

Providing
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The CDFI Data Project

Fiscal Year 2006



Community
Development
**Microenterprise
Financing**

Community Development Microenterprise Financing

Microenterprises are businesses with five or fewer employees that need up to \$35,000 to start up or expand and that lack access to the traditional commercial banking sector.¹

Most such businesses do not have employees in addition to the owner. Community-based financial institutions offer microenterprise development services in order to implement a variety of civic goals, including poverty reduction and the economic empowerment of traditionally disadvantaged populations, the expansion of entrepreneurial opportunities, and place-based economic development strategies.²

According to statistics compiled by the Association for Enterprise Opportunity, the trade association for microenterprise development in the United States, there were 24.5 million businesses with five or fewer employees in the United States in 2005. These businesses accounted for approximately 88% of all business establishments.³ The Aspen Institute estimates that 10 million of these microentrepreneurs are individuals who face barriers to mainstream finance and business development services. This group is largely composed of women, people of color, ethnic minorities, the disabled, and individuals on public assistance who are interested in starting a business.⁴

Conservatively, approximately 150,000 to 170,000 entrepreneurs receive microenterprise development services annually.⁵ Median microenterprise loan amounts in FY 2006 were \$8,759, and ranged from approximately \$1,440 to \$28,280.⁶ The majority of clients are women (55%), minori-

ties (67%), and low income (80% of regional medians as defined by the Department of Housing and Urban Development) (73%). Approximately 28% of clients were in poverty at intake, and 8% report receiving Temporary Assistance for Needy Families benefits.⁷

Services Offered to Microenterprises

Microenterprise development programs typically offer a variety of services. Business development services, in the form of training and technical assistance, are by far the most commonly offered and utilized. This assistance helps to expand business ownership to those who have a good understanding of the product or service offered, but have little management experience. According to an industry-wide assessment of the domestic microenterprise industry, lending is offered by 64% of programs nationwide, and approximately 20% of clients accessed a microenterprise loan in 2002.⁸ Nearly all of the CDFIs in this study offer lending services. In addition, many of the CDFI programs offer various financial literacy and asset-building services, including personal credit repair and individual development account (IDA) savings programs.

CDFIs and Microenterprise

Microlending is a reported activity of many CDFIs; for some, it is a significant focus of their efforts. Of the 505 CDFIs that reported to the CDP, 24% (122 CDFIs) reported microenterprise financing in FY 2006.⁹ Together the microenterprise portfolios in this group of 122 CDFIs totaled \$105.4 million. Approximately 3% of outstanding transactions are microenterprise transactions (11,777 microenterprise transactions¹⁰ out of 348,558 total transactions¹¹). This represents the fourth-largest number of transactions, behind consumer loans, housing, and other.

While the average microenterprise portfolio at the end of FY 2006 was \$863,782, the range of microenterprise portfolios in the group was very broad, from a low of \$1,965 to a high of more than \$17 million. Twenty-six CDFIs held at least \$1 million in microenterprise financing. The median number of microenterprise transactions by a CDFI was 30, with the range stretching from one to 2,240 transactions.¹²

Figure 1: Services by CDFIs with Microenterprise Programs

	Clients	CDFIs
Business development training	39,705	83
Business development technical assistance	32,026	92
IDAs	3,643	24

¹ Association for Enterprise Opportunity.

² The CDFI Data Project (CDP) authors would like to thank Ilgar Alisultanov for his assistance in analyzing the CDP FY 2006 data set for this brochure.

³ Association for Enterprise Opportunity.

⁴ Elaine Edgecomb and Joyce Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States* (Aspen Institute, 2005).

⁵ *Ibid.* The estimate was made based on FY 2000 data. It is assumed that the number of entrepreneurs who receive services annually has grown since then.

⁶ MicroTest FY 2006 data. MicroTest, an initiative of FIELD, is a management tool that empowers microenterprise practitioners to gauge and improve the performance of their programs and the outcomes of their clients. The MicroTest performance framework, developed through a collaborative effort with industry practitioners since 1997, has been used by more than 70 microenterprise organizations.

