



CENTER *for* RURAL AFFAIRS

TARGETED INCENTIVES TO SUPPORT RURAL COMMUNITIES VIA MICROENTERPRISE

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I. INTRODUCTION

Businesses with just a handful of employees make communities feel like home. These mom-and-pop shops—many microenterprises—are a good example of the neighbors-serving-neighbors spirit found in rural areas. The small enterprises are also an important part of the rural economy, something government entities may not always recognize.

Before the global pandemic, economic experts found that if just one in three microenterprises hired a single employee, the U.S. would be at full employment, proving that prioritizing small businesses in policy solutions is critical.¹ Although microenterprises are not exclusively rural, large-scale employers operate almost entirely in densely populated areas. Large workforce facilities, which are often corporate-owned, aren't practical in rural communities because there aren't enough people to sustain them. Unfortunately, they tend to get most of the attention from lawmakers and incentive structures.

1 "The Power of One in Three: Creating Opportunities for All Americans to Bounce Back." Association for Enterprise Opportunity, 2011, [aeoworks.org/wp-content/uploads/2019/03/One_in_Three.pdf](https://www.aeoworks.org/wp-content/uploads/2019/03/One_in_Three.pdf). Accessed January 2021.

The smallest subset of businesses, microenterprises are classified by a majority of state and local programs as having five or fewer full-time equivalent employees. Businesses with 10 or fewer employees also qualify for microenterprise programs in Delaware and with U.S. Rural Development.²

II. INCENTIVE MODELS

Microenterprises often get their start in the informal economy. Incentives can tip the scale in favor of formalizing operations, which benefits the community by bringing business into the realm of taxation and protections.³ Different styles of incentives benefit businesses by facilitating growth and supporting strong business foundations for sustainable success, as well as providing a way out of poverty.

2 "Rural Microentrepreneur Assistance Program." Rural Development, U.S. Department of Agriculture, rd.usda.gov/programs-services/rural-microentrepreneur-assistance-program. Accessed January 2021.

3 "Mapping Rural Entrepreneurship." W.K. Kellogg Foundation, Corporation for Enterprise Development, August 2003, energizingentrepreneurs.org/file_download/inline/b6dba3f4-689a-4fc1-8c66-024ba4e2e54e. Accessed January 2021.

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The following are U.S. programs that support microenterprises using unique approaches depending on their goals and resources.

A. GRANT: DELAWARE

Delaware's Encouraging Development, Growth & Expansion grant program targets new microenterprises with fewer than 10 employees.⁴ The grants are designated to "expand a business' viability and sustainability, specifically through market analysis assistance, advertising assistance, building infrastructure/cosmetic enhancements, essential equipment, website design, and rent assistance for lab space." The program favors STEM—or science, technology, engineering, and mathematics—enterprises by capping the amount of capital available at double the rate of non-STEM businesses. STEM-based companies can receive up to \$100,000 for eligible expenses. Entrepreneur Class (non-STEM) businesses can get up to \$50,000. Businesses must have modest matching funds as a \$3 (state) to \$1 (business) match.⁵ Setting the match at just \$1 for every \$3 from the state allows for buy-in from businesses without a burdensome amount of required cash on hand.

B. GRANT: OHIO

The MicroEnterprise Grant Program in Montgomery County, Ohio, is designed to give established enterprises grants ranging from \$2,500 to \$25,000 to buy machinery and equipment for professional services or to make technology infrastructure and upgrades.⁶ The business must be a given applicant's primary income; home-based and second-income ventures are excluded. Businesses that have commercial locations or storefronts, have been open for more than a year, and have annual sales of less than \$500,000 qualify. Bars, nightclubs, and car dealerships do not. Emphasis is

4 "EDGE Grants, Encouraging Development, Growth & Expansion." Delaware Division of Small Business, 2020, business.delaware.gov/edge-grants. Accessed January 2021.

