

***Economic Outcomes of State Investment  
In the Nebraska Microenterprise Development Act***

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## Introduction and Purpose

In 1997 the Nebraska Legislature adopted the Nebraska Microenterprise Development Act (LB 327) to provide state resources for the development of microenterprises across the state. A stated purpose of the state's investment in the Nebraska Microenterprise Development Act is to "assure that microbusinesses are able to realize their full potential to create jobs and enhance entrepreneurial skills and activity."<sup>1</sup>

In the 2007 session of the Nebraska Legislature funding for the Nebraska Microenterprise Development Act was increased significantly to \$1.5 million annually in the biennium budget for the 2007-2008 and 2008-2009 fiscal years. This funding contained an annual general fund appropriation of \$500,000 and a newly created cash fund of \$1 million per year. In the 2009 session, the Legislature is tasked with developing a new state budget for the next biennium. The Governor's budget recommendation released in January 2009 recommended maintaining the general fund appropriation, but recommended terminating the annual cash fund appropriation.

This report, employing previously published research and data, examines the potential economic outcomes of maintaining the \$1.5 million annual appropriation for the Nebraska Microenterprise Development Act, including the potential job creation and effects on income and assets for business owners for one year and five year periods.

Microenterprise development is especially critical in light of the deepening recession. During our last recession, from 2000-2003, employment in Nebraska attributable to microenterprises grew by nearly five percent while all other private, non-farm employment fell by nearly one percent.<sup>2</sup> We are again in period of recession. It is a critical time to invest in job creation and economic recovery by supporting microenterprise development.

## Key Findings

- A \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act would result in 184 to 198 microenterprise businesses created or expanded with assistance from the program.
- A \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act would potentially create 294 to 317 jobs across the state.
- A \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act and resulting participation in microenterprise development

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<sup>1</sup> Nebraska Revised Statutes, Section 81-1295.

<sup>2</sup> Data from the Association of Enterprise Opportunity Microenterprise Employment Statistics, using data from the U.S. Census Bureau Non-Employer Statistics and U.S. Department of Commerce County Business Patterns.

programs would potentially create from \$5.6 million to \$8.6 million in additional income in Nebraska households (business owners and employees).

- A \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act and resulting participation in microenterprise development programs would potentially create over \$ 1.1 million in household asset growth in its first year.
- A \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act would result in potential economic outcomes in Nebraska of over \$ 6 million to nearly \$10.5 million in one year.
- Over five years a \$1.5 million one year investment in the Nebraska Microenterprise Development Act would result in potential economic outcomes in Nebraska of \$25 million to \$41 million.

## **Methodology, Data Sources and Assumptions**

This report is based on an assumption of a \$1.5 million annual appropriation for the Nebraska Microenterprise Development Act for the purpose of microenterprise development in the state. This amount represents stable funding of the Nebraska Microenterprise Development Act as contained in the state biennial budget adopted in the 2007 session of the Nebraska Legislature.

This report employs a variation of a methodology for economic outcomes of microenterprise development programs created by the MicroTest performance measurement system of the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), a program of the Aspen Institute.<sup>3</sup> The methodology employed in this report is outlined in *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*, a 2005 report of the Aspen Institute.<sup>4</sup>

That methodology determines costs associated with producing a “business outcome,” or the act of an entrepreneur being in business at the time data are collected. From the data a “cost per business outcome” figure is determined, along with the change in draw taken by the owners of businesses surveyed, the change in employment by businesses surveyed over time, and the wages paid attributable to any change in employment as a result of a business being developed or expanded. These figures are used to determine the economic effectiveness of microenterprise development.<sup>5</sup> Essentially, this methodology provides a

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<sup>3</sup> For additional information on MicroTest and FIELD, see the following website:  
[http://www.aspeninstitute.org/site/c.huLWJeMRKpH/b.612033/k.47E4/Economic\\_Opportunities\\_Program.htm](http://www.aspeninstitute.org/site/c.huLWJeMRKpH/b.612033/k.47E4/Economic_Opportunities_Program.htm)

<sup>4</sup> Edgcomb, E. and Klein, J. 2005. *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. Washington, DC: Aspen Institute.

<sup>5</sup> See, Edgcomb and Klein at 47 for a thorough explanation of this methodology and its uses.

measure of the resources needed for a microenterprise development to provide services to their clients while producing a business outcome, namely a going business concern.

