the field of rural entrepreneurship already, witness the Kellogg Foundation's EDS sites and other efforts across rural America. Sharing the learning from these innovative practices is an important next step. There is an opportunity, given the new administration, to begin to meet the goal of policy advocacy through a unified voice for enterprise development, in general, and rural enterprise development, in particular. Both of these will require, however, a greater degree of collaboration across institutions whose mission includes enterprise development. Taking steps to encourage that collaboration would provide a useful starting point for moving the field to a new level of learning and policy development.

## ***Postings on Business Development Services***

### **1. Mountain BizWorks**

## Mountain BizWorks: Business Development Services

Greg Walker-Wilson, Mountain BizWorks

February 6, 2009

### Challenges/Opportunities

Plenty has already been well said in this wiki about how existing small businesses are likely in the toughest conditions they have faced in a generation – and there is no clear end in sight. Our opportunity is to use Obama’s personal connection to grassroots organizing and his mother’s experience with microfinance and the current economic crisis to restructure the economy into one that is more green, more small, more local. The microenterprise field has an opportunity to go mainstream if we can make our case for our relevance and impact as we come out of recession. Jim Collins used a useful [Churchill metaphor](#) at his OFN speech in December to encourage us all to assess how to preserve our core while seizing opportunity in a crisis. Specifically to Business Development Services, the challenge is that these services are typically more expensive and less self-sustaining than micro-lending, yet they can truly make a difference in the long-term impact of a business’ survival and success. It’s critical that we change the frame of the debate from one where Business Development Services are an expense, but rather into an investment into the future.

### Goals

#### *Client level*

To ensure that underserved microenterprise clients have the training and coaching, in addition to the financing, they need to develop sustainable and profitable businesses that improve their families’ wellbeing.

- Ultimately outcomes (jobs created or sustained, business survival rates and profits, etc) need to be our highest priority, not just outputs (loan repayment rate, number of people trained, etc.).
- Credit-led and training-led approaches may differ on who should provide business Development Services (the microenterprise organization itself or a referral partner such as SCORE or a Small Business Center), but we should all agree that high quality training and coaching should be available to those clients that need and want such because they can improve business outcomes and success rates. For example, Mountain BizWorks’ clients have a 70-75% three year survival rate compared to the 40-50% three year survival rate found by the SBA in the general population.

#### *Organizational level*

To provide relevant, effective business development services (training, coaching, and related services) in a cost-effective and sustainable manner.

- In the scenario that an organization is choosing to offer these services themselves because other effective options are not available to clients, organizations need to constantly evaluate their business development services for how effective and cost-effective they are. Evaluating the delivery format (group vs. individual) as well as being sufficiently confident to charge more can increase organizational sustainability and

provide a measure of market feedback as to whether the services have perceived value, and still not be a barrier to low-income client participation.

- Mini Case Study: Mountain BizWorks recently launched some higher fee (\$75/hr) coaching/consultation services called EDGE that are aimed at higher growth business and those businesses with sophisticated business issues that take an experienced business consultant's advice. The target groups have not flinched at the prices because good advice, not price is their barrier to growth/success. While these services will never be the primary focus of BizWorks, they provide a niche service and can help cross-subsidize some of the programs priced for its primary lower-income target market.

#### *Economy level*

To have the microenterprise field, including business development services, play a larger role in our country's continued economic restructuring around local, small and green businesses.

- While the past six months (and potentially the next 12-18 months or more) have been tough for most all participants in the economy, the microenterprise field has an opportunity to raise its profile and role in the economy given the backlash against big banks/Wall Street. We need to shift the thought of business development services at all levels of government from being an expense to an investment in our future sustainable economy that works for more people.
- In addition past economic downturns – small businesses, not big businesses, have historically been the sector that created jobs to get the economy out of a recession (I'm not sure of the reference, but I think AEO used to have this on their AEO microenterprise stat sheets by county/state)

#### **Actions**

Support AEO's efforts to increase funding for Business Development Services: SBA PRIME, SBA Microloan TA, SBA Women's Business Center, USDA RBEG and the new rural microenterprise initiative.

Encourage microenterprise organizations to fully buy-in to and support the above goals.

