

Microenterprise in the U.S. and Washington State

As a Nobel Peace Prize winner, Muhammad Yunus has brought world attention to the work of international micro-credit in moving families out of poverty. While mainly focused on international efforts, it is an application that has incredible merit and history in the United States. After all, entrepreneurship is the cornerstone of the American dream.

In the U.S. microenterprises are a significant element in our business and employment food chain; though often overlooked as a useful tool to both enhance economic vitality and combat economic depression for communities as well as families. International and domestic micro-credit and microenterprise support differs by design, scope and approach. Economies of scale, regulatory environment and cost of doing business are factors in developing technical and financial support mechanisms to this sector. Following are some statistics which support the need, impact, value and trends of microenterprise in the U.S. and Washington State.

Microenterprise in the U.S.:

THE ECONOMICS:

- There are an estimated 24 million microenterprises in the US today representing 18% of all private employment in the country
- One out of every six US private sector employees works for a microenterprise
- More than 4.5 million new jobs were created in the US by microenterprises between 2000 and 2005 *
- On the average microenterprises create 900,000 new jobs every year
- About \$300 million in loans have been made by Microenterprise Development Organizations (MDO's) with an average loan size of \$7,000.

*NOTE: This was a significant contribution to our struggling economy in the early 2000's during the extensive downsizing period of our manufacturing sector due to outsourcing and off-shoring. 3.2 Million jobs were lost and unemployment was at an all-time high. Washington State was the highest in the nation at 8.6%.

THE SOCIAL IMPACT:

Microenterprise can be an important component to a household's economic portfolio, contributing to overall economic well-being and self-sufficiency while providing the entrepreneur with a chance to develop and control a source of earned revenue. Here are some results of programs and studies:

- FIELD: Median household income increases 78% in two years; 91% over five years; movement out of poverty was 36-42% in two years; wage workers were less likely than self-employment program participants to acquire a home over a four-year period.

- Self Employment Investment Demonstration: Welfare recipients with businesses held and average of \$10,501 in business assets after 2.6 years and business net worth of just under \$5K.
- Self-Employment Learning Project: Participants median household assets of \$13,140 after 5 years.
- Welfare to Work demonstration: Saw participants business assets and their net worth grow by about 250% during the two year period and home ownership increased from 14% to 22%

Microenterprise in Washington State

There are approximately 20 organizations in Washington providing comprehensive services to the microenterprise sector including: curriculum based group entrepreneurial training and business education / plan development; individualized one-on-one technical assistance or business counseling; and access to or direct micro-lending from \$500 to \$35,000 depending on the agency. These organizations typically have a target market, geographic or other, and often serve segments such as: urban, rural, industry specific, minority, low-income, women, disabled, immigrant/refugee or other disadvantaged populations.

THE ECONOMICS:

- There are 486,504 microenterprises in Washington State providing 17.4% of all employment
- Microenterprises represent 86.51% of all businesses in Washington
- Microenterprises employ 80,273 rural employees (20.6%) and 568,573 urban employees (17%)
- Over a three year period (2002-2005) this sector has seen the following increases:
 - 13.49% increase in number of microenterprises (57,837 new businesses)
 - 11.73% increase in number of private sector urban employees (59,727 jobs)
 - 6.3% increase in number of private sector rural employees (4,762 jobs)
- Over \$10 Million in loans have been made by Washington MDO's with an average loan size of \$7,000.

A microenterprise is defined as a business with five or fewer employees, typically requiring less than \$35,000 in capital.

THE SOCIAL IMPACT:

In keeping with the national studies, Washington MDO's have reported:

- Center for Economic Opportunity Study: 50% of clients moved toward self-sufficiency by completely reducing all forms of public assistance over 3 years (120 of 240 families); participant unemployment decreased 24% in the first year; household income increased 30% in the first year

- Micro-lenders reporting on loan repayments often assist individuals to become more bankable. Credit builder programs and partnerships with lending institutions promote positive credit reporting history. Successful participants in a microcredit program can repair poor credit and open the door to formal financial sources. Combined with financial literacy training and credit counseling, many microenterprise programs work with clients to position them for future economic advancement.
- MDO's partner with corporations, financial institutions, government and other community development organizations to promote responsible savings and responsible credit management.

TREND:

We all recognize the challenges as created by today's economy - job losses, business closures, financial markets tightening. Historically microenterprise has generated economic opportunity even during tough economic times. High unemployment means folks are looking at ways to generate personal income and sustain their family's needs. Tougher banking restrictions mean access to needed capital is increasingly complicated for even the most bankable. As a result, more and more individuals are looking to self-employment and small business as a solution to their economic struggles; and the demand for access to capital is at an all-time high. Local organizations providing technical support and micro-capital are challenged to find ways to increase their capacity to serve greater numbers while battling the never-ending issue of resource limitations.

The numbers show that microenterprise development has proven itself an effective strategy. We need to embrace the role, impact and value microenterprise development brings to communities and families while we work to build systems and resources that support this segment of the economic food chain.

For more information about Washington MDO's go to the WSMA website at www.wamicrobiz.org. You can learn about what the WSMA and others are doing, locate member organizations and link to their websites under the Current Member List.

Sources:

Washington State Microenterprise Association (WSMA)
Association for Enterprise Opportunity
Aspen Institute – FIELD Study
California Assoc. for MicroEnterprise Opportunity (CAMEO)
US Census Bureau