The FIELD methodology allows for a determination if an investment in microenterprise development is effective by comparing the cost per business outcome to the total change (represented by changes in owner's draw, employment and wages over a specific time) for an average business. With a few modifications to the methodology, this report examines not the economic consequences of microenterprise development investment through the lens of a typical business, but rather through potential aggregate outcomes of a \$1.5 million annual investment in the Nebraska Microenterprise Development Act.

Other sources provide data on factors such as the cost per training or average loan size. Since Nebraska Microenterprise Development Act funding through state appropriations may be allocated to those specific uses, it is tempting to use those sources and these data in this report. For the purposes of economic development activities such as training, technical assistance and loans are simply means to an end. The end of economic development as expressed through programs like the Nebraska Microenterprise Development Act should be the creation and development of sustainable local businesses that generate jobs, economic activity and economic opportunities in rural communities and urban neighborhoods across Nebraska. Therefore, we have chosen to employ a variation of the "business outcome" methodology developed by the Aspen Institute through the MicroTest system.

The analysis in this report is based on the following data and assumptions:

- \$1.5 million annual funding for the Nebraska Microenterprise Development Act.
- A "Cost of Business Outcomes" figure of \$7,581 to \$8,173 per business (this is a figure adjusting the FIELD finding to 2007 dollars).<sup>6</sup>
- Nebraska Microenterprise Development Act funding of \$1.5 million per year at that "cost of business outcomes" figure would create or expand 184 to 198 microenterprise businesses annually.<sup>7</sup>
- The change in owner's draw per business is \$5,751 (the FIELD finding adjusted to 2008 dollars).<sup>8</sup>
- Two assumptions are made regarding the average wage per full-time equivalent employee. One is based on payment of the minimum wage similar to the methodology used by FIELD. Using a minimum wage calculation results in an average annual wage per full-time equivalent employee of \$13,300. This is obtained by assuming the current minimum wage is wage level (\$6.65 per hour) for 40 hours per week for 50 weeks per year. This is likely a conservative estimate

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<sup>6</sup> Edgcomb and Klein at 49-50; the data in this report is based on program costs reported to MicroTest for Fiscal Years 2000-02. We have assumed data is in 2002 dollars and adjusted accordingly to 2006 dollars.

<sup>7</sup> The Nebraska statutory definition of a "microenterprise" is a sole proprietorship or a business entity with not more five full-time equivalent employees.

<sup>8</sup> Edgcomb and Klein at 49-50.

based on the use of the minimum wage and the maximum weekly work hours before overtime is applicable.<sup>9</sup>

Second, in our experience, we know that many microbusinesses pay more than the minimum wage. Therefore, we know that a methodology using the minimum wage as representative of an average wage understates the economic benefit of wages paid. U.S. Census Bureau business payroll data for 2006 finds the annual average wage for Nebraska businesses that meet the definition of “microenterprise” to be \$26,886, or \$28,434 adjusted to 2008 dollars.<sup>10</sup> However, rural incomes and rural wages are generally lower than average wages and incomes, so we also must employ a “rural discount” for jobs created in rural areas. The most recent data (2006) indicates that the average wage per job in nonmetropolitan areas of Nebraska is 76 percent of the average wage per job in Nebraska’s metropolitan areas.<sup>11</sup> While nonmetropolitan is not a perfect definition of “rural,” we choose to use it for this calculation. Thus, this report uses \$21,610 as the figure for the average annual wage per full-time equivalent employee in rural businesses. To approximate the population division of the state, for the wages paid calculation we assume half of the jobs created by these state resources are rural and half are non-rural (using the metropolitan wage figure).

This report employs data from the annual report of the Nebraska Enterprise Fund to calculate job creation by microenterprise businesses. Based on data from June 2004 to June 2008, 1.6 jobs per microenterprise business were created or retained as a result of funds appropriated to the Nebraska Microenterprise Development Act.<sup>12</sup>

