

**Microenterprise Development
and the Iowa Economy:**

**Strengthening Iowa's Workforce and
Economic Future**

**Jason Friedman, Charles Bruner, Tiffany Smith,
and Abby Copeman
Child and Family Policy Center and
Women Entrepreneurs of Baltimore, Inc.**

December 2007

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Executive Summary

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

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1. Introduction: Microenterprise and the Iowa Economy

Across the nation, small businesses are an essential driver of economic activity and growth. They create 60 to 80 percent of net new jobs annually and generate more than 50 percent of non-farm private gross domestic product. The smallest of these are microenterprises, usually starting with an owner-entrepreneur wanting to develop his or her own business, with start-up capital needs of \$35,000 or less. Microenterprise has been a particularly important avenue to economic development for women, minorities, and immigrant Americans and for rural and inner-city communities.

In Iowa, microenterprises account for 86% of total businesses and 17% of all employment. In 2004, there were a total of 232,325 Iowa microenterprises, employing 308,168 Iowans.

These small, homegrown entrepreneurs will continue to play a very significant role in the state's economy. Nationally, however, Iowa ranks poorly in generating microenterprises. In 2007, Iowa ranked 45th among states in microenterprise ownership and 50th in new companies started. Iowa ranked 37th in private loans to small businesses, suggesting that access to capital may be a barrier for many entrepreneurs.

2. Iowa Microenterprise Development Environmental Scan Overview

Recognizing the importance of microenterprise development as a component of Iowa's economic development strategies, in 2007 the Iowa General Assembly directed the Department of Economic Development to assess the opportunities for state support of microenterprise development. The Department contracted with the Child and Family Policy Center and Women Entrepreneurs of Baltimore, Inc. to:

- Conduct an environmental scan that identifies the current supports, programs, and activities to assist microentrepreneurs in Iowa and its communities;
- Assess the comprehensiveness, size, and coordination of these programs and identify potential gaps in products or services;
- Determine the interests and capacities of various key stakeholders in contributing to building a strong microenterprise support system in Iowa;
- Examine the experiences and best practices of microenterprise development in other states; and
- Present findings to the Department of Economic Development, the Governor, and the General Assembly for strengthening microenterprise development in Iowa.

This report presents the findings from that study.

3. Components of an Effective Microenterprise Development Program

Microenterprise development is not new. State and community microenterprise programs have been the subject of economic development activities throughout America's history, with particular growth since the 1970's in their efforts to provide economic ladders for populations not served by traditional small business programs.

Microenterprise development programs differ from traditional small business development programs in terms of a particular focus on low wealth individuals and distressed communities and neighborhoods – entrepreneurs who otherwise would face insurmountable barriers in starting up businesses.

Nationally, there are now over 600 Microenterprise Development Organizations (MDOs) across the United States. Research and experience from these MDOs show that effective microenterprise programs address four key elements to successfully develop a business:

- **Training and Technical Assistance:** Microenterprise development programs provide comprehensive classroom-based training in the fundamentals of starting a business. Programs also provide intensive individual counseling and technical assistance to help clients address the business and personal barriers that could inhibit successful business start-up and growth. Effective microenterprise programs do not end with the start-up of a business, but also provide on-the-ground coaching and mentoring in managing business development and growth.
- **Credit and Access to Credit:** A significant obstacle for many microentrepreneurs is access to capital. The risks associated with small, start-up loans are generally too high for commercial banks. Underwriting criteria for microloans need to be different from conventional bank loans, and include assessing the borrower's character and commitment to the business and willingness to receive post-loan technical assistance.
- **Access to Markets:** Many new small businesses, especially in rural areas or distressed urban neighborhoods, lack access to the markets for their products and services. MDOs connect entrepreneurs to economically viable markets through specialized training, technical assistance, development of markets, provision of capital, and/or the creation and promotion of development ideas that work.
- **Economic Literacy and Asset Development:** Many aspiring entrepreneurs and emerging small business owners lack experience with financial tools and systems as basic as banking, taxes and budgeting. Some need and can benefit from training in money management, the importance of establishing a credit rating, and credit repair.

While microenterprise development is commonly thought of by economic development professionals as a poverty alleviation strategy, it should be viewed as an essential component of an overall economic development strategy as well. Microenterprise survival rates are comparable to other small businesses, and most grow over time. Beyond creating employment for the owner, some grow significantly and generate measurable economic impact. A 2004 study by the Aspen Institute of 17 microenterprise development organizations found that the 560 businesses that were established generated \$43.8 million in revenues, \$6.8 million in income for owners, and 648 full-time equivalent employees in addition to the owners.

National studies also show that the entrepreneurs in the next decade will be much more diverse than their predecessors in age, origin, and gender. This includes baby boomers, the “Generation Y” or “Digital Generation,” women, and immigrants. A state microenterprise development strategy should recognize and support women, mature citizens, people with limited incomes, new Iowans, and other minority populations that see entrepreneurship as a means to support their families and contribute to their communities – and that perceive Iowa as a good place to start and grow a business.

4. Microenterprise Development in Iowa: Past and Present

In the 1980s, Iowa was recognized as a leader in supporting microenterprise development, but Iowa’s efforts largely were focused upon microenterprise as a welfare-to-work strategy. Iowa was the first state in the country to incorporate microenterprise development training as an eligible activity in its welfare reform program, PROMISE Jobs. Within the Iowa Department of Economic Development, a self-employment loan program was established, focusing on very small loans to entrepreneurs. From 1995-2002, the state funded a Rural Microenterprise Program that provided entrepreneurial training to individuals in communities of 15,000 or less in population, regardless of income.

Changed priorities, shifts in welfare policy, and the economic recession and state fiscal crisis at the beginning of the 21st century resulted in elimination of most of Iowa’s specific state microenterprise program efforts, although the state continues to promote entrepreneurship activities that can align with and support microenterprise development activities. They include the Main Street Iowa Program and the Targeted Small Business Program. The Department of Vocational Rehabilitation funds the Entrepreneurs with Disabilities program that offers microenterprise assistance to that specific population.

Still, since 1980 the microenterprise field has grown significantly, and other states have now taken the lead in promoting microenterprise development as part of their overall economic development strategies. The timing is right for a renewed discussion of microenterprise in Iowa.

5. Leader Views on Microenterprise Development in Iowa: Findings and Observations from Microenterprise Interviews and Surveys

For this study, the project team conducted in-person and telephone interviews with over fifty state and community leaders and received 144 responses to an electronic survey.

Iowa State University Cooperative Extension, Professional Developers of Iowa (PDI), the Iowa Community Action Association, the Iowa Chambers of Commerce Executives, and the Iowa Small Business Development Centers (SBDCs) all collaborated in the electronic survey developed for this report by sending the survey to their members for completion. The combined results to the survey are summarized below:

- Individuals seeking to start a microenterprise that cannot meet conventional lending criteria are likely to have difficulty securing funding under \$35,000 for their ventures.
- While there is some experience at the community level in supporting microenterprise development and training and technical assistance, this could be strengthened substantially, particularly for lower-income individuals, minorities, and immigrants.

- State and federal governments currently are not viewed as a source of leadership on microenterprise development.
- Leaders and potential entrepreneurs within communities are interested in learning more about and encouraging microenterprise activities.
- While financing is seen as the most common gap for individuals seeking to start microenterprises, gaps in specialized training and technical assistance, mentoring, and networking also exist in many communities.

The more extended interviews were designed to gather further information both on existing and planned state and community activities related to microenterprise development and to discuss more fully the types of gaps leaders felt existed in improving the ability of aspiring microentrepreneurs in the state to successfully start and build businesses.

Opportunity for State Leadership. While there is a number of local or foundation initiatives that have been developed to support microenterprise, most interviewed felt that microenterprise development has not been a major or explicit component of the state's economic development policy. While local initiatives are necessary to develop, manage, and contour microenterprise development activities to meet specific community needs and opportunities, leaders interviewed also indicated there was a benefit in developing a statewide infrastructure to support this work. Iowa's efforts need to give attention to rural communities and inner-city urban areas and with particular populations.

The interviews identified the following specific areas where gaps needed to be filled, either at the state or local level, to better support microenterprise development.

Capital Gaps. Those interviewed almost uniformly stated that there is a capital gap for loans under \$50,000. This view corroborated findings from a joint survey undertaken earlier in 2007 by the Iowa Bankers Association, the Community Vitality Center, the Leopold Center for Sustainable Agriculture, and the Center for International Agricultural Finance, which identified that the banking community also recognizes that gaps can exist for loan products and services to meet Iowa entrepreneur and small business start-up ventures.

Community Information and Knowledge Gaps. The interviews pointed to an overall information and knowledge gap regarding the elements of effective microenterprise development programs, the manner in which communities could develop those programs, and the roles that different community organizations and institutions could play in the process. Those interviewed indicated that local community leaders need education about the role of microenterprise in their community and effective strategies to encourage and support new and existing small business owners.

Institutional Capacity Gaps for Training and Technical Assistance: Those interviewed identified three key challenges to local efforts seeking to build strong microentrepreneurship programs: (1) lack of funds for pre- and post- loan technical assistance; (2) limited access to staff training and capacity building opportunities for local organizations; and (3) lack of accreditation or common standards for programs. While interviewees who spearheaded local microenterprise initiatives felt they had achieved some success in addressing these gaps, they were quick to point

out that their efforts were highly localized and not available in most communities in the state and that resources available to them only met part of the needs for a comprehensive effort.

Service Delivery and Coordination Gaps. Leaders interviewed spoke to the importance of developing an overall streamlined and coordinated system for serving microentrepreneurs. Some leaders, particularly those from workforce development and community action agencies, indicated that they came into contact with potential microentrepreneurs and could serve the role of getting them into a pipeline for microenterprise services, but they need that pipeline to exist. Other leaders indicated that they might consider providing capital access or training and technical assistance, as long as others could provide ongoing monitoring and assistance functions so their resources were deployed effectively. Except in a few select communities, some leaders indicated there was not a microenterprise development structure that included all core elements for successful microenterprise development.

Culture Gaps. Leaders interviewed indicated that Iowa did not always espouse an entrepreneurial spirit and needed to foster a culture of entrepreneurship within its economic development activities. In addition to the general culture supporting entrepreneurship, leaders also saw a special opportunity for microenterprise development with different immigrant and cultural groups.

6. Current Microenterprise and Related Entrepreneurship Activities in Iowa: Opportunities for Networking

Iowa does not need to start from scratch in providing support for microenterprise development. Leaders interviewed identified a variety of current resources and strengths at both the state and community levels to build upon. Leaders also saw the need for strong community initiative and local development of microenterprise development programs. They saw the role at the state level in large part in providing resources and serving in a networking and technology transfer role for successful local microenterprise initiatives, including peer-to-peer networking.

The following provides brief descriptions of a number of current activities underway in the state related to microenterprise development that indicate growing interest in the sector and that can be built upon as part of a statewide effort.

Local Nonprofit Microenterprise Activities in Iowa. In Greenfield, **Grow Iowa** is a nonprofit organization that provides capital for small business, industrial, economic development and affordable housing projects in 21 counties in southwest Iowa through 8 lending/development pools. The **Siouxland Economic Development Corporation (SEDC)** operates a microloan fund to help businesses start-up or expand in a ten-county area of Iowa, Nebraska, and South Dakota. The **North Iowa Area Community College/John Pappajohn Entrepreneurial Center NanoLoan Program** loans up to \$2,500 to pay for prototype development, patents, equipment, working capital and other start-up costs. The NanoLoan Program targets a specific, underserved segment of the entrepreneurial community – businesses in the ‘pre-bankable’ phase. **ISED Ventures** in Des Moines provides microenterprise and asset development programs to lower-income individuals, minorities, ex-offenders, and refugees.

State Small Business Development Programs. Several statewide programs provide assistance that can benefit microenterprises. The **Targeted Small Business Program (TSB)** promotes the growth and development of Iowa businesses owned and operated by minorities, women and persons with disabilities. The small business applies for certification as a targeted small business, which allows for opportunities with state government and for financial assistance. TSB provides loans and equity grants up to \$50,000 and loan guarantees up to 80%. The business owner provides a ten percent investment in the project. Iowa has a network of 15 **Small Business Development Centers (SBDCs)** that represent a cooperative effort of the private sector, the educational community, and federal, state and local governments. SBDCs counsel and train business people in management, financing, and operating small businesses, and provide comprehensive information services and access to experts in a variety of fields. The **Entrepreneurs with Disabilities (EWD) program**, operated by the Iowa Finance Authority working with Iowa Vocational Rehabilitation Services and the Iowa Department for the Blind, helps qualified individuals with disabilities establish, acquire, maintain, or expand a small business by providing both technical and financial assistance grants of up to \$10,000 each. In 1996, John Pappajohn established five **John Pappajohn Entrepreneurship Centers (JPEC)** at the University of Iowa, the University of Northern Iowa, Iowa State University, Drake University, and North Iowa Area Community College. Although each center defines its own mission, to a large degree JPEC's focus is on Iowa-based technology and high-growth start-up companies, and targeted industries like biosciences, advanced manufacturing and information solutions/financial services.

Other Iowa Initiatives and Activities. The Grow Iowa Foundation joined forces with the Southwest Iowa Coalition, Wallace Foundation for Rural Research and Development, Iowa State University Extension, and Southwestern Community College to form the **Rural Development Resource Center (RDRC)**. Located in Red Oak, Iowa, the RDRC has mobile specialists providing business development consulting one-on-one and in a classroom setting, financial packaging, value-added agriculture services and product-to-market avenues for both existing and potential business owners within a 22-county service in southwest Iowa. In 2001, the University of Northern Iowa made a pilot investment in rural economic vitality with the development of an entrepreneurial development system called **MyEntreNet**. MyEntreNet's goal is to develop a sustainable model that can connect geographically isolated entrepreneurs to services and people so that they can become competitive in a global economy. Through a competitive grant process, MyEntreNet selects communities to participate in a process to build community capacity to support entrepreneurs, both in person and through its web-based portal. Based at Iowa State University, the **Community Vitality Center (CVC)** serves as a catalyst for innovative projects and initiatives designed to improve the vitality of Iowa communities. The CVC facilitates networking among small and medium size rural communities, sponsors policy analyses, engages communities in dialogue, fosters discussion among rural and urban interests, and provides small matching grants to local communities and multi-county projects for innovative entrepreneurial development activities.

The **African-American Business Association of Des Moines**, the **Iowa Asian Alliance (IAA)**, and **ALIANZA: Latino Business Association** all have made a commitment to supporting small business development. The **ACCION USA Hispanic Microloan Project in Marshalltown** represents a specific microenterprise effort focused upon providing access to capital for

immigrant entrepreneurship. Based in Centerville, Iowa, the **Abilities (TAB) Fund** is a nationwide nonprofit organization that provides microenterprise services directly to people with disabilities and builds the capacity of other organizations that serve them. The organization grew out of the Iowa Entrepreneurs with Disabilities (EWD) program and provides direct services to individuals online, including the nation's first online loan program specifically for entrepreneurs with disabilities. Finally, the **Iowa Microenterprise Assistance Program (IMAP)**, recently funded by the Northwest Area Foundation, plans to create a new model for collaboration among Iowa's entrepreneurial training and technical assistance providers, sources of microenterprise capital, and community foundation networks to reduce poverty and increase microenterprise activity. Still in development, the project plans to facilitate the development of four complementary local activities: (1) microenterprise workshops; (2) microenterprise lending; (3) networking and technical assistance to support loan clients; and (4) philanthropic activities to support and sustain entrepreneurial development.

7. State Government Roles and Best Practice in Supporting Microenterprise Development

Nationally, many states have recognized that traditional economic development approaches do not adequately address the needs of entrepreneurs, and microenterprise development should be a specific component of state economic development strategy, especially for rural areas and distressed urban neighborhoods. In the past decade, Nebraska, California, Oregon, and Washington, among others, have established major initiatives to develop a state infrastructure to nurture and support microenterprise development. There is a technology and structure to establishing effective financial programs for microlending and a role for state government to play in this process, although that role must be based upon supporting local champions in promoting and delivering most microenterprise development activities.

Best Practices in Local Microenterprise Programs. While local programs need to be diverse and reflective of their local communities, economies, and cultures, they are most successful if they adhere to a number of underlying principles and best practices. These best practices are based upon "lessons learned" from exemplary programs and initiatives. The following summarizes these both for the lending and technical assistance aspects of effective microenterprise programs.

Microlending. Characteristics of effective microloan programs include: (a) know the borrower and engage in character lending; (b) structure loans to minimize risk; (c) streamline operations to reduce costs; (d) charge "market" interest rates; (e) provide lending technical assistance; and (f) engage in professional and consistent loan collection. Among highly successful organizations that have developed these best practices are: **ACCION Texas** (high volume lending through technology and partnerships), **ACCION New Mexico** (high volume lending through innovative bank partnerships), the **Progress Fund** Greensburg, Pennsylvania (microlending to support the tourism industry), the **MicroBusiness Development Corporation** Denver, Colorado (microlending for the creative economy), **Mountain Association for Community Economic Development** Berea, Kentucky (microlending for high growth industries in rural communities), and **Lenders for Community Development** San Jose, California (micro-lending to improve credit-worthiness),

Training and Technical Assistance. High performance microenterprise training and technical assistance shares common characteristics, including: (a) screening and assessment to determine business readiness and entrepreneurial aptitude; (b) fee-based structured coaching and consulting to help new business owners get started on the right foot; (c) use of business owners and professionals in the community for mentoring, counseling and specialized technical assistance; (d) specialized services for targeted sectors; (e) use of technology to build and grow the business; and (f) commitment to demonstrating outcomes. Among highly successful organizations that have developed these best practices are: the **Microbusiness Development Corporation**, Denver, Colorado (structured post-loan technical assistance); **Project Enterprise** New York City, New York (helping entrepreneurs access markets); **Anew America Community Corporation** San Francisco, California (integrating immigrants and refugees into the local economy); **WESST Corporation** Albuquerque, New Mexico (e-commerce strategies to increase business success); and the **Prison Entrepreneurship Program** Houston, Texas (re-integrating formerly incarcerated persons through self-employment).

While these local initiatives are quite diverse in responding to different local economies, different types of microentrepreneurs, and different opportunities, they also involve:

- an emphasis upon both financing and technical assistance in supporting microentrepreneurs;
- a focus on serving regional economies with the involvement of community partners in meeting the needs of microentrepreneurs and supporting connections with the local community; and
- passionate and skilled program leaders who reach out to and connect with those they are serving.

