

Providing  
Capital  
Building  
Communities  
**Creating Impact**



Community  
Development  
**Microenterprise  
Financing**

## What is microenterprise?<sup>1</sup>

Microenterprises are businesses with five or fewer employees that generally require less than \$35,000<sup>2</sup> to start up or expand and that do not have access to the traditional commercial banking sector.<sup>3</sup> Most microentrepreneurs are self-employed and do not have employees. Despite their small size, microenterprises are an important part of the U.S. economy. According to statistics compiled by the Association for Enterprise Opportunity, the trade association for domestic microenterprise development, there were 22.5 million businesses with five or fewer employees in the United States in 2003. These businesses accounted for approximately 87% of all business establishments. The Aspen Institute estimates that 10 million of these microentrepreneurs 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.<sup>4</sup>

Because of this, many community-based financial institutions offer microenterprise development services to implement a variety of civic goals, including reduction of poverty, the economic empowerment of traditionally disadvantaged populations, the expansion of entrepreneurial opportunities,

and place-based economic development strategies. In fact, more than 500 service providers serve 175,000 to 200,000 entrepreneurs with microenterprise development services annually.<sup>5</sup> The majority of clients are women (55%), minorities (56%), and low income (80% of regional medians as defined by HUD) (65%). Approximately 30% of clients were in poverty at intake, and 8% reported receiving TANF benefits.<sup>6</sup> In aggregate in 2002, microenterprise lenders held \$114.3 million in outstanding loans to 13,231 entrepreneurs.<sup>7</sup> The median microenterprise loan amount in FY 2004 was \$8,006, with loans ranging from approximately \$1,100 to \$22,400.<sup>8</sup>

Clients participating in microenterprise program services report an array of positive outcomes. In 2004, 17 microenterprise programs interviewed clients of their programs who received services in FY 2002, and asked these clients about their experiences in 2003. Over 80 percent of clients achieved what they set out to do—to open and sustain a business enterprise. Three-quarters of those owning businesses reported drawing income from their business to support household expenses. Overall the median changes in sales (+26%), owner's draw (+228%) and household income (+28%) were all positive. Employment in

<sup>1</sup> The CDFI Data Project (CDP) authors would like to thank Ilgar Alisultanov for his assistance in analyzing the CDP FY 2004 database for this chapter.

<sup>2</sup> In previous years the CDP defined a microenterprise loan as less than \$25,000. The \$35,000 threshold is the one most commonly used currently by the industry.

<sup>3</sup> Association for Enterprise Opportunity.

<sup>4</sup> Edgcomb, Elaine and Joyce Klein; Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States. (Aspen Institute, February 2005)

<sup>5</sup> Ibid.

<sup>6</sup> The estimate was made based on FY 2002 data. It is assumed that the number of entrepreneurs who receive services annually has grown since then.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

addition to the owner increased 111%. In addition, there was an overall net reduction in the number of owners whose families lived in poverty (- 36%). Furthermore, a subset of high-performing businesses experienced very strong growth in revenues, owner's draw and employment.<sup>9</sup>

### Assistance Received by Business Owners

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 used. This assistance helps to expand business ownership to those with a good understanding of the product or service offered but little management experience. Lending is offered by 64% of programs nationwide, although for CDFIs offering microenterprise services this

figure is effectively 100%. Approximately 20% of clients accessed a microenterprise loan in FY 2002.<sup>10</sup> In addition, many 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, and for some it is a significant focus of their efforts. Of the 517 CDFIs that reported to the CDP for FY 2004, 40% (113 CDFIs) hold some microenterprise loans in portfolio.<sup>11</sup> The total microenterprise portfolio in this group of 113 CDFIs amounts to \$82.1 million. Approximately 6.2% of outstanding loans (10,119 microenterprise loans out of 164,198 total loans)<sup>12</sup> are microenterprise loans. This represents the third-largest use of CDFI funds, behind consumer loans and housing.

Although the average microenterprise portfolio at FYE 2004 is \$726,317, the range of microenterprise portfolios in the group is very broad: from a low of \$2,000 to a high of more than \$10 million. Twenty-four CDFIs hold at least \$1 million in microenterprise loans. The median number of microenterprise loans by a CDFI is 30, with the range stretching from one to 1,433 loans.