5 Ibid.

6 "MicroEnterprise Grant Program, Small Business Resources." Montgomery County, mcomicro.com. Accessed January 2021.

placed on socially and economically disadvantaged businesses. The application is a simple PDF that can be completed relatively quickly online, thereby lowering the barriers to entry for sole-proprietors and busy owners.

C. TECHNICAL ASSISTANCE: TEXAS

Several counties in Texas have the Microenterprise Technical Assistance Program for primary income microenterprises.⁷ Owners must work full-time in their business.

The program provides comprehensive support for businesses through community building and planning. This includes on-site visits and follow-up to learn about and evaluate their needs, help create business plans with clear descriptions of future goals and strategies to achieve them, monthly meetings with other microenterprise owners on various topics, and preparation for and access to loans through partnerships with microlending organizations, credit unions, and banks.

D. TECHNICAL ASSISTANCE: VERMONT

Vermont's Micro Business Development Program is designed to provide technical assistance targeting low-income microenterprises.⁸ The revenue cap is relatively low, at \$25,000 annually. Technical assistance includes networking with other business owners; use of the state's technology resource center; and classes and workshops on topics including writing business plans, building credit scores, record-keeping, tax planning, and setting the right price for products or services. There is also an opportunity for one-on-one business coaching with a counselor who can provide practical guidance on business ideas, as well as teaching essential skills, creating business plans, getting credit in order, applying for business funding, and developing marketing plans.

7 "Microenterprise." Project VIDA, pvida.net/microenterprise. Accessed January 2021.

8 "Micro Business Development Program (MBDP)." Vermont Agency of Human Services, Department for Children and Families, dcf.vermont.gov/benefits/MBDP. Accessed January 2021.

E. TAX CREDIT: NEBRASKA

The Nebraska Advantage Microenterprise Tax Credit Act takes a different approach. Managed by the state Department of Revenue, the strategy is to provide credit for growth to incentivize expansion.⁹ Microenterprises can earn a credit equal to 20 percent of the increase in new investment or new employment in the year of and the year after application. Total lifetime tax credits claimed by any single applicant and any related persons are limited to \$10,000. The credit is not available to farm operations with a net worth of more than \$500,000 or any business that requires a license controlled by an outside source (i.e., a realtor).

F. LOAN: MARYLAND

Maryland's Microenterprise Loan Program offers flexible financing via intermediaries.¹⁰ Loans cannot exceed \$50,000 and have five-year terms. The interest rate can go as high as 12 percent, which is quite high for the current market. Home-based businesses are not eligible. Officials say the program runs through intermediary institutions to be closer to the community and connect businesses with further opportunity in the form of education or technical assistance.

III. OTHER STRATEGIES SUPPORTING RURAL DEVELOPMENT NOT SPECIFICALLY EARMARKED FOR MICROENTERPRISES

A. TAX REFUND FOR RURAL GROWTH: MINNESOTA

Businesses outside the seven-county metro area surrounding Minneapolis and Saint Paul can benefit from the Greater MN Job Expansion

Program.¹¹ As part of the program, a business is eligible for a sales tax refund on purchases and use of tangible personal property, taxable services, and construction materials and supplies for property improvements. The maximum sales tax refund amount is substantial at \$2 million annually and \$10 million over the seven-year certification period.

Although the program is accessible to microenterprises looking to expand, some have a hard time qualifying due to several stipulations. For example, in three years, a business must increase full-time equivalent employees by two employees or 10 percent, whichever is greater. Also, compensation must be more than 120 percent of the federal poverty line for a family of four (\$31,440 per year, or \$15.11 per hour). Many microenterprises might be leery of making such a large commitment. The program does offer a simple, six-question initial assessment to help determine eligibility.¹²

B. SUBSIDIZED INTERNSHIPS: SOUTH DAKOTA

The Dakota Seeds Fund Program subsidizes STEM internships for students.¹³ The program pays for as much as half an intern's wages, with a maximum amount of \$2,000 for high school or postsecondary internships, and \$4,000 for graduate students over two consecutive units of time. The goal of the program is to foster connections and skill building close to home to help combat the exodus of youth from rural communities to cities.

