Moving Forward: Industry Challenges, Funder Opportunities

Funders have played a critical role in building the microenterprise industry that exists today – an industry of over 500 programs serving up to a quarter million people a year. Engaged donors have provided critical support for program start-up and ongoing operations, invested in loan funds, and funded innovative pilots to test new approaches and reach new markets. Now 20 years old and faced with a changing U.S. economy, the microenterprise industry is challenged to respond effectively to the changing profile of entrepreneurs in need, to serve more entrepreneurs, and to become more sustainable. Funders can again play a leading role, helping the industry respond to those challenges by incorporating one or more of the following approaches into their grantmaking.

Increase the market knowledge of programs and support organizations
The context in which microenterprise development occurs today is dramatically different than when the field began. The profile of potential customers has changed as the informal economy has grown, as new immigrants have arrived, and as the structure of local economies has changed. At the same time, private sector financial institutions have deepened their reach, altering the profile of those who might be candidates for microcredit. Programs need current, detailed market research to help them chart a more effective course. Community foundations in particular might find funding local market information an attractive way to support programs, given their deep community roots. More generally, funders can help by:

• Providing opportunities to learn about and understand key market trends.
• Funding demand-side market research that clarifies the characteristics of current and potential microentrepreneurs, their needs and product preferences in local markets.
• Funding supply-side research to uncover potential competitors and collaborators among financial institutions, and help position program services more effectively.

Finance product development
The microenterprise market is highly diverse. Microentrepreneurs who use microenterprise as a supplementary income stream need one set of services, while those seeking to grow a business and employ others need another. Many entrepreneurs need complementary financial services to repair credit, build financial assets, and improve the capital position of their business. Others need services that broaden their market reach. As the profile of clients changes, microenterprise programs need to respond to these market developments. Funders can play a role by:

• Building the capacity of programs to engage in systematic product development.
• Supporting the design, testing and roll out of new products and services, and the re-tooling of current products.

Invest in organizational re-tooling for greater scale
The microenterprise industry has a few large organizations that serve many hundreds – and even thousands – of entrepreneurs. But many other programs remain small in size and focused on a very local market. While this “localness” may strengthen their ability to serve their initial constituency, it often hampers them from increasing technical expertise, gaining efficiency, achieving greater breadth of services, or exerting influence in the public arena. There are ways to strengthen these small scale, “retail” service providers, however, by:

• Investing substantially in the growth of those that have demonstrated the potential for scale.
• Encouraging others to build breadth and efficiency through approaches such as outsourcing, co-branding, strategic alliances and mergers.
• Investing in the development of national-scale products and services to improve local operations (such as a common loan application and underwriting platforms) or to extend new services to clients (such as curricula development for distance learning programs).

Invest in technology
Microenterprise programs must increasingly use technology to achieve their goals – both to improve their operations and to help microentrepreneurs use technology effectively for office operations, research, product design and marketing. Yet technology is expensive and requires continual upgrading and thoughtful planning to maximize its impact. Funders can help by:

• Financing technology consultants and the development of technology plans.
• Connecting programs to local technology partners (to share facilities and services).
• Investing in management information systems, distance learning technologies, computer facilities for client use, and better communications systems.

Measure and reward performance
Funders can help to drive improvements in program quality and scale by adopting industry measures and standards to guide and support their grantmaking, and by building the capacity of the programs they fund to reflect on and use data to improve program execution. Key funder roles include:

• Supporting programs to develop systems to collect and use data.
• Incorporating industry tools for reporting and accountability – such as MicroTest (FIELD’s performance measurement project) and the Association for Enterprise Opportunity’s forthcoming accreditation process – into their grantmaking processes.
• Encouraging more consistent approaches to performance measurement across the donor community.

Promote sustainability by rewarding good performance with multiyear support, while helping programs become more entrepreneurial
The annual fundraising struggle diverts management time away from program improvement, innovation and growth. Providing longer-term, more substantial core funding to organizations that have demonstrated progress and potential for high impact makes good business sense. Programs also need to increase earned income. Many microenterprise programs already achieve high levels of cost recovery through interest and fees on loans, and training and technical assistance fees. Yet more experimentation is needed, and funders can help by:

• Providing funds for efficiency-enhancing initiatives (such as computer technologies).
• Encouraging experimentation with new cost recovery mechanisms (graduated fee schedules, renting out facilities for other training purposes, making technology available for fee-based public use, etc.).
• Providing funds to test the feasibility of new approaches to revenue generation, like social enterprises that while demanding, can potentially create income for both programs and emerging entrepreneurs.
• Supporting learning about successful cost recovery strategies.

For more information
Elaine L. Edgcomb and Joyce A. Klein, Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States, Washington, D.C.: The Aspen Institute, February 2005. Pages 79-107 discuss these recommendations in detail. Available from: http://www.fieldus.org/publications/FulfillingthePromise.pdf. In addition, several of the challenges and opportunities outlined here will be described in greater detail in subsequent Funder Guides, which can be requested by writing to: fieldus@aspeninstitute.org.