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Michigan House of Representatives Commerce Committee

Microenterprise in Michigan

Testimony of Dennis West

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Greetings! I would like to thank Representative Schmidt, Representative Tyler and Representative Switalski for this opportunity to testify before the Committee on this important topic of microenterprise. I am here today to support the effort to grow small business lending in Michigan. There is a remarkable story happening in Michigan and that is the growth of self employment and Stage One businesses (1-9 employees). This effort to bring attention and resources helps Michigan in support of entrepreneurs, innovators and growing businesses in all parts of our State.

Northern Initiatives is a Community Development Financial Institution and Microloan Intermediary that serves 46 rural Michigan counties. We do microloans of less than \$50,000 as well as loans that could in rare cases go up to \$500,000.

In 45 of the 46 counties we saw job increases in one area from 2000-2008, and that was First Stage businesses. So while Michigan was being hit hard, there was and is below the surface, a great deal of entrepreneurial activity.

Nearly all of our business loans come from word of mouth by way of past borrowers, community banks and the Small Business Technology Development Centers. Since last May, all loan applications that are for less than \$50,000, are made on line, at www.niupnorth.org. We are providing a 48 hour determination of credit to the applicant, and have gone from application to closing in as little as 3 weeks. We have made loans now in 34 counties and added eligibility to 12 additional counties in January. Last year was a record number of loans for us 47, and we will break that record in 2011.

Why this initiative for Michigan and why would you seek a bill that does not look for funding? Our view is twofold. First that the State does have access to some resources that it could use in support of microenterprise, as it is an eligible activity under its Community Development Block Grant Program (CDBG). This bill would affirm the interest of the Legislature in support of such activities when the Michigan Economic Development Corporation prepares its annual plan. However the CDBG program is available only to small cities. Therefore it is important in this affirmation for the State to position itself as an intermediary that could support this effort through raising Federal or Foundation support. In particular we believe that the later, could help to bring resources to the field that could extend microlending to all parts of our State (currently around 25% of the State's counties do not have access to microlenders).

The extent that the State aided in support of microenterprise, it would achieve significant leverage. Last December the Bank of America Foundation made a grant to Northern Initiatives of \$95,000 in support of our borrowing \$900,000 to make microloans. This small grant is used as match by NI to meet the requirements of a funded loan loss reserve. That \$900,000 will also bring \$200,000 in grants to NI to offer technical assistance to borrowers. The likelihood is that the \$900,000 will turn over at least two to three times (our loans are typically 3-5 years duration until a borrower "graduates" to a community bank), and our average loan size is around \$18,000. This small amount of money coming from Bank of America is launching 100-150 loans and their dollars are being leveraged 11.5 times. This is the kind of leverage that the State could see in making small supporting investments in our microlenders.

Along with leverage it can set the stage for the State to become an intermediary on behalf of growing these efforts in parts of Michigan where they currently don't exist. We believe that there are foundations in Michigan that would be supportive of such an initiative opening the door to more resources in the State and for the MEDC.

Why is alternative lending important? Too often entrepreneurs have been dependent upon family wealth, credit cards or home equity loans. While their commitment is important, it comes without technical assistance support and business advice. One need only look at failure rates of small businesses in the US, to see why this kind of support can be of enormous value. In our case about half of our loans are to start ups and what our technical assistance offerings support help to the business to launch accounting systems, web sites and market research.

Next you will hearing stories about successes in Michigan supported through microlending....

For Michigan this legislation would create an intention and a path. It affirms the value and important contribution of family owned businesses, and it will aid its sponsors to bring resources to all 83 counties of Michigan. Small business has sustained us over the past decade and we hope that you will see your way to support these opportunities.

Microenterprise in Michigan

LISC
Statewide Michigan

Why Microenterprises Are Important to Michigan

- Create jobs
- Contribute to the tax base
- Purchase and hire locally
- Help stabilize the economy



Credit: Marcin Szczepanski/Detroit Free Press

Melissa Fernandez and Jordi Carbonell, owners of Café Con Leche, got a microloan from the Small Business Detroit Microloan Program and now employ 4 individuals in Detroit, Michigan."

Microenterprise Programs Provide Valuable Services

- Training on business management skills
- Consulting on business planning, financial management, and marketing
- Loans for a business start-up or expansion

In the State of Michigan...

- There are 750,369 micro-businesses
- 87% of all businesses are micro-businesses
- 17% of all jobs are provided by micro-entrepreneurs

The Association for Enterprise Opportunity Has Found:

- There are an estimated 24 million microenterprises in the United States today, representing 18% of all private employment in the country
- One out of every six U.S. private sector employees works for a microenterprise
- In 2002, with the unemployment rate at 5.8%, microenterprises created close to 1 million jobs

The Bottom Line

Microenterprise development is a proven pathway to business ownership for low- and moderate-income entrepreneurs that generates income, builds assets, and supports local economies

A sample of microenterprise development organizations in Michigan