Figure 2 distributes the 113 CDFIs engaged in microenterprise lending according to the size of their microenterprise portfolio. It shows that 74% of the total microenterprise lending portfolio is held by those CDFIs with microenterprise portfolios in excess of \$1 million. The average total portfolio of these lenders is more than \$38.7 million, and microenterprise loans make up 6.5% of their loan portfolios. Basically, large microenterprise lenders are large lenders, and even though microenterprise lending represents a small fraction of their overall portfolio, it is nevertheless an important contribution to the amount of financing of microentrepreneurs in the United States. The CDFIs with microenterprise loans ranging from \$250,000 to \$1 million have a greater share of microloans in their total portfolios than either very small or very large microlenders.

**Figure 1: Services by CDFIs with Microenterprise Programs**

	Clients	CDFIs
Business development training	24,629	70
Business development tech assist	21,451	84
IDAs	2,779	24
Microloans	10,119	113

**Figure 2: Size of Microenterprise Portfolios within CDFIs, 2004 Data**

Size of Micro Portfolio	Number of CDFIs	Average Micro Portfolio	Average Total Portfolio	Percent of Total Portfolio in Micro	Total Micro Portfolio
Less than \$250,000	54	\$79,399	\$10,107,715	0.8%	\$4,287,529
\$250,001 to \$500,000	20	\$367,465	\$14,033,643	2.6%	\$7,349,307
\$500,001 to \$1,000,000	15	\$643,853	\$5,325,837	12.1%	\$9,657,793
More than \$1,000,000	24	\$2,532,464	\$38,763,564	6.5%	\$60,779,134
Total	113	\$726,317	\$16,254,005	4.47%	\$82,073,763

**Figure 3: Incidence of Microenterprise Lending**

Microenterprise Loans	Number of CDFIs	Percentage of all Reporting CDFIs	Percentage of Active Microlenders
Have at least one microenterprise (ME) loan	113	40%	100%
At least 50% of all loans are ME loans	34	12%	30%
100% of loans are ME loans	26	9%	23%

Figure 3 demonstrates the incidence of microenterprise lending among CDFIs. While lending to microbusinesses is a part of the activities of more than a quarter of all CDFIs, 12% of all CDFIs have made microlending the main focus of their community development activities.<sup>13</sup>

<sup>9</sup> MicroTest FY 2004 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.

<sup>10</sup> 2005 Data Collection Project, which surveyed the U.S. microenterprise industry in FY 2002. Aspen Institute and Association for Enterprise Opportunity.

<sup>11</sup> These figures are based on all CDFIs reporting at least \$1 outstanding in microloans at the end of FY 2004. Of the 282 CDFIs that reported the breakout of the dollar amount of their lending by type, there were 113 CDFIs with outstanding microloans. Six of those CDFIs did not report the number of outstanding microloans.

<sup>12</sup> There were more than 500,000 outstanding loans in total in FY 2004. Out of those loans, however, only 33% were identifiable with a particular economic sector or purpose.

<sup>13</sup> These numbers and the numbers in Figure 3 are for the 282 CDFIs that reported the breakout of the dollar amount of their lending by type.

# Microenterprise Financing

## Albuquerque, New Mexico

Featuring ACCION  
New Mexico



Alex Robles, Jose Valderrama, and Manuel Palma became fast friends working together at a large electric motor firm in Albuquerque. With years of experience they decided to open their own company, Jamco Electric Repair Inc. But despite quality work and attentive customer service, the business struggled in its early years. A \$15,000 line of credit and some expert advice from **ACCION New Mexico** helped the entrepreneurs turn things around and grow the firm as well as provide a secure financial future for their families.

*ACCION New Mexico is an award-winning New Mexico nonprofit organization that increases access to business credit, makes loans, and provides training, enabling emerging entrepreneurs to realize their dreams and be catalysts for positive economic and social change. ACCION New Mexico works in more than 125 urban and rural New Mexico communities.*

*To Left: Alex Robles, Jose Valderrama, and Manuel Palma, owners of Jamco Electric Repair Inc.*

### Portfolio Risk and Sustainability

Microenterprise loans generally 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, programs need to expertly balance risks and community benefits. As can be seen in Figures 4 and 5, while delinquencies are higher, the risks are maintained at a prudent level, and the portfolio indicators have remained strong over time.