This report also examines the potential effects of the Nebraska Microenterprise Development Act on income and asset levels of microentrepreneurs. Much of the literature and research on this issue concerns segments of the population that may or may not be served by a microenterprise program (e.g., welfare recipients). However, it has been found that participation in a microenterprise program increased household income by an average of \$6,116 over a two year period after participation began, or an average of \$3,058 per year, or \$3,487 adjusted to 2008 dollars.<sup>13</sup> While the owner’s draw discussed above may be a proxy for income in analyzing the potential economic outcomes of funding for the Nebraska Microenterprise Development Act, this finding also showed that an increase in owner’s draw (an average of \$1,953.50 per year, or \$2,227 adjusted to 2008 dollars, in the survey in question) represented only about 64 percent of the increase in household income.<sup>14</sup> In other words, there appears to be a larger increase in household

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<sup>9</sup> *Id.* The formula is expressed as:  $\$6.65 \times 40 \times 50$

<sup>10</sup> United State Census Bureau. 2006. *County Business Patterns*. This figure is for businesses with one to four employees, the nearest available data point meeting the statutory definition of “microenterprise.”

<sup>11</sup> U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, December 2006.

<sup>12</sup> Nebraska Enterprise Fund. 2009. *Report to the Legislature on the Nebraska Microenterprise Development Act*.

<sup>13</sup> Aspen Institute. 2005. *Monitoring Client Outcomes: A report from MicroTest’s 2004 Data Collection*. Washington, DC: Aspen Institute.

<sup>14</sup> *Id.* at 6.

income associated with participation in and ownership of a microenterprise business beyond funds drawn from the business by the owner.

For purposes of this report, each of the 184 to 198 microenterprise businesses created or expanded with assistance from the Nebraska Microenterprise Development Act will be considered a household. For a comparable ratio found between the change in owners draw and the increase in household income discussed above, a one year increase in household income of \$9,005 will be imputed to each of the microenterprise businesses ( $\$2,227 : \$3,487 = \$5,751 : \$9,005$ ). In other words, some research has found that the change in owner's draw, while important, explains only 64 percent of the increase in household income due to participation in microenterprise development (the left side of the ratio contained above). Thus, the FIELD methodology we are employing shows a \$5,751 change in owner's draw per business, or 64 percent of an increase in household income of \$9,005 (the right side of the ratio contained above).

In surveys of low-income microentrepreneurs, the Aspen Institute also found that household assets of microentrepreneurs increased over time, with most of the asset growth in homeownership. A 1999 study (using 1997 data) found that household assets grew by \$13,140 over five years, an average per year of \$3,528 adjusted to 2008 dollars.<sup>15</sup> A 2003 study found that household asset levels grew both for those who were solely self-employed and "patchers," those with both wage and self-employment income, though gains were stronger for those with self-employment income only.<sup>16</sup> Patching income is a major phenomenon in both rural and urban areas, but it is difficult and beyond the scope of this report to determine how many of those businesses assisted by the Nebraska Microenterprise Development Act would be solely self-employed and how many would be "patchers." For the purposes of this report, therefore, we will impute a one year household asset increase of \$3,395 for each of the 184 to 198 microenterprise businesses created or expanded with assistance from the Nebraska Microenterprise Development Act.

All the findings detailed in this report are for a one year period based on a one year \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act, in this case fiscal year 2009-10. Economic effects for subsequent years would be adjusted upward or downward depending upon economic conditions, the rate of inflation and other factors.

## Analysis

Table 1 outlines the total potential one year economic outcomes of a \$1.5 million annual appropriation to the Nebraska Microenterprise Development Act. Each scenario employs the methodology, assumptions and data outlined herein.

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<sup>15</sup> Edgcomb and Klein at 70.

<sup>16</sup> Klein, J., Alisultanov, I., Blair, A. 2003. *Microenterprise as a Welfare to Work Strategy: Two-Year Findings*. Washington, DC: FIELD (Aspen Institute).

Table 1 shows that the potential economic effects of a one year \$1.5 million investment in the Nebraska Microenterprise Development Act are significant. At worst and based on the lowest job creation and wage scenario, stable funding for the Nebraska Microenterprise Development Act would have over \$6 million worth of direct economic outcomes, over a 4:1 return on one year of funding. At best, stable funding for the Nebraska Microenterprise Development Act would result in over \$10 million worth of direct economic outcomes, nearly a 7:1 return on one year of funding.