## ***Postings on Scale and Capacity Building***

- 1. FIELD, The Aspen Institute**
- 2. Oregon Microenterprise Network (OMEN)**
- 3. Kirsten Moy, The Aspen Institute, Economic Opportunities Program**
- 4. Welthy Soni, Interim Director, Virginia Microenterprise Network**
- 5. RUPRI Center for Rural Entrepreneurship**

## FIELD on Scaling up the Microenterprise Field

Achieving greater scale has been one of the primary issues facing the U.S. microenterprise industry for over a decade. This drive to increase scale stems from the realization that there are perhaps 10 million entrepreneurs who might benefit from microenterprise program services, while the industry serves an estimated 250,000 individuals per year. FIELD estimates that at present there are approximately 500 microenterprise development organizations. About half of these engage in lending, disbursing about \$100 million annually to some 13,000 microentrepreneurs.<sup>1</sup>

This collective “output” of the microenterprise industry is highly concentrated, in that a small number of organizations are responsible for a substantial number of total clients assisted and loans made. In 2006, just over 20% of the microlenders reporting to the CDFI Data Project were responsible for almost three quarters of the outstanding microloans (22 of 126 lenders held \$76 million of \$105 million in microloans outstanding at year end)<sup>2</sup>. Similarly, preliminary MicroTest data for 2007 shows that the top 20% of programs in terms of the number of clients served 65% of all clients served by MicroTest members, and that the top 20% of programs in terms of the number of participants served 67% of those reached by all members.

**Challenges:** In our work, we have defined scale as reaching large numbers of clients. We see scale as involving transformational, not incremental change. Our work on the issue of scale has identified several challenges that must be addressed if the field is to reach significantly larger numbers of microentrepreneurs.

- *Building the organizational capacity to support scale.* The primary lesson to emerge to date from the Scale Academy is that scale must be built on a solid organizational foundation. To achieve growth, an organization needs a strategy (or multiple strategies) to reach larger numbers of clients. But strategy alone will not suffice. Only an organization that has built strength in all key areas of organizational capacity – leadership, development and fundraising, human resources, capitalization; technology, branding and communications, data collection and evaluation, and fiscal management and controls – can achieve and maintain transformational levels of growth.
- *Expanding and improving market research.* The diversity of the market, widespread availability of alternative sources of financing, and dramatic change affecting our economy financial system heighten the need for deep and updated research. Research is needed to identify:
  - Size of market(s)
  - Product preferences of different customers, market segments
  - Effective marketing channels

<sup>1</sup> These estimates are based on a extrapolations from data collected through MicroTest, the CDFI Data Collection Project, and the *U.S. Directory of Microenterprise Programs*.

<sup>2</sup> *Promoting Capital, Building Communities, Creating Impact, FY 2006 Data: Community Development Microenterprise Financing*, Philadelphia: CDFI Data Project, 2007, 3., <http://fieldus.org/Publications/CDPfy2006micro.pdf>

- Effective marketing messages

Yet it is highly difficult to access the funds necessary to support market research.

- *Securing adequate and affordable capital.* Until now, it has been relatively easy for the field to secure debt to finance loan portfolios. However, there is a lack of funding to build the organizational capacity that must underlie growth. Especially needed is “equity capital” to invest in staff, board, product, systems development. One of the initial findings of the Scale Academy is that achieving greater scale -- both within programs and across the industry -- will require significantly higher levels of investment in organizational capacity and program/service delivery.
- *Improving the model and funding for product development and innovation.* There is a lot of innovation in the field. However, few innovations are taken to scale. This is partly because the process for developing products typically leaves out the critical steps of standardization, infrastructure building and wide-scale roll out. It is also because dollars for innovation and product development are limited.
- *Investing in the field.* To achieve greater scale, efficiency and performance, the field needs to build and expand key pieces of infrastructure. Examples of emerging platforms or key pieces of infrastructure include: ACCION Texas’ underwriting platform, ACCION USA’s on-line loan application/credit scoring platform; WESST Company’s WESST TV; Credit Builders Alliance; and MicroTest. However, capital for building the field has been limited, in part due to the structure of the funding sector (the public sector rarely invests in this way; many private funders invest at a local or regional level only).

**Goal and Strategies:** If the field is to reach the goal of achieving significantly larger numbers of clients, it needs to pursue three strategies:

- Securing significantly larger investments of growth capital in the industry leaders that are currently pursuing and achieving scale.
- Building the capacity of the next tier of organizations with the potential to achieve transformational growth (not all programs can or should attempt to scale up).
- Obtaining funds necessary to build infrastructure and tools (at the field level) that can be a platform for many organizations to reach more clients.

