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# **MicroEnterprise Assistance Program**

**Report to the  
Minnesota Legislature  
2002**



# Microenterprise Assistance Grants

## Report to the Minnesota Legislature, FY 2002

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## **Microenterprise Assistance Grants Report to the Minnesota Legislature, FY 2002**

In 2001, the Legislature directed the Department of Trade and Economic Development (DTED) to make grants to nonprofit organizations to provide technical assistance to Minnesota entrepreneurs (M.S. 116J.8745; see as **Appendix 1**). Businesses eligible to receive technical assistance are:

microenterprises employing fewer than five employees plus the owner and requiring under \$35,000 or no capital to start or expand the business

The Department is required to report to the Legislature for each year of the biennium. This report must include information regarding the clients receiving the technical assistance, an evaluation of the results of the program, recommendations to continue or change the program, and a suggested level of funding.

### **Program Structure**

The Legislature allocated \$300,000 to be available for the 2002-2003 biennium. This is the third biennium the Legislature has funded this program, providing \$500,000 for the 1998-1999 biennium and \$440,000 for FY 2000-2001.

Organizations were required to apply for a grant, demonstrating an appropriate level of expertise. The Commissioner was directed to give “. . . preference for grants to organizations that target nontraditional entrepreneurs such as women, members of a minority, low-income individuals, or persons seeking work who are currently on or recently removed from welfare assistance.”

Based on these criteria, fifteen organizations were selected to receive grant funds. A listing of the participating organizations is attached as **Appendix 2**.

Technical assistance is generally described as a process of building the capacity of the business owner(s) or key employees to: evaluate their abilities and/or the needs of their business; make knowledgeable choices about their business; develop new skills; or underwrite one-time expenses related to the implementation of their business plan. The program is about building the capacity of these people and the business to be successful.

The participating organizations provide technical assistance to microenterprise owners through workshops, classroom training, and individual counseling. They are reimbursed for the cost of providing microenterprises with technical assistance. Each organization must provide DTED with an invoice identifying the business or individual assisted, the nature and date of the assistance, and the cost. Costs related to the administration of a microenterprise loan fund may also be considered for reimbursement. See **Appendix 3** for a program description.

Each participating organization was required to report to the Commissioner by February 1, 2003 for the 2002 fiscal year. These reports included information regarding the number of customers

served, the number of businesses started, stabilized, or expanded, the number of jobs created and retained, and business success rates.

## 2002 Organization Activities

Table 1 below shows the amount awarded to each organization for FY 2002, the total actually disbursed for services provided, the number of individuals or businesses which received technical assistance through this program, and the average amount of funds per individual or business. For fiscal year 2002 (ending June 30, 2002), the Department received invoices for 156 individuals or businesses and disbursed \$71,067, or 24% of the available funds.

**Table 1. Organization Expenditures**

<b>Organization</b>	<b>Amount Awarded</b>	<b>Amount Disbursed</b>	<b>No. of Bus/ Individuals Invoiced</b>	<b>Average per Bus.</b>
AccountAbility MN	\$21,500.00	\$1,038.00	11	\$94.36
Am. Indian Bus. Develop. Corp.	\$20,000.00	\$0.00	0	
Arrowhead CEAC	\$25,000.00	\$0.00	0	
Initiative Foundation	\$15,000.00	\$0.00	0	
Lincoln County EDC	\$10,000.00	\$0.00	0	
Lyon County EDC	\$10,000.00	\$2,980.00	14	\$212.86
Minneapolis CCD	\$42,500.00	\$4,710.00	5	\$942.00
Neighborhood Deve. Center	\$25,000.00	\$8,355.00	12	\$696.25
Northeast Entrepreneur Fund	\$50,000.00	\$33,029.00	72	\$458.74
Northwest MN Foundation	\$15,000.00	\$0.00	0	
Riverview Econ. Deve. Assn.	\$5,000.00	\$0.00	0	
S.E. MN Development Corp.	\$21,000.00	\$5,465.00	3	\$1,821.67
S.W. Minnesota Foundation	\$15,000.00	\$8,856.00	18	\$492.00
West Central Initiative Fund	\$15,000.00	\$0.00	0	
WomenVenture	\$10,000.00	\$6,634.00	22	\$301.55
<b>Total Amount/No. of clients</b>	<b>\$300,000.00</b>	<b>\$71,067.00</b>	<b>157</b>	<b>\$452.69</b>