⁷ *Ibid.*

⁸ 2005 Data Collection Project, which surveyed the U.S. microenterprise industry in FY 2002; the Aspen Institute; and the Association of Enterprise Opportunity.

⁹ These figures are based on all CDFIs reporting at least \$1 outstanding in microfinancing at the end of FY 2006. Out of these 122 organizations, nine did not report the number of outstanding transactions.

¹⁰ One hundred and thirteen CDFIs reported the number of outstanding microfinance transactions.

¹¹ There were 568,608 outstanding transactions in total in FY 2006. Out of these transactions, however, only 61% (348,558) were identifiable with a particular economic sector or purpose.

¹² These figures are based on 113 CDFIs reporting the number of outstanding microfinance transactions.

Microenterprise Financing

Sylva, NC

Featuring Mountain BizWorks

After years of planning and dreaming, plus training, consulting, and financing from **Mountain BizWorks**, German-born Dieter Kuhn and his wife, Sheryl Rudd, opened Heinzelmännchen, a microbrewery that creates an assortment of traditional German beers made with wholesome grains, fresh hops, and no preservatives.

The couple—and beer lovers throughout the region—celebrated the brewery’s third anniversary in 2007.

“The people at Mountain BizWorks eagerly helped us after the loan was granted and were available for questions, concerns, crises, networking, and, of course, celebrations!”

Dieter Kuhn
Co-owner,
Heinzelmännchen Brewery

Mountain BizWorks began in 1989 with two employees and a small office. Originally known as Mountain Microenterprise Fund, the organization was created to extend very small loans, typically \$500 to \$8,000, to individuals seeking to start locally owned businesses. Mountain BizWorks serves western North Carolina and has provided business training to nearly 3,000 entrepreneurs and loaned more than \$1 million to business owners who were unable to obtain capital from traditional lenders.

To left: Dieter Kuhn and his wife, Sheryl Rudd.



Figure 2 distributes the 122 CDFIs engaged in microenterprise financing according to the size of their microenterprise portfolio. Microenterprise lending can be a relatively large or small percentage of total lending in all portfolio categories. Large lenders make the bulk of microenterprise lending. Seventy-two percent of the total microenterprise financing portfolio is held by those CDFIs with microenterprise portfolios in excess of \$1 million. Some of these lenders have very large, very diverse portfolios, with microloans making up a relatively small percentage of total lending. However, the three largest microenterprise lenders devote 100% of their lending to microenterprise.

Figure 3 shows the incidence of microenterprise financing among CDFIs. While financing microbusinesses is a part of the activities of 40% of all CDFIs, 12% of all CDFIs have made microfinancing the main focus of their community development activities.

Figure 2: Size of Microenterprise Portfolios within CDFIs (FY 2006 data)

Size of Micro Portfolio	Number of CDFIs	Average Micro Portfolio	Average Total Portfolio	Range of % of Total Portfolio in Micro	Total Micro Portfolio
Less than \$250,000	55	\$97,512	\$10,758,642	0.01% – 100%	\$5,363,180
\$250,001 to \$500,000	19	\$378,242	\$5,198,608	1.41% – 100%	\$7,186,595
\$500,001 to \$1,000,000	22	\$748,166	\$74,295,468	0.06% – 100%	\$16,459,658
More than \$1,000,000	26	\$2,937,382	\$48,798,173	0.36% – 100%	\$76,371,922
Total	122	\$863,782	\$29,456,981	0.01% – 100%	\$105,381,355

Figure 3: Incidence of Microenterprise Financing

Microenterprise (ME) Transactions	Number of CDFIs	Percentage of All Reporting CDFIs	Percent of Active Microlenders
All reporting CDFIs	282 ¹³	100%	n = 113
Have at least one ME transaction	113	40%	100%
At least 50% of all transactions are ME transactions	35	12%	31%
100% of transactions are ME loans	21	7%	19%

¹³ Out of 505 CDFIs in the database, 282 reported the breakdown of the financing outstanding by a particular economic sector or purpose.