Best Practices in Statewide Infrastructures for Microenterprise Support. Best practices in state efforts involve balancing state activities with local initiative. Supporting true local champions in developing microenterprise efforts at the local level is the key to the success of a statewide infrastructure. The state also can play a critical role in “knowledge” transfer regarding effective practices and providing common regional or statewide training opportunities for communities and microenterprise leaders. State leadership also can help secure the financing and establish a lending structure that otherwise often represents a prohibitive cost for local communities to develop effectively.

State Support for Training and Technical Assistance. States can provide an infrastructure for training and technical assistance. The **New York State Entrepreneurial Assistance Program**, created in 1987 by the New York State Department of Economic Development, funds community-based organizations to provide microenterprise training and technical assistance to minorities, women and dislocated workers. Organizations are selected on a competitive basis and receive program awards of \$80,000 to subsidize the cost of training and technical assistance.

State Microenterprise Lending Intermediaries. One of the most promising practices to build a state infrastructure for microenterprise development and for the efficient delivery of capital is the creation of a state microenterprise intermediary (SMI). SMIs are nonprofit financial institutions created to attract new capital at the federal, state or regional level and provide central underwriting, loan processing and servicing. The SMI’s ability to gather funds from multiple

sources to complete the loan fund reduces the cost of funds and in turn the cost of borrowing. Two such intermediaries in Nebraska and Oregon are profiled in detail in the full report as comprehensive and exemplary practices.

The **Nebraska Microenterprise Partnership Fund** (NMPF) is a statewide financial intermediary dedicated to supporting microenterprise practitioners. The Fund serves as a financial intermediary by raising funds and redeploying strategic support for quality local and regional programs. The Fund provides direct funding to microenterprise programs through its own fundraising activities and facilitates funding directly between funders and local programs. NMPF cooperates with the **Nebraska Enterprise Opportunity Network** (NEON), a state microenterprise association of member practitioner programs, which delivers business lending and training assistance to Nebraska micro and small businesses.

The **Oregon Micro-Capital Access Program** (MCAP) is a program of the **Oregon Microenterprise Network** (OMEN), a statewide association of microenterprise development programs and their supporters. OMEN functions as an association of microenterprise organizations providing grants for training and technical assistance to local organizations and MCAP functions as a statewide microlender. MCAP recently began implementation of a \$670,000 statewide microloan program, funded by US Bank, Wells Fargo Bank, and philanthropic foundations. Under a competitive Request for Proposals (RFP), OMEN selected eight microenterprise organizations to originate and package loans and provide post-loan technical assistance to borrowers. It is expected that this approach will dramatically drive down the costs of lending, since local organizations will not have to underwrite and service loans.

Best Practices in Fostering Entrepreneurial Communities. Successful microenterprise programs do not operate in a vacuum but are part of a broader community of supports. While local champions and leaders are needed to develop successful programs, there also are best practices in fostering overall community support for entrepreneurial activities. These include: (1) inventorying and developing entrepreneurship education and training at both the youth and adult education levels; (2) developing community networks of support, mentoring, and financial assistance; and (3) simply fostering a culture that recognizes and values entrepreneurship. While this activity applies to all forms of entrepreneurship, it also can have an explicit focus upon microenterprise, particularly within rural, inner-city urban, and immigrant communities. As an illustration, the **Nebraska Heartland Center for Leadership Development** has developed a comprehensive strategy to encourage communities to take action in four strategic areas—leadership, youth, entrepreneurship, and charitable assets.

Best Practices in Using Technology to Support Entrepreneurial Development. In addition to efforts to support the overall field of microenterprise development, some states and universities have taken a lead in focusing upon specific areas of potential business growth and development that lend themselves to a microenterprise approach (particularly around agricultural, environmental, and energy-related businesses). The **National Center for Appropriate Technology** has been serving economically disadvantaged people by providing information and access to appropriate technologies. NCAT projects have ranged from low-tech to high-tech, addressing complex issues of housing, economics, and environmental quality. Some states and state universities have established their own Appropriate Technology centers to serve as a locus for supporting such technology transfer, which often spawns microenterprises, including the

Appalachia State University Center for Appropriate Technology and the North Carolina State University Solar Center.

Creating a locus at the state level supporting such innovation, practice, and its diffusion represents a particularly good fit with Iowa's emphasis upon achieving energy independence and making Iowa the energy capital of the country. Some microenterprises could involve overall energy production (through wind, biomass, and other renewable resources) within Iowa that is then exported to other states, but some also could involve technologies for local production and local energy conservation and preservation that are diffused throughout Iowa communities and build local energy self-reliance.

8. Policy Options for Statewide Strategies to Strengthen Microenterprise Development

While there is substantial local interest and activity from both the public and private sector in supporting microenterprise development in Iowa, these efforts generally are limited in geographic scope or focus and there is not an overall state network supporting this work, including a coherent framework and common measurements of success.

Faced with tremendous opportunities for growth in this sector, **Iowa should incorporate microenterprise development as an explicit component of its overall state economic development strategy and take a more proactive role in supporting community efforts and initiatives to foster microenterprise development.** A strategic approach in Iowa should focus on people (e.g. GenXers and GenYers, immigrants, minorities, limited-resource individuals, women), places (e.g. rural communities and distressed inner-city neighborhoods) and sectors (e.g. green businesses, agri-tourism, value-added agriculture, and creative economy).

Further, state policies should adhere to the following guiding principles:

- **Locally-championed:** Efforts to support microenterprise development in Iowa should be driven by local organizations that understand the needs of their communities. Iowa should seek out and support champions at the local level to develop microenterprise opportunities within their communities.
- **State-supported:** The state can play a critical role in supporting these local champions, through creating a microenterprise network where they can share experiences and support one another, and through developing regional or statewide structures, where needed, for managing some aspects of microenterprise development, including finance capital.
- **Performance-based and outcomes-driven:** Microenterprise development activities should be held to performance standards and measured in terms of hard impacts by such measures as jobs created, business starts and expansions, business survival rates, increases in household and business income, sales, and low loan default rates.
- **Public-private partnership based:** State and local investments should leverage private sector support, and local activities need to be grounded in collaborations among a diverse group of community stakeholders.
- **Coordinated with existing efforts:** New microenterprise programs should take advantage of existing programs, both at the state and local level, and coordinate efforts for maximum impact and effectiveness.

The following are five specific state policy options to further microenterprise development in Iowa.

#1: Create an Iowa Emerging Entrepreneurs and Very Small Business Program

Many local community-based organizations lack funding for specialized training and technical assistance services, especially for underserved populations. Iowa should create and fund a program within the Iowa Department of Economic Development (IDED) to support community-based nonprofits that provide business training and technical assistance to emerging and very small business owners. A program funded at \$1 million dollars could provide matching grants of up to \$75,000 under a competitive Request for Proposals (RFP) process to support local champions in developing or expanding microenterprise programs. Recipient organizations should be required to provide a 25% match towards the project as a sign of commitment to the project.

#2: Create a Statewide Microloan Intermediary

Iowa does not have a network of community-based small business development organizations that provide microloans. In Nebraska and Oregon, state policymakers determined that a financial intermediary would be the most cost-effective and efficient mechanism for aggregating and disseminating public and private capital to non-traditional borrowers and underserved communities.

Iowa, in partnership with Iowa financial institutions, should seed the creation of a nonprofit state microloan intermediary organization dedicated to supporting practitioners that assist emerging entrepreneurs and very small businesses. The mission of the proposed Iowa Fund for Community Enterprise (IFCE) would be to increase microentrepreneurship in Iowa through providing capital to aspiring and emerging entrepreneurs and to build the capacity of community-based organizations to encourage and support entrepreneurial activities. The organization would have three primary functions: (1) serve as a financial intermediary to mobilize, allocate, leverage, and link local, state and national resources with community-based organizations that provide financial and technical assistance to local businesses; (2) build the skills of local practitioners to work with underserved entrepreneurs and disseminate successful industry practices; and (3) conduct advocacy and public education on behalf of the sector.

The intermediary should be structured as a community development financial institution (CDFI) to be eligible for funding from the U.S. Department of Treasury, as well as funding from the U.S. Small Business Administration, the U.S Department of Agriculture – Rural Development, the U.S. Department of Housing and Urban Development (HUD), and financial institutions. The loan fund initially should seek capitalization of \$1 million through a consortium of Iowa banks to then leverage funds from the federal government and other sources. The state of Iowa should provide the seed funding for loan fund operations, capacity-building for local organizations, administering grant funds and data collection and reporting. While this can be a lean organizational structure, there is a need for state financing of the infrastructure for the loan fund itself.

#3: Support Current Efforts to Create Entrepreneurial Communities in Iowa

The Community Vitality Center at Iowa State University and the MyEntreNet Program at the University of Northern Iowa are emerging comprehensive approaches to long-term rural community sustainability. Both draw from the Heartland Center for Leadership Development model, which is receiving national attention for renewing small towns across Nebraska. Iowa should explore the feasibility of expanding both these efforts as part of a comprehensive approach to supporting entrepreneurial development in Iowa. The technology platform developed by MyEntreNet could be a key component of the proposed delivery system for microenterprise training and technical assistance supported by the Iowa Fund for Community Enterprise. The small grants provided by the federally funded ISU Community Vitality Center to support local enterprise development strategies could augment the program awards to communities under the Iowa Emerging Entrepreneurs and Very Small Business Program. Both efforts could also play a strategic role in building a pipeline for borrowers under a centralized microloan program.

#4: Create a Microenterprise and Small Business Innovation Office to Showcase Successful Microenterprises and Promote Their Further Diffusion

Sometimes called “technology transfer” or “diffusion of innovation,” new business ideas often are most effectively further developed through new entrepreneurs taking and adapting them. Many microenterprises do not lend themselves to expansion into large business entities, but do lend themselves to growth through fostering new microentrepreneurs within other communities. There are particular opportunities in some areas, such as green enterprises, that rely upon reducing energy costs (including those associated with transportation) and creating very local economies.

Enacting the first three options will create increased opportunities for identifying microenterprise innovations that deserve to be expanded to other communities. Iowa should establish a Microenterprise and Small Business Innovation Office, with specific marketing and communications staff, to promote this diffusion and technology transfer and strengthen and expand the work already being done in Iowa on microenterprise development. Such highlighting and marketing of innovative practices also provide incentives for new local champions to emerge to develop community microenterprise programs and activities.

#5: Create a Governor’s Task Force on Establishing Regional Entrepreneurial Development Systems in Iowa

To create viable urban and rural economies, Iowa needs a coordinated infrastructure of public and private supports that facilitates entrepreneurship of all types. Iowa should establish a task force (or commission) to identify options to create a culture and environment that supports entrepreneurs and coordinates entrepreneurial activities from microenterprise to small business to larger entrepreneurial ventures. The Task Force would research emerging models for entrepreneurial development systems and call upon the expertise of industry leaders to craft an appropriate strategy at both a regional and state level.

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

1. Introduction: Microenterprise and the Iowa Economy

Across the nation, small businesses are an essential driver of economic activity and growth. A recent report from the U.S. Small Business Administration shows that newly-created small businesses have a larger impact than any other factor examined on gains in gross state product, state personal income, and total state employment.¹ Of the 26 million firms in the United States today, 98% are small businesses with fewer than 20 employees.² They create 60 to 80 percent of net new jobs annually and generate more than 50 percent of non-farm private gross domestic product.³ The smallest of these are microenterprises, usually starting with an owner-entrepreneur wanting to develop his or her own business, with start-up capital needs of \$35,000 or less. Microenterprise has been a particularly important avenue to economic development for women, minorities, and immigrant Americans and for rural and inner-city communities.

This is the case in Iowa, where these smallest businesses play a large role in growing our state's economy. Microenterprise accounts for 86% of total businesses and 17% of all employment in Iowa. In 2004, there were a total of 232,325 Iowa microenterprises, providing employment for 308,168 Iowans. Again, most are operated by a single individual with a business idea and passion, frequently managed out of the individual's home or an inexpensive storefront. In many cases, they supplement other family income. These microentrepreneurs offer services ranging from catering to graphic design, family day care services to specialty foods production, clothing design to green product marketing and distribution.

These small, homegrown entrepreneurs will continue to play a very significant role in the state's economy. Nationally, however, Iowa ranks poorly in generating microenterprises. According to one study, in 2007 Iowa ranked 45th among states in microenterprise ownership.⁴ While ranking 5th in business stability and survival (based upon the small percentage of business closings), Iowa ranks 50th in new companies started.⁵ Business ownership among women and minority populations lags well behind the rest of the nation. Further, Iowa ranks 37th among states in private loans to small businesses, suggesting that access to capital may be a barrier for many entrepreneurs.⁶

¹ Bruce, D., J. Deskins, B. Hill, and J. Rork. "Small Business and State Growth: An Econometric Investigation." Small Business Administration, Office of Advocacy. February 2007.

² "Small Business Economy for Data Year 2005: A Report to the President." Small Business Administration, Office of Advocacy. December 2006.

³ Ibid.

⁴ *The 2007-2008 Assets and Opportunity Scorecard*, Corporation for Enterprise Development (CFED), <http://www.cfed.org/focus.m?parentid=31&siteid=2471&id=2476&stateid=15> (accessed on September 30, 2007).

⁵ Ibid.

⁶ Ibid.

2. Iowa Microenterprise Development Environmental Scan Overview

Recognizing the importance of microenterprise development as a component of Iowa's economic development strategies, in 2007 the Iowa General Assembly directed the Department of Economic Development to assess the opportunities for state support of microenterprise development. The Department contracted with the Child and Family Policy Center and Women Entrepreneurs of Baltimore, Inc. to:

- Conduct an environmental scan that identifies the current supports, programs, and activities to assist microentrepreneurs in Iowa and its communities, including credit access, training in entrepreneurship, and ongoing business support;
- Assess the comprehensiveness, size, and coordination of these programs and identify potential gaps in products or services;
- Determine the interests and capacities of various key stakeholders in contributing to building a strong microenterprise support system in Iowa;
- Examine the experiences and best practices of microenterprise development in other states, in terms of program design for capital and training and technical assistance, as well as service delivery; and
- Present findings to the Department of Economic Development, the Governor, and the General Assembly for strengthening microenterprise development in Iowa.⁷

Recognizing the significance of this effort, the Northwest Area Foundation provided a matching foundation grant to conduct this study. This report provides the findings from that study. In addition to a review of state statistical data and national research and experience on microenterprise development, the authors conducted structured interviews (see Appendix A) with over fifty Iowa leaders (see Appendix B) involved in different aspects of state and community economic development and conducted surveys (see Appendix C) of members of different associations and groups associated with community and economic development, receiving 144 survey responses to a set of structured questions about microenterprise development.

This report offers the findings from this environmental scan and research, organized into the following sections:

- Section 3 provides a description of the core components of an effective microenterprise development program, based upon state and national experiences;
- Section 4 provides a history of Iowa efforts at the state level to support microenterprise development and current state activities to this end;
- Section 5 provides the perspectives of state and community leaders in Iowa on gaps in supporting microenterprise development and interest in developing a statewide microenterprise strategy;

⁷ Language is from the Department of Economic Development's request for proposals. Senate File 562, Section 3, Subsection 2, paragraph 4, as enacted by the General Assembly and signed by the Governor, 2007, set the parameters for the study, as follows: "The study shall include identification of current programs designed to assist microenterprises and of any gaps in providing assistance to microenterprises. The study shall examine the experiences and best practices of microenterprise assistance in other states."

- Section 6 provides information on local microenterprise initiatives that exist or are being developed in Iowa;
- Section 7 describes experiences and best practices among states in developing state programs and policies to support microenterprise development; and
- Section 8 offers a set of policy options for consideration in strengthening Iowa's microenterprise development efforts.

3. Components of an Effective Microenterprise Development Program

Microenterprise development is not new. State and community microenterprise programs have been the subject of economic development activities throughout America's history, with particular growth since the 1970's in their efforts to provide economic ladders for populations not served by traditional small business programs. Last year, the Nobel Peace Prize was awarded to Muhammad Yunus, who, through the Grameen Bank, successfully established micro-loans as a key economic development strategy in Pakistan and India.

Microenterprise development programs differ from traditional small business development programs in terms of a particular focus on low wealth individuals and distressed communities and neighborhoods. According to noted microenterprise researcher Lisa Servon, "The target population of many of these programs...has no other access to these critical resources. Therefore the programs function to create a new class of entrepreneurs and businesses that most likely would not exist otherwise."⁸

While microentrepreneurs come from all ages, ethnic backgrounds, and social classes, more affluent individuals and communities often can secure start-up investment capital (particularly of \$35,000 or less) through family and friends or collateral for conventional loans, and often have access to technical support and marketing connections to help grow their enterprises. Microenterprise development programs are designed to support those entrepreneurs who otherwise would face barriers in starting up. Research findings show that many low-income business owners report increased earnings supporting their households after participating in program services, and that the percent of individuals living in poverty is reduced.⁹

Nationally, there are now over 600 Microenterprise Development Organizations (MDOs) across the United States. MDOs target aspiring entrepreneurs that have been disadvantaged in terms of their access to mainstream financial and business development services, due to gender, race or ethnicity, income, community location, or disability. For many microentrepreneurs, their businesses are an important source of supplementary income and provide an opportunity for asset building to low-income households. These MDOs have developed substantial expertise in providing financing and technical assistance to aspiring entrepreneurs. Research and experience from MDOs and other microenterprise efforts show that effective microenterprise programs

⁸ Servon, Lisa J. (1999). *Bootstrap Capital: Microenterprises and the American Poor*. Washington: Brookings Institution Press.

⁹ Data supporting these statements can be found in Elaine L. Edgcomb and Joyce A. Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* (Washington, D.C.: The Aspen Institute/FIELD, February 2005), 64-70.

address four key elements to successfully developing a business: (1) Training and Technical Assistance; (2) Credit and Access to Credit; (3) Access to Markets; and (4) Economic Literacy and Asset Development.¹⁰

- **Training and Technical Assistance:** Microenterprise development programs provide comprehensive classroom-based training in the fundamentals of starting a business. Class topics include: business plan development; integrating technology; bookkeeping and business management; and marketing. Training is offered through various settings including: classroom type lectures; one-on-one counseling; peer networking; and mentoring programs. These programs also provide intensive individual counseling and technical assistance to help clients address the business and personal barriers that could inhibit successful business start-up and growth. In-depth training also serves a very important screening and self-identification function. Starting a successful microenterprise involves a great deal of ingenuity, persistence, and willingness to manage uncertainty and risk. A rigorous training curriculum both provides microentrepreneurs with skills they will need for their business and ensures that they are suited to entrepreneurship.

Effective microenterprise programs do not end with the start-up of a business, but also provide on-the-ground coaching and mentoring in managing business development and growth, particularly over the first years of the microenterprise, when business closures traditionally are greatest.