|   | <b>184 Businesses</b> | <b>198 Businesses</b> |
|---|-----------------------|-----------------------|
| <i>Jobs Created</i>   | 294                   | 317                   |
| <i>Wages Paid –Low<br/>(minimum wage,<br/>\$13,300/job)</i>       | \$3,910,200           | \$4,216,100           |
| <i>Wages Paid – High<br/>(average micro bus.<br/>wage/salary)</i> | \$7,356,468           | \$7,931,974           |
| <i>Total Owner Income<br/>Effect (\$9,005/bus.)</i>               | \$1,656,920           | \$1,782,990           |
| <i>Total Owner Asset<br/>Growth Effect<br/>(\$3,528/bus.)</i>     | \$ 649,152            | \$ 698,544            |
| <b>Total Economic<br/>Outcomes</b>                                |                       |                       |
| <i>Low (low wages)</i>  | \$6,216,272           | \$6,697,634           |
| <i>High (high wages)</i>  | \$9,662,540           | \$10,413,508          |

**Table 1. Nebraska Microenterprise Development Act  
Economic Outcome Scenarios**

Some of the caveats presented in the Aspen Institute publication *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* should be noted here. Neither the research documented there nor the figures presented in this report are the result of control group research; as a result, “changes in income earned and employment generated cannot be ascribed causally” to any microenterprise services that may be received as a result of resources provided to the Nebraska Microenterprise Development Act.<sup>17</sup> In addition, as with those clients represented in the MicroTest data, anyone receiving microenterprise services as a result of Nebraska Microenterprise Development Act funding will have varying degrees of business experience and will receive varying degrees of service.<sup>18</sup>

However, as the Aspen Institute report states, even assuming only half the total economic outcomes outlined for each scenario in Table 1 are due to services obtained as a result of

<sup>17</sup> Edgcomb and Klein at 50.

<sup>18</sup> *Id.*

funding appropriated to the Nebraska Microenterprise Development Act leads to the conclusion that state funding of microenterprise development services will have significant positive effects for the state's economy, and represents a potential positive return on a public investment.

It is also important to note the values in the scenarios in Table 1 capture only one year's estimated outcomes and are based on one year of Nebraska Microenterprise Development Act funding. Additional economic benefits – such as stronger income and asset growth – will surely materialize after businesses mature and reap the benefits of training and assistance from the state's microenterprise development organizations. More Nebraska businesses – who employ more Nebraskans – will also develop in subsequent years of state funding. And wage, employment, income and asset levels will likely grow as microenterprise development organizations build capacity and provide assistance and service to more businesses and entrepreneurs in subsequent years of Nebraska Microenterprise Development Act funding.

Economic benefits of the state's investment in the Nebraska Microenterprise Development Act do not fall equally on all parts of the state. For example, based on 2007-2008 data from the Nebraska Enterprise Fund, Lancaster County witnessed the highest rate of microenterprise loans and loan amount of any county in the state. Businesses in Lancaster County received 18 percent of microloans from July 2007 to July 2008, and 15 percent of the total loan amount during the same period.<sup>19</sup> Assuming the percentage of microloans in Lancaster County would remain the same for \$1.5 million in microenterprise funding in the next biennium budget, 33 to 36 microbusinesses would be created in Lancaster, with 53 to 57 jobs created. The total potential economic effects of microenterprise development in Lancaster County resulting from the \$1.5 million one year investment in the Nebraska Microenterprise Development Act would be between \$1.1 million to nearly \$2 million. Over five years, the potential economic effects in Lancaster County for the state's investment in the Nebraska Microenterprise Development Act range from \$4.4 million to \$7.7 million.

The Nebraska Microenterprise Development Act, of course, is not a one year program and the businesses created, expanded or assisted pursuant to its funding will exist for varying lengths of time with differing economic outcomes over time. Some businesses created, expanded or assisted through state investment in the Nebraska Microenterprise Development Act will also, unfortunately, terminate at some point. A five-year longitudinal study of microenterprises found that 57 percent of businesses survived after five years.<sup>20</sup> Therefore, this report also estimates the economic outcomes of a one-year \$1.5 million investment in the Nebraska Microenterprise Development Act over a five year period. In order to do so, we assume a 10 percent annual attrition in businesses created or expanded as a result of services received pursuant to Nebraska Microenterprise Development Act funding with 57 percent of the businesses existing in the fifth year. The total economic outcomes presented in Table 1 are multiplied by the percentage of

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<sup>19</sup> Nebraska Microenterprise Fund. 2009. *Report to the Legislature on the Nebraska Microenterprise Development Act*.

