

Providing
Capital
Building
Communities
Creating Impact

Fiscal Year 2005



Community Development Microenterprise Financing

Microenterprises are businesses that have five or fewer employees, that need up to \$35,000 in order to start up or expand, and that do not have access to the traditional commercial banking sector.¹ Most microenterprise businesses do not have employees in addition to the owner. Community-based financial institutions offer microenterprise development services to implement a variety of civic goals, including poverty reduction, economic empowerment of traditionally disadvantaged populations, expansion of entrepreneurial opportunities, and place-based economic development strategies.²

According to statistics compiled by the Association for Enterprise Opportunity, there were 23.5 million businesses with five or fewer employees in the United States, based on 2004 data. These businesses accounted for over 87% of all business establishments.

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.³

Conservatively, approximately 150,000-170,000 entrepreneurs receive microenterprise development services annually.⁴ Median microenterprise loan amounts in FY 2005 were \$8,603, ranging from approximately \$950 to \$20,044.⁵ The majority of clients are women (56%), minorities (64%), and low-income (80% of regional medians as defined by HUD) (71%). Approximately 25% of clients were in poverty at intake, and 9% reported receiving Temporary Assistance for Needy Families (TANF) benefits.⁶

¹ Association for Enterprise Opportunity, the trade association for microenterprise in the United States.

² The CDP authors would like to thank Ilgar Alisultanov for his assistance in analyzing the CDP FY 2005 database for this chapter.

³ Edgcomb, Elaine, and Joyce Klein. (February 2005). *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. The Aspen Institute.

⁴ *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.

⁵ MicroTest FY 2005 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.

⁶ *Ibid.*

What Assistance Do Business Owners Receive?

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 expand business ownership to those who have a good understanding of the product or service offered but who have little management experience. According to an industrywide assessment of the domestic microenterprise industry, lending is offered by 64% of the programs nationwide, and approximately 20% of clients accessed a microenterprise loan in FY 2002.⁷ 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 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 496 CDFIs that reported to the CDP, 21% (106 CDFIs) reported microenterprise financing in FY 2005.⁸ The total amount of microenterprise portfolio in this group of 106 CDFIs was \$100.4 million. Approximately 3% of outstanding transactions⁹ are microenterprise transactions (10,308 microenterprise transactions¹⁰ out of 297,686 total transactions¹¹). This represents the third-largest use of CDFI funds, behind consumer loans and housing.

While the average microenterprise portfolio at the end of FY 2005 was \$946,764, the range of microenterprise portfolio in the group was very broad, from a low of \$6,200 to a high of more than \$14 million.¹² Twenty-two CDFIs held at least \$1 million in microenterprise financing. The median number of microenterprise transactions by

a CDFI was 34, with the range stretching from one to 1,849 transactions.¹³

Figure 2 distributes the 106 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. Three-quarters 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 their 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. Although financing microbusinesses is a part of the activities of 38% of all CDFIs, 7% of all CDFIs have made microfinancing the main focus of their community development activities.

Figure 1: Services by CDFIs with Microenterprise Programs

	Clients	CDFIs
Business development training	59,050	71
Business development technical assistance	61,410	81
IDAs	3,357	27
Microfinancing	5,813	92

Figure 2: Size of Microenterprise Portfolios within CDFIs (2005 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	45	\$123,092	\$11,720,611	0.3%–100%	\$5,539,161
\$250,001 to \$500,000	21	\$368,196	\$3,332,058	2.7%–100%	\$7,732,120
\$500,001 to \$1,000,000	18	\$738,538	\$18,667,677	0.4%–100%	\$13,293,689
More than \$1,000,000	22	\$3,354,185	\$52,564,581	0.2%–100%	\$73,792,061
Total	106	\$946,764	\$19,715,469	0.2%–100%	\$100,357,031

Figure 3: Incidence of Microenterprise (ME) Financing

Microenterprise Transactions	Number of CDFIs	Percentage of all Reporting CDFIs	Percentage of Active Microlenders
All reporting CDFIs	266 ¹⁴	100%	n = 100
Have at least one microenterprise transaction	100	38%	100%
At least 50% of all transactions are ME transactions	37	14%	37%
100% of transactions are ME loans	18	7%	18%

⁷ 2005 Data Collection Project, which surveyed the U.S. microenterprise industry in FY 2002; the Aspen Institute; and Association of Enterprise Opportunity.