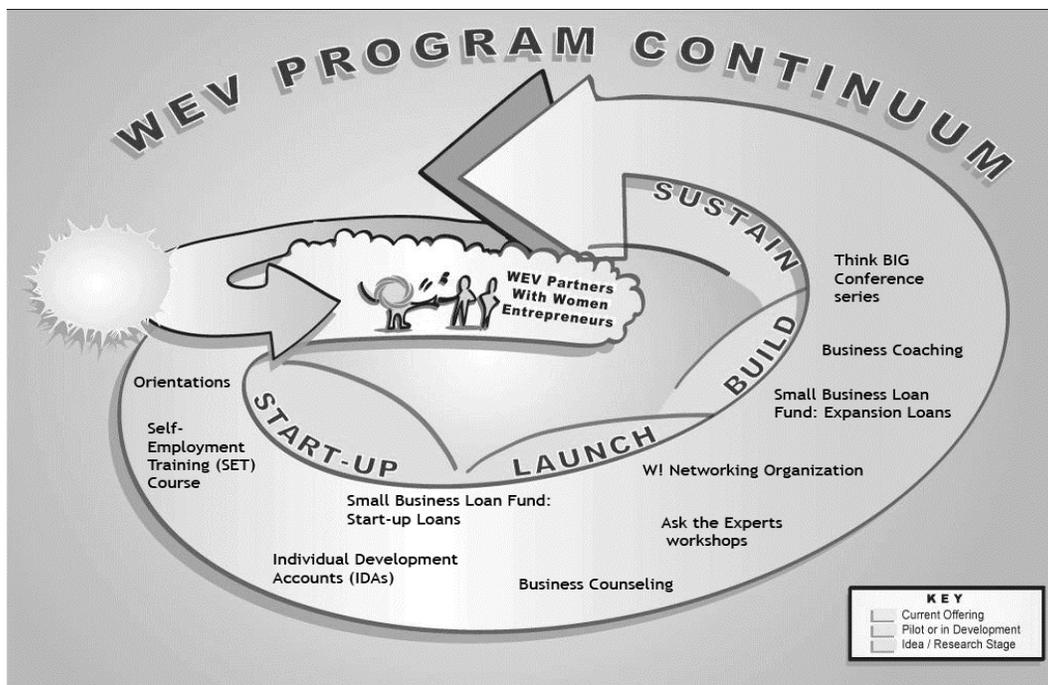
- **Credit and Access to Credit:** A significant obstacle for many microentrepreneurs is access to capital. The risks associated with small start-up loans are generally too high for commercial banks. In addition many low-wealth individuals looking for a path to economic self-sufficiency through self-employment, have poor (or no) credit histories and no hope of receiving a bank loan. Underwriting criteria for microloans need to be different from conventional bank loans, and include assessing the borrower's character and commitment to the business and willingness to receive post-loan technical assistance. The characteristics of successful microlenders are reviewed in Section 7.
- **Access to Markets:** Many new small businesses, especially in rural areas or distressed urban neighborhoods, lack access to the markets for their products and services. MDOs connect local entrepreneurs to economically viable markets through specialized training, technical assistance, development of markets, provision of capital, and/or the creation and promotion of development ideas that work. Many programs develop sector-specific networks, including specialty foods; jewelry; arts, crafts and gifts; clothing and textiles; furniture; computer technology; daycare; and environmental products and services such as recycling. In addition, particularly within immigrant and minority communities, this may involve new market development targeted specifically to those communities, sometimes replacing what had been bartering or mutual exchange networks within the culture. Taking advantage of these market opportunities involves blending American marketplace strategies with those of home cultures.

¹⁰ Association for Enterprise Opportunity (AEO) website; <http://www.microenterpriseworks.org/index.asp?bid=119>, accessed October 14, 2007.

- **Economic Literacy and Asset Development:** Many aspiring entrepreneurs and emerging small business owners lack experience with financial tools and systems as basic as banking, taxes and budgeting. More significantly, some entrepreneurs need to understand the role of credit in starting and building a business and can benefit from training in money management, the importance of establishing a credit rating, and credit repair.

In its publication, *Mapping Rural Entrepreneurship*, the Corporation for Enterprise Development (CFED) identified very similar essential components of entrepreneurial development generally: (1) Entrepreneurship education, incorporating entrepreneurship in school curricula (K-12); developing youth entrepreneurship programs, and developing of entrepreneurship programs at post-secondary education institutions; (2) Adult entrepreneurship training and technical assistance, including business development training, technical assistance, and financial education provided to aspiring and existing entrepreneurs; (3) Access to capital, including equity and debt financing to meet the needs of entrepreneurs at different levels of development; (4) Access to networks, including opportunities for entrepreneurs for group learning and to identify strategic partnerships and business opportunities; and (5) Entrepreneurial culture, involving efforts to create a community culture that encourages, nurtures, and supports small business owners.¹¹

Below is a graphic representation from a program model providing comprehensive microenterprise development services, as developed by Women Economic Ventures (WEV), in Santa Barbara, California. WEV’s program (which also serves men) is particularly focused on growing small businesses through expert coaching, advanced training, networking and small business loans.¹² This graphic description includes these same core components.



¹¹ Brian Dabson, Jennifer Malkin and Amy Matthews. *Mapping Rural Entrepreneurship*, Corporation for Enterprise Development (CFED), published by the W.K. Kellogg Foundation, August 2003, p. 31.

¹² <http://www.wevonline.org/pages/what-wev-offers.php> (accessed 11/12/07).

While microenterprise development is commonly thought of by economic development professionals as a poverty alleviation strategy, it should be viewed as an essential component of an overall economic development strategy. Microbusiness survival rates are comparable to other small businesses, and most grow over time.¹³ Beyond creating employment for the owner, some grow significantly and generate measurable economic impact. A 2004 study by the Aspen Institute on 17 microenterprise development organizations found that the 560 businesses that were established generated \$43.8 million in revenues, \$6.8 million in income for owners, and 648 full-time equivalent employees in addition to the owners.¹⁴

National studies also show that entrepreneurs in the next decade will be much more diverse than their predecessors in age, origin, and gender. This includes baby boomers, the Generation Y” or “Digital Generation,” women, and immigrants. A state microenterprise development strategy should recognize and support women, mature citizens, people with limited incomes, new Iowans, and other minority populations that see entrepreneurship as a means to support their families and contribute to their communities – and that perceive Iowa as a good place to start and grow a business.

4. Microenterprise Development in Iowa: Past and Present

In the 1980s, Iowa was recognized as a leader in supporting microenterprise development, but Iowa’s efforts largely were focused upon microenterprise as a welfare-to-work strategy. Iowa was the first state in the country to incorporate microenterprise development training as an eligible activity in its welfare reform program, PROMISE Jobs. In 1987, the state was selected to participate in a national demonstration program to determine if self-employment could be a route to self-sufficiency for welfare recipients. Based on the success of the program, in 1993 the Iowa Department of Human Services (IDHS) contracted with the Institute for Social and Economic Development (ISED) to provide entrepreneurial training, technical assistance and access to capital to program participants. From 1993-1998, 972 participants enrolled in the ISED training program and 234 individuals started a business. Those businesses experienced a three-year survival rate of 56.4%.¹⁵ The ISED program serving welfare recipients ended in 2003, although ISED continued to provide microenterprise development services across the state through a combination of funding from local, state and federal funding.

Within the Iowa Department of Economic Development, a self-employment loan program also was established, focusing on very small loans to entrepreneurs. State government reorganization in 1989 actually named the department as the “Department of Economic Development and Entrepreneurship Assistance.” From 1995-2002, the state funded a Rural Microenterprise

¹³ Elaine L. Edgcomb and Joyce A. Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* (Washington, D.C.: The Aspen Institute/FIELD, February 2005), 59-62, 69.

¹⁴ David Black, *Monitoring Client Outcomes: A Report from MicroTest's 2004 Data Collection* (Washington, D.C.: The Aspen Institute/FIELD, September 2005), 8.

¹⁵ Salome Raheim and Jason Friedman, *Microenterprise Development in the Heartland: Self-Employment as a Self-Sufficiency Strategy for TANF Recipients in Iowa 1993-1998*. *Journal of Microfinance*, Vol 1. No.1, Fall 1999, p. 77.

Program that provided entrepreneurial training to individuals in communities of 15,000 or less in population, regardless of income. Participating communities provided a local match and Iowa's investor-owned utilities provided additional funding to support the program.

Changed priorities, shifts in welfare policy, and the economic recession and state fiscal crisis at the beginning of the 21st century resulted in elimination of most of Iowa's specific state microenterprise program efforts.

While the state does not have a specific locus or infrastructure for supporting microenterprise development, the Department of Economic Development continues to promote entrepreneurship activities that can align with and support microenterprise development activities. These include the Main Street Iowa Program and the Targeted Small Business Program (TSB). The Department of Vocational Rehabilitation funds the Entrepreneurs with Disabilities (EWD) program that offers microenterprise assistance to that specific population. These will be discussed in Section 6, along with other local and foundation initiatives that have been developed to support microenterprise and other entrepreneurship development.

Still, since 1980 the microenterprise field has grown significantly, and other states have now taken the lead in promoting microenterprise development as part of their overall economic development strategies. The timing is right for a renewed discussion of microenterprise in Iowa.

Clearly, there is strong interest at the local level in encouraging and supporting aspiring entrepreneurs and small business owners. From October to December of 2002, 285 Iowans participated in a series of ten community forums on the topic "Entrepreneurship and Community Vitality," sponsored by the Community Vitality Center at Iowa State University.

The report from the forums showed that participants overwhelmingly affirmed that: "Entrepreneurship can play a significant role in reinvigorating Iowa communities."¹⁶ Eighty-eight percent of the respondents agreed that local government and private sector leaders should develop community partnerships to create entrepreneur development, business startup and seed capital. Sixty-four percent agreed that the greatest local barrier to successful entrepreneurship was lack of seed capital.¹⁷

Among the "next step suggestions" articulated by forum participants were to:

- Encourage local community leaders and development groups to consider rebalancing their economic development strategies to allocate some funding for support of business startups and entrepreneurship;
- Shift some funding to entrepreneur development programs and local business startups from incentives for larger businesses or recruiting businesses in from outside; and
- Sustain or enhance economic development programs that emphasize entrepreneurship; continue to support entrepreneurs beyond startup; help them through different stages of business development; expand or create business incubators; make state economic

¹⁶ *Entrepreneurship and Community Vitality: A Report of Ten Public Deliberation Forums Across Iowa*, Ames: Iowa State University Community Vitality Center, January 2003, p. 6

¹⁷ *Ibid.*, p 2.

development programs more useful for and more in tune with the needs of small business people.¹⁸

While not specifically focused upon microenterprises, the forum acknowledged the particular role that microenterprise played in this process. The next section builds upon the conclusions from this forum by examining the specific niche that microenterprise development can play in entrepreneurship and economic growth.

5. Leader Views on Microenterprise Development in Iowa: Findings and Observations from Microenterprise Interviews and Surveys

For this study, the project team conducted in-person and telephone interviews and electronic surveys of approximately 200 economic and community development professionals in Iowa. This included interviews with over state and community leaders and 144 responses to an electronic survey.

Iowa State University Cooperative Extension, Professional Developers of Iowa (PDI), the Iowa Community Action Agency Association, the Iowa Chambers of Commerce Executives, and the Iowa Small Business Development Centers (SBDCs) all collaborated in the electronic survey developed for this report by sending the survey to their members for completion. The combined results to the survey questions are reported on together below (see Appendix D for specific responses by each group).

In general, survey respondents felt there were some resources in their communities to provide “training and technical assistance for individuals seeking to start or expand a microenterprise” (66.0% somewhat or strongly agree, 24.3% disagree or strongly disagree), but most did not feel there were “strong efforts in my community to encourage and support low-income individuals to start or expand microenterprises” (21.2% somewhat or strongly agree, 53.9% disagree or strongly disagree).

Survey respondents were mixed on the whether there were “leaders and programs that have a lot of experience in supporting microenterprise development” (42.3% somewhat or strongly agree, 43.6% disagree or strongly disagree). At the same time, almost all though their community had “leaders and potential entrepreneurs who are interested in learning more about and encouraging microenterprise activities” (82.6% somewhat or strongly agree, 5.6% disagree or strongly disagree).

Respondents were mostly likely to identify access to capital (unsecured loans of less than \$35,000) as a “gap” in fostering microenterprise development (64.5%), and over half saw community resources to sustain microenterprise development (54.1%) and health insurance for self-employed persons (56.3%) as “gaps.” Technical assistance or business training (35.5%), mentoring and coaching (38.3%), and entrepreneurial networks (35.5%) were identified by over

¹⁸ Ibid., p. 2.

one-third of respondents as gaps. Respondents were least likely to identify technology resources (23.0%) as a gap.

Those involved in working with businesses (Community Action Association members were not asked these questions) reported that they did a large share of their work with small business, with 33.8% indicating that the “typical size of the business” with which they worked had 5 or fewer employees (20.8% indicated 6-9 employees; 26.9% indicated 10-49 employees; and 18.4% indicated 50 or more employees). At the same time, few identified the “capital needs” of the businesses they worked with most frequently as being in the microlending area, but rather more for larger small businesses (16.4% under \$35,000; 49.2% between \$35,000 and \$100,000; and 34.4% over \$100,000), with cooperative extension most likely to work individuals with the smallest capital needs. Respondents generally disagreed with the statement that individuals could “secure funding under \$35,000 for their start-up ventures” that may not meet conventional lending criteria (27.7% somewhat or strongly agreed, while 54.9% disagreed or strongly disagreed).

While respondents indicated there was some interest and activity at the community level for microenterprise development, they did not view that either the state or federal government were active in supporting or promoting microenterprise. About three times as many respondents disagreed as agreed with statements that either the state or federal government “provides leadership and support to communities” for microenterprise development (20.4% somewhat or strongly agreed, while 57.1% disagreed or strongly disagreed that the state provides leadership; 20.4% somewhat or strongly agreed and 60.0% disagreed or strongly disagreed that the federal government provides leadership).

The findings from the electronic survey (also confirmed in the more extended interviews) can be summarized as follows:

1. Very small businesses represent a significant percentage of the clients served by economic and small business development organizations and community development organizations at the community level.
2. Individuals seeking to start a microenterprise that cannot meet conventional lending criteria are likely to have difficulty securing funding under \$35,000 for their ventures.
3. While there is some experience at the community level in supporting microenterprise development and training and technical assistance, this could be strengthened substantially, particularly for lower-income individuals, minorities and immigrants.
4. State and federal governments currently are not viewed as a source of leadership on microenterprise development.
5. Leaders and potential entrepreneurs in their community are interested in learning more about and encouraging microenterprise activities.

6. While financing is seen as the most common gap for individuals seeking to start microenterprises, gaps in training and technical assistance, mentoring, and networking also exist in many communities.

The more extended interviews were designed to gather further information both on existing and planned state and community activities related to microenterprise development and to discuss more fully the types of gaps leaders felt existed in improving the ability of aspiring microentrepreneurs in the state to successfully start and build businesses.

Opportunity for State Leadership. Leaders generally affirmed that, while there are a number of local or foundation initiatives that have developed to support microenterprise, microenterprise development has not been a major explicit component of the state's economic development policy. Further, while local initiatives are necessary to develop, manage, and contour microenterprise development activities to meet particular community needs and opportunities, leaders indicated that there was a benefit in developing a statewide infrastructure to support this work. Further, Iowa's efforts need to give attention to rural communities and inner-city urban areas and with particular populations.

- Mike Tramontina, Director of the Iowa Department of Economic Development, emphasized, *“Microenterprise development should be part of Iowa’s overall economic development strategy and should complement and collaborate with other programs, such as Iowa’s Main Street and Targeted Small Business programs. There are particular opportunities for minority business development in inner-city as well as rural areas, which can strengthen Iowa’s overall growth and development in an increasingly diverse society.”*
- Steve Ovel, Executive Director, Governmental Relations, Kirkwood Community College, indicated that; *“Support for microenterprise and small business development should be an essential tool in the state and community economic development toolkit.”*
- Rand Fisher, President, Iowa Area Development Group said, *“We think there are new needs and expanding opportunities for microenterprise lending tied to the entrepreneurial training going on in our state, the growing interest of college and vocational students, and the need to facilitate business transition and succession throughout the state.”*
- Debra J. Houghtaling, Executive Director of Grow Iowa in Greenfield, an organization with an explicit microenterprise focus, stated that, *“We are the lead agency in a southwest Iowa collaboration to provide training and technical assistance to all kinds of business ventures, but the demographics make microenterprise a priority. Still, most banks and even intermediaries shy away from this form of lending because of its time and resource commitment, as well as confidence that there is the technical assistance needed to help ensure businesses can succeed. ”*

The interviews and the open-ended survey responses identified both initiatives and activities on which to build (discussed in Section 6) and different types of gaps that currently exist within

many communities in the state to support microenterprise development. These gaps correspond closely with the identified elements of effective microenterprise development programs described in Section 3. They are discussed below under five categories: (1) capital gaps; (2) community information and knowledge gaps; (3) institutional gaps for training and technical assistance; (4) coordination and integration gaps, and (5) culture gaps.

Capital Gaps: Those interviewed almost uniformly stated that there is a capital gap for loans under \$50,000. Mark Edelman, Director of the Community Vitality Center (CVC) pointed to a joint survey undertaken earlier in 2007 with the Iowa Bankers Association, the Leopold Center for Sustainable Agriculture, and the Center for International Agricultural Finance, which identified that the banking community also recognizes that gaps can exist for loan products and services to meet Iowa entrepreneur and small business start-up ventures. *“We have found that bankers see the less than \$50,000 area of small business as a high service cost area, and one that is not well coordinated with networks, training, and technical assistance,”* Edelman reported, based upon the survey.¹⁹

The problem is compounded by what Rich Pirog, Marketing and Food Systems Program Leader at the ISU Leopold Center calls the lack of a *“seamless process for potential microentrepreneurs to access technical assistance and capital.”* He added that, *“The survey indicates that bankers believe that technical assistance is uncoordinated and don’t know where to send entrepreneurs. There is not enough promotion and marketing, so programs don’t get high visibility.”*

The findings of the survey of bankers were affirmed by many economic development professionals surveyed for this report, who also commented on capital issues and microenterprise development:

- *“A small amount of funding would go a long way to encourage entrepreneurs to start or grow businesses. The financial commitment seems to be the largest hurdle we see in our community to starting or continuing a microenterprise. Most of the businesses in rural Iowa are microenterprises and we need to grow this portion of our economy.”*
- *“We can provide microenterprise classes and show people how to educate themselves about starting and running a small business, but the main problem has been that there isn’t a linkage between the education provided and loans being made to start the business in a timely fashion.”*
- *“I’m being told by the Chambers of Commerce I work with that they are struggling mightily with their local bankers, who are not used to making these kinds of loans and are turning away a lot of businesses who have gone through training and written excellent business and marketing plans.”*
- *“We need to move in this direction, but it takes more time to package and underwrite these loans and provide the hand-holding necessary to make it work.”*

¹⁹ E-mail from Mark Edelman, Director of the Community Vitality Center, September 20, 2007.