The Northeast Entrepreneur's Fund submitted almost half the invoices received by the Department in FY2002. The Southeast Minnesota Development Corporation provided the largest amount of assistance on a per business basis.

Seven of the fifteen organizations did not request any funds from their microenterprise grants in FY 2002. DTED staff has been in contact with these organizations to determine if they will use any or all of their allotted funds by June 30, 2003. Four organizations have indicated that they will use all of their funds before the end of the 2003 fiscal year. DTED will continue to monitor these disbursements and will reallocate funds to organizations that need additional resources.

## Profile of Businesses Assisted

As noted above, the annual reports submitted to the Department by the participant organizations included information about the clients served, the status of businesses assisted, and the number of jobs created. In addition, the Department asked for information concerning ownership characteristics (esp. race and personal income), annual sales, and wages paid.

Six of the eight organizations that received Microenterprise funds in FY 2002 submitted annual reports. At the time this report was written the Minneapolis Consortium of Community Developers and WomenVenture had not submitted a report, although these will be provided soon. As a result, none of the categories in Table 2 include information about the 27 businesses that were assisted by these two organizations.

These reports contained information describing 127 businesses and/or individuals. A summary of the information provided is shown in Table 2 below. In a number of cases, the businesses did not supply all the information requested by the Department, especially in the area of annual sales and wages paid. As a result, some of the "Total" figures include only the information provided by a smaller number of businesses – shown in the column headed "Bus. Reporting."

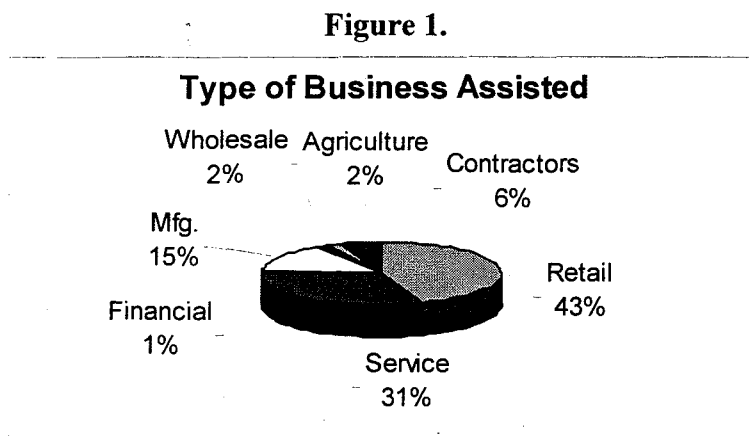
**Table 2. 2001 Business Profile**

<b>2002 Business Outcomes</b>	<b>Total</b>	<b>Bus. Reporting</b>
No. of Businesses Reported	127	
Minority Ownership - Reported	17	
MFIP Participant - Reported	6	
Male Owned	57	127
Female Owned	54	127
Total Gross Sales - 2001	\$5,927,790.00	49
Total Gross Sales - 2002	\$4,739,741.00	32
Average Gross Sales - 2001	\$128,865.00	49
Average Gross Sales - 2002	\$169,276.00	32
Number of Employees - 7/1/01 (PT/FT)	76/117	90
Number of Employees - 11/1/02 (PT/FT)	89/109	80
Average Wages Paid - 11/1/02 (PT/FT)	\$7.38 / \$9.88	19
Number of Businesses <b>Started</b>	59	127
Number of Businesses <b>Expanded</b>	33	48
Number of Businesses <b>Stabilized</b>	7	48
Number of Businesses <b>Contracted</b>	2	48
Number of Businesses <b>Closed</b>	4	48