9 "Microenterprise Tax Credit Act Guide." Nebraska Department of Revenue, revenue.nebraska.gov/incentives/microenterprise/tax-credit-act-guide. Accessed January 2021.

10 "Microenterprise Loan Program." Maryland Department of Housing and Community Development, dhcd.maryland.gov/Business/Pages/microenterprise.aspx. Accessed January 2021.

11 "Greater MN Job Expansion Program." Minnesota Employment and Economic Development, mn.gov/deed/business/financing-business/tax-credits/greater-mn-job-expansion. Accessed January 2021.

12 "Greater Minnesota Job Expansion Program Assessment Form." Minnesota Employment and Economic Development, March 2020, mn.gov/deed/assets/greater-mn-business-expansion-assessment-form_tcm1045-131780.pdf. Accessed January 2021.

13 "Dakota Seeds: Addressing South Dakota's Workforce Needs." South Dakota Governor's Office of Economic Development, sdgoed.com/financing-incentives/dakota-seeds. Accessed January 2021.

IV. RECOMMENDATION: MICRO IS LOCATED EVERYWHERE

Several states have specific incentives for large/major employers but nothing for microenterprises, even though they represent 92 percent of all U.S. businesses.¹⁴ Incentivizing large employers is a clear way to improve economic prosperity, but those programs exclude rural communities because they often require the creation of more than 1,000 jobs, making them only feasible in cities with workforces large enough from which to draw. In contrast, microenterprise incentive programs can be applied in metro and rural areas alike, thereby including all communities.

Illinois, for example, has the High Impact Business Program, a substantial incentive for large employers. Eligible projects must invest a minimum of \$12 million and create 500 full-time jobs, or \$30 million investment with the retention of 1,500 full-time jobs.¹⁵ Qualifying businesses not only receive generous tax incentives, they also get help with the application. Illinois does not, however, offer a program targeting small employers, leaving out communities unable to sustain eligible businesses for the High Impact Business Program.

The Association for Enterprise Opportunity (AEO) has found the major constraint limiting microbusiness growth—especially for women- and minority-owned businesses—is inadequate capital. Such businesses often have little or no collateral and no access to funds from public markets.¹⁶ The disproportionate benefit to underserved communities is yet another reason to

14 “Bigger Than You Think: The Economic Impact of Microbusiness in the United States.” Association for Enterprise Opportunity, aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-Think-Report_FINAL_AEO_11.10.13.pdf. Accessed January 2021.

15 “High Impact Business Program (HIB).” Illinois Department of Commerce & Economic Opportunity, illinois.gov/dceo/ExpandRelocate/Incentives/Pages/HighImpactBusinessProgram.aspx. Accessed January 2021.

16 “Bigger Than You Think: The Economic Impact of Microbusiness in the United States.” Association for Enterprise Opportunity, aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-Think-Report_FINAL_AEO_11.10.13.pdf. Accessed January 2021.

specifically emphasize microenterprise incentive programs.

V. RECOMMENDATION: WHEN SMALL ISN'T SMALL ENOUGH

Most states have programs for small businesses, often through the Small Business Administration (SBA), but not specifically for microbusinesses. The SBA classifies businesses with 500 or fewer employees as small, whereas the size of a microenterprise is defined as significantly smaller.¹⁷

When small-business programs have limited funds, government programs must earmark a portion for microenterprises so those employers do not miss out. As we saw with the Paycheck Protection Program, funds were disproportionately disbursed to large businesses that exploited loopholes. More than half of the money went to 5 percent of recipients.¹⁸ For example, Sonic Drive-In cashed in on more than \$100 million in Paycheck Protection Program funds by applying per location at more than 1,000 of its restaurants.¹⁹ The program, portrayed as relief for “small” businesses when COVID-19 hit, scarcely met demand. The large, forgivable loans caused the first round of funding to dry up in less than two weeks.