- *“Existing programs don't assist entrepreneurs who have no collateral or assets to contribute to the enterprise.”*
- *“With the federal cuts to the SBA microenterprise and microloan programs and the lack of a statewide initiative to promote microenterprise it has become even more difficult for low-to-moderate income entrepreneurs to access the training they need to create a business plan, perform a feasibility study and enter the marketplace. Couple this with a lack of capital access and it is clear why Iowa has fallen behind its peers in Microenterprise development.”*
– quotes from open-ended survey responses –

As discussed earlier, access to credit is one key component to a successful microenterprise development program. Microloans (generally loans of under \$35,000) tend to have higher risk because borrowers have limited cash savings to make payments when cash flow from the business doesn't materialize and few assets to use as collateral. These loans can be equally or more costly for banks to assess or service than their traditional loan portfolios. In addition, with the advent of credit scoring in the mid-1990s to evaluate small business loan applications, many people with feasible business ideas are denied loans largely on the basis of their credit score.²⁰

Fortunately, there is a growing body of experience in providing such loans. Microlending differs from conventional lending in the following ways: (1) the clients are low-wealth; (2) loans are based on character and cash flow as opposed to collateral; and (3) the portfolio consists of many small loans with short maturities and more volatile delinquency. Across the country, microlenders and community development financial institutions (CDFIs) have demonstrated that providing this microloan financing can be successful. In a recent speech, Federal Reserve Chairman Ben Bernanke commented that, “Microfinance plays the role of business incubator by compensating for the difficulties faced by very small firms and startups in obtaining credit.”²¹

According to Mark Pinsky, Executive Director of Opportunity Finance Network (OFN), a national network of CDFIs, “CDFIs have helped prove several things, many of which now constitute mainstream market thinking:

- that financing women and minority homeowners and business owners is not only possible but profitable, and that race and gender are not reliable indicators of financial performance;
- that conventional ideas about managing financial risk have changed and therefore will change in response to evidence that the unconventional is possible;
- that managing risk in non-financial and non-traditional ways (such as intensive technical assistance) can work, that unconventional financial customers are important to conventional financial service companies because they are future customers and solid assets; and

²⁰ Board of Governors of the Federal Reserve. “Report to the Congress on the Availability of Credit to Small Business.” September, 2002.

²¹ “Bernanke praises US micro-finance programs as small business incubators,” <http://www.forbes.com/feeds/afx/2007/11/06/afx4307457.html?partner=email> (accessed November 9, 2007).

- that community-centered groups can organize capital, manage it responsibly, pair it with organized people, and create measurable changes in communities.”²²

According to Rand Fisher, President, Iowa Area Development Group:

“Our economic development group and I believe our partners who look to us to help them operate over 30 rural revolving loan funds are friendly to the possibility of doing more microenterprise lending. However, there has to be more incentive for this to happen in terms of pooling and partnerships for shared risk, simplification of application and loan origination, and other incentives and encouragement that may even need to flow from the philanthropic sector. Opportunities to share risk and leverage existing technical assistance networks and providers would be very helpful as well.”

Community Information and Knowledge Gaps: The interviews also pointed to an overall information and knowledge gap regarding the elements of effective microenterprise development programs, the manner in which communities could develop those programs, and the roles that different community organizations and institutions could play in the process. Those interviewed indicated that local community leaders need education about the role of microenterprise in their community and effective strategies to encourage and support new and existing small business owners. Further, they looked for support and information from peer organizations on how they could contribute to microenterprise development in their communities, recognizing that, in many instances, they were likely to play supporting rather than lead roles. Some of the responses are provided below:

- *“An educational level that has been ignored is teaching community leaders and community lenders about microenterprises and small business development. Something should be done to create stakeholder groups and then to educate those stakeholder groups on how they can best serve their communities and regions.”* – survey respondent–
- *“Our community is supportive of microenterprise, but has limited resources. Locals are willing to be mentors and help with advice in their specialty fields or areas of experience.”* -survey respondent—
- *“It is important to find business leaders who are sensitive to the issues families in poverty face as they start or grow a business. There is a high level of interest within the Community Action Agency network to be a part of developing a successful microenterprise program in Iowa.”*- Lana Ross, Executive Director, Iowa Community Action Association
- *“There are resources in place to help microentrepreneurs and there are pockets in the state that have been really successful in starting/growing small businesses. But there is a lack of communication about who can help in what areas – there needs to be a*

²² Mark Pinsky, *Taking Stock: CDFIs Look Ahead After 25 Years Of Community Development Finance*, National Community Capital Association, A Capital Xchange Journal Article Prepared for the Brookings Institution Center on Urban and Metropolitan Policy, Harvard University Joint Center for Housing Studies © December 2001.

better network for those resources.”- Debra Bishop, Director, Drake Pappajohn Entrepreneurial Center.

Institutional Capacity Gaps for Training and Technical Assistance: Consistent with research, those interviewed identified three key challenges to local efforts seeking to build strong entrepreneurship programs: (1) lack of funds for pre- and post-loan technical assistance; (2) limited access to staff training and capacity building opportunities for local organizations; and (3) lack of accreditation or common standards for programs.

Those interviewed pointed to a number of local efforts, many of which they were spearheading, that provided training and technical assistance to persons interested in becoming microentrepreneurs. At the same time, interviewees were quick to point out that such opportunities were highly localized, often focused upon a subset of microentrepreneurs (such as women or persons with disabilities) and did not reach a large portion of potential microentrepreneurs in the state.

In addition, interviewees also stressed that there often were pieces in place (such as initial entrepreneurship training programs) but that other elements (such as mentoring of start-up businesses and assistance in accessing markets for their products) were lacking and diminished the overall effectiveness of what was in place. While those interviewed saw that such training and technical assistance might come from multiple sources (including community colleges, cooperative extension, retired executive mentoring, etc.), there was not a strong infrastructure in place to match microentrepreneurs with those resources.

Some specific comments from the interviews and open-ended survey questions are provided below:

- *“Technical assistance and education are critical and are often backwards – where the entrepreneurs borrow money from family or friends before creating a solid business plan.” – Sandy Ehrig, Outreach Coordinator, Renew Rural Iowa/Iowa Farm Bureau Federation.*
- *“There is a critical need for additional technical assistance to both potential and current borrowers. Even most of our successful borrowers need assistance with accessing markets, using technology, managing day-to-day operations, and expanding their business.” – Debra J. Houghtaling, Executive Director, Grow Iowa Foundation.²³*
- *“Microenterprise technical assistance is not profitable – grants are needed to subsidize time – and it is not a temporary need – technical assistance is vital to the sustainability and mainstreaming of small businesses.” – Max Cardenas, Emerging Markets Consultant, Des Moines*

²³ Written Statement for the Record, Debra J. Houghtaling, Executive Director, Grow Iowa Foundation Before the United States Senate Committee on Agriculture, Nutrition and Forestry Field Hearing in Council Bluffs, Iowa April 14, 2007, p. 2

- *“A microenterprise has difficulty inserting all “life” savings into the development of a business that may or may not work. Often these people have great ideas and understand the production aspect of the business, but lack general business and marketing skills, as well as some capital backing. Future business owners need a support structure beyond the initial start-up, somewhere where they can be mentored and worked with during the first couple years in operation. Sometimes we are really good at helping businesses get started, but extremely poor at keeping them going. We also need to work with people more intensively prior to the start-up phase.”— survey respondent –*
- *“Many people start their micro business with credit card financing and don't take the time to plan. They typically don't understand cash flow and profitability. Provide financial assistance for financial planning.”— survey respondent –*
- *“It is important to find business folks who are sensitive to the issues faced by families in poverty who might want to start or grow a small business.”— survey respondent –*

Service Delivery and Coordination Gaps. From our interviews and research, we found that local organizations are fragmented and vary widely in their capacity and ability to serve clients. Leaders interviewed spoke to the importance of developing an overall streamlined and coordinated system for serving microentrepreneurs. Some leaders, particularly those from workforce development and community action agencies, indicated that they came into contact with potential microentrepreneurs and could serve in getting them into a pipeline for microenterprise services, but they need that pipeline to exist. Other leaders indicated that they might consider providing capital access or training and technical assistance, as long as others could provide ongoing monitoring and assistance functions so their resources were deployed effectively.

Except in a few select communities, leaders indicated there was not a microenterprise development structure that included all core elements for successful microenterprise development. They also indicated that more coordination could avoid the need for every community to “reinvent the wheel” in developing a microenterprise strategy, and they would be interested in identifying what aspects of the work could be performed at a regional or state level most efficiently and what required on-the-ground community engagement and leadership.

Among the insights gathered from the interviews on these gaps were the following:

- According to Robert Bauman, Executive Director of Homeward, Inc., in Clarion, IA, *“There is a confusing array of potential resources in Iowa for someone trying to start a business. I don't want to do everything myself, but we have to invent a management system to bring the proper resources to entrepreneurs.”*
- *“Community Action Agencies could do information-sharing with families about microenterprise opportunities and our network is interested in being part of this larger effort.”* - Lana Ross, Executive Director, Iowa Community Action Association

- *“It may take a prospective entrepreneur at least 4 to 5 calls before getting the information needed to find out regulations on funding and technical assistance, how to qualify for a loan, how much funding is available, etc. We need to streamline the process and market it.”*- Rich Pirog, Marketing and Food Systems Program Leader, Leopold Center, Iowa State University.
- Morgan Wortham, Project Director of Opportunity Knocks, in Waterloo, IA: *“In low-income and minority communities there is a disconnect to resources to start and grow a business. Service providers don’t seem to work together and serve different niches or types of businesses. As a result, many aspiring entrepreneurs find it very hard to access help. What we need is to build the capacity of what’s already there and a central hub to provide support and resources at the local level.”*

On a positive side, leaders also pointed to substantial activity in the state that, while not focused specifically upon microenterprise, had the potential to contribute to microenterprise growth or link up with successful microentrepreneurs.

- Elliott Smith, Executive Director of the Iowa Business Council, indicated that microenterprise is a part of overall entrepreneurship that deserves support, *“Entrepreneurship is important to Iowa’s economy, and the Iowa Business Council has established a network for entrepreneurs ready to scale up their businesses, developing a “College of Experts” to offer technical assistance. While designed to serve businesses that represent at least a step up from microenterprises, we get inquiries from persons wanting to start businesses on a micro-level and would like to have a statewide network to which we can confidently refer these individuals.”*
- Bob Haug, Executive Director of the Iowa Association of Municipal Utilities, saw substantial opportunity for microenterprise development in the energy conservation field: *“With a doubling of the cost of electricity production over the last decade, utilities have to look even more closely at energy conservation as an alternative to plant construction and energy use. Microenterprises that provide home weatherization and other energy conservation services are increasingly attractive in an economic sense, but also due to their low capitalization requirements and the markets that are available in rural and urban areas with limited other employment prospects.”*
- Elisabeth Buck, Director of Iowa Workforce, indicated: *“There is no reason that workforce development centers around the state cannot be pipelines into micro-enterprise for people seeking employment. If there is a strong network, it will provide additional employment opportunities for the people we serve.”*

Culture Gaps. Leaders interviewed finally indicated that Iowa did not always espouse an entrepreneurial spirit and needed to foster a culture of entrepreneurship within its economic development activities:

- David Roederer, head of the Iowa Chamber Alliance, emphasized that, *“We need to create and refine a culture of entrepreneurship in Iowa. We need to support risk-taking and an entrepreneurial attitude across our population.”*
- *“We need funding to hire resources to reach out and teach community leaders to help change the community culture.”* – survey respondent –
- *“We need a community culture with values that support entrepreneurs who step out from the crowd. Iowans often don't like others to succeed wildly nor do they tolerate business failures.”* - survey respondent –
- *“While farmers are entrepreneurs and often very good inventors and adaptors of technology, this does not always translate into creating microenterprise and its language. We need a way of talking with rural communities that fits a self help, pay-as-you go, framework and recognizes skepticism on taking on financial risk.”* – survey respondent –

In addition to the general culture supporting entrepreneurship, some leaders saw a special opportunity for microenterprise development with different immigrant and cultural groups. As Iowa’s population becomes increasingly diverse, several leaders indicated there needs to be attention to developing appropriate and culturally sensitive services to minority and immigrant entrepreneurs. A 2002 U.S. Census Bureau estimate showed 1,536 Latino-owned firms in Iowa. According to the Iowa State Data Center, this represents an 87.5% percent increase in Latino-owned firms between 1997 and 2002. Hispanic-owned businesses outpace the national growth rate for other companies by over 20%.²⁴

In partnership with the Marshalltown Chamber of Commerce, Coopera Consulting in Des Moines recently researched local Hispanic-owned businesses and found that 11 such businesses produced more than \$3 million in sales per year and had created 65 full-time and part-time jobs within the past three years. Furthermore, Marshalltown Hispanic businesses represented about 30% of the growth of all new businesses in that community.²⁵

The Iowa Center for Immigrant Leadership and Integration (ICILI) at the University of Northern Iowa conducted a study of rural Latino business owners in 2004. The goal of the study was to assess the business conditions, support programs, and financing available to Latino entrepreneurs in rural parts of the state of Iowa. Their study had a number of findings, including:

1. Latino immigrants that start businesses are largely unable or unwilling to secure outside assistance with planning, operating or financing a new or existing business.
2. Latino business owners are isolated from the general business community and mistrust service providers from the non-Latino community. This can be addressed by using unique

²⁴ http://www.cooperaconsulting.com/emerging_markets.asp (accessed November 11, 2007).

²⁵ Ibid.

and culturally sensitive practices and including Latino's among the microenterprise lenders and providers of technical assistance.²⁶

- According to Max Cardenas, Emerging Markets Consultant in Des Moines: *“There currently is no statewide bilingual microenterprise program in Iowa, while at the same time the number of new Hispanic-owned microenterprises is growing rapidly. Many times there are low start-up costs for Latino businesses because of lower infrastructural development and labor costs.”*
- Mike Tramontina, Director of the Department of Economic Development, saw microenterprise as an additional avenue for growth in diversity in Iowa, *“Iowa needs to become more diverse. Microenterprise offers an opportunity for broadening Iowa’s base of different ethnic and cultural activities that both fosters growth in our economy and enhances our overall social and cultural vitality.”*

Self-employment is often the best way for refugees and immigrants to use their skills and experience to generate income. Due to language barriers, cultural issues, and even lack of transportation, refugees and immigrants may not be able to easily use their skills within the traditional job market – but their language and culture can be strong assets in developing microenterprises in serving other refugees and immigrants. For example, the city of Cincinnati has expanded its farmer’s market, the Findley Market, to include microenterprise opportunities and to forge relationships between local farmers and immigrant entrepreneurs to: (1) market ethnic food products not previously produced in the region; (2) process and market those food products both for immigrant and nonimmigrant markets; and (3) promote new and more diverse culinary businesses for the entire community.

The Center for an Urban Future has produced a report, *A World of Tomorrow*, describing how immigrant entrepreneurs have emerged as key engines of growth in New York City, Boston, and Los Angeles, and outlining the importance of investing in microenterprise development as an overall urban economic development and vitality strategy.²⁷

Promising strategies to build and sustain programs that generate and retain wealth in the distressed communities will be reviewed in Chapter 7 of the report.

6. Current Microenterprise and Related Entrepreneurship Activities in Iowa: Opportunities for Networking

Iowa does not need to start from scratch in providing support for microenterprise development. Leaders interviewed identified a variety of current resources and strengths at both the state and community levels to build upon. Leaders also saw the need for strong community initiative and local development of microenterprise development programs. They saw the role at the state

²⁶ *A Rural Service Provider’s Guide to Immigrant Entrepreneurship*, University of Northern Iowa Regional Business Center/ Small Business Development Center, Iowa Center for Immigrant Leadership and Integration, July 2006.

²⁷ Bowles, J. & Colton, C. (2007). *A World of Opportunity*. New York, Center for an Urban Future.

level in large part in providing resources and serving in a networking and technology transfer role for successful local microenterprise initiatives, including peer-to-peer networking.

The following provides brief descriptions of current activities underway in the state related to microenterprise development in three categories: Local Nonprofit Microenterprise Activities; State Entrepreneurship Activities; and Other Iowa Entrepreneurship Initiatives and Activities.

A. Local Nonprofit Microenterprise Activities in Iowa

- **Revolving Loan Funds (RLFs):** Across the state, local economic development organizations operate Revolving Loan Funds (RLFs), funded locally and/or by the federal government, which provide alternative small business financing. In theory, these RLFs should be able to provide microloans to borrowers who cannot access commercial financing. In practice, however, these funds do not fully reach the microenterprise market for a number of reasons, including: (1) the lack of the technical knowledge to underwrite microloans; (2) the lack of resources to provide post-loan technical assistance to mitigate risk; (3) RLFs typically contribute only up to 40% of the project cost and require a minimum of 50% of the project cost to come from a commercial bank; (4) the lack of experience in working in underserved markets, including with low-income individuals, minorities, immigrants, and women, and (5) the lack of a presence of such activities in many parts of the state.
- **Grow Iowa:** Grow Iowa, in Greenfield, is a nonprofit organization that provides capital for small business, industrial, economic development and affordable housing projects in 21 counties in southwest Iowa through 8 lending/development pools. In its 11-year history, Grow Iowa has invested \$5.4 million in southwest Iowa – \$4 million in business and economic development projects and \$1.4 million in affordable housing projects. These investments have leveraged an additional \$17 million of capital invested into the region and helped facilitate the creation or retention of approximately 1,100 jobs and 109 housing units. According to its staff, 30% of the loans are under \$50,000 and these have performed very well. Grow Iowa will be launching a pilot microloan program next year.
- **Siouxland Economic Development Corporation (SEDC):** Formed in 1979 to help businesses start up or expand in a ten-county area of Iowa, Nebraska, and South Dakota, operates a microloan fund. SEDC operates a number of loan programs, including a microloan fund that provides up to \$35,000 for borrowers unable to obtain conventional financing. The loans are used for working capital, inventory, supplies, furniture, fixtures, machinery, leasehold improvements and equipment.
- **North Iowa Area Community College/John Pappajohn Entrepreneurial Center NanoLoan Program:** Based on the microloan concept, the program loans up to \$2,500 to pay for prototype development, patents, equipment, working capital and other start up costs. *“One of our goals at the SBDC and the John Pappajohn Entrepreneurial Center is to facilitate the rapid growth of very early stage companies in the region,”* indicated Ted Bair, NIACC SBDC Director. The NanoLoan Program

targets a specific, underserved segment of the entrepreneurial community – businesses in the ‘pre-bankable’ phase.