**Figure 4: Delinquency Data for FY 2004**

	31–60 Days Late	61–90 Days Late	91-Plus Days Late	Average Outstanding Portfolio
Microenterprise-focused CDFIs <sup>a</sup>	3.68%	2.75%	4.72%	\$1,745,424 (n = 28)
All other CDFIs <sup>b</sup>	2.49%	0.93%	2.96%	\$19,446,830 (n = 102)

<sup>a</sup> Microenterprise-focused CDFIs are CDFIs that have at least 50% of their portfolio dedicated to microenterprise.

<sup>b</sup> Includes loan funds and banks that provided financing breakout and delinquency information.

**Figure 5: Portfolio Indicators of Microenterprise-Focused CDFIs**

Portfolio at Risk	2001	2002	2003	2004
Greater than 30 days	15.1% (n = 43)	13.6% (n = 29)	13.6% (n = 27)	11.1% (n = 29)
Write-offs	5.7% (n = 42)	8.8% (n = 30)	8.1% (n = 28)	6.9% (n = 25)

## Microenterprise Financing Boston, Massachusetts

Featuring Jamaica Plain Neighborhood Development Corporation

In Boston, a new fitness center fulfills two dreams. Omar Argote, the former general manager of a well-regarded, but now closed, gym in the South End, dreamed of opening a place of his own. With a strong business plan, high demand in the market, and more than 10 years of experience in the industry, Omar worked with the **Jamaica Plain Neighborhood Development Corporation (JPNDC)** to overcome problems with credit, cash flow, and the need for a suitable, yet affordable, business location. The opening of the gym is a promising new activity in a regenerating portion of the community.

*JPNDC was founded in 1977 to work closely with neighborhood residents, organizations, and businesses committed to planning and carrying out community development projects to benefit low-income residents of Jamaica Plain. JPNDC has built or renovated more than 404 units of housing and created 700 jobs.*

*To Left: Omar Argote looking at sites for his new gym*



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. Investment from the nonprofit sector is needed to serve this market. However, even with these constraints many programs are effective at operating efficiently and maximizing their returns. Figure 6 looks exclusively at the microenterprise portfolios of programs participating in MicroTest. As can be seen, while average rates of operational self-sufficiency have hovered around 25% to 30% for most programs, some have achieved much higher rates.<sup>14</sup>

Programs have used different organizational strategies to manage risk and program self-sufficiency. In some cases these programs are high-volume, specialized lenders, focusing on microenterprise loans exclusively. For others, the risks and returns of microenterprise loans are buffered by a much broader lending agenda. And for still others, very low costs allow relatively low-volume lending programs to operate with relatively high rates of self-sufficiency.

**Figure 6: Microenterprise Lending Program Sustainability**

Sustainability Measures	FY 2001	FY 2002	FY 2003	FY 2004
Average operational self-sufficiency (OSS)	31% (n = 50)	28% (n = 57)	34% (n = 49)	22% (n = 41)
Top performance in OSS	59% (n = 10)	52% (n = 11)	56% (n = 10)	41% (n = 8)

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

<sup>14</sup> Operational self-sufficiency is the percentage of credit program operating expenses covered by income generated by the loan fund.

# 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 and use of data to improve practice and attract resources to the CDFI field.

The CDP collected FY 2004 data on 517 CDFIs. The data set includes approximately 170 data points on operations, financing, capitalization, and impact. Supported by the Fannie Mae Foundation, the Ford Foundation, and the John D. and Catherine T. MacArthur Foundation, this initiative convenes leading organizations in the CDFI industry.

## Partner Organizations

### > Aspen Institute

[www.fieldus.org](http://www.fieldus.org)

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

### > Association for Enterprise Opportunity

[www.microenterpriseworks.org](http://www.microenterpriseworks.org)

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

### > Coalition of Community Development Financial Institutions

[www.cdfi.org](http://www.cdfi.org)

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

### > Community Development Venture Capital Alliance

[www.cdvca.org](http://www.cdvca.org)

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

### > CFED

[www.cfed.org](http://www.cfed.org)

*National nonprofit that promotes asset building and economic opportunity strategies, primarily in low-income and distressed communities*

### > National Community Investment Fund

[www.ncif.org](http://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.cdcu.coop](http://www.cdcu.coop)

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

### > Opportunity Finance Network

[www.opportunityfinance.net](http://www.opportunityfinance.net)

*Leading national network that finances, trains, consults with, and advocates for CDFIs*