Special Symposium on Microenterprise Industry in the United States

Introduction by Jason J. Friedman

This issue of the Journal of Microfinance includes a special symposium about the microenterprise development industry in the United States. The journal’s editors commissioned the Association for Enterprise Opportunity (AEO), the U.S. microenterprise industry’s trade association, to present four articles that address the current status and challenges facing practitioners.

The mission of AEO is to support the development of strong and effective U.S. microenterprise programs to assist underserved entrepreneurs start, stabilize, and expand businesses. AEO’s membership is open to all those who share in its mission, and it has grown to include practitioners, advocates, public agencies, funders, and individuals. A fifteen-member, culturally and geographically diverse board of directors governs the association, assisted by substantial volunteer participation.

AEO defines “microenterprise development” as the provision of support to businesses that generally require $35,000 or less to start up or expand and that typically employ five or fewer individuals. Coining the word “microentrepreneur” to describe a particular kind of business owner, AEO helped introduce this term to the U.S. lexicon, along with “microenterprise development.”
In support of its members, AEO provides the following programs and services:

- **Policy and Advocacy Program**—AEO mobilizes members and others to take effective action in support of microenterprise development nationally and locally. AEO’s policy and advocacy efforts focus around federal programs that support the needs of the microenterprise industry in the areas of: (1) training and technical assistance and (2) access to markets, credit, and asset development strategies.

- **Training and Technical Assistance Program**—AEO provides training and technical assistance in the design, implementation and administration of microenterprise development programs. Training is offered through such venues as the AEO Annual Conference and Membership Meeting, specialized group training, and individual technical assistance and consultation.

- **Research Program**—AEO gathers and disseminates information on the microenterprise development field, including the identification and development of best practices, program innovation, and program evaluation efforts.

AEO also has several activities that promote networking and information sharing among its members, including:

- **AEO Exchange**, a newsletter for members covering critical information in the field of U.S. microenterprise;

- **The Directory of US Microenterprise Programs**, published in collaboration with the Microenterprise Fund for Innovation, Effectiveness, Learning, and Dissemination (FIELD);

- **A website**, www.microenterpriseworks.org, which provides a comprehensive resource on the field with tools for practitioners and policy updates, among other things.

- **A training and technical assistance listserv** that facilitates the...
exchange of ideas and best practices between microenterprise practitioners.

Challenges Facing the U.S. Microenterprise Industry

After years of experience and research, it is clear that microenterprise development is an effective poverty alleviation strategy for a significant percentage of low-income individuals. Most U.S. microenterprise programs, however, serve a relatively small number of clients on an annual basis. Thus in order to realize the full potential of microenterprise development in the U.S., the field must develop strategies to increasing scale and sustainability. Other critical challenges facing the field include:

• Reduced Government Funding—Smaller domestic budgets and discretionary funding allotments at the federal level and further changes in welfare and workforce programs threaten existing funding sources.

• Competition—The field may be losing opportunities to gain new clients. Alternative credit outlets and predatory lending are fast expanding in low-income communities using sophisticated marketing techniques and internet strategies. At the same time mainstream lenders are diversifying product offerings and using technology to streamline loan-making.

• Focus on Outcomes and Performance—Philanthropic organizations are moving toward more comprehensive community efforts and are evaluating investments in communities measured by results, performance outcomes, and return on investment.

• Sustainability—Microenterprise practitioners are spending more time than ever raising money for their programs. Are there more cost-effective and value-added strategies to raise funds and generate non-governmental, market-driven income streams?

In light of these challenges, AEO asked four leaders in the field to share their insights, experience, and learning about the challenges facing the field. Their articles are not only thought-provoking, but present some practical strategies to move the field forward.
Dr. John Else, founder and Chair of the Board of the Institute for Social and Economic Development (ISED) and founding member of AEO, addresses the issue of scale and sustainability head on. In his article, “Striving for Scale and Sustainability in U.S. Microenterprise Development Programs,” Dr. Else asks, “What are we learning about the barriers to increasing scale and sustainability? What strategies are needed to achieve growth?” Dr. Else identifies the strategies needed to “grow” the field and identifies three areas of focus that are essential to increased scale and sustainability.

Bill Burrus, President of ACCION USA, goes one step further and presents a fascinating case study of how ACCION USA, the largest provider of microlending services in the U.S., responded to the challenge of increasing scale while at the same time focusing on cost-containment and customer service. In “Microenterprise Development in the U.S.: Closing the Demand Gap,” Bill describes how ACCION USA conducted extensive market research to quantify its market. It held focus groups of current and potential customers across the United States and re-engineered its image, products, and services to meet the needs of its customers.

Elaine Edgcomb, Director of the Aspen Institute’s FIELD, asks the critical question, “What makes for effective training and technical assistance?” In her article, she reports on the findings of FIELD-funded research projects implemented by five microenterprise programs to assess the relationship between training and client success at starting, stabilizing, or expanding a business. Researchers looked at the process from intake through post-training technical assistance, the skills clients report using and how these skills link to business success, the measures of participation and compliance, and finally the effect of training style on business outcomes.

Caroline Glackin, Executive Director of the First State Loan Fund in Delaware, takes on the perspective of the potential microloan client, asserting that the full range of costs of microborrowing are seriously underestimated. Caroline
maintains that the typical design of microloan programs itself creates potential barriers to access. Her article suggests a framework for the range of costs incurred by individual customers of microloan programs in the United States and the barriers and constraints to borrowing. She suggests that by understanding these costs and barriers, practitioners can develop lower costs and higher volume and impact models for the delivery of credit and training.