- **ISED Ventures:** Based in Des Moines, ISED Ventures provides microenterprise and asset development programs targeted to populations typically underserved and most at risk, including low-income women, minorities, refugees, ex-offenders, non-custodial parents, and persons below 200 percent of the federal poverty level. ISED's programs focus on helping people to gain and manage assets to achieve economic and family stability.
- **The Iowa Able Foundation:** This statewide nonprofit provides low-interest loans for adaptive devices and equipment, and home modifications to Iowans with disabilities. The Foundation’s Telework Program seeks to increase home-based employment and self-employment opportunities for individuals with disabilities across the State of Iowa.

B. State Small Business Development Programs

- **Targeted Small Business Program:** The state of Iowa operates the Targeted Small Business (TSB) Program, created in 1986 as an economic development program to promote the growth and development of Iowa businesses owned and operated by minorities, women and persons with disabilities. In addition to a certification process for small businesses seeking government contracts, the program provides financial assistance awards in the form of loans and grants (or forgivable loans) up to \$50,000 (with at least a ten percent investment from the small business required) and loan guarantees up to 80%. To qualify for the Targeted Small Business program, a business must be certified as a small business and have annual gross sales of less than \$4 million and be at least 51% owned, operated and managed by women, minorities or persons with disabilities. The TSM Program potentially includes, but is not limited, to microenterprises, particularly as it can provide ongoing or expansion funding as well as start-up funding.

In 2006, the TSB Task Force was created by Governor Thomas J. Vilsack to study Iowa’s targeted small business programs in order to determine if they were still needed and, if so, how to improve, enhance and increase the efficacy and efficiency of the programs. The major recommendations of the Task Force related to the financial assistance program was to increase the funding to serve up to 70 businesses annually and to local organizations to provide mentoring, outreach, and professional development services to targeted small businesses certified pursuant to Iowa Code Section 10A.104.

In 2007, the General Assembly acted on these recommendations by providing \$2.5 million in new funding for the targeted small business financial assistance program and \$900,000 in new funding for establishing targeted small business advocacy service providers.

- **Small Business Development Centers (SBDCs):** Iowa has a network of 15 SBDCs across the state that represent a cooperative effort of the private sector, the educational community and federal, state and local governments. SBDCs counsel and train business people in management, financing, and operating small businesses, and provide comprehensive information services and access to experts in a variety of fields. The U.S. Small Business Administration (SBA) provides 50 percent or less of the operating funds for each state SBDC; one or more sponsors provide the rest. Iowa SBDCs are housed at select community colleges, Drake University, Iowa State University, the University of Northern Iowa and the University of Iowa.

SBDCs offer business training workshops to aspiring small business owners. The Smart Start program is a two-session, five-hour class covering the fundamentals. FastTrac® NewVenture™ is an eight-session, entrepreneurial program that assists the start-up entrepreneur in developing a business concept and evaluating it through each step of the business planning process. These programs serve a valuable purpose, but are not oriented toward many underserved individuals that require more in-depth training and support.

- **The Entrepreneurs with Disabilities (EWD) program:** The Iowa Finance Authority, working with the Iowa Vocational Rehabilitation Services and the Iowa Department for the Blind, operated the EWD program, which helps qualified individuals with disabilities establish, acquire, maintain, or expand a small business by providing technical and financial assistance. Technical Assistance grants of up to \$10,000 may be used to pay for any specific business-related consulting service, such as developing a feasibility study or business plan, or accounting and legal services. Financial Assistance grants of up to \$10,000 may be used to purchase equipment, supplies, rent or other start-up, expansion or acquisition costs identified in an approved business plan. Total financial assistance provided to an individual may not exceed 50 percent (maximum of \$10,000) of the financial package. EWD financial assistance must be fully matched by funding from other sources. Since inception in 1994, 1203 individuals with disabilities applied for services and 332 started businesses. A study of the program indicated that of those who started businesses with EWD technical and/or financial assistance in 2006, 78% of clients had sustained business operations in 2007.
- **John Pappajohn Entrepreneurial Centers (JPEC):** In 1996, John Pappajohn, president of Equity Dynamics, Inc., established five entrepreneurial centers at the University of Iowa, the University of Northern Iowa, Iowa State University, Drake University, and North Iowa Area Community College. Although each center defines its own mission and serves the state in a manner consistent with its particular strengths, each center has the same ultimate purpose: to enhance the effectiveness of Iowa's entrepreneurs. To a large degree, JPEC's focus is on Iowa-based technology and high-growth start-up companies, and targeted industries like biosciences, advanced manufacturing and information solutions/financial services.

C. Other Iowa Initiatives and Activities

- **Rural Development Resource Center (RDRC):** The Grow Iowa Foundation joined forces with the Southwest Iowa Coalition, Wallace Foundation for Rural Research and Development, Iowa State University Extension, and Southwestern Community College to form the Rural Development Resource Center (RDRC). With a communications hub located in Red Oak, Iowa, the RDRC has mobile specialists providing business development consulting one-on-one and in a classroom setting, financial packaging, value-added agriculture services and product-to-market avenues for both existing and potential business owners within a 22-county service in southwest Iowa. The RDRC also serves as a support system to local economic development directors in the region that will reduce or eliminate duplication of effort on their part and will provide them with additional resources and area-specific experts.
- **MyEntreNet:** In 2001, the University of Northern Iowa made a pilot investment in rural economic vitality with the development of an entrepreneurial development system called MyEntreNet. MyEntreNet's goal is to develop a sustainable model that could connect geographically isolated entrepreneurs to services and people so that they could become competitive in a global economy. MyEntreNet provides more than a technological bridge for entrepreneurs. It also is focused on building community capacity to support entrepreneurs both in person and online. Through a competitive grant process, MyEntreNet selects counties that bring together community leaders, volunteers and entrepreneurs to receive customized services and resources, creating a community-wide culture for entrepreneurship while facilitating the development and growth of new innovative companies. MyEntreNet is based upon four key principles: Community Empowerment, Business Assistance, Capitalization and Networking.

In a typical MyEntreNet region, 100 entrepreneurs participate in program services, starting or expanding 20 businesses, which create an average of 75 new full-time jobs and \$3 million dollars in new commercial financing. Currently, six rural regions are engaged in the development of MyEntreNet systems: Carroll, Decatur, Jasper, Marion, Poweshiek and Union counties. According to an initial evaluation of the program²⁸, MyEntreNet is a catalyst for entrepreneurship and community building.

- **ISU Community Vitality Center:** The Community Vitality Center (CVC) serves as a catalyst for innovative projects and initiatives designed to improve the vitality of Iowa communities. The CVC facilitates networking among small and medium size rural communities, sponsors policy analyses, engages communities in dialogue, and fosters discussion among rural and urban interests.

CVC's Community Entrepreneurship Challenge Grant Program provides \$5,000 to \$10,000 matching grants awarded to local communities and multi-county projects for innovative entrepreneurial development activities involving over 60 county leadership groups. CVC projects have demonstrated entrepreneur coaching and mentoring networks, business plan competitions, entrepreneur resource centers, entrepreneurial

²⁸Deb Markely and Karen Dabson, *Innovative Approaches to Entrepreneurial Development: Cases from the Northwest Region*, RUPRI Center for Rural Entrepreneurship, 2007.

study tours, and entrepreneurial training workshops such as MyEntreNet, Sirolli, SBDC FastTrac, and microenterprise programs. Examples of funded projects include:

- **Access e-Commerce Workshops** sponsored by Clay County Extension in collaboration with community development corporations to conduct workshops in seven communities to enhance business skills and knowledge regarding the use of internet marketing and e-commerce to augment business profitability.
 - **Crawford County Entrepreneur Development Network** sponsored by the Chamber & Development Council of Crawford County to identify local entrepreneurs, identify local entrepreneurial needs and to organize local training and networking meetings to assist entrepreneurs.
 - **Mount Pleasant Area Business Plan Competition** sponsored by the Mount Pleasant Area Chamber Alliance. This is the third annual locally sponsored business plan competition. Winners have included an injection molding company, a bed and breakfast venture involving a historical venue, and an upscale kennel and pet care business..
 - **Carroll County Entrepreneur Coaching and Mentoring Network** sponsored by Carroll County Extension to work with local community leaders and entrepreneurs in the county to organize a local coaching and mentoring network to provide an opportunity for training and sharing ideas for solving problems related to entrepreneurship.
 - **Micro Enterprise Entrepreneur Workshops** sponsored by Grow Iowa Foundation and Southwest Iowa Coalition to conduct a series of training workshop for micro-enterprise entrepreneurs in Red Oak, Villisca, and Mount Ayr, and one additional community at \$2,500 per community.
- **The African-American Business Association (AABA) of Des Moines:** AABA is an affiliate of the Greater Des Moines Partnership, which is the economic and community development organization serving the Greater Des Moines metro covering a three-county region. The mission of AABA is to advocate and promote the development of African-American owned businesses with the goal of creating a firm economic base that support the self-determination and survival of the African-American community.
 - **Iowa Asian Alliance (IAA):** IAA is a nonprofit organization established in 2002 by Asian American business, community, and civic leaders to forge cultural and economic growth. The mission of IAA is to grow Iowa through a united Asian American community. IAA provides leadership and technical support to members to become prosperous economic partners. IAA collaborates with members from the public and private sector to promote: business and economic growth; community and cultural vitality; leadership and educational advancement; and political and civic participation.
 - **ALIANZA: Latino Business Association:** In the fall of 2003, members of the Greater Des Moines Partnership, along with other business and civic leaders, began conducting a feasibility study on how to better address the needs of Latino business owners in Des Moines. In September 2004, ALIANZA became an affiliate of the

Greater Des Moines Partnership. Its mission of is to promote the success of Des Moines-area Hispanic-owned businesses through education, networking opportunities, and by serving as a link to and for the Hispanic market.

- **ACCION USA (AUSA) Hispanic Microloan Project in Marshalltown:** With the support of the Northwest Area Foundation, AUSA is helping to diversify and strengthen the economies of rural communities in Marshalltown, Tama, Toledo and Ackley by providing credit and other financial services to these rapidly-growing rural Latino communities. AUSA is partnering with community leaders in the cities and the Iowa Valley Education and Training Center and Wells Fargo Bank. AUSA's strategy to provide services to these communities consists of three components:
 1. **Loans:** AUSA will disburse microloans directly to self-employed residents of these communities, using its Internet and telephone loan application systems. Small business loans of \$500 to \$25,000 will be provided in addition to \$500 Credit Builder loans for low-to-moderate income individuals who do not have a credit history.
 2. **Outreach and Marketing:** AUSA will conduct grassroots outreach and marketing activities to inform community residents of its services.
 3. **Capacity Building:** AUSA will conduct a series to training activities with local groups and organizations to enable them to help individuals access their services and to continue with outreach activities to ensure continuity beyond the timeline of the project.

- **The Abilities (TAB) Fund:** Based in Centerville, Iowa, TAB is a nationwide nonprofit organization that provides microenterprise services directly to people with disabilities and builds the capacity of other organizations that serve them. The organization grew out of the Iowa Entrepreneurs with Disabilities (EWD) program and provides direct services to individuals online. This includes introduction to entrepreneurship trainings, feasibility assessment, business plan development, one-on-one counseling, financial literacy training, and the nation's first online loan program specifically for entrepreneurs with disabilities. TAB helps the state and the federal governments address disability employment issues, provides statewide management of microenterprise programs, and conducts training for microenterprise groups on effective strategies to reaching and working with the disability community.

- **Iowa Microenterprise Assistance Program (IMAP):** The Greater Des Moines Partnership recently received funding from the Northwest Area Foundation to create a new model for collaboration among Iowa's entrepreneurial training and technical assistance providers, sources of microenterprise capital, and community foundation networks to reduce poverty and increase microenterprise activity. Still in development, the program plans to facilitate the development of four complementary local activities: (1) microenterprise workshops; (2) microenterprise lending; (3) networking and technical assistance to support loan clients; and (4) philanthropic activities to support and sustain entrepreneurial development.

7. State Government Roles and Best Practice in Supporting Microenterprise Development

Nationally, many states have recognized that traditional economic development approaches do not adequately address the needs of entrepreneurs, and microenterprise development should be a component of state economic development strategy, especially in rural areas and distressed urban neighborhoods. Rural areas have been identified because of the need to diversify from a primarily crop-based agricultural economy and the presence of many individuals within those communities with interests in entrepreneurship. Distressed urban neighborhoods have been identified as places where entrepreneurship can provide opportunities for individuals who often lack access to employment opportunities but have roots in the neighborhoods that offer markets for microenterprise.

In the past decade, a number of states, including Nebraska, California, Oregon and Washington, have established major initiatives to develop a state infrastructure to nurture and support microenterprise development.

State government support for microenterprise development makes sense as an area of increased focus for a number of reasons, including structural changes in the economy have made self-employment an option for many people. These structural economic changes include:

- deindustrialization and the associated loss of well-paying, secure industrial jobs and growth of low-paying service-sector jobs, making entrepreneurship more attractive economically;
- corporate downsizing and outsourcing, both reducing the number of high paying jobs and creating opportunities for new business ventures for that outsourced activity;
- an increase in families where both parents need to have earnings and the consequent need for those working parents to balance work with care giving and the advantage, in particular, of operating businesses from the home;
- the aging of the population, with more seniors seeking self-employment and the flexibility it can afford;
- growth in immigration and new markets created by that immigration;
- reforms in the safety net that require or support work;
- the decline of rural economies as solely agriculturally-based economies; and
- the emergence of niche markets and the ability to reach them through modern technology.

State government has a role to play in supporting community efforts and initiatives to foster microenterprise development.

State government involvement also makes sense to address the inability of the traditional financial markets to address the lack of access to capital for disadvantaged communities and entrepreneurs. Low-to moderate-income and disadvantaged borrowers often have poor or non-existent credit histories and cannot access commercial financing. The overall success of the microlending field (high business survival rates as compared to the overall small business population as tracked by the U.S. Small Business Administration²⁹) demonstrates that the extension of capital can, and does, assist in the start-up and stabilization of very small businesses. At the same time, there is a technology and structure to establishing effective financial programs for microlending and a role for state government to play in this process, although that role must be based upon supporting local champions in promoting and delivering most microenterprise development activities

Successful Practices and Innovative Ideas to Support Emerging Entrepreneurs and Small Businesses

After decades of experience by practitioners across the country, there is emerging consensus on successful practices and strategies to support emerging entrepreneurs and very small businesses. A growing number of these efforts have been led by the public sector, in recognition of the critical role of the smallest businesses in state and local economies. These efforts support the development or strengthening of community-based organizations driven by the mission to support strong microenterprises that lift up families and communities. This section briefly describes programs created by the public sector, as well as those developed by the private and nonprofit sectors, to support emerging entrepreneurs and very small businesses. Regardless of their origin, these programs are delivered by community-based organizations with the expertise to successfully implement them.

Some of the programs and strategies address more than one of the gaps identified earlier. They also address innovations in the field including: tailoring products and services to the needs of aspiring entrepreneurs and existing businesses, creating an integrated network of organizations at the state level, and presenting creative methods to engage government and the private sector in providing capital and business assistance to low-income entrepreneurs. Program and practices described here were selected specifically for their success in addressing the microenterprise gaps and issues identified in the previous sections as relevant to Iowa.

A. Best Practices in Local Microenterprise Programs³⁰

The programs and organizations highlighted below have achieved notable success in providing small amounts of credit and training and technical assistance to entrepreneurs. Some of these program and organizations are noteworthy for their ability to achieve significant volume in lending activity. Others have distinguished themselves by their ability to effectively target specific business sectors and/or populations. While local programs need to be diverse and

²⁹ Else, John, et al, March 2001, *The Role of Microenterprise Development in the U.S.*, prepared for the International Labor Organization, p 33

³⁰ Some of the information for this chapter is from *Supporting New York City's Smallest Businesses: A Community Development Finance Research Study* by Lisa J. Servon, Rob Fairlie, and Jason Friedman, published by the New York City Economic Development Corporation (to be released in 2008).

reflective of their local communities, economies, and cultures, they are most successful if they adhere to a number of underlying principles and best practices. These best practices are based upon “lessons learned” from these exemplary programs and organizations. The following describes these best practices and the underlying principles governing them both in the area of microlending and technical assistance.

Microlending Best Practices: Lending combines the science of obtaining and analyzing the facts of a loan request and the art of making judgments about that information, the feasibility of the business, and the credibility of the borrower. The principles of effective lending presented below reflect the lessons that microlenders have learned through experience and the innovative approaches being used for small business lending today.

- **Know The Borrower:** Microlending is a combination of character lending and thorough assessment of business feasibility. In character lending, staff evaluate several factors to assess the strengths and weaknesses of potential borrowers. These include depth of personal commitment to the business; energy level and resourcefulness; breadth of management and entrepreneurial skills; strengths and weaknesses, willingness to listen to advice or guidance, understanding of the business; and demonstrated commitment to other responsibilities. As part of this process, microloan programs require training and/or technical assistance not only to build skills, but also to assess readiness and commitment to business ownership.
- **Structure Loans to Minimize Risk:** Successful microlenders provide small loans initially and then increase the subsequent loan size once a borrower has demonstrated his or her ability and commitment to repay.
- **Streamline operations to reduce costs and improve efficiency:** The smaller the loans, the more standardized and efficient the lending process needs to be.
- **Charge “market” interest rates:** Access to credit is more important than its cost. Because access to credit can dramatically improve the income generation of a business, most entrepreneurs are less cost-sensitive and more access-driven. The additional cost for the loan has a relatively small impact on the borrower (given the small loan amounts and increased income generation) and a huge impact on the program’s ability for self-sufficiency.
- **Provide technical assistance:** High performance programs provide technical assistance to the borrower to mitigate risk and help get the new business on a stable footing. Some organizations require it as a condition of receiving the loan and charge modest fees, which can be taken out of the loan proceeds.
- **Engage in professional and consistent loan collection:** Consistent and disciplined loan collection reinforces the business relationship between the lender and borrower, and sends a strong message that delinquency will not be tolerated.

Profiles of Successful Microlenders. The following programs all reflect best practices in their microlending activities.

