

Tear Sheet

Microenterprise American Style: A Guide for Small Funders

Microentrepreneurs are owners of small businesses with five or fewer employees. And they are 24 million strong in the United States. You'll find them in America's big cities and small towns—operating cleaning and child care businesses, working as caterers and landscapers, performing medical billing, running transport services, and creating everything from jewelry to specialty food products.

Key Issues

Simply put, microenterprise helps to create self-sufficiency and end the cycle of poverty. It has an immediate and lasting impact on quality of life—the ability to afford food, housing, education, and medical care. Plus, as businesses grow, the effect spreads beyond the individual and family to the community, through employment and contribution to the local economy. The benefits of microenterprise grow not just businesses, but stronger communities as well.

Many of those pursuing entrepreneurship face barriers in credit, know-how, and networks. More than 500 programs in the United States offer financial and business development services to those lacking access to traditional sources of capital or training, allowing them to start, stabilize, and grow a business.

Microenterprise Makes a Difference

Research shows that entrepreneurs who receive services from microenterprise programs do well: They start and grow businesses, increase their income and assets, and stay more connected to the labor market. Plus, their businesses show strong survival rates and create jobs for others.

Taking a broader view, microenterprise can also play a valuable role in alleviation of poverty, development of assets, economic security, access to financial services, and revitalization of local economies. Consider that:

- By helping individuals build assets, microenterprise can open wealth and ownership opportunities to those excluded from the mainstream economy.
- Even when a microenterprise doesn't generate major income for the entrepreneur, it may still be an important piece of a household's economic portfolio—contributing to overall economic well-being and self-sufficiency.

- States are recognizing that their economic health depends on homegrown businesses and that microenterprises can play a part by providing jobs, enabling people to stay in their communities, and helping communities develop a unique character that draws new residents, businesses, and tourists.

While microenterprise programs serve hundreds of thousands each year, there are as many as 10 million individuals who could benefit from services. Microenterprise programs must grow to scale, improve efficiency, and serve more entrepreneurs if the industry is to reach its potential to make a difference in the lives of people and communities. Small foundations can play a leading role in developing this field.

What Small Foundations Can Do

Foundations can make grants that support microenterprise organizations—organizations focused on particular geographic regions or serving populations that meet your mission. Specific ways you might consider supporting such organizations are outlined below, as well as where to find these programs:

- **Provide funding for microloans.** The average microloan in 2007 was \$9,500, and many microlenders make much smaller loans. Providing even small amounts of loan capital not only can help an individual entrepreneur, but it also can provide “equity” in the loan fund that can be used to leverage funds from financial institutions, the public sector, and social investors, allowing relatively small amounts of grant funding to ultimately serve many.
- **Help microentrepreneurs invest in their future.** Many programs offer aspiring entrepreneurs the option of saving to start their businesses through Individual Development Accounts. A client’s savings are matched in these accounts up to four to one and are applied to purchase equipment or invest in other assets that will start or grow a very small business. Such accounts support an individual’s progress toward business development and instill long-term financial practices that will strengthen a household’s economic security.
- **Use microenterprise to further your mission.** Microenterprise programs typically target and serve specific groups or regions that often require special products and services. Examples include immigrants and refugees, individuals with disabilities, the formerly incarcerated, and young people. Small foundations can provide the seed or research and development funds necessary to create and offer products that meet the needs of these groups. To find a program that fits your interests or mission, start by visiting the Microenterprise Program Directory at www.fieldus.org.
- **Strengthen microenterprise organizations themselves.** Microenterprise programs also need funding to strengthen their own internal organizations and bring them to scale. Even small grants can help with board development, strategic planning, evaluation, technology, marketing, and outreach.

Tip: Foundations can make grants or program related investments (PRIs) to support microenterprise. And while most microenterprise organizations are nonprofits, some microlenders are for-profit community development banks. Grants to these lenders require funders to exercise expenditure responsibility. Resources on PRIs and expenditure responsibility are available at www.smallfoundations.org.

What Members Are Saying

“Our foundation spent 2 years researching microenterprise and recently decided to include this area in our grantmaking focus. We believe that this is a valuable tool for individuals and families to move away from poverty and become more connected to their communities.”

–Rob Greenlee, Greenlee Family Foundation, Lafayette, CO

Additional Resources

- Association for Enterprise Opportunity (AEO), www.microenterpriseworks.org
Voice and advocate for microenterprise industry
- Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), www.fieldus.org
A project of the Aspen Institute that coordinates a Microenterprise Funders Group and offers excellent donor resources

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