Ultimately, much of the challenge of achieving scale comes down to securing and then deploying the right kinds of funding. The field needs to continue to advocate with private funders for growth capital and for support for investments in building the field. In addition, as the field looks to capitalize on new federal funding opportunities that might emerge from the new Obama Administration and Congress, it should consider advocating for significant investment in an Office of Microenterprise modeled after the one operated by USAID in support of microenterprise in developing nations. The Office would receive and deploy a significant level of resources, targeted at both building the organizational capacity of practitioner organizations, and making the field-level investments required to increase scale and performance. Like USAID, this office would invest significantly in capacity building and research, with a strong focus on developing best practices and tools, working through various intermediaries and with practitioners. The office of should be led by someone with deep knowledge of and stature in the field (the parallel to USAID is that its Office of Microenterprise was led by Kate McKee and Beth Rhyne, both of whom have significant experience and reputations in the

international field). If there was a significant federal investment in capacity building, enabling U.S. organizations to grow, it is likely that significant levels of private capital could be tapped to capitalize loan funds, as well as to support operational funding.

## OMEN on Building the Capacity of the Field

We are at a critical juncture as an industry, with extraordinary possibilities presented by a new federal administration, and meanwhile unprecedented challenges faced by microenterprise development organizations and the entrepreneurs they serve. At this time, building the staffing and programmatic capacity of the field to meet today's challenges is no longer an option – it is essential to our survival and growth as a field.

### 1) What are the challenges and opportunities with respect to this issue?

The rapid growth in demand that practitioners have seen in this economy has created pressure for increased organizational capacity. As higher numbers of would-be entrepreneurs seek services, and we see an increase in existing businesses in need of survival strategies, MDO staff is stretched to serve more entrepreneurs with fewer resources.

At the same time, there are incredible possibilities that come before us as a result of the Obama administration. If we are successful in requests to increase funding for the field, this will immediately put extraordinary pressure on MDOs of all types to perform far beyond their historical levels. There is a phrase, “Be careful not to drop bags of gold on fragile eggshells.” We’ve seen this with entrepreneurs who receive financing before they are ready. Would a major infusion of funds create a crisis where the field is unable to deliver at the scale expected? State microenterprise associations (SMAs) and other statewide or large scale practitioners can help ensure that federal policy gets translated into usable programs that get capital and technical assistance to our small businesses. Nonetheless, a 25% or 50% increase in demand could strain MDOs if intentional preparation on a national scale did not take place.

### 2) What should be the field's goal(s) with respect to this issue?

- The possibilities of reaching scale are intimately tied to the field's capacity to deliver services. The field needs to continue reaching out to nascent MDOs and build their organizational capacity particularly in rural communities and distressed urban neighborhoods. Simultaneously, FIELD's Scale Academy is an example of shining a spotlight on effective methods for scaling-up services through a variety of strategies, which can then be disseminated and used by growing MDOs to “leapfrog” program development timelines.
- To ensure a knowledgeable field of practitioners to meet changing market demand, practitioners need access to ever-evolving best practices training. This professional development should be flexible, low-cost and available on-demand.

- Efforts to expand MicroTest should be supported, and be accompanied by organizational capacity building to ensure that MDOs are equipped meet the challenge of scaling up services.
- The field should utilize State Microenterprise Associations (SMAs), which are uniquely positioned to build the capacity of the microenterprise field by disseminating best practices at the local level, and by continued advocacy at the state level which can “bring federal dollars home” while generating additional funding support at the state and local level.

### **3) What strategies or actions do we need to implement or support?**

- 1) Ensure that a robust national network of SMAs has sufficient capacity to build strong microenterprise practitioners in each state, encouraging efforts such as CFED’s SMA Capacity Building efforts and AEO’s active continued partnership with SMAs.
- 2) Continue to encourage funders to make multi-year investments in high-performing MDOs and SMAs to ensure staff longevity and consistent service delivery
- 3) Support efforts of MDOs (with specific support and outreach to rural MDOs) to meet the varied niche markets including green business/sustainability industries, and value added local food products.
- 4) Expand delivery of best practices training for practitioner development, including webinars, regional trainings and consider development of a national peer-to-peer mentoring program for practitioners (using MicroMentor matching process as a model)
- 5) Support research and development of compelling data on the value (ROI) of microbusinesses in local economies, including data regarding impacts of buying locally and the significant impact of microenterprise development strategies when compared to more traditional business recruitment and retention strategies. Also note the impact that MDOs and SMAs have in bringing federal dollars to their states and collect data on these leveraged funds
- 6) Ensure recruitment of new talent into the field. Consider redevelopment of national VISTA volunteer program, which built the programmatic and staffing capacity of the field while bringing fresh talent to the field with the potential for careers in microenterprise development.