It should be noted that total gross sales for 2002 - \$4.739million – includes \$1.5 million in new sales from two businesses. As you can also see, only 32 businesses reported on their sales for 2002 as opposed to 49 businesses, which reported on 2001 sales. The sales for 2002 ranged from a \$4,877 to \$738,800. Furthermore, as indicated above, the figures shown for sales, employment

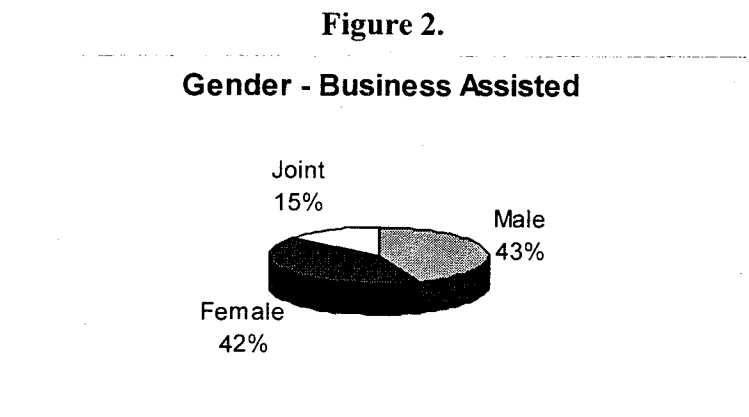
and wages paid do not include all of the businesses that received assistance. In a number of cases, the individuals and businesses did not provide this information. A summary of the businesses and/or individuals receiving assistance for this fiscal year is attached as **Appendix 4**.

Figure 1. shows the types of businesses that received assistance from the program in FY2002. The percentages shown are based on 108 of the 127 businesses reported. As you can see almost half of the businesses were retail operations, while service related businesses made up another 31%.



The participating organizations reported that over half of the businesses assisted were startups, while at least 33 businesses that received assistance expanded during the year. Only four businesses reported closing their doors in 2002. The businesses for which we received information (80) created 109 full-time jobs. Only 24 companies reported on the wages they paid and in those cases, they paid an average of \$9.88 per hour. In addition, the businesses reported average gross sales in 2002 of \$169,276 versus \$128,865 in 2001.

Figure 2 shows the percent of ownership by gender. Business ownership was almost evenly split between men and women, while another 16% were jointly owned. Unfortunately, the Program appeared to provide only a very limited amount of assistance to ethnic or racial minorities or persons coming off of welfare. The participating organizations reported assisting only fifteen businesses owned by persons of color, while six people had been welfare participants.



## **Program Evaluation**

The affect of the assistance provided to the business clients is difficult to accurately determine. This is large part due to inconsistent reporting on the part of organizations and businesses. Many businesses did not provide the participating organizations with complete information about sales, employment, and wages. In addition, without extensive – and expensive – information development and analysis, it is very difficult to link a businesses success with the assistance provided.

Further, the long-term prospects for these businesses are still uncertain. Nationally, most businesses close within five years of opening their doors, according to the Small Business Administration. One goal of the program should be to reduce this failure rate to less than the national average. However, since the Microenterprise Program began in 1998, and most businesses have only received assistance in the last two years, there is not enough “experience” with this Program to determine if the success rate of the businesses assisted will be any better.

Unfortunately, the state’s projected budget deficit does not allow for a continuation of funding this program. The Administration did not include any additional funds for the Microenterprise Program in his budget proposal, which was submitted to the Legislature. A final report for the 2002-2003 biennium will be developed in March 2004 and forwarded to the Legislature.

