



Microenterprise Development in Rural United States

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 mainstream develop formal businesses. There are 517 microenterprise development programs in the U.S., and 63% serve rural areas.¹ Some mature programs have a history of services beginning in the mid 1980's, while others are smaller scale and much younger.

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.
- have experienced declines in natural resource-based industries on which they relied.
- include some of the poorest regions in the U.S.
- often are hindered economically by distance from urban centers.
- have increasing numbers of immigrants as residents.
- have experienced decreasing job prospects for low-skilled people due to global competition.⁴

Movement Away from Agriculture and Manufacturing

- The public generally perceives the rural American economy as being primarily agricultural. "In reality, farm employment is 7% of all rural employment."⁵
- Rural economic development professionals have focused on attracting major manufacturers. However, payrolls at rural factories have been cut 10% since 2000 - more than 1.5 times the cut seen in metropolitan factories.
- Approximately 140 factories closed in rural U.S. in 2002.⁶

What is Microenterprise Development?

Microenterprise development consists of the services provided to help very small businesses start-up and expand. A microenterprise is a business with five or fewer employees, which requires \$35,000 or less in start up capital, and whose owner is not able to access the commercial banking sector. There are 21 million microentrepreneurs in the U.S., representing 87% of all U.S. businesses.⁷

By supporting entrepreneurs, microenterprise development programs help underserved populations increase their income, assets and net worth. Services include:

- business technical assistance
- business development training
- financing, usually in the form of loans
- access to market opportunities,
- asset development strategies

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

Rural Microenterprise: Generating Employment

In the rural U.S., 20% of jobs are due to microenterprises.⁸ Between 2000 and 2002, jobs created by microenterprises increased by 3.5%, while other private sector employment in rural areas decreased by 0.7%. Below are examples of rural microenterprise employment in some states:

- Colorado 26.2%
- Tennessee 20.2%
- Vermont 24.8%
- North Dakota 20.9%

¹ 2005 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 "Perceptions of Rural America," W. K. Kellogg Foundation, 2001, www.wkcf.org/pubs/FoodRur/pub2973.pdf.

⁶ 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.

⁷ "Microenterprise Business Statistics," Association for Enterprise Opportunity, www.microenterpriseworks.org/services/training/documents/USMEBS.pdf

⁸ "Microenterprise Employment Statistics - Rural-Urban Breakout Three Year Analysis," Association for Enterprise Opportunity, www.microenterpriseworks.org/services/policy/mees/documents/Urban-RuralSummaryAnalysis1.pdf.

Microenterprise Development in Rural United States

Uniqueness of Rural Microenterprise

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

- Isolation: Limited access to 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.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 vibrant community is essential for entrepreneurs to thrive.
- Connections – building urban/rural linkages.
- 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 – linking local entrepreneurs to lucrative markets beyond the local area.

Are Rural Areas Ripe for Microenterprise?

Challenging rural economies can be viewed as an opportunity for enterprise 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. Forty 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?

In order to overcome the odds in rural areas, rural microenterprise program staff must be:

- creative and efficient
- persistent in public education and fundraising efforts
- collaborative in order to enhance services for their participants
- forming multiple partnerships to leverage their resources and create a community environment supportive of entrepreneurs
- working together with other rural and urban programs through AEO to advocate for funding and to raise public awareness of their accomplishments.

Rural microenterprise development programs have even more difficulty obtaining operational funds than their urban and suburban counterparts. Funding sources for microenterprise development programs include foundations, corporations, government, individuals, and earned income. In rural communities, there are typically fewer of all of these available.

For More Information...

Contact AEO at 703.841.7760 or [aео@assoceo.org](mailto: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.