High Volume Lending Through Technology and Partnerships: ACCION Texas San Antonio, TX. Established in 1994, ACCION Texas provides entrepreneurs across the state access to credit and business support services not available from the commercial

banking. With 11 locations across the state, ACCION has disbursed \$42 million in loans and served over 4,400 clients since 1994. The organization achieves high volume lending through: (1) a computerized algorithm for risk assessment which dramatically lowers the cost of underwriting loans; and (2) partnerships with banks, chambers, and small business and economic development organizations that provide space and support for local offices. According to an independent evaluation, ACCION Texas' commitment of \$42 million in lending capital between 1994 and 2005 has created economic activity of approximately \$77.8 million, including earnings (payroll) of \$24.8 million, state and local tax revenue of \$4.5 million, and 982 new jobs.

High Volume Lending Through Innovative Bank Partnerships: ACCION New Mexico, Albuquerque, NM. A nonprofit microlender, ACCION New Mexico has provided 2,227 businesses with 3,726 loans since 1994, with an average loan size of \$5,627. The organization also provides financial education and credit repair seminars. To drive down the costs of lending and increase the flow of capital to rural areas, banks in rural communities function as ACCION NM field offices and facilitate loan closings on behalf of the nonprofit. ACCION NM trains bank loan officials involved in the loan process, including credit products and pricing, underwriting criteria, lending policies and procedures, and requirements of borrowers. ACCION New Mexico now has 10 bank systems and 49 branches in 31 different communities that close loans for them. From 2004 through 2006, these banks have provided contributions totaling \$755,433 and lending capital totaling \$1,975,000. Eleven other banks have provided the organizations with contributions totaling \$304,500 and lending capital totaling \$2,820,000.

Microlending to Support the Tourism Industry: The Progress Fund, Greensburg, PA. The Progress Fund creates economic opportunity by lending needed capital and providing entrepreneurial coaching to small businesses in the travel and tourism industry in 39 counties in Pennsylvania, West Virginia, and Appalachian Ohio. The organization focuses on the tourism industry because it offers strong potential for sustainable growth and job creation in rural areas. Since its inception in 1997, The Progress Fund has made 187 loans totaling more than \$16 million, created or retained more than 1,559 jobs, provided at least 9400 hours of business counseling, and helped reuse 50 historically significant buildings.

Microlending for the Creative Economy: MicroBusiness Development Corporation (MBD), Denver, CO. Micro Business Development (MBD), a Colorado nonprofit organization, was founded in 1993 to eliminate barriers to economic independence for community entrepreneurs, both youth and adult, through access to markets, resources, and business capital. Since its inception, MBD has helped create 2,500 jobs and has served 26,000 participants. MBD has loaned over \$7.3 million to a client base of: 76% minorities, 72% low-income, and 70% women and has maintained a 96.4% repayment rate. MBD has developed loan products tied to business sectors that show potential for growth. Its **Creative Enterprise Revolving Loan Fund** provides microloans for entrepreneurs in the arts, handcrafts, and media. MBD's **Access to Markets Program** provides specialized training, technical assistance, and lending to entrepreneurs that operate at public markets, street fairs, and craft fairs. Loans uses include covering market application costs, inventory and supplies needed to participate in a market opportunity, and to launch a test

market. In 2006, MBD made 15 creative loans totaling \$71,554 and 12 Access to Market loans, totaling \$18,572. It has provided training and technical assistance to over 40 businesses.

Microlending for High Growth Industries in Rural Communities: Mountain Association for Community Economic Development (MACED), Berea, KY. MACED is a nonprofit organization in rural Appalachia that provides financial capital and expertise to individuals, businesses, and communities in 51 counties. MACED recognizes the need to encourage and nurture specific industries that have relevance to local markets and where there are opportunities for growth and job creation through targeted lending, including:

- **Natural Resources:** loans for businesses that support sustainable natural asset development and protection, including ecotourism; sustainable forestry; renewable energy/recycling; and outdoor education and recreation.
- **Community Critical Care:** loans for businesses in the health care sector and other critical community service fields including child care and elder care.
- **Cultural Resources:** loans for businesses that support the cultural assets of Appalachian communities, including arts, music and heritage tourism.

In its most recent two-year period (2005-7), MACED made 49 loans totaling over \$3 million in these sectors.

Microlending to Improve Credit-Worthiness: Lenders for Community Development (LCD), San Jose, CA. Lenders for Community Development is a nonprofit community development financial institution based in San Jose, CA. Since 2000, LCD has closed 466 loans totaling \$7 million dollars. LCD has developed a special product called “credit builder” loans that provide small amounts of capital and help borrowers build or rebuild their credit histories. Loan amounts range from \$1,000-\$2,000, terms are 1-2 years at 8% interest, and the borrower has to provide three months of paid utilities or phone bill and 3 months of bank statements. The credit builder product represents a large segment of loan volume for LCD. In 2006, LCD made 120 micro and small business loans, totaling \$982,200. Of those, 51 were credit-builder loans totaling \$112,000.

Training and Technical Assistance Best Practices: High performing programs and organizations that offer microenterprise training and technical assistance share common characteristics, including: (a) screening and assessment to determine business readiness and entrepreneurial aptitude; (b) fee-based structured coaching and consulting to help new business owners get started on the right footing; (c) use of business owners and professionals from the community for mentoring, counseling, and specialized technical assistance; (d) specialized services for targeted sectors; (e) use of technology to build and grow the business; and (f) commitment to demonstrating outcomes.

Profiles of Successful Microenterprise Trainers and Technical Assistance Providers. The following programs all represent best practices in their training and technical assistance.

Structured Post-Loan Technical Assistance: MicroBusiness Development Corporation (MBD), Denver, CO. Entrepreneurs seeking loans from MBD are required to participate in the MicroBusiness Assessment (MBA) process, which provides affordable access to

structured technical assistance and coaching, thereby mitigating the risk of the loan. MBD competitively recruits, screens, and trains professionals with varied business expertise to volunteer to help clients identify the strengths and weaknesses of the business and develop an action plan to guide the business forward. Since 2005, MBD has conducted over 175 MBA assessments for loans to emerging businesses.

Helping Entrepreneurs Access Markets: Project Enterprise (PE), New York, NY. Project Enterprise's mission is to support and develop entrepreneurs and small businesses in under-resourced communities in New York City. PE provides access to business loans, business development services and networking opportunities, predominantly to African-American and Hispanic entrepreneurs. PE launched an Access to Markets Initiative to help its entrepreneurs improve their competitiveness in the marketplace by building their skills and increasing their opportunities to bring their products and services to new audiences. The program has several features including a retail incubator, trunk shows, an online business directory, and vending opportunities. Fully 40% of its total member base of 400 is involved in one of its Access to Markets initiatives.

Integrating Immigrants and Refugees into the Local Economy: AnewAmerica Community Corporation, San Francisco, CA. AnewAmerica's mission is to promote the long-term economic empowerment of new Americans - new citizens, immigrants, and refugees - and to encourage their full participation in the political, social, and cultural growth of America. AnewAmerica has developed an innovative model, *Assets for New Americans: The Virtual Business Incubator*, which integrates business incubation, asset-building and social responsibility. Entrepreneurs and their families receive a package of comprehensive services for three years to meet their cultural and linguistic needs. Since the program's inception in 2000, AnewAmerica has helped start and expand 103 businesses and create 155 new jobs, among other accomplishments.

E-Commerce Strategies to Increase Business Success: WESST Corporation, Albuquerque, NM. WESST Corporation is a nonprofit economic development organization headquartered in Albuquerque, New Mexico whose mission is to facilitate the start-up and growth of women- and minority-owned businesses throughout the state of New Mexico. Since 1988, WESST Corp has assisted in the start-up and growth of over 1,830 small businesses which have created over 2,800 jobs, as well as having established a low-interest Revolving Loan Fund that has approved more than 300 loans totaling over \$2 million. WESST's ezSEO (Search Engine Optimization) Program teaches low-income individuals, minorities, and women to increase the prominence of their websites on the internet and thereby increase their sales. Search Engine Optimization, or SEO, is a specialized process of enhancing a site's visible on-page content, as well as its underlying code and information architecture that determine its search engine friendliness, so that it is ranked more prominently in the natural search results of spider-based search engines such as Google. The program started in February 2007 and has worked with 40 online businesses across New Mexico, helping them increase sales by over 30%.

Re-Integrating Formerly Incarcerated Persons Through Self-Employment: The Prison Entrepreneurship Program (PEP), Houston, TX. Formerly Incarcerated Persons face

tremendous challenges in getting back into the workforce. Created in 2006, PEP is a Houston-based nonprofit organization, providing post-release entrepreneurial assistance to parolees in Houston, Dallas and Ft. Worth. Its programs include: (1) an in-prison business plan competition; (2) reintegration services, including re-entry services and a work-readiness program; (3) executive mentoring; (4) entrepreneurial training; and (5) access to financing. Over 60 Executive Mentors have been recruited and trained, and PEP has established partnerships with MBA programs at Harvard, Stanford, the University of California at Berkeley, the University of Texas at Austin, Rice University, the University of Dallas, and Texas A&M University to provide weekly volunteer business plan advisory services for inmates. PEP has worked with more than 250 inmates in two prisons and helped 32 participants start businesses. So far, it has maintained a participant recidivism rate of less than 3%, compared with the national recidivism rate of 67% for all former inmates.

Summary: These local initiatives are quite diverse in responding to different local economies, different types of microentrepreneurs, and different opportunities, but they also involve:

- an emphasis upon both financing and technical assistance in supporting microentrepreneurs;
- a focus on serving regional economies with the involvement of community partners in meeting the needs of entrepreneurs and supporting connections with the local community; and
- passionate and skilled program leaders who reach out to and connect with those they are serving.

Identifying those passionate local leaders and then providing them with both support and networking connections that enable them to build their skills may be one of the most important features for successful state efforts, which are discussed next.

B. Best Practices in Statewide Infrastructures for Microenterprise Support

Best practices in state efforts to establish a microenterprise infrastructure involve balancing state activities with local initiative. Supporting true local champions in developing microenterprise efforts at the local level is the key to the success of a statewide infrastructure. The state also can place a critical role in “knowledge” transfer regarding effective practices and providing common regional or statewide training opportunities for communities and microenterprise leaders. State leadership also can help secure the financing and establishing a lending structure that otherwise often represents a prohibitive cost for local communities to develop effectively.

Profile of Successful State Training and Technical Assistance Infrastructure. The following state program is exemplary in creating a statewide infrastructure for training and technical assistance.

New York State Entrepreneurial Assistance Program: The Entrepreneurial Assistance Program (EAP) was created in 1987 by the New York State Department of Economic Development and is one of the first state-created programs designed to fund community-

based organizations to provide microenterprise training and technical assistance to minorities, women, and dislocated workers. Organizations are selected on a competitive basis and are designated as EAP Centers. Program awards of \$80,000 subsidize the cost of the training and technical assistance services.³¹ The EAP provides funding for community-based organizations to provide 120 hours of classroom-based training and technical assistance for new and aspiring entrepreneurs in starting a business. The class covers business feasibility, marketing, bookkeeping, development of a business plan, and other components of business start-up. In addition, the program actively assists EAP clients to obtain business financing.³²

Since 1990, EAP has provided \$16,625,399 in funding to 21 Centers across the state. Over 19,000 clients have received services leading to the creation of 4,214 businesses and another 4,879 with increased sales. The aggregate increase in sales of these businesses is \$166,541,174. These businesses have created 8,490 jobs and have secured \$88,594,709 in financing. The Empire State Development Corporation's 2000 Annual Report to the Legislature (2000) on the EAP states that:

- State funded programs conservatively generate \$2 in tax revenue for every state dollar invested in the program; and
- EAP costs the state only \$1,585 per job created (Compared to the NY Jobs Now Program that averages \$10,000 per job and the NY Job Development Authority that averages \$35,000 per job).³³

Profiles of Successful State Microenterprise Intermediaries. One of the most promising practices to build a state infrastructure for microenterprise development and for the efficient delivery of capital is the creation of a state microenterprise intermediary (SMI). SMIs are nonprofit financial institutions created to attract new capital at the federal, state or regional level and provide central underwriting, loan processing and servicing. The SMI's ability to gather funds from multiple sources to complete the loan fund reduces the cost of funds and in turn the cost of borrowing. SMIs develop standardized data systems to collect and report aggregated data on client outcomes from the participating programs. As a result, the SMI can demonstrate the effectiveness of these programs in serving targeted populations and communities. SMIs also (1) provide leadership and a voice for statewide microenterprise support; (2) build the capacity of microenterprise practitioners; and (3) educate the public about the value of microenterprise development. Two such intermediaries in Nebraska and Oregon are profiled in detail in the full report as comprehensive and exemplary practices.

Nebraska Microenterprise Partnership Fund (NMPF). The Nebraska Microenterprise Partnership Fund (NMPF) is a statewide financial intermediary dedicated to supporting microenterprise practitioners and became a certified Community Development Financial Institution in 1998. As a statewide intermediary, the mission of the Nebraska Microenterprise Partnership Fund (NMPF) is to mobilize, allocate, leverage and link

³¹ Jason Friedman, Co-Director of this report, collaborated in the drafting of the legislation creating the program.

³² "Entrepreneurial Assistance Program".

http://www.empire.state.ny.us/Small_and_Growing_Businesses/entr_assistance.asp. 6 May 2007.

³³ MicroBiz NY website, http://www.microbizny.org/advocacy_state.php

strategic local, state, national and private resources with community-based development programs to finance and serve the needs of Nebraska's small and micro businesses.

The Fund serves as a financial intermediary by raising funds and re-deploying strategic support for quality local and sub-state programs. The Fund provides direct funding to programs through its own fundraising activities and facilitates funding directly between funders and delivery programs.

- NMPF makes interest-only ("evergreen") loans for lending capital for microlenders and small community revolving funds. This capital is then lent to micro businesses. The maximum evergreen loan is \$100,000, and all loans over \$10,000 must be matched 1:1. These funds must be dedicated to being re-lent to individual micro business borrowers in loans up to \$35,000 and/or loan packages up to \$105,000. These programs have lent out approximately \$8.5 million, with an average loan size of \$8,814.
- NMPF also grants funds to programs for assisting with operating costs and providing additional business services.
- NMPF assists programs in building capacity to reach increasing numbers of businesses. For example, NMPF led the effort to create a referral system whereby banks can direct people to local lending programs for additional assistance.
- NMPF has a ten-year history of gathering quarterly performance outcome data from grantee and borrower organizations that provides the basis for the yearly reports to the legislature.

The Partnership Fund has evolved as an effective vehicle for engaging small and micro business programs, the legislature, state government agencies, quasi-public state agencies, federal government programs, and commercial lenders into a more coordinated delivery of entrepreneurial services. NMPF raises funds from various national- and state level sources and then awards grants, loans, and related products to Microenterprise programs through an annual "request for proposal" process. NMPF reports to the Legislature annually.

Over 15,000 individuals have received training and/or technical assistance since 1998. The Fund has been able to steadily increase its state and private funding, evidence that stakeholders believe it is an effective vehicle to increase entrepreneurial activity and increase the performance of providers. The original state appropriation for the Fund in 1998 was \$250,000, and was raised to \$500,000 in the 2000 legislative session. The state budget for 2008 triples funding to \$1.5 million for each of the next two years. Based on the matching requirements specified in the enabling state legislation, by 2006 a total of \$5.6 million has been made available for microlending and self-employment training and technical assistance. In terms of program costs, the Fund's 2007 report to the legislature notes the following: average cost per outstanding loan, \$2,566; cost per job created or retained by micro program services, \$1,193; and costs per active trainee, \$393.

NMPF cooperates with the **Nebraska Enterprise Opportunity Network (NEON)** a state microenterprise association of member practitioner programs that delivers business lending and training assistance to Nebraska micro and small businesses. NEON holds an annual conference each year, bringing high-level training to member organizations.

Oregon Microenterprise Network's (OMEN) Oregon Micro-Capital Access Program (MCAP), Portland, OR. The Oregon Micro-Capital Access Program (MCAP) is a program of the Oregon Microenterprise Network (OMEN), a statewide association of microenterprise development programs and their supporters. OMEN functions as an association of microenterprise organizations providing grants for training and technical assistance to local organizations, and MCAP functions as a statewide microlender.

OMEN supports these organizations by: (1) providing leadership and a voice for statewide microenterprise support; (2) building the capacity of microenterprise practitioners; (3) educating the public about the value of microenterprise development; and (4) promoting cooperative and collaborative efforts to combat poverty using microenterprise development strategies. The state Department of Economic and Community Development provides \$200,000 in funding grants to nine local organizations to provide training and technical assistance. These funds leverage an additional \$400,000 in federal Community Development Block Grant (CDBG) Funds.

OMEN recently began implementation of the \$670,000 statewide micro-capital access program, funded by US Bank, Wells Fargo Bank and philanthropic foundations. Under a competitive Request for Proposals (RFP), OMEN selected eight local microenterprise organizations to originate and package loans and provide post-loan technical assistance to borrowers. As opposed to the Nebraska model, OMEN will serve as a statewide lender, which is expected to dramatically drive down the costs of lending, since local organizations will not have to underwrite and service the loans. This should create an efficient delivery system for distributing capital. The statewide loan fund just began operation in April 2007, so outcomes are still largely unknown.

C. Best Practices in Developing Entrepreneurial Communities and Systems

Successful microenterprise programs do not operate in a vacuum but are part of a broader community of supports. From the research, interviews and surveys, a recurring theme in Iowa was the lack of a coordinated approach to creating a pipeline of entrepreneurs and enhancing business services for entrepreneurs.

While local champions and leaders are needed to develop successful programs, there also are best practices in fostering overall community support for entrepreneurial activities. In recent years, there has been a great deal of research³⁴ and emerging practice in creating a system that methodically develops entrepreneurial talent, creates successful companies and builds

³⁴ Gregg Lichtenstein and Thomas Lyons, *Managing the Community's Pipeline of Entrepreneurs and Enterprises: A New Way of Thinking About Business Assets*, ECONOMIC DEVELOPMENT QUARTERLY, Vol. 20 No. 4, November 2006 377-386 © 2006 Sage Publications

entrepreneurial communities. Ideally, an entrepreneurial development system is designed to help entrepreneurs get the help and support they need – regardless of their levels of development.³⁵ The best practices that have emerged include: (1) inventorying and developing entrepreneurship education and training at both the youth and adult education levels; (2) developing community networks of support, mentoring, and financial assistance; and (3) simply fostering a culture that recognizes and values entrepreneurship.

