



July 26, 2023

Mr. Chairman and Members of the House Committee on Small Business,

Thank you for the opportunity to share this testimony with you. My name is Lisa Smith, and I am the Executive Director of the Washington State Microenterprise Association (WSMA). Since 2004, WSMA has been a leader in strengthening small businesses in Washington state by supporting nonprofit microenterprise development organizations, often referred to as entrepreneurial support organizations (ESOs), that provide quality business services to companies with 5 or fewer employees in every one of the 39 counties in Washington State.

I have been asked to share our insights on the rural small business support ecosystem in Washington and our perspectives on working with federal agencies. I will also share some of the concerns we have learned from our partners and businesses that are impacting rural enterprises with lending, broadband, clean water, labor, and other critical issues.

### **WSMA Role in the Rural Small Business to Support Ecosystem**

WSMA supports nonprofit organizations (ESOs) that provide business training, technical assistance, and microloans to the smallest businesses in WA to help them become stable and grow. WSMA has developed a culture of collaboration among federal, state, regional and local partners to work together by offering technical training programs, grantmaking, and resource coordination. Our organization works with over 120 nonprofit, public, and academic ESO partners that are helping small businesses start, grow, and expand their small enterprises. We have dedicated much of our programming to support rural and other historically marginalized communities through the power of entrepreneurship, to strengthen rural communities.

### **Rural Small Business Support Ecosystem**

One of the most important services WSMA provides rural businesses is resource coordination through Evergreen BizLink. We launched this platform in May of 2022, and we are in the early stages of its development. [Evergreen BizLink](#), powered by WSMA, streamlines access to vital business, workforce and financing resources 24/7 at the click of a button. This digital platform bridges the economic divide for many rural, veteran, women, LGBTQ+, Black, Indigenous and People of Color, because business technical assistance is tailored to meet their unique business needs and strengths. The

business owner initiates their search based on where they are located, the stage of their business, their size, their industry, their preferred language, the type of support needed (business planning, technical assistance, tax credits, marketing, financing, etc.) and other factors. The search instantly provides referrals to public, nonprofit and academic partners with whom the entrepreneur can reach to begin building a relationship. The value of this online resource is based on the quality of relationships with the partners on the platform. This effort would not be possible without our collaboration with the WA State Department of Commerce and the Small Business Administration (SBA), WA State Small Business Development Centers (SBDC), Washington Economic Development Association (WEDA), Minority Business Development Agency (MBDA) and Washington Main Street.

## **Federal Agencies**

WSMA continues to develop critically important relationships with representatives from federal agencies, including the Small Business Administration (SBA), United States Department of Agriculture (USDA), the Department of Veteran Affairs (DVA), Economic Development Administration (EDA) and Housing and Urban Development (HUD) to increase awareness among our nonprofit partners about federal programs designed to help support businesses in their network. This has enabled WSMA to help our nonprofit partners understand federal funding opportunities, new regulations, regional economic development strategies, and business resource networks. We work more closely with some agencies than with others, but each of these federal partners has vital programs that assist businesses on the ground in rural and urban communities with loans, export opportunities, grants, technical assistance and more. We are grateful to members of our congressional delegation who have worked with us to strengthen these relationships in our state. WSMA also works together with state agency counterparts, like the Department of Commerce, Department of Veterans Affairs and Economic Development Districts to collaborate on regional and state initiatives and to problem-solve issues that microenterprises are facing in their small rural enterprises.

## **Critical Issues Facing Small Businesses In Rural Communities**

The main issues we see on the ground in rural Washington that affect small businesses concern lending, broadband, clean water, labor, housing, childcare and limited access to business services. We work closely with our partners to help bridge some of these gaps, but there is much work ahead. We are also not experts in these areas and are only sharing our brief perspectives in this limited format as an overview.

**Small Business Lending** - Borrowing has not been easy for very small businesses because of lending practices requiring companies to have documents in place to show their capacity to pay back a loan. Financial institutions have established expectations relating to bank statements, business plans, and other documentation which many small and rural businesses may lack. In 2022, SCORE (Service Corps of Retired Executives) cited a report stating that nearly half of the loan requests in rural communities were denied, many due to this lack of documentation. However, in addition to high interest rates and poor credit history and lack of paperwork, rural businesses also face a lack of local

banks in their area from which to seek financing. One innovative strategy of how small communities have been able to innovate is through Local Investment Networks. This initiative is a collaboration of the Association of Washington Cities (AWC), Washington State University (WSU) and WSMA to bring financing opportunities to small rural businesses through local investment. Here is a webinar [Keeping Rural On The Radar Webinar: Investing in Small Businesses](#) WSMA hosted in April 2023 featuring Local Investment Networks that are investing in rural businesses. All types of lending is more effective when rural business owners can overcome barriers to accessing financing with business training and support.

**Broadband** - There is a hard-working owner of a very small business who has to drive 40-60 miles to a local library to use the internet to download orders each day. She then needed to drive back to the library the next morning to send emails updating customers on their purchases. Small rural businesses must be able to get their goods and services to their local markets or sell them online, or both. Without accessible, quality broadband, reaching online markets is not possible. Although Washington has made gains in rural broadband and some new funding has become available to support access, there are significant service gaps in the state. Rural businesses have few options for launching or growing their small business effectively if they lack reliable, quality internet services. WSMA has worked closely with the Washington State Department of Commerce to raise awareness about available broadband. We have far to go before companies can conduct business with local, state, or global markets from wherever they are based.

