



The Bell Policy Center

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The Bell Policy Center supports state funds for micro-enterprise development

Statement by Rich Jones, Director of Policy and Research

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Nothing embodies the American Dream more than starting and running your own business. For low-income to moderate income people who have entrepreneurial talents, business acumen and a marketable skill or craft, starting a small business can be a rewarding pathway to the middle class.

However, many of these potential entrepreneurs have limited savings and face barriers to accessing enough capital to start a business. Those who want to start very small or micro-businesses – an owner and one to four employees – frequently have trouble getting financing from more traditional commercial lenders and often must look for alternative funding.

In order to promote micro-enterprise development, the legislature passed the Colorado Micro-enterprise Development Act in 2003 (HB 03-1354). The goal was to strengthen the Colorado economy by enabling and encouraging unemployed, underemployed and low-income residents to become self-sufficient by creating micro-enterprises.

One in five Colorado workers owns or works for a micro-enterprise.¹ Most micro-business owners are women; many are single parents or minorities. Generally, these businesses provide alternatives for people who face barriers in the traditional workplace.²

According to a 2004 survey of micro-entrepreneurs and the organizations that work with them, conducted by the Leeds School of Business at the University of Colorado, access to capital was cited as a major concern by both groups. Another key finding was the importance of training and technical assistance for those starting and running micro-enterprises.³

To help micro-enterprises access capital and training, the Colorado Economic Development Commission awarded a \$275,000 grant to the Colorado Alliance for Microenterprise Initiatives (CAMI) to provide funding for micro-enterprise development organizations. The funds were disbursed under a competitive RFP process that required a total of \$255,000 match in local or private funds.⁴

Three micro-enterprise organizations – Micro Business Development, the Region 9 Revolving Loan Fund and Colorado Enterprise Fund – received awards in 2005 and 2006.⁵

A review of the results of the grant to one of these entities, Micro Business Development, shows how effective investments of this kind are in helping low- to moderate-income Coloradans start their own businesses, while at the same time stimulating economic growth in their communities.⁶

Micro Business Development (MBD) received \$40,000 in grant funds in 2005 and another \$40,000 in 2006. MBD used these grant funds to leverage \$348,000 in matching funds from private foundations and businesses. In addition, these grants helped MBD secure \$500,000 from the Community Development Financial Institutions division of the U.S. Treasury to expand its loan pool. The \$80,000 in state investments brought in over \$800,000 in matching funds, for a leverage rate of over 10 to 1.



The Bell
Policy Center

MBD used the grant funds provided by CAMI and the matching funds to make 47 loans to micro-entrepreneurs, with the average loan size totaling \$8,750. The matching funds were also used to provide technical assistance and training for the micro-entrepreneurs.

Of the 47 loans, nine have been paid in full, two have been restructured to assist the entrepreneur, and one is currently in deferment due to medical reasons. The other 35 loans are all being repaid on schedule.

MBD calculates that 43 full-time positions were retained or created as a result of the loans, at a cost to the state of \$1,860 per job.

The loans were made to micro-businesses along the Front Range. One loan was made in Pueblo County, six in Boulder County, 28 in Denver County, five in Arapahoe County and seven in Jefferson County. Thirty of the micro-entrepreneurs were women and 36 were low-income.⁷

The Bell Policy Center supports committing economic development funds to support micro-enterprise because it is a good investment for Colorado. It helps low- to moderate-income entrepreneurs start businesses, create jobs and add to the economic activity within their communities.

The state's relatively small investment provides an incentive for private foundations and businesses to invest, thus expanding the ability of organizations such as MBD to finance and train micro-entrepreneurs. These grants can also be used to expand micro-enterprise services to rural parts of Colorado, where they are currently lacking but demand is high.

Finally, it provides an alternative path to the middle class for low- to moderate-income people with entrepreneurial talents who otherwise may not have access to the capital needed to start their own business.

End notes

- ¹ Colorado Alliance for Micro-Enterprise Development. (2006). [Micro-enterprise Facts: Micro-enterprise in Colorado](#).
- ² [Opening Opportunities Building Ownership: Fulfilling the Promise of Microenterprise in America](#), The Aspen Institute, 2005, pp 14-15.
- ³ [Analysis of Microenterprise Business Segment in Colorado](#), Business Research Division, Leeds School of Business, University of Colorado at Boulder, December 2004.
- ⁴ [Activity Report 2003](#), Colorado Economic Development Commission, February 2004, and [Activity Report 2004](#), Colorado Economic Development Commission, February 2005.
- ⁵ Telephone conversation with Kersten Hostetter, executive director, Micro Business Development, Nov. 6, 2006.
- ⁶ Data on the results of grants to the other micro-enterprise organizations is currently being compiled.
- ⁷ Data on the results of MBD's grant was provided in e-mail correspondence with Kersten Hostetter, Micro Business Development, Feb. 5 and 28, 2007.

The Bell Policy Center is a nonpartisan, nonprofit public policy organization committed to making Colorado a state of opportunity for all. The Bell seeks to reinvigorate the debate on issues affecting the well-being of Coloradans and to promote public policies that open gateways to opportunity.