## Comment by Kirsten Moy on postings on Scale and Capacity Building

I'd like to comment on the three postings to date on the topics of scale and capacity building. These topics are clearly linked, as to achieve greater scale, one must first build the capacity to do so. Of course, one can build capacity to achieve other goals as well – such as to improve the quality of services, or risk management – without necessarily seeking also to increase scale. But in our work on scale at the Economic Opportunities Program, we've learned some important lessons about the nature and role of capacity building in the pursuit of scale.

My comments here derive in part from research we've conducted around the question of how to help industries comprised of small nonprofits to scale. The findings of that research suggest that (1) very few organizations succeed in building the organizational capacity to achieve large scale, (2) few sectors of the nonprofit world achieve scale solely through the efforts of the top-tier leaders and (3) the most effective way to increase the scale, sustainability and impact of small organizations operating small programs may be by working at the industry or sector level to provide all the members of the industry/sector with the infrastructure, tools and resources to accomplish their mission. In doing that needed work at the industry or sector level, we see the roles of *industry platforms* and *networks* to be central.

What is an industry platform? A platform is not a program. It is, from the perspective of those who have access to it, a launch pad, a central place to go to get the products, services and tools needed to run the business that are too expensive or for other reasons impossible for individual organizations to access, something that raises everyone up and takes them to a new level. A platform exists most fundamentally to enable, facilitate or improve operations and execution so that the members of an industry do better, whether it's to sell more product and be more profitable at it, or serve more low-income people.

A platform recognizes that “no one is good at doing everything”; responds to the lament of executive directors who continually have to “figure it out” by themselves; addresses the fact that individually organizations are unlikely to be able to afford the continued cost of innovation and infrastructure development, enables the rapid communication and institutionalization of best practices; and facilitates, accelerates and strengthens the development of powerful networks within sectors and fields. The private sector makes ample use of platforms and doesn't require (indeed, can't conceive of) small businesses in most sectors operating alone. So, why do we believe the dynamics and economics of running a business are different for nonprofits?

Networks are important because they go hand in hand with empowering platforms; the network is the animating and organizing force for collaboration; the platform is the instrument. The network builds the platform, and the platform in turn builds the network. From the perspective of complexity theory, networks are particularly powerful because their structure embodies principles such as how the collective wisdom of a group typically exceeds the sum of its parts, and how groups of diverse people working together

tend to outperform groups of like-minded experts. In place of top-down capacity-building by experts, networks provide the opportunity for peer-to-peer learning and group problem-solving from a diversity of perspectives.

To tie back to the posting by FIELD – in it Elaine and Joyce make the case that to move forward on scale, it is important to invest further in the industry leaders, and also “to build infrastructure and tools that can be a platform for many organizations to reach more clients.” Both are important, and in fact – as you are beginning to see in the microenterprise industry – it is the industry leaders that may play key roles in building platforms and networks. I’d go further to recommend as the industry moves to advocate for the funding required to support scale – whether it be through a federal Office of Microenterprise, through private funders, or both – it look to focus those resources on investments in platforms and networks that can be the launching pad for greater scale.

## Welthy Soni on Standards

In her recent posting on the Wiki website, Karen Dabson made note of the fact that as the field expands both horizontally and vertically, it is essential not only to track the data but also to maintain standards of performance.

The Microenterprise Standards and Accreditation project, which was started almost eight years ago by AEO, would be a good topic for discussion at the upcoming meeting. The timing may be auspicious as there is every indication that the microenterprise field may benefit from some sort of funding at the federal level, hopefully as part of the new stimulus package. Additionally, this is an administration that is extremely cognizant of the need for accountability. The standards, if universally applied throughout the field, would provide a way for assuring best practice for funders, clients, and boards of directors.

The Microenterprise Standards are being utilized by three states, although at the present there is no standard way of administering them and no formal accreditation process at all. We have taken the first baby steps in the process. I believe it is time that we now have a full fledged discussion about next steps which would include what an accreditation process would entail including what sort of organization would become the accrediting body. Another vital step is to review the process used by Georgia, Oregon and Virginia to learn what we can from their experience. Additionally, ours is not a static field. Many of these standards are based on practice that is now at least five years old and therefore may no longer be relevant. Therefore, a review of the existing standards should be undertaken for both relevance and clarity and the need for new standards should also be considered. While some of this work can be done on a volunteer basis, it is my belief that the Standards and Accreditation process will only move forward with paid staff and in an independent organizational setting.