Minnesota Statutes 2001, Table of ChaptersTable of contents for Chapter 116J**116J.8745 Microenterprise entrepreneurial assistance.**

Subdivision 1. **Technical assistance.** The commissioner of trade and economic development shall make grants to nonprofit organizations to provide technical assistance to individuals to support the startup and growth of self-employment and microbusinesses. Eligible businesses are microenterprises employing under five people plus the owner and requiring under \$25,000 or no capital to start or expand the business.

Subd. 2. **Grant eligibility and allocation.** Nonprofit organizations must apply for grants under this section following procedures established by the commissioner. To be eligible for a grant, an organization must demonstrate to the commissioner that it has the appropriate expertise. The commissioner shall give preference for grants to organizations that target nontraditional entrepreneurs such as women, members of a minority, low-income individuals, or persons seeking work who are currently on or recently removed from welfare assistance.

An application must include:

- (1) the local need for microenterprise support;
- (2) proposed criteria for business eligibility;
- (3) proposals for identifying and serving eligible businesses;
- (4) a description of technical assistance to be provided to eligible businesses;
- (5) proposals to coordinate technical assistance with financial assistance;
- (6) a demonstration of ability to collaborate with other agencies including educational and financial institutions; and
- (7) project goals identifying the number of eligible businesses to be assisted with the state funds awarded under the grant.

Subd. 3. **Grant evaluations.** Grant recipients must report to the commissioner by February 1 in each of the two years succeeding the year of receipt of the grant. The report must detail the number of customers served, the number of businesses started, stabilized, or expanded, the number of jobs created and retained, and business success rates. The commissioner shall report to the legislature on the microenterprise entrepreneurial assistance. The report shall contain an evaluation of the results, recommendations to continue or change the program, and a suggested level of funding.

HIST: 1997 c 200 art 1 s 55; 1999 c 223 art 2 s 26,27

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**Appendix 2.**  
**2001 Microenterprise Grant Partners**  
**June 2002**

Bonnie Esposito  
***AccountAbility Minnesota***  
Suite 12  
2314 University Avenue  
St. Paul, MN 55114  
651/287-0187  
[besposito@mtn.org](mailto:besposito@mtn.org)

Shirlee Stone  
***American Indian Business Development Corporation***  
1113 East Franklin Avenue  
Minneapolis, MN 55404  
612/870-7555  
[shirleystone@aibdc.com](mailto:shirleystone@aibdc.com)

John Baker  
***Arrowhead Community Economic Assistance Corp.***  
8880 Main Street  
Mountain Iron, MN 55768  
218/735-8201  
[aceac@rangenet.com](mailto:aceac@rangenet.com)

Sharon Gottwalt  
***Initiative Foundation***  
405 First Street S.E.  
Little Falls, MN 56345  
320/632-9255  
[sgottwalt@ifound.org](mailto:sgottwalt@ifound.org)

Vince Robinson  
***Lincoln Co. Enterprise Development Corp.***  
PO Box 130  
Ivanhoe, MN 56142  
507/694-1470  
[lcedc@frontiernet.net](mailto:lcedc@frontiernet.net)

Jackie Turner-Lovsness  
***Lyon Co. Enterprise Development Corp.***  
Lyon County Courthouse  
607 West Main Street.  
Marshall, MN 56258  
507/537-7016  
[lcedc@dtgnet.com](mailto:lcedc@dtgnet.com)

Jim Roth  
***Minneapolis Consortium of Community Developers***  
2308 Central Avenue N.E.  
Minneapolis, MN 55418-3710  
612/789-7337  
[jroth@cando.org](mailto:jroth@cando.org)

Mara O'Neill  
***Neighborhood Development Center, Inc.***  
651 1/2 University Ave.  
St. Paul, MN 55104  
651/291-2480  
[mara@windndc.org](mailto:mara@windndc.org)

Mary Mathews  
***Northeast Entrepreneur Fund, Inc.***  
Olcott Plata  
820 N 9th Street  
Virginia, MN 55792  
218/749-4191  
[marym@NEEFUND.ORG](mailto:marym@NEEFUND.ORG)