It is beyond the scope of this study to provide an analysis of successful practices and recommendations on entrepreneurial development systems generally. Microenterprise development is just one component of the small business development continuum.

Profile of Successful Practice. The following program is exemplary in fostering entrepreneurial communities.

Hometown Competitiveness: Nebraska Heartland Center for Leadership Development. **Hometown Competitiveness** is a project of the Heartland Center for Leadership Development, the Nebraska Community Foundation, and the Center for Rural Entrepreneurship. These partner organizations have developed a comprehensive approach to encourage communities to take action in four strategic areas—leadership, youth, entrepreneurship and charitable assets.

- **Leadership development:** to strengthen the capacity of residents to improve and sustain their community.
- **Youth development:** to support and enhance the idea of adults and youth working together to create opportunities for youth to stay in or return to the community.
- **Developing charitable assets:** to strengthen and sustain charitable giving at the local level in order to build an endowment that will sustain local civic institutions and create a new source of opportunity capital for community economic development efforts.
- **Entrepreneurial development:** to identify and assess entrepreneurial talent in the community and to devise an economic development strategy to increase entrepreneurial business development.³⁶

Under the HTC model, participating communities establish a steering committee of volunteers to direct and organize the plans for the community. Individual task forces are established for each of the development areas and determine their goals and implement strategies to achieve them. HTC has received national recognition for its model, including selection as one of six finalists funded by the Kellogg Foundation to receive \$2 million to develop an Entrepreneurship Development Systems in the region.

³⁵ <http://www.cfed.org/focus.m?parentid=2&siteid=601&id=678> (accessed November 13, 2007)

³⁶ <http://www.htccommunity.org/about> (accessed on November 13, 2007)

The HTC model is operating in numerous communities across Nebraska. In Valley County, a number of key accomplishments have been achieved, including above state-average increases in population (stemming a 75-year decline), sales tax receipts (20%); personal income (20%), and per capita income (21%). Endowments within the Valley County Community Foundation now exceed \$7 million including actual gifts and permanent pledges.³⁷

HTC appears to be a comprehensive approach to long-term rural community sustainability and merits attention by policymakers in Iowa.

D. Best Practices in Using Technology to Support Entrepreneurial Development

Finally, states can also take leadership in developing resource centers on microenterprise-related activities and the diffusion of innovation. In addition to efforts to support the overall field of microenterprise development, some states and universities have taken a lead in focusing upon specific areas of potential business growth and development that lend themselves to a microenterprise approach (particularly around agricultural, environmental, and energy-related businesses). Many of these are based on the recognition that economies of scale for some businesses often favor very localized enterprises.³⁸

Established in 1976, the National Center for Appropriate Technology has been serving economically disadvantaged people by providing information and access to appropriate technologies. NCAT projects have ranged from low-tech to high-tech, addressing complex issues of housing, economics, and environmental quality (including weatherizing houses, training farmers, monitoring energy use, demonstrating renewable energy technology, testing new products and providing information on building construction, and supporting invention and adaptation in agricultural production). Initially, NCAT supported regional and state centers. Although these were not funded on a continuous basis, some states and state universities have established their own Appropriate Technology centers to serve as a locus for supporting such technology transfer, which often spawns microenterprises.

For instance, Appalachia State University has a Center for Appropriate Technology, while the North Carolina State University has a Solar Center that focuses specifically on appropriate technology around renewable energy.

States and their university and community college systems can play a key role in technology transfer, both in providing information to local entrepreneurs regarding such businesses and in identifying and supporting inventor entrepreneurs in their own work. Many technologies (e.g. corn cob gasification, solar grain drying, recalibration of farm machinery to run on small-scale ethanol production) are labor-intensive and lend themselves to very local businesses and microentrepreneurship – but require an infrastructure for effective diffusion from community-to-community.

³⁷ <http://www.htccommunity.org/files/SitePR2007.pdf> (accessed November 12, 2007).

³⁸ Schumacher, E.F. (1999) *Small is Beautiful, Economics as if People Mattered, 25 Years Later... with Commentaries*. United States: Hartley and Marks Publishers. Sale, K. (2007) *Human Scale*.

Creating a locus at the state level supporting such innovation, practice, and its diffusion represents another role that state government can play in microenterprise development. This represents a particularly good fit with the state's emphasis upon achieving energy independence and making Iowa the energy capital of the country. Some microenterprises could involve overall energy production (through wind, biomass, and other renewable resources) within Iowa that is then exported to other states. Some also can involve technologies for local production and local energy conservation and preservation that are diffused throughout Iowa communities (sometimes through microenterprises) and build local energy self-reliance.

8. Policy Options for Statewide Strategies to Strengthen Microenterprise Development.

Today, there is tremendous local interest from the public and private sector in supporting microenterprise development in Iowa, with many **promising** efforts underway. These efforts generally are limited in geographic scope or focus, however, and there is no overall state network supporting this work, including a coherent framework and common measurements of success. Faced with tremendous opportunities for growth in this sector, **Iowa should incorporate microenterprise development as an explicit component of its economic development strategy and take a more proactive role in supporting community efforts and initiatives to foster microenterprise development.** A strategic approach in Iowa should focus on people, places, and sectors.

- **People:** National studies show that the entrepreneurs in the next decade will be much more diverse than their predecessors in age, origin and gender. This includes baby boomers, the “Generation Y” or “Digital Generation,” women, and immigrants.³⁹ A state microenterprise development strategy should recognize and support women, mature citizens, people with limited incomes, New Iowans and other minority populations that see entrepreneurship as a means to support their families and contribute to their communities – and that perceive Iowa as a good place to start and grow a business.

Also, experts note the rise of “personal businesses.” Personal businesses – one person businesses with no employees – make up over 70% of the nation's businesses, and almost one million new businesses without payrolls were added in 2004 (the latest available Census data). These include contract workers and social entrepreneurs, and they will increase in number over the next decade. The factors that drive the increase in personal businesses come from many economic, social, and technological changes. Self-employment has become a viable option for individuals affected by downsizing and layoffs, as well as for families needing to balance childcare or care for aging parents. Also, the rise of the Internet has created myriad opportunities for the creation of personal businesses.⁴⁰

³⁹ *Intuit Future of Small Business Report: Demographic Trends and Small Business*, Institute for the Future for Inuit, January 2007, p. 2.

⁴⁰ *Ibid.* p. 10.

- **Places:** A state microenterprise strategy can help support distressed rural communities and inner city neighborhoods working to increase economic opportunities, revitalize downtown commercial districts, and create local businesses. Community leaders in larger cities like Waterloo, Marshalltown, and Mt. Pleasant, as well as smaller communities like Denison and Red Oak, are actively creating a climate to support entrepreneurs. Efforts by the Community Vitality Center (CVC) and MyEntreNet demonstrate how civic leaders, business owners, and community-based organization can work together to encourage and support entrepreneurs.
- **Sectors:** Iowa, with its strong agricultural-based industries, is well-positioned to capture micro and small business development opportunities in a number of areas, including: (a) *green business development*, ranging from renewable energy and bio-gas technologies, to green building materials to local food markets and sustainable agricultural practices; (b) *agri-tourism*, including visiting a working farm or any agricultural, horticultural, or agribusiness operation to provide easy and inexpensive education and entertainment experiences for all ages;⁴¹ and (c) the *creative economy*, including science and technology, art and design, culture and entertainment, and the knowledge-based professions. In this sector, creative talent is the fundamental factor of production. Communities that can produce and mobilize their own creative workers, and attract creative talent from outside will thrive. Iowa has a growing immigrant population that can enhance access to diverse cultural and ethnic experiences, many provided through small businesses. Again, this builds upon the creativity of Iowans, both new and old.

In terms of specific options for the state of Iowa to support microenterprise development, state policies should adhere to the following guiding principles:

- **Locally-championed:** Efforts to support microenterprise development in Iowa should be driven by local organizations that understand the needs of their communities and who are willing to develop collaborations to encourage and support entrepreneurs. Iowa should seek out and support champions at the local level to develop microenterprise opportunities within their communities.
- **State-supported:** The state can play a critical role in supporting these local champions, through creating a microenterprise network where they can share experiences and support one another, and through developing regional or statewide structures, where needed, for managing some aspects of microenterprise development, including finance capital. Some microenterprise activities have economies of scale that lend themselves to a broader state operation.
- **Performance-based and outcome-driven:** Microenterprise development activities must be held to strict performance standards and measured in terms of hard impacts by such measures as jobs created, business starts and expansions, business survival rates, increases in household and business income, sales, and low loan default rates, among other things. Again, a strong state network can work to develop those standards,

⁴¹ Wine tasting, farm tours, country bed and breakfast, corn mazes, hay rides, U-Pick farms, and even farm stands are all examples of agri-tourism.

coupled with the tools and supports that enable local champions to build programs that achieve them.

- **Public-private partnerships:** State and local investments should leverage private sector support, and local activities need to be grounded in collaborations among a diverse group of community stakeholders.
- **Coordination with existing efforts:** New microenterprise programs should take advantage of existing programs, both at the state and local level, and coordinate efforts for maximum impact and effectiveness.

The following are five specific state policy options to further microenterprise development in Iowa.

Policy Option #1: Create an Iowa Emerging Entrepreneurs and Very Small Business Program

Many local community-based organizations lack funding for specialized training and technical assistance services, especially to underserved populations. As stated above, low-income, immigrant, and other economically disadvantaged entrepreneurs need business consulting and coaching to help them stabilize their businesses and position them for growth. Such assistance is especially critical for small business lenders who make high-risk loans and need resources to work with borrowers to assure they are wisely investing the money in their businesses. Such assistance is critical for entrepreneurs seeking to develop businesses in promising areas such as renewable energy, alternative agriculture, and agri-tourism.

Iowa should create and fund a program within the Iowa Department of Economic Development (IDED) to support community-based nonprofits that provide business training and technical assistance to emerging and very small business owners. A program funded at \$1 million dollars could provide matching grants of up to \$75,000 under a competitive Request for Proposals (RFP) process to support local champions in developing or expanding microenterprise programs. An initial capitalization of the program should be at least at the \$1 million level, in addition to administrative support.

Eligible uses of the funds could include efforts such as: (1) expansion of staff for program delivery and management; (2) acquisition of computer hardware, software, and technology skills to better assess and track client outcomes, and evaluate and report progress and program outcomes; (3) professional development for trainers and business consultants; and (4) development of outreach materials to communicate with special populations.

Recipient organizations should be required to provide a 25% match towards the project as a sign of commitment to the project. Such an approach builds upon other successful Iowa programs, like Vision Iowa and the Grow Iowa Values Fund. It is anticipated that the sources of the local match could include financial institutions, rural electric cooperatives and investor-owned utilities, civic groups, chambers of commerce, and community foundations, among others. Local applicants should be encouraged to partner with “non-traditional” organizations that could help recruit participants, market the programs, and provide related services. These could include

community action agencies, trade schools, and Community Supported Agriculture (CSA) organizations, among others.

Policy Option #2: Create a Statewide Microloan Intermediary

Iowa does not have a network of community-based small business development organizations that provide microloans. It would be prohibitively expensive to create or augment small loan pools at the local level across the state, hire and train staff, and develop the systems to originate, package, underwrite and service these small loans locally. In Nebraska and Oregon, state policymakers determined that a financial intermediary would be the most cost-effective and efficient mechanism for aggregating and disseminating public and private capital to non-traditional borrowers and underserved communities. This model has been well received in those states by financial institutions to meet their community reinvestment goals and to increase small business activity in the state.

Iowa, in partnership with Iowa financial institutions, should seed the creation of a nonprofit state microloan intermediary organization dedicated to supporting practitioners that assist emerging entrepreneurs and very small businesses. The mission of the proposed Iowa Fund for Community Enterprise (IFCE) would be to increase entrepreneurship in Iowa through providing capital to aspiring and emerging entrepreneurs and to build the capacity of community-based organizations to encourage and support entrepreneurial activities.

IFCE should be structured as a community development financial institution (CDFI) to be eligible for funding from the U.S. Department of Treasury, as well as funding from the U.S. Small Business Administration, the U.S. Department of Agriculture – Rural Development, the U.S. Department of Housing and Urban Development (HUD), and financial institutions. IFCE should also work with local revolving loan funds to leverage their unused capital for microloans.

Under a “*hub and spoke*” model, the organization would work with chambers of commerce, Small Business Development Centers, professional economic developers, Main Street organizations, community action agencies, ISU extension agents, financial institutions, and other organizations who work with small business, to “build a pipeline” for microloans. With support from IFCE, these organizations would provide the essential business training for entrepreneurs, market and originate loans, and then provide post-loan counseling and technical assistance. The underwriting, servicing, collections and reporting functions would be handled by IFCE, which would dramatically reduce the costs of making these loans. Professionals would manage the intermediary with expertise in microlending and entrepreneurial training and related supports.

The organization would have three primary functions: (1) serve as a financial intermediary to mobilize, allocate, leverage and link local, state and national resources with community-based organizations that provide financial and technical assistance to local businesses; (2) build the skills of local practitioners to work with underserved entrepreneurs and disseminate successful industry practices; and (3) conduct advocacy and public education on behalf of the sector.

Specifically, the Iowa Fund for Community Enterprise (IFCE) should have the following core responsibilities:

- **Institutional Capacity-Building:** IFCE will serve as the industry consultant to local organizations and build their skills in business counseling, training and lending. The organization will disseminate successful practices and help members strengthen their programs or develop new initiatives to increase the profitability and survivability of their customers. This will be accomplished through the provision of workshops, online training, individual consulting and publications. The goal is to level the playing field in terms of the best approaches and methods to build strong small businesses – regardless of where the business is located.
- **Financial Intermediary:** IFCE will raise funds from public and private sources and then award grants to local programs through an annual “request for proposal” process. For example, the state could contract with IFCE to administer the proposed Iowa Emerging Entrepreneurs and Very Small Business Program and re-grant program awards to local organizations that provide training and technical assistance to small businesses.
- **Performance Standards, Centralized Data Collection and Reporting:** Using national industry standards, IFCE will establish basic performance metrics for nonprofit providers and develop an online data collection and client tracking system. The organization will help local organizations raise funds to modify or purchase management information systems and train them in data collection and reporting. IFCE will gather data from organizations on a quarterly basis and provide a yearly report to the General Assembly and the Governor on activities. The outcome will be to document the performance of these organizations and the impact of the businesses on Iowa’s economy. Through the collection of aggregate data, IFCE will be able to document the costs per client, cost per business start, stabilization or expansion, and cost per job created or retained, among other outcome measures.
- **Private Sector Partnerships:** IFCE will use its position to develop and leverage partnerships with the private sector to take advantage of expertise and resources to help local organizations to build strong businesses.
- **Information Clearinghouse:** IFCE will be the central source of information on program funding, research, resources, and partnerships.
- **Advocacy:** IFCE will lead and coordinate advocacy on a federal, state, and local level.

The loan fund initially should seek capitalization of \$1 million through a consortium of Iowa banks. IFCE can then leverage other funds from the federal government and other sources. The state of Iowa should provide the seed funding for loan fund operations, capacity-building for local organizations, administering grant funds, and data collection and reporting. In addition, this will require skilled and dedicated staffing at the state level. While this can be a lean

organizational structure, there is need for funding for the infrastructure that goes along with the loan fund itself.

Policy Option #3: Support Current Efforts Designed to Create Entrepreneurial Communities in Iowa

The Community Vitality Center (CVC) at Iowa State University and the MyEntreNet Program offered by the University of Northern Iowa are emerging comprehensive approaches to long-term rural community sustainability. Both draw from the Heartland Center for Leadership Development model, which is receiving national attention for renewing small towns across Nebraska. Iowa should explore the feasibility of expanding both these efforts as part of a comprehensive approach to supporting entrepreneurial development in Iowa.

For example, the technology platform developed by MyEntreNet could be a key component of the proposed delivery system for microenterprise training and technical assistance supported by the Iowa Fund for Community Enterprise. Similarly, the small grants provided by the federally funded ISU Community Vitality Center to support local enterprise development strategies could augment the program awards to communities under the Iowa Emerging Entrepreneurs and Very Small Business Program. Both efforts could also play a strategic role in building a pipeline for borrowers under a centralized microloan program.

Policy Option #4: Create a Microenterprise and Small Business Innovation Office to Showcase Successful Microenterprises and Promote Their Further Diffusion.

Sometimes called “technology transfer” or “diffusion of innovation,” new business ideas often are most effectively further developed through new entrepreneurs taking and adapting them. Many microenterprises do not lend themselves to expansion into large business entities, but do lend themselves to growth through fostering new microentrepreneurs within other communities. There are particular opportunities in some areas, such as green enterprises, that rely upon reducing energy costs (including those associated with transportation) and creating very local economies.

Enacting the first three options will create the potential for identifying microenterprise innovations that deserve to be expanded to other communities. Iowa should establish a Microenterprise and Small Business Innovation Office, with specific marketing and communications staff, to promote this diffusion and technology transfer and strengthen and expand the work already being done in Iowa on microenterprise development. Such highlighting and marketing of innovative practices also provide incentives for new local champions to emerge to develop community microenterprise programs and activities.

Policy Option #5: Create a Governor’s Task Force on Establishing Regional Entrepreneurial Development Systems in Iowa

To create viable urban and rural economies, Iowa needs a coordinated infrastructure of public and private supports that facilitate entrepreneurship of all types Iowa should establish a task

force (or commission) to identify options to develop a systems approach to entrepreneurship development in Iowa.

The goal is to create a culture and environment that supports entrepreneurs and coordinates entrepreneurial activities from microenterprises to small business to larger entrepreneurial ventures. According to research conducted by the Corporation for Enterprise Development, an effective entrepreneurship development system (EDS) “integrates a wide range of programs and tailors products and services to meet the diverse needs of entrepreneurs. It should be comprehensive, flexible, culturally sensitive, and integrated, and should require providers to collaborate rather than operate independently or in isolation.”⁴² The Task Force would research emerging models for entrepreneurial development systems and call upon the expertise of industry leaders to craft an appropriate strategy at both a regional and state level.

⁴²Brian Dabson, *Fostering Entrepreneurship Development Systems In Rural America - First Review of the Results of the Request for Proposals Report to the W.K. Kellogg Foundation*, CFED and the Rural Policy Research Institute, January 25, 2005, p. 3

Appendix A

Interview Protocol: Conversations with Iowa Leaders About Microenterprise Development

Introduction

The purpose of these interviews is to obtain information on different organizations' current work that relates to micro-enterprise development and those organizations' interest in participating in developing Iowa's micro-enterprise support system. Micro-enterprises often have served as avenues to self-sufficiency for low-income families and within low-income neighborhoods or communities.

