

Microenterprise Development and the Iowa Economy: Strengthening Iowa's Workforce and Economic Future

Key Points

Iowa and Microenterprise Development – Past and Present

- Microenterprises (businesses typically started as a single owner-entrepreneur with capital start-up investments of \$35,000 or less) play an important role in the Iowa economy, with 230,000 microenterprises employing 310,000 Iowans accounting for 86% of all Iowa businesses and 17% of all Iowa employment.
- In the past, Iowa had been leader on selective aspects of microenterprise development (related to welfare reform in the 1980's and 1990's and to persons with disabilities in the 1990's and 2000's).
- Currently, Iowa now ranks poorly in generating microbusinesses, 50th in new companies started and 37th in private loans to small business. Iowa is not competitive with other states in the Midwest and nationally in terms of supportive policies and programs for microenterprise and needs to recapture a leadership role.
- Economists and business leaders agree that growth in very small businesses will be fueled primarily by people nearing retirement, those just entering the workforce, women, persons of color, and immigrants, which requires new microenterprise strategies.

Views of Iowa Leaders – Survey and Interview Results

- Interviews and surveys of nearly 200 Iowa leaders showed that:
 - There exist pockets of innovation and excellence in supporting microenterprises in Iowa, but large gaps exist across communities.
 - There is a gap in leadership at both the state and federal levels and an opportunity for state leadership.
 - Microfinance (loans of \$35,000 or less) constitutes a major gap for entrepreneurs.
 - Communities need information and support in developing microenterprise strategies.
 - Existing local efforts often lack capacity to provide appropriate business training and on-going support for lower-income Iowans, persons of color, and New Iowans, in particular.
 - There is no coordinated system for encouraging and supporting aspiring entrepreneurs and emerging small businesses.
 - Iowa needs to create a culture for entrepreneurship in the state.
- Most importantly, there was strong consensus and interest from leaders in the economic and small business development community and social service-based agencies on the need to strengthen state involvement and leadership in microenterprise development.

Components and Attributes of Effective Local Programs

- Components of effective local microenterprise programs have been well-documented and include:
 - Training and technical assistance (pre- and post- establishment of a microenterprise)
 - Credit and access to credit
 - Access to markets
 - Economic literacy and asset development
- Best practices in providing these components within local programs include:
 - Skilled and passionate program champions with entrepreneurial dispositions.

- Performance-based programs with information management systems for tracking client and business outcomes.
- Strong involvement from the local business community in mentoring new entrepreneurs.
- Coordination and collaboration with other economic development service providers to grow these new businesses.
- Ties to markets and business sectors relevant to the community and its population.

Components and Attributes of Effective State Programs

- Components of effective state microenterprise programs and infrastructures include:
 - Competitive grants to community-based entrepreneurship programs.
 - A microlending financing structure that can pool lending resources and expertise and reduce local lending costs.
 - State visibility and leadership in promoting microenterprise.
 - An infrastructure for networking across community programs and providing microenterprise technology transfer.
- Best practices in providing these components include:
 - Skilled and passionate state champions managing state activities.
 - Persistent outreach to communities and identification and support of local champions.
 - Public and private partnerships in financing and managing a streamlined and structured microlending operation.
 - Performance-based and outcome-driven accountability systems.
 - Linkages to and coordination with other entrepreneurial activities.

Options for State Actions to Strengthen Microenterprise Development and Restore Iowa's Microenterprise Leadership

- Create an Iowa Emerging Entrepreneurs and Very Small Business Program with the Department of Economic Development, with competitive grants to community programs (\$1,000,000 in state grant funding).
- Create the Iowa Fund for Community Enterprise, a statewide non-profit Microloan Intermediary with \$500,000 in annual state funding to provide centralized loan fund underwriting and management; leverage other public and private dollars; manage the re-granting of state competitive grants to community programs, provide technical support to local programs; conduct advocacy; and for centralized data collection. Loan capital would be seeded with \$1,000,000 from a consortium of Iowa banks and then leveraged by the Fund.
- Support current efforts to create entrepreneurial communities in Iowa, including relationships between the new intermediary and the ISU Community Vitality Center and UNI MyEntreNet.
- Create a Microenterprise and Small Business Innovation Office, showcasing successful microenterprises and promoting their diffusion into other communities (\$200,000 in state funding for staffing and marketing).
- Create a Governor's Task Force on Establishing Regional Entrepreneurial Development Systems in Iowa, including coordination of activities supporting microenterprises, small businesses, and larger business ventures.

Key Points adapted from: Friedman, J, Bruner, C, Smith, T, & Copeman, A (2007). *Microenterprise Development and the Iowa Economy: Strengthening Iowa's Workforce and Economic Future*. Child and Family Policy Center and Women Entrepreneurs of Baltimore, Inc.