I firmly believe that the Standards should be an important part of our discussion next week and hope that we have an opportunity to spend some time on next steps.

**Welthy Soni-Myers, Interim Director**  
**Virginia Microenterprise Network**  
**802-824-4624**  
**[vmn08@yahoo.com](mailto:vmn08@yahoo.com)**  
**[www.vamicro.wildapricot.org](http://www.vamicro.wildapricot.org)**

## **Karen Dabson, RUPRI, on Building the Capacity of the Field**

*(a discussion brief for CFED / Aspen meeting 02-13-09 to discuss the future of microenterprise)*

Scale and capacity have always gone hand-in-hand when discussions about how to serve more micro- and emerging entrepreneurs are held. Although numbers served has improved over the years, microenterprise has never achieved the kind of scale now being reached by its companion asset development field, IDAs. The old saw has been that there is never enough money for the operation of microenterprise training and technical assistance programs, thus limiting rather dramatically the amount of capacity that individual organizations have to contribute to the effort. Now on the brink of an economic crisis that is broaching the cataclysmic, the capacity issue looms large in what needs to happen next.

### ***What are the challenges / opportunities?***

From a challenge perspective, anecdotally we are hearing that the demand for entrepreneurship services is swelling. More persons may be turning to small business development as either their only job option or as a means of patching earnings to hold their families together as the worsening economy drills holes in their personal income. A number of these people will come knocking on microenterprise practitioners' doors with far fewer resources and know-how than current clients may possess. Echoing the past several administrations, whether we like it or not, now may be the time, more than ever, to have to do more with less. Funding sources of all kinds—private foundations, community chests, and governments—are experiencing a similar diminution in their investments and resource bases, and are less able to contribute to the field than may have been true a few years ago. In this light, capacity building may be more about refining internal systems and working smarter than about actually growing the number of staff. On the plus side, entrepreneurship is getting a lot of play from the Obama administration. Politicos are definitely touting the benefits of small business development, and many communities are earnestly exploring ways to create more entrepreneurial environments. It appears that (in parallel to the challenge side) now may be the time, more than ever, to position entrepreneurship development in its rightful place—as an effective economic development strategy—especially in rural or disadvantaged communities and neighborhoods. Coupled with the increased demand, the field should see this as a big window of opportunity.

### ***What should be the field's goals with respect to this issue?***

Given this context, a few initial goals for capacity-building in the field suggest themselves:

- Work smarter – undertake to analyze current resources and how to shift them toward greater efficiency while still achieving mission
- Become intensely results-oriented – figure out new and better ways to achieve greater results, even if it means sharing the glory
- Make the case for entrepreneurship, and gain more recognition and support for it

### ***What strategies or actions do we need to implement or support?***

Listening to our own advice—that which we give entrepreneurs—may lead us to these ends.

- **Market analysis** – Stay in tune and in touch with microenterprise markets as they shift and adjust to the changing economy. Identify from this the most critical points at which to intervene for faster, higher quality results, i.e. business starts and growth, recognizing that you can't be all things to all people.
- **Cross-cutting efforts** – Do our best to make sure we have identified working collaborative partnerships in which we join together with other organizations to provide the best service we can to clients. Finding the right partners is really critical. We have learned in regional efforts that each partner has something different to bring and that not everybody “has it all.” At this time, we're not in a position to build capacity *up*, but we definitely can build it *out* by developing and honoring reliable relationships with relevant partners. We should strive to identify community assets, perhaps new and unique to our efforts (like librarians) and stir them into the mix. And don't forget while we're building networks that one of the best ways to expand capacity is to involve entrepreneurs. Building entrepreneurial networks is powerful because it can build relationships between small business owners that foster future opportunities for collaboration and broader market access, while taking the pressure off of an organization's staff to do all the handholding.
- **Standing behind our products** – It is essential to track what we are doing, collect successes (especially joint ones), and measure ourselves against recognized yardsticks such as the Microenterprise Standards and Accreditation process and/or MicroTest. Both will add to our credibility as substantive economic development partners, and underwrite our ability to sell microenterprise and enterprise development as the important strategies that they are.