VI. RECOMMENDATION: TARGET PROGRAMS

As demonstrated by the variety of approaches by government entities, there is not just one way to incentivize microenterprise development. Program design depends on the goal. What is clear is how essential microenterprises are to the rural way of life and how governments can target efforts to maximize impact.

17 “Coronavirus (COVID-19): Small Business Guidance & Loan Resources.” U.S. Small Business Administration, sba.gov. Accessed January 2021.

18 O’Connell, Jonathan, et al. “More than half of emergency small-business funds went to larger businesses, new data shows.” *The Washington Post*, Dec. 2, 2020, [washingtonpost.com/business/2020/12/01/ppp-sba-data](https://www.washingtonpost.com/business/2020/12/01/ppp-sba-data). Accessed January 2021.

19 O’Connell, Jonathan, et al. “Small-business loans to big companies prompt Congress to overhaul PPP rules.” *The Washington Post*, Dec. 11, 2020, [washingtonpost.com/business/2020/12/11/ppp-sba-loans-sonic](https://www.washingtonpost.com/business/2020/12/11/ppp-sba-loans-sonic). Accessed January 2021.

Straightforward tax credits offer simplicity that boosts access and participation. Microbusinesses are less likely to participate in complex programs because owners are part of small workforces and bear the responsibility for every aspect of operations. Lower barriers to access will be more likely to reach microenterprises and have the desired impact.

The Texas and Vermont technical assistance programs facilitate development of relationships with other businesses and organizations. Networking and symbiotic relationships offer peer support of a microenterprise as well as connection to complementary institutions such as banks and potential markets.

Technical assistance also makes sense for smaller operations, where expecting a few individuals to be experts in everything is unrealistic. For example, a restaurateur is unlikely to be an expert in taxes, grant applications, business planning, banking, technology, and also running a restaurant.

Parameters restricting programs can target who benefits from growth. Requiring a commercial space or storefront like the MicroEnterprise Grant Program in Ohio will help renters, the tax base, and bring a vibrancy to communities. Supporting home-based businesses takes a different approach, considering young families may favor home-based work due to cost or lack of child care.²⁰

VII. RECOMMENDATION: DESIGN FOR ACCESSIBILITY

Program applications that are a burden for microenterprises to complete will not successfully reach those who would benefit most. Program designers must recognize that micro-business owners are often working more than 40 hours a week, and complex, onerous appeals for funds are unlikely to be completed, thus not achieving maximum impact.

20 Monahan, Michael, et al. "The Road Ahead: Micro Enterprise Perspectives on Success and Challenge Factors." *Journal of Management Policy and Practice*, Vol. 12(4), 2011, digitalcommons.wvu-na-businesspress.com/JMPP/MonahanWeb.pdf. Accessed January 2021.

A simple questionnaire to determine eligibility like the Greater Minnesota Job Expansion program offers, and a clear rubric with tips for a successful application like Delaware's Encouraging Development, Growth & Expansion Grant program will help microenterprises get support.²¹

Promotion of programs will also ensure they reach the appropriate audience.

Listing what the program can be used for rather than emphasizing restrictions helps microenterprises see themselves in a given proposal, boosting the probability they will apply. Delaware's program is a good example of listing how the assistance can be applied and valuable to the business, rather than focusing on what is excluded.

VIII. CONCLUSION

COVID-19 recovery strategy should include programs supporting microenterprises. Governments have a unique opportunity to select programs to benefit all communities, particularly those traditionally underserved in remote, rural areas with small and shrinking populations. Microenterprise growth is a quick tool for lawmakers to tackle labor force participation while efficiently using limited resources and supporting rural communities.

ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities. This institution is an equal opportunity provider and employer.

21 "EDGE Grant Application." Delaware Division of Small Business, 2020, business.delaware.gov/wp-content/uploads/sites/118/2020/01/Division-of-Small-Business-EDGE-Grant-Application_FINAL.pdf. Accessed January 2021.