⁸ These figures are based on all CDFIs reporting at least \$1 outstanding in microfinancing at the end of FY 2005. Out of these 106 organizations, six did not report the number of outstanding transactions.

⁹ Transactions include (1) loans outstanding, (2) debt with equity outstanding, and (3) equity outstanding. Loans accounted for 99.74% of the number of all transactions and 99.42% of the dollar amount of all transactions.

¹⁰ One hundred CDFIs reported the number of outstanding microfinance transactions

¹¹ There were 536,313 outstanding transactions in total in FY 2005. Out of these transactions, however, only 55% (297,686) were identifiable with a particular economic sector or purpose.

¹² These figures are based on 106 CDFIs reporting the dollar amount of outstanding financing for microenterprise.

¹³ These figures are based on 100 CDFIs reporting the number of outstanding microfinance transactions.

¹⁴ Out of 496 CDFIs in the database, 266 reported the breakdown of financing outstanding by a particular economic sector or purpose.

Small Business Financing Lincoln, Nebraska

Featuring
Nebraska Microenterprise
Partnership Fund



Self-employment offered Eileen Curry a way to overcome a disability and to build back her lifelong savings. Ten years ago, she was diagnosed with a brain tumor. The surgery saved her life and restored her ability to walk and talk, but emptied her retirement savings. Occasional seizures made traditional employment difficult. Assistance from **Nebraska Microenterprise Partnership Fund** helped her write a business plan and purchase a special machine that allowed her to open a family counseling business in Nebraska.

Recognizing a need to support programs that serve Nebraska's small and micro businesses, the Nebraska Microenterprise Partnership Fund's mission is to mobilize, allocate, leverage, and link strategic local, state, and national resources with community-based organizations that provide financial and technical assistance to Nebraska's businesses.

To Left: Small business owner Eileen Curry

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, though delinquencies are slightly higher, the risks are maintained at a prudent level, and the portfolio indicators have remained strong over time.

¹⁵ At least 50% of all transactions are microenterprise transactions.

Figure 4: Delinquency Data for FY 2005

	31–60 Days Late	61–90 Days Late	91-Plus Days Late	Average Outstanding Portfolio
Microenterprise-focused CDFIs ¹⁵	2.35%	1.22%	4.02%	\$2,608,017 (n = 33)
All other CDFIs	2.55%	1.99%	2.02%	\$29,056,893 (n = 97)

Figure 5: Portfolio Indicators of Microenterprise-Focused CDFIs

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

Microenterprise Financing Chaparral, New Mexico

Featuring ACCION
New Mexico



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. Ongoing public and charitable investment is needed to serve this market. Average rates of operational self-sufficiency have hovered around 20%–30% for most programs (see Figure 6). However, some programs have been pushing innovations in program efficiency, pricing, and scale, and are approaching break-even levels.

Rural communities can be very isolated. Chaparral, New Mexico, a colonia on the US–Mexican border, is just such a place. This dusty patch of trailers and small houses lacks adequate water, sewer, and many basic services. Evangelina Morano grew tired of watching neighbors drive miles to get a copy made or buy diapers, so she started a neighborhood convenience store. Her inventory was first capitalized with a \$3,285 loan from **ACCION New Mexico**. Today the store is a valued asset to Evangelina and to this isolated community.

ACCION New Mexico is a New Mexico 501(c)(3) nonprofit organization that increases access to business credit, makes loans, and provides training, which enable 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. By offering loans between \$200 and \$50,000, ACCION New Mexico empowers their clients to build their credit histories and strengthen their businesses.

To Left: Evangelina Morano

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)

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

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 2005 data on 496 CDFIs. The data set includes approximately 170 data points on operations, financing, capitalization, and impact. Supported by the Annie E. Casey Foundation, the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, HSBC Bank USA, Wachovia Foundation, 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

> CFED

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

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.cdccu.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 that finances, trains, consults with, and advocates for CDFIs

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).