The CDFI Data Project

The CDFI Data Project (CDP) is an industry collaborative that produces data about CDFIs. The goal of the CDP is to ensure access to and use of data to improve practice and attract resources to the CDFI field. The CDP collected FY 2006 data on 505 CDFIs. The data set includes approximately 100 data points on operations, financing, capitalization, and impact. Supported by the Annie E. Casey Foundation, the John D. and Catherine T. MacArthur Foundation, HSBC Bank USA, and the W. K. Kellogg Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner Organizations

> Aspen Institute

www.fieldus.org

National nonprofit that disseminates best practices and educates policymakers, funders, and others about microenterprise

> Association for Enterprise Opportunity

www.microenterpriseworks.org

National member-based trade association of more than 500 microenterprise development programs

> Coalition of Community Development Financial Institutions

www.cdfi.org

Lead organization in the United States that promotes the work of CDFIs

> Community Development Venture Capital Alliance

www.cdvca.org

Certified CDFI intermediary that serves community development venture capital funds through training, financing, consulting, research, and advocacy

> National Community Investment Fund

www.ncif.org

Certified CDFI that channels equity, debt, and information to locally owned banks, thrifts, and selected credit unions with a primary purpose of community development

> National Federation of Community Development Credit Unions

www.cdpu.coop

Certified CDFI intermediary that serves more than 200 low-income credit unions across the United States

> Opportunity Finance Network

www.opportunityfinance.net

Leading national network of CDFIs that lends prudently and productively in unconventional markets

For more information on the CDFI Data Project, contact any of the partner organizations or Jon Schwartz of Opportunity Finance Network at jschwartz@opportunityfinance.net (215.320.4308).

Portfolio Risk and Sustainability

Microenterprise loans usually carry a higher level of risk than other types of CDFI investments. Because they are an important element of the community strategies of many CDFIs, microenterprise programs need to expertly balance risks and community benefits. As can be seen in Figures 4 and 5, delinquencies are being effectively managed. Risks are maintained at a prudent level, and the portfolio indicators have strengthened over time.

Because of their size, risk, and pricing for charitable purpose, the income earned from microenterprise loans rarely covers the costs of origination, collection, and management. In addition, many microenterprise lenders offer training and technical assistance in business and financial management. Ongoing public and charitable investment is needed to serve this market. However, with some programs implementing innovations in program efficiency, pricing, and scale, average rates of operational self-sufficiency have been increasing over time (see Figure 6).

Figure 4: Delinquency Data for FY 2006

	31–60 Days Late	61–90 Days Late	91–Plus Days Late	Average Direct Financing Outstanding Portfolio
Microenterprise-focused CDFIs ¹⁴	1.60%	0.97%	2.42%	\$3,024,769 (n = 33)
All other CDFIs	2.57%	1.08%	2.60%	\$28,908,505 (n = 82)

Figure 5: Portfolio Indicators of Microenterprise-Focused CDFIs (have at least 50% of their portfolio dedicated to micro)

Portfolio at Risk	2001	2002	2003	2004	2005	2006
> 30 days	15.1% (n = 43)	13.6% (n = 29)	13.6% (n = 27)	11.1% (n = 29)	7.6% (n = 33)	5.0% (n = 33)
Write-offs	5.7% (n = 42)	8.8% (n = 30)	8.1% (n = 28)	6.9% (n = 25)	4.2% (n = 36)	3.5% (n = 34)

Figure 6: Microenterprise Lending Program Sustainability

Sustainability Measures	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Average operational self-sufficiency	31% (n = 50)	28% (n = 57)	34% (n = 49)	22% (n = 41)	43% (n = 43)	47% (n = 37)
Top performance in operational self-sufficiency	59% (n = 10)	52% (n = 11)	56% (n = 10)	41% (n = 8)	74% (n = 8)	81% (n = 7)

Note: Some indicators may slightly differ from previous publications due to updated information.

¹⁴ At least 50% of all transactions are microenterprise transactions.