



Microenterprise Development in Rural United States

What is the Extent of Rural Microenterprise Development?

Rural residents have an extensive entrepreneurship history. They have traditionally patched their income from multiple sources. Microenterprise development programs serving rural areas help entrepreneurs outside the financial mainstream to develop formal businesses. There are 554 documented microenterprise development programs in the U.S., and an estimated 60% of these (or 332) serve rural areas.¹ The U.S. Department of Agriculture provides funding for rural microenterprise development through several programs, the largest being Rural Business Enterprise Grants, which funded 126 agencies for a total of \$15.8 million during the period 1997-1999.²

The Face of Rural U.S.

The rural U.S. is diverse in terms of peoples, geography, climates and communities. "At the beginning of the 21st century, rural America comprises 2,305 counties, contains 80% of the Nation's land, and is home to 56 million people."³

- Rural areas tend to be sparsely populated.
- There has been a decline in the natural resource-based industries on which rural areas have relied.
- Some of the poorest regions in the United States are rural.
- Distance from urban centers hinders economic activity.
- Increasing numbers of legal immigrants reside in rural communities.
- Global competition is making it increasingly difficult for low-skilled, under-educated people in rural areas to find jobs.⁴

What is Microenterprise?

Microenterprise is a business with five or fewer employees, which requires \$35,000 or less in start up capital, and which does not have access to the commercial banking sector. AEO estimates that there is over 20 million microenterprises operating in the U.S. and microenterprise employment represents 16.6% of all private (non-farm) employment in the United States.⁷

Microenterprise development programs assist these very small businesses to start-up and expand. These programs typically have one of the following purposes: business development/job creation, community economic development or poverty alleviation. By supporting entrepreneurs, these programs help underserved populations increase their income, assets and net worth, enabling many to move out of poverty. Services provided include:

- business technical assistance,
- business development training,
- credit in the form of micro loans or access to credit,
- access to markets opportunities,
- and asset development strategies.

U.S. microenterprise programs originated in the mid 1980's. As the field grew, practitioners created a national membership organization to support their work, the Association for Enterprise Opportunity (AEO). AEO currently has about 450 members.

Rural Microenterprise: Generating Employment

By examining Census data, the percentage of employment generated by microenterprises is identifiable.⁸ Below are examples from primarily rural states and rural counties:

Maine 20.1%

Washington- 29.7% Waldo 28.8% Franklin 20.1%

South Dakota-13.9%

Turner- 37.8% Sully- 34.3% Potter 33.6%

Wisconsin- 17.3%

Washburn- 33.4% Bayfield- 33.3% Marquette 29.9%

Movement Away from Agriculture and Manufacturing

- **Payrolls have been cut more than 10%**, since 2000. This is more than 1 and 1/2 times the cut seen in metro factories.
- Approximately **140 factories closed** in rural U.S. in 2002.⁵
- **7 out of 8 rural counties are dominated by manufacturing, services, and other non-farming employment.**
- During the last 20 years the number of **farm workers has decreased by 35%**.
- **24% of rural employment is in farm and farm-related industries.**⁶

¹ 2002 Directory of U.S. Microenterprise Programs, FIELD of the Aspen Institute in collaboration with AEO, 2003, p. xv.

² The Role of Microenterprise Development in the U.S., the International Labor Organization in cooperation with AEO, March 2001, p. 14.

³ Leslie A. Whitener and David A. McGranahan, *Rural America: Opportunities and Challenges*, Amber Waves, The Economics of Food, Farming, Natural Resources and Rural America, February 2003.

⁴ Ibid.

⁵ Mark Drabenscott, *New Troubles at Rural Factories: New Implications for Rural Development*, The Main Street Economist, Center for the Study of Rural America, Federal Reserve Bank of Kansas City, March 2003.

⁶ Leslie A. Whitener and David A. McGranahan, *Rural America: Opportunities and Challenges*, Amber Waves, The Economics of Food, Farming, Natural Resources and Rural America, February 2003.

⁷ Association for Microenterprise Opportunity, *Microenterprise Employment Statistics*, <http://www.microenterpriseworks.org/services/policy/mees/index.htm>

⁸ This methodology was developed by Professor James McConnon along with Thomas Allen at the University of Maine and shared with AEO.



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Uniqueness of Rural Microenterprise

Microentrepreneurs in rural areas face some unique challenges that urban entrepreneurs typically do not face:

- Isolation: Very limited access to substantial customer markets.
- Local markets: Typically low wealth local markets.
- Capital shortages: Equity capital and outside investment are in short supply.⁹
- Brain drain: Gifted young people migrate away, leaving communities with few enterprising individuals.¹⁰
- Infrastructure deficits: Lack of technology and other services creates obstacles for business owners.

Thus, microenterprise development programs have to respond with focused and creative services, such as:

- Community-wide development – recognizing that a vital community is essential for entrepreneurs to thrive.
- Connections – building links between urban and rural areas.
- Long term training and technical assistance – ongoing assistance to increase entrepreneurs' competitiveness.
- Niche markets – immersing the program in specialized markets and encouraging firms to focus on value-added products that appeal to these markets.¹¹
- Sectoral strategies – concentrating on certain economic sectors and working to create community-wide activity around that sector, assisting entrepreneurs to grow.
- Access to markets – focusing more attention and creativity links to markets than urban programs.

Are Rural Areas Ripe for Microenterprise?

Challenging rural economies can also be viewed as an opportunity for entrepreneurial development. "Due to the decline in plant and factory jobs, rural citizens may see it as their best option to create their own economic opportunities through entrepreneurial undertakings. Also, entrepreneurship by rural citizens often creates jobs that will employ and develop the local workforce."¹²

Local businesses usually remain in the community and invest in the community. In a study examined by Brown and Muske, it was found "that 38 percent of the home-based businesses purchased supplies locally and 47 percent acquired services locally. 42 percent of home based businesses made local sales. This means that one dollar spent locally ... generates amounts greater than one dollar in local economic activity."¹³

How is Rural Microenterprise Sustained?

Rural microenterprise development programs have even more difficulties obtaining operational funds than their urban and suburban counterparts. Funding sources for microenterprise development include foundations, corporations, government, individual donors, and earned income. In rural communities, there are typically fewer of all of these available. Federal public sector support is more difficult to sustain as their legislative representation has declined along with their loss in population. For state and local public sector support, programs compete with demands for infrastructure and basic needs funding, as well as the proclivity of economic development officials to invest in attracting large, external employers.

Against such odds, rural microenterprise program staff have been creative and efficient. They are very persistent in public education and fundraising efforts, and form multiple partnerships to leverage their resources and enhance services for their participants. Rural microenterprise development programs work together with each other and with urban programs through AEO to advocate for funding and to raise public awareness of their accomplishments.

For More Information...

Contact AEO at (703) 841-7760 or aeo@assoceo.org.
Please also visit the AEO website at
www.microenterpriseworks.org.

⁹ Seymour, N., *Entrepreneurship in Rural America*, CELCEE Kauffman Center for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education, Kansas City, Missouri, December 2001.

¹⁰ Ibid.

¹¹ Economic Research Service, *Understanding Rural America*, U.S. Department of Agriculture, 1995.

¹² Seymour, N., *Entrepreneurship in Rural America*, CELCEE Kauffman Center for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education, Kansas City, Missouri, December 2001.

¹³ Brown, P. and G. Muske, "Home-based businesses: Implications for the Rural Economy of the South", *The Rural South: Preparing for the 21st Century*, Southern Rural Development Center, Number 16, January 2001, p.4.