<sup>20</sup> Clark, P. and Kays, A. 1999. *Microenterprise and the Poor*. Washington, DC: Aspen Institute.



businesses assumed to exist at the end of each year (for example, 90 percent of business are assumed to exist in Year 2; 90 percent of total economic outcomes in Table 1 are attributed to Year 2).

Table 2 outlines the total estimated five year economic outcomes of funding for the Nebraska Microenterprise Development Act for each of the outlined scenarios. The lowest scenario results in over \$24 million in outcomes, over a 16:1 return on a one year \$1.5 investment; the highest scenario results in over \$41 million in outcomes, nearly a 28:1 return on a one year \$1.5 million investment.

Table 2 shows significant positive returns on the investment in the Nebraska Microenterprise Development Act even assuming nearly half the businesses from Year 1 do not exist by Year 5. The data in Table 2 is also likely understated to some degree because it assumes static wages, employment, owner income and owner assets over five years. As surviving businesses grow and mature all these factors are likely to increase or grow, thus enhancing economic outcomes. This report also does not consider additional businesses that may be created or expanded in Years 2 through 5 of the program. While Nebraska Microenterprise Development Act funding will continue assisting businesses created in the first year, each of the next four years will witness additional businesses created and expanded as a result of the program, further multiplying economic outcomes.

|                         | <b>184 Businesses</b> | <b>198 Businesses</b> |
|-------------------------|-----------------------|-----------------------|
| <i>5-Year Low Wage</i>  | \$24,678,600          | \$26,581,606          |
| <i>5-Year High Wage</i> | \$37,929,284          | \$41,341,627          |

**Table 2. Five-Year Total Economic Outcomes of the Nebraska Microenterprise Development Act**

Finally, it is important to note, as articulated in the Aspen Institute report and other research, that the estimates of the Table 1 scenarios do not “include the full range of financial benefits” that businesses may produce in local communities.<sup>21</sup> Reductions in public benefits, taxes paid, the local multiplier effect of enhanced income and asset levels, enhanced income and asset levels for employees, the local multiplier effects of employment and wages paid by businesses and the civic and economic effects locally-owned small businesses bring to communities are examples of other benefits that would result from rural businesses created and assisted as a result of the Legislature’s investment in the Nebraska Microenterprise Development Act.

Research has also shown that local small business creation has a multiplier effect in creating other jobs in the local economy. A study of the Northeast Entrepreneur Fund, a microenterprise development organization in northeast Minnesota and northwest Wisconsin (much of which is rural), found that for “every job created by a (Northeast

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<sup>21</sup> *Id.* at 51

Entrepreneur Fund) customer's firm, an additional 0.9 jobs are created in the local economy."<sup>22</sup>

## **Conclusion**

Investing in initiatives such as the Nebraska Microenterprise Development Act has great potential to spur innovation and job creation in rural communities and urban neighborhoods. As an expression of entrepreneurial development, the Nebraska Microenterprise Development Act provides opportunities for an economic development model that meets the needs of many communities and neighborhoods. The Federal Reserve Bank of Kansas City states that, "... entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens and help rural communities operate in the global economy."<sup>23</sup>

Asset-building strategies are equally important. Greater income alone cannot lead to economic well-being for individuals and families; assets like homes and business lead to long-term economic and financial stability of households and families. Assets like businesses and houses also bond residents to a place and help to build sustainable communities. A commitment to asset-building strategies such as the Nebraska Microenterprise Development Act will lead to stronger individuals, families, neighborhoods and communities.

Entrepreneurship and asset-building are economic development strategies that have the potential to repopulate rural areas, attack the root causes of poverty, and address the continuing and growing economic disparities. Initiatives such as the Nebraska Microenterprise Development Act recognize the importance of entrepreneurship as an economic and community development strategy and provide the opportunity for people, communities and neighborhoods to leverage the spirit, creativity, and opportunities entrepreneurship creates.

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## **About the Center for Rural Affairs**

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice,

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<sup>22</sup> Sevron, L. and Doshma, J. "Microenterprise and the Economic Development Toolkit: A Small Part of the Big Picture." *Journal of Developmental Entrepreneurship*, 5, no. 3, (December 2000): 183-208.

<sup>23</sup> Federal Reserve Bank of Kansas City, Center for the Study of Rural America. 2002. "Are High-Growth Entrepreneurs Building the Rural Economy." *The Main Street Economist*, August 2002.

environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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