

Improving Microenterprise Development Opportunities in Iowa

January 2007
Poverty Policy Brief #6



Karen Collins has been raising her two sons, 6 and 11, as a single parent for the last five years. Her older son has spinal bifida and requires her constant home attention when he is not in school. She and her family are able to make do with SSI payments for her son and a lunch shift she works at a restaurant, but her total household income is still very inadequate. She won an award in high school in design and took several college courses in art and design, before the birth of her first son. Her friends rave over the embroidered jackets she makes for special gifts. Several have suggested they could be sold in New York City for hundreds of dollars each; one friend even showed her jacket to a local boutique, and the owners said they would gladly sell them on a commission basis. Karen would like to spend more time designing and embroidering, which she can do around the home while watching and caring for her children, but has trouble seeing how she could make it work. She would have to give up her waitress position, which provides \$150 a week in much needed income. She has put together a list of what it would take to be able to produce three or four jackets a week. She would need an industrial sewing machine and additional supplies and materials that amount to nearly \$8,000, well beyond her financial reach.

Too many Iowa families find themselves stuck in low-wage jobs struggling to make ends meet, despite talents and skills that could be developed to help them get ahead. Some families, like Karen Collins', have entrepreneurial skills and might start their own business if they had the support to do so. Microenterprise development is an income generating strategy that helps low-to moderate-income individuals start or expand their small business. As a proven economic development tool, microenterprise development assists people in establishing their own businesses and creating jobs for other people as well.

In the majority of microenterprises, the owner is the sole operator and worker. However, a microenterprise is any type of small business that has fewer than five

employees and is small enough to benefit from loans under \$35,000. In general, microenterprises do not meet the credit and/or collateral requirements necessary to access conventional financial services. Iowa has thousands of microenterprises today that provide services ranging from car repair businesses to day care programs and products ranging from specialty foods to clothing.

Some microenterprises have enabled their owners to work flexible schedules and use their assets in new and nontraditional ways. Others have spurred profitable new ventures that have produced valued new products and services, as well as a new customer base. Still others have given their owners critical experience and connections that result in their own career advancement.

The Challenges of Getting By and Getting Ahead: Broadening Microenterprise Development

While some Iowa microenterprises are successful, many aspiring entrepreneurs face challenges and barriers to starting a microenterprise that they cannot overcome alone:

- obtaining basic information, training and coaching to develop the skills they need to plan, market and manage their business;
- tapping into networking opportunities to find new markets for their business and manage their growth (this is especially challenging for rural parts of the state); and
- securing low-cost start-up or expansion loans.

The largest direct economic development program in Iowa is the Grow Iowa Values Fund (GIVF). Created in 2003, the GIVF provides direct financial assistance to companies, as well as supports several other purposes that enhance quality of life in Iowa communities. The purpose of the Grow Iowa Values Fund is to grow Iowa's economy, create jobs and help generate wealth for Iowans. While its stated emphasis is on higher wages and new "economy" jobs, some of its investments have been directed to retaining existing businesses and "old economy" employers.

The GIVF provides support for business development and assistance, university research and development, workforce training, regional economic development, regulatory assistance, historic preservation,

cultural entertainment, quality of life and tax incentives. To date, the GIVF has not developed a structure for supporting microenterprise development. Although Iowa supports a variety of entrepreneurial activities through Small Business Development Centers, Chambers of Commerce, Cooperative Extension, and community colleges, none have truly targeted micro-entrepreneurs as their sector. Other states have established a specific focus upon microenterprise development and have developed networks across similar organizations in order to identify, provide information, train, and help obtain financing for "microenterprisers."

In Iowa, there are many nascent microenterprisers who, with the right kind of information, support and financing could develop successful businesses. While microenterprises necessarily must rely upon substantial "sweat equity" to achieve success, government, working with the private sector, has a significant role to play. Particularly, through developing an infrastructure within the state to promote such entrepreneurship. This can be done by creating a comprehensive network for microenterprise development, which would include recruiters, trainers and lenders.

The specific policy proposal needed to develop this network is to:

- **Set aside up to 2% of the Grow Iowa Values Fund for establishing a public-private intermediary to develop a microenterprise network in Iowa**