Diane Morey  
***Northwest Minnesota Foundation***  
4225 Technology Dr, N.W.  
Bemidji, MN 56601  
218/759-2057  
[dianem@nwmf.org](mailto:dianem@nwmf.org)

David Baker  
***Riverview Economic Development  
Association***  
176 Concord Street  
St. Paul, MN 55107  
651/222-6347  
[db@districtdelsol.com](mailto:db@districtdelsol.com)

Bernadette Berger  
***Southwest Minnesota Foundation***  
1390 Hwy. 15 South  
Hutchinson, MN 55350  
800/594-9480  
[Bernyb@SWMIFFOUNDATION.ORG](mailto:Bernyb@SWMIFFOUNDATION.ORG)

Mark Thein  
***Southeastern Minnesota  
Development Corp.***  
P.O. Box 684  
Rushford, MN 55971  
507/864-7557  
[mthein@acegroup.cc](mailto:mthein@acegroup.cc)

Jay Larson  
***West Central Initiative***  
Norwest Bank Bldg.  
220 W Washington Ave. #205  
Fergus Falls, MN 56357  
218/739-2239  
[Jay@wcif.org](mailto:Jay@wcif.org)

Jan Jordet  
***WomenVenture***  
Midtown Commons  
2324 University Avenue  
St. Paul, MN 55114  
651/646-3808  
[jjordet@womenventure.org](mailto:jjordet@womenventure.org)

Appendix 3.



## MicroEnterprise Assistance Grants

- Program purpose:** To assist Minnesota's small entrepreneurs to successfully startup or expand their businesses, and to support job creation in the state.
- How it works:** Selected nonprofit business development organizations receive grants to provide technical assistance to startup entrepreneurs and expanding businesses.
- Eligible applicants:** Microenterprises are businesses that employ less than five people, and the owner, and require less than \$35,000 to start up or expand the enterprise. Individuals with sufficient personal resources will not qualify for assistance.
- Type of Assistance:** Assistance should increase an entrepreneur's capacity to successfully manage and operate the business. It should nurture the owner and the business to increase its prospects for long-term success. Assistance may be provided by organization staff or consultants.
- Minimum requirements:** Nonprofit organizations must demonstrate that it has appropriate expertise and experience in providing technical assistance, and the ability to coordinate with other educational agencies and financial institutions.
- Eligible projects:** Any type of business is eligible to receive assistance, especially nontraditional entrepreneurs such as women, members of a minority, low-income individuals, or persons currently on or recently removed from welfare assistance who are seeking work.
- Maximum support:** Generally \$2,000 per business for technical assistance. Participating organizations are reimbursed by DTED for approved expenses they incur on behalf of the business owner.
- Available funds:** Current program funds available through December 31, 2003. Amount of funds available varies among service areas.

(over)

**Contact:** These organizations will serve your community through December 31, 2003:

AccountAbility Minnesota	651/287-0187
American Indian Business Development Corp.	612/870-7555
Arrowhead Community Economic Assistance Corp.	218/735-8201
Initiative Foundation	320/632-9255
Lincoln County Enterprise Development Corporation	507/694-1306
Lyon County Enterprise Development Corporation	507/537-7016
Minneapolis Consortium of Community Developers	612/789-7337
Neighborhood Development Center	651/291-2480
Northeast Entrepreneur Fund, Inc.	218/749-4191
Northwest Minnesota Foundation	218/759-2057
Riverview Economic Development Association	651/222-6347
Southeastern MN Development Corporation	507/864-7557
Southwest Minnesota Foundation	320/587-3838
West Central Initiative	218/739-2239
WomenVenture	651/646-3808

For further information and referral to the organization that services your community, contact Bart Bevins at the Minnesota Department of Trade and Economic Development at 651/297-1170 or toll-free at 1-800-657-3858.