We are defining microenterprise as a business that starts with a capital investment of \$35,000 or less and usually involves a single individual establishing his or her own business, often out of their own home.

We are defining micro-enterprise development activities as those that do any of the following: (1) provide an orientation to starting a micro-enterprise and give guidance to micro-entrepreneurs in developing business plans and operating start-up ventures; (2) providing unsecured "micro-loans" in the \$1,000 to \$30,000 range for micro-enterprise start-ups; and/or (3) ongoing technical assistance, coaching, or mentoring a micro-entrepreneur who has started a business.

Interview Questions:

1. First, we want to know what your organization is doing to support economic development, particularly in the small business area, and how you would characterize your customers for that work. What specific challenges or needs are facing the small business customers you serve? What challenges do you encounter in meeting those needs?
2. How do you see microenterprise as fitting into your current work?
3. How often do you come into contact with people who are interested in starting their own businesses at the microenterprise level? What about special populations such as women, individuals with special needs, immigrants, low-income, etc.
4. What, specifically, do you see as available, through your organization, organizations with which you work and routinely refer, and through other local initiatives that is available to micro-entrepreneurs in providing an orientation to and training in developing business plans and starting a business?
5. What, specifically, do you see as available, through your organization or through organizations with which you work and routinely refer, that is available to provide "micro-loans" to micro-entrepreneurs?

6. What, specifically, do you see as available, through your organization or through organizations with which you work and routinely refer, that is available for ongoing coaching, technical assistance, and mentoring of micro-entrepreneurs?
7. What “gaps,” if any, do you see as existing in fostering economic development in the state for business start-ups, including but not limited to micro-enterprises?
8. What potential benefits do you see for the community and the state in strengthening micro-enterprise development in Iowa?
9. What particular role do you think your organization would want to or could play in supporting micro-entrepreneurs and micro-enterprise development in Iowa? What recommendations do you have for potential state roles in micro-enterprise development?
10. What additional information would you like to have about micro-enterprise development and strategies that might strengthen micro-enterprise development?
11. Would your organization be willing/interested in participating in further discussions of micro-enterprise development in Iowa?
12. Who in your organization, and who in other organizations or within your community, should we be involving as we continue to explore micro-enterprise development in Iowa?

On a scale from 1 (least effective) to 5 (most effective) how effective is your organization at meeting the needs of microentrepreneurs _____. Using the same scale, please identify and rate the organizations with which you routinely refer below:

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Appendix B

List of Interviewed Iowa Leaders

Mark Anderson, Barnabus Uplift

Ted Bair, Small Business Development Center, North Iowa Area Community College

Robert Bauman, Homeward, Inc.

Debra Bishop, John Pappajohn Entrepreneurial Center, Drake University

Elisabeth Buck, Iowa Workforce Development

Max Cardenas, Emerging Markets Consultant

Roxanne Carisch, Calhoun County REC

Debra Carr, Institute for Social and Economic Development, ISED Ventures

Steve Carter, John Pappajohn Entrepreneurial Center, Iowa State University

Cyndi Chen, Iowa Department of Human Rights – Status on the Commission of Iowans of Asian and Pacific Islander Heritage

Maureen Collins-Williams, Small Business Development Center, University of Northern Iowa

Martin Dougherty, Economic Development Department, City of Sioux City

Mark Edelman, Iowa State University Community Vitality Center

Sandy Ehrig, Renew Rural Iowa/Iowa Farm Bureau Federation

Hugh Espey, Iowa Citizens for Community Improvement

Rand Fisher, Bruce Nuzum, Iowa Area Development Group

Cornelia Flora, Iowa State University, North Central Regional Center for Rural Development

Joseph Folsom, US Small Business Administration

Wendy Ford, Department of Planning and Community Development, City of Iowa City

Sandi Fowler, Department of Development, City of Cedar Rapids

Lisa Glover, Community Development and Fair Lending, US Bank

Thom Guzman, Iowa Department of Economic Development, Downtown Resource Center

Andrea Hauer, Department of Economic Development, City of Des Moines

Bob Haug, Iowa Association of Municipal Utilities

Patricia Heagel, Community Development Department, City of Sioux City

Paul Heath, Small Business Development Center, University of Iowa

Donald Hole, Iowa Independent Bankers

Debra Houghtaling, Grow Iowa Foundation

Larry Hulse, Department of Community Development, City of Des Moines

Lynn John, John Pappajohn Entrepreneurial Center, University of Iowa
Patrick Jury, Iowa Credit Union League
Kathryn Kunert, Mid-American Energy
Patti Lind, The Abilities Fund
Steve Long, Department of Planning and Community Development, City of Iowa City
Donna Lowery, Iowa Department of Economic Development, Targeted Small Business Program
Bob Mulqueen, Erin Andrew, Office of the Governor
Steve Ovel, Kirkwood Community College
Dave Palmer, Iowa Association of Community College Presidents/Trustees
Lars Peterson, Iowa Small Business development Centers
Rich Pirog, Leopold Center for Sustainable Agriculture
Randy Pilkington, John Pappajohn Entrepreneurial Center, University Northern Iowa
Helena Poist, Small Business development Center, Iowa State university
Diane Ramsey, Alliant Energy
Walter Reed, Iowa Department of Human Rights
Mark Reisinger, US Department of Agriculture, Rural Development
Dan Robeson, Iowa Business Growth
David Roederer, Iowa Chamber Alliance
Lana Ross, Iowa Community Action Association
Mike Ryan, Corporation for Economic Development, Des Moines
Tom Slater, Jennifer Furler, State Public Policy Group
Elliott Smith, Iowa Business Council
John Sorensen, Iowa Bankers Association
Mike Tramontina, Iowa Department of Economic Development
Jamie Zanios, John Pappajohn Entrepreneurial Center, North Iowa Area Community College

Appendix C. Survey Questionnaire

1. Introduction

Small businesses represent the backbone of Iowa's economy, with over 80% of all businesses employing one to five Iowans. However, starting up and growing a small business can be a challenge. Through funding from the Department of Economic Development and the Northwest Area Foundation, the Child and Family Policy Center and Women Entrepreneurs of Baltimore, Inc., are conducting an environmental scan of efforts to support "microenterprises" (businesses needing \$35,000 or less in capital start-up and fewer than five employees).

We invite you to complete this short survey by September 30th, to share your knowledge and expertise on microenterprise activities in your community and your interest in supporting microenterprises. Thank you.

2. Iowa Microenterprise Survey

How would you rate the following statements regarding your community with respect to microenterprise activities:

1. There is training and technical assistance for people who want to start or expand a microenterprise

Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

2. Persons wanting to start a microenterprise that may not meet conventional lending criteria can secure funding under \$35,000 for their start-up ventures.

Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

3. My community has leaders and programs that have a lot of experience in supporting microenterprise development.

Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

4. My community has leaders and potential entrepreneurs who are interested in learning more about and encouraging microenterprise activities.

Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

5. There are strong efforts in my community to encourage and support low-income individuals to start or expand microenterprises.

Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

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6. The state government provides leadership and support to communities in developing programs that support microenterprise development.

- Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

7. The federal government provides leadership and support to communities in developing programs that support microenterprise development.

- Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

8. Communities have access to information on effective ways they can encourage and support microenterprise development.

- Strongly agree Somewhat agree Neither agree nor disagree Disagree Strongly disagree

9. What is the typical size of the businesses you work with?

- 0-5 6-9 10-19 20-49 50-99 100-499 More than 500

10. What are the typical capital needs of the businesses you work with?

- \$0-35,000 \$35,001-\$100,000 More than \$100,000

11. Rank order in terms of difficulty the challenges you encounter in meeting the needs of the small business clients you serve. (1 - greatest challenge to 5 - least challenging)

	1	2	3	4	5
Adequate Organizational Staff	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Expertise	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Funding	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Supportive resources	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Referral Organizations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other (please specify)	<input type="text"/>				

Appendix C

12. What "gaps," if any, do you see as existing in fostering entrepreneurial development in the state for microenterprises?

- Technical assistance or business training
- Access to capital (less than \$35,000)
- Health Insurance for self employed
- Mentoring and Coaching
- Entrepreneurial networks
- Technology resources
- Community resources to sustain microenterprise development
- Other

Other (please specify)

13. How would you rate the following statements about your own organization and its work on microenterprise development.

	Strongly Agree	Somewhat Agree	Agree	Somewhat Disagree	Strongly Disagree
My organization is interested in participating in a collaboration within the community to develop strategies to promote microenterprise development.	<input type="radio"/>				
My organization is interested in leading or facilitating the organization of a leadership group to strengthen efforts in the community to develop microenterprise activities.	<input checked="" type="radio"/>				
My organization would consider matching state funds with local funds or identifying other matching funds to create an infrastructure for microenterprise development in our community.	<input type="radio"/>				

14. In what ways has your organization contributed to microenterprise development?

Appendix C

15. Are there specific topics, roles, or sectors that you believe your organization could contribute to microenterprise development?

16. Please provide any specific recommendations you would make to the state regarding its role in supporting microenterprise development.

17. Would you like to receive a copy of the completed microenterprise environmental scan that will make use of the information from this survey?

Yes

No

18. Would you be interested in participating in further discussions in the state on microenterprise development?

Yes

No

19. If you answered yes to either of the last two questions, please provide your email address, for follow-up purposes:

Appendix D. Survey Questionnaire Results

SBDC = Small Business Development Centers
PDI = Professional Developers of Iowa
ICCE = Iowa Chamber of Commerce Executives

CAA = Community Action Agencies
ISU Ext = Iowa State University Extension

Q1 There is training and technical assistance for people who want to start or expand a microenterprise

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	3	1	13	5	0	22	15.3%
Somewhat Agree	3	4	38	17	11	73	50.7%
Neither A or D	1	2	2	4	5	14	9.7%
Disagree	0	1	12	4	11	28	19.4%
Strongly Disagree	0	1	4	2	0	7	4.9%
Total Responses	7	9	69	32	27	144	100.0%

Q2 Persons wanting to start a microenterprise that may not meet conventional lending criteria can secure funding under \$35,000 for their start-up ventures

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	1	0	7	2	0	10	6.9%
Somewhat Agree	2	0	14	8	6	30	20.8%
Neither A or D	0	1	9	6	9	25	17.4%
Disagree	3	4	30	12	10	59	41.0%
Strongly Disagree	1	4	9	4	2	20	13.9%
Total Responses	7	9	69	32	27	144	100.0%

Q3 My community has leaders and programs that have a lot of experience in supporting microenterprise development

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	2	0	12	5	1	20	14.1%
Somewhat Agree	3	2	19	10	6	40	28.2%
Neither A or D	1	2	12	3	2	20	14.1%
Disagree	1	3	19	12	17	52	36.6%
Strongly Disagree	0	2	5	2	1	10	7.0%
Total Responses	7	9	67	32	27	142	100.0%

Q4 My community has leaders and potential entrepreneurs who are interested in learning more about and encouraging microenterprise activities

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	2	3	27	15	8	55	38.2%
Somewhat Agree	1	3	35	11	14	64	44.4%
Neither A or D	2	2	5	4	4	17	11.8%
Disagree	1	0	2	2	1	6	4.2%
Strongly Disagree	1	1	0	0	0	2	1.4%
Total Responses	7	9	69	32	27	144	100.0%

Q5 There are strong efforts in my community to encourage and support low-income individuals to start or expand microenterprises

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	0	1	2	1	0	4	2.8%
Somewhat Agree	2	1	13	8	2	26	18.4%
Neither A or D	3	2	19	6	5	35	24.8%
Disagree	1	3	30	14	14	62	44.0%
Strongly Disagree	1	2	5	3	3	14	9.9%
Total Responses	7	9	69	32	24	141	100.0%

Q6 The state government provides leadership and support to communities in developing programs that support microenterprise development

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	0	0	1	0	0	1	0.7%
Somewhat Agree	0	2	11	12	3	28	19.7%
Neither A or D	1	2	13	6	10	32	22.5%
Disagree	3	3	33	10	12	61	43.0%
Strongly Disagree	3	2	10	4	1	20	14.1%
Total Responses	7	9	68	32	26	142	100.0%

Q7 The federal government provides leadership and support to communicate in developing programs that support microenterprise development

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	0	0	2	0	0	2	1.4%
Somewhat Agree	1	2	13	7	6	29	20.4%
Neither A or D	0	2	18	9	11	40	28.2%
Disagree	4	3	27	13	8	55	38.7%
Strongly Disagree	2	2	9	2	1	16	11.3%
Total Responses	7	9	69	31	26	142	100.0%

Q8 Communities have access to information on effective ways they can encourage and support microenterprise development

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Strongly Agree	0	0	3	1	0	4	2.8%
Somewhat Agree	2	2	26	12	10	52	36.6%
Neither A or D	1	4	14	6	7	32	22.5%
Disagree	2	1	23	11	9	46	32.4%
Strongly Disagree	2	2	2	1	1	8	5.6%
Total Responses	7	9	68	31	27	142	100.0%

Q9 What is the typical size of the businesses you work with

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
0-5	4		13	13	14	44	33.8%
6-9	2		10	8	7	27	20.8%
10-19	0		9	6	4	19	14.6%
20-49	1		14	1	0	16	12.3%
50-99	0		13	2	0	15	11.5%
100-499	0		6	1	2	9	6.9%
More than 500	0		0	0	0	0	0.0%
Total Responses	7		65	31	27	130	100.0%

Q10 What are the typical capital needs of the businesses you work with

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
\$0-35,000	1		9	5	6	21	16.4%
\$35,001-100,000	3		26	19	15	63	49.2%
More than \$100,000	3		30	6	5	44	34.4%
Total Responses	7		65	30	26	128	100.0%

Q11 Rank order in terms of difficulty the challenges you encounter in meeting the needs of the small business clients you serve (1=greatest to 5=least challenging)

Adequate organizational staff:

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
Greatest Challenge 1	3		21	5	5	34	25.4%
2	2		19	7	9	37	27.6%
3	2		13	8	6	29	21.6%
4	0		10	6	3	19	14.2%
Least Challenging 5	0		6	5	4	15	11.2%
Total Responses	7		69	31	27	134	100.0%

Business Expertise:	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
Greatest Challenge 1	0		10	7	9	26	19.4%
2	2		19	8	8	37	27.6%
3	3		20	8	4	35	26.1%
4	1		9	5	4	19	14.2%
Least Challenging 5	1		11	3	2	17	12.7%
Total Responses	7		69	31	27	134	100.0%

Funding:	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
Greatest Challenge 1	4		46	20	12	82	61.2%
2	2		15	7	10	34	25.4%
3	1		3	3	3	10	7.5%
4	0		5	1	2	8	6.0%
Least Challenging 5	0		0	0	0	0	0.0%
Total Responses	7		69	31	27	134	100.0%

Supportive resources:	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
Greatest Challenge 1	1		10	8	4	23	17.8%
2	3		25	8	10	46	35.7%
3	3		13	10	6	32	24.8%
4	0		17	5	2	24	18.6%
Least Challenging 5	0		1	0	3	4	3.1%
Total Responses	7		66	31	25	129	100.0%

Referral Organizations:	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
	N/A						
Greatest Challenge 1	0		8	4	2	14	10.7%
2	1		17	6	6	30	22.9%
3	4		19	3	7	33	25.2%
4	2		9	12	7	30	22.9%
Least Challenging 5	0		15	6	3	24	18.3%
Total Responses	7		68	31	25	131	100.0%

Other (open-ended):

Greatest Challenge (1) - Least Challenging (5)

SBDC: NONE

CAA: NOT ASKED

PDI: (1) The inflexibility of accessing state resources for a viable, grassroots developed design for regional implementation of technical assistance to these micros

(1) training for micro-business development

(1) Funding to hire resources to reach out and teach community leaders to help change the community culture

(1) Funding request fall below "minimum" established for existing programs. Also start-up credit issues

(2) Are afraid to ask for resources and admit they need assistance and encouragement.

ICCE: (1) Skills and experience running a business

(1) Need qualified counselors for small business start-up and retention classes

ISU Extension: (2) marketing

(5) I think marketing is very important for the Extension services as well as small businesses. How do we reach these clients in a timely fashion.

Q12 What "gaps", if any, do you see as existing in fostering entrepreneurial development in the state for microenterprises (can choose more than one)

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Technical assistance or business training	2	7	27	13	16	65	35.5%
Access to capital (less than \$35,000)	6	9	60	23	20	118	64.5%
Health Insurance for self employed	6	9	48	23	17	103	56.3%
Mentoring and Coaching	4	5	30	12	19	70	38.3%
Entrepreneurial networks	3	7	29	13	13	65	35.5%
Technology resources	1	5	19	7	10	42	23.0%
Community resources to sustain microenterprise development	4	6	48	22	19	99	54.1%
Total Responses	7	9	68	31	27	142	77.6%

Q13 Thrown Out; Q14 - Q 17 Open-ended

Q18 Would you like to receive a copy of the completed microenterprise environmental scan that will make use of the information from this survey

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Yes	6	5	48	25	18	102	
No	1	3	11	5	8	28	
Total Responses	7	8	59	30	26	130	

Q19 Would you be interested in participating in further discussions in the state on microenterprise development

	SBDC	CAA	PDI	ICCE	ISU Ext.	Total	
Yes	6	4	46	24	17	97	77.0%
No	1	4	12	5	7	29	23.0%
Total Responses	7	8	58	29	24	126	100.0%

About the Report

This report is a joint effort of the Child and Family Policy Center and Women Entrepreneurs of Baltimore, Inc. Additional copies of the full report or the executive summary are available through the Child and Family Policy Center. The report was funded by the Iowa Department of Economic Development and the Northwest Area Foundation, but all views and opinions expressed are those of the authors and not necessarily the funding organizations.

Jason Friedman, Charles Bruner, Tiffany Smith, and Abby Copeman conducted the research, interviews, and surveys and drafted the report. The Child and Family Policy Center is a multi-issue research and advocacy organization on child and family issues located in Des Moines, Iowa. Women Entrepreneurs of Baltimore, Inc. is a nonprofit organization that provides entrepreneurial training, technical assistance, and follow-up services for microbusiness start-up and development in the Baltimore metropolitan area. WEB's Consulting Services Division helps microenterprise programs across the country to increase effectiveness, performance and sustainability.

Charles Bruner, Tiffany Smith, and Abby Copeman
Child and Family Policy Center
1021 Fleming Building, 218 6th Avenue
Des Moines, IA 50319
phone: 515-280-9027
www.cfpciowa.org



Jason Friedman, Director of Consulting Services
Women Entrepreneurs of Baltimore, Inc.
One Knollwood Lane
Iowa City, IA 52245
phone: 319-341-3556
www.webinc.org

