

**Microenterprise
Development
Program Meets
Statutory
Objectives But
Department of
Commerce
Oversight is
Inadequate
Report 12-1**

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STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT AND
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REPORT SUMMARY

Microenterprise in Washington

Microenterprises are businesses with three key characteristics: The business: (1) has between one and five employees, including the owner; (2) requires no more than \$35,000 – \$50,000 in start-up capital; and (3) lacks access to conventional forms of financing.

Microenterprises are found in a broad range of businesses from technology to manufacturing to farming. In 2009, microenterprises in Washington employed an estimated 598,000 people, including 389,000 who were self-employed.

Microenterprise Development Organizations (MDOs) Assist Microenterprises

Microenterprise Development Organizations (MDOs) provide services to individuals who are currently operating microenterprises, or who are interested in starting such a business. The MDOs do this work to help create businesses and jobs and to foster self-employment and self-sufficiency.

MDOs offer both business development services and financial services. Business development services include training, technical assistance, and credit counseling. Financial services include financial literacy skills, credit repair and credit building, and micro lending or loan packaging assistance. Some MDOs have their own loan funds that can be used for small loans. **MDOs do not use state money for loans.**

Washington's Microenterprise Development Program Assists MDOs

In 2007, the Legislature established the state's Microenterprise Development program to provide support for and administer grants to local MDOs (2SSB 5652). The purpose of the program is to assist microenterprises in job creation by increasing the training, technical assistance, and financial resources available through MDOs. In the 2009-11 Biennium, the Legislature provided \$359,000 for the program.

The Legislature directed the Department of Commerce to contract with a statewide microenterprise association to "serve as the department's agent" in carrying out the state program and to provide support services to the association. Commerce contracted with the Washington State Microenterprise Association (WSMA). The 2007 legislation also directed JLARC to conduct this review.

JLARC's review indicates that the state program is assisting MDOs through WSMA in three ways that are similar to how MDOs assist businesses:

- **State Program Provides Business Development Services to MDOs** – These services include annual and regional conferences, webinars, teleconferences, technical assistance, and notices of funding opportunities.
- **State Program Provides Grants to MDOs** – Between 2008 and 2011, WSMA awarded \$276,000 in grants to Washington MDOs. MDOs used these grants for capacity building, training and technical assistance to entrepreneurs, and the purchase of technology.
- **MDOs Leverage State Grant Funds** – MDOs report that the state program enabled them to leverage an additional \$886,000 in funds from federal, local, or private sources.

Nine MDOs provided JLARC with names of entrepreneurs and businesses they helped under state grants, which resulted in 476 records. JLARC was able to match these records to 365 businesses. Of the 365 businesses, 303 businesses were open as of August 2011 and 17 of the entrepreneurs had more than one open business. Although these results reflect only a portion of the entrepreneurs assisted by MDOs, most of those assisted by MDOs in relation to state grant funding appear to have recognized businesses.

The Department of Commerce Is Not Meeting Its Statutory Obligation of Organizational Support and Oversight

In the course of JLARC's review, we identified two problems related to the Department of Commerce's obligations for the support and oversight of the state's Microenterprise Development Program. This report concludes with two recommendations to address these shortcomings.

- The Department of Commerce is not complying with its statutory obligation to provide organizational support to WSMA. While Commerce initially provided some support to WSMA, the Department no longer provides these services.

Recommendation 1: The Department of Commerce should comply with statute and provide organizational support to the Washington State Microenterprise Association.

- JLARC's independent review indicates WSMA has fulfilled its contractual obligations. However, the Department of Commerce's current contract reporting and verification process is inadequate to ensure that WSMA meets its contractual obligations in the future.

Recommendation 2: The Department of Commerce should develop measureable performance targets for its contract with the Washington State Microenterprise Association and should establish a process to verify that WSMA has met the requirements of the contract.