**Clean Water** - In Washington state we are fortunate to have abundant clean water for irrigation, manufacturing, transportation, and residential use. However, we also have significant challenges with contaminated pipes as well as stormwater runoff in our urban centers that are impacting clean water. All business owners need clean water to grow their crops, process their food-based products, and other commodities. In rural communities, runoff from farms is impacting our waterways. According to the Washington State Department of Ecology, more than 2,000 polluted waters are listed in areas where agriculture is the primary land use activity. Small businesses in rural areas of WA must have clean water to operate their businesses and also be good stewards of this valuable resource.

**Labor** - There are labor shortages in Washington, from the fields to small towns and there are a range of labor shortages in rural WA. Farmers and ranchers struggle to find people to harvest and process the food and healthcare facilities are challenged to find trained providers at wages that are competitive enough to retain them. But we also know that because of the explosion of remote work and other trends, new gaps in labor have been widening in the skilled workforce. According to a recent Western Governors University (WGU) study. "...almost 9% of positions in these rural regions seek a candidate with computer science skills but less than 1% of profiles from rural talent list this as a skill." Many rural small businesses simply don't have a large labor pool to draw from and must adapt with employees who are nearby or find creative but often expensive solutions to address their long-term needs. For example, one rural community launched their own transportation service that picks up employees from their homes as far away as 30-50 miles to bring them to work and back home each day.

**Housing** - One of the challenges with housing in rural communities is that there isn't enough housing stock. The current supply of housing is often too expensive and because of inflation, buildings are too expensive for new construction. It is hard to provide even the most basic functions such as hospitals, schools, or businesses, due to the lack of housing for new employees. USDA has programs for new construction, solar, and other rural based funding and WSMA is working with other partners on the ground to help local construction companies with financing and business technical assistance so they can hire more workers and grow their companies to build homes where they are located. Other partners are working with construction companies to integrate resilient design into their plans to respond to the impacts of the changing climate.

**Childcare** - Like housing, there are so few childcare slots in rural communities that many parents aren't able to enter the labor force. The childcare spaces that are available cost so much it can cost more than the salary that the job will bring in. One example of a functioning ecosystem is an initiative WSMA funded to support a new childcare center in a very remote community that was a collaboration of a child care technical assistance provider, local school, and an economic development organization. This ESO worked with a local school district to secure a dedicated space in a local school with reduced rent, provided training for a local childcare center to write a business plan, and offered training and technical assistance to get licensed, which in turn opened childcare slots for school district staff and the rural community. This is the kind of innovation that is possible when funding is available to support ESOs to help small businesses start and grow locally.

**Access to Business Services** - When a business has its financial and operational house in order, it is ready for opportunity. Many rural businesses, however, have received little or no relevant business support because of their location, their size, language barriers, lack of availability, high costs or inadequate resources. During the pandemic, significant barriers to accessing business support services were revealed, especially for rural and historically marginalized entrepreneurs. Businesses that didn't have a business or contingency plan couldn't pivot after the government shutdown. Those entrepreneurs who couldn't produce their financials were not eligible for PPP loans and other funding. These barriers still exist. Furthermore, ESOs received very limited support prior to the pandemic and are still underfunded, even though support has slowly grown in recent years. Many small rural service organizations are doing their best to knit together support for small businesses to reach new markets, access financing and other business resources so they are able to compete and become viable. These types of business services are so important and WSMA is working to be a partner and offer on the ground solutions to increase access for these very small businesses in rural Washington.

## **What Works**

More dedicated investment is needed for microenterprise development because it works. Thanks to funding from the Washington State Legislature in collaboration with the Department of Commerce, WSMA was able to fund \$2.3 million in January 2023 to nonprofit organizations that provide business resources, financing, and much more to companies with five or fewer employees. Yet, this funding

only covered 43% of the requested funds. Of the 68 organizations WSMA funded, 26% of the funds went to organizations supporting rural entrepreneurs but more support is deeply needed. Overall, WSMA grant funds this year enabled ESOs to provide top drawer, business training, technical assistance, and financing to over 5,000 businesses throughout Washington. They were able to assist entrepreneurs write a business plan, understand cash flow projections, learn marketing tools, strengthen their operations, access financing and develop other critical business skills so that businesses can thrive.

We are inspired to work with our federal partners and others to build the rural business services ecosystem in Washington state to reach and serve the smallest businesses. As a result, when a company is ready to grow to the next stage, our ESO partners help the business owner make the connection to SBA partners, Small Business Development Centers (SBDCs) and microlenders. As that business grows the SBDCs are there to make connections to the county economic development council, port or regional EDA funded economic development district to help that business expand. We look forward to continuing our support of rural entrepreneurs into the future. The quality and depth of the relationships on the ground matter deeply, and we work very hard to keep these relationships current and relevant.

All of these critical issues impact the success of the small rural businesses in our state. We have provided examples of collaboration among federal and local partners to solve problems on the ground. We've shared innovative strategies that bridge the gap between the business owner and the support they need to grow their business. Rural businesses face an uphill battle to operate their companies, reach new markets and expand and with additional federal investment, so much more could be possible.

Thank you for this opportunity to present this testimony. Please let me know if I can be of service to this committee in your work ahead.

Sincerely,

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