Microenterprise Finance

○ Serves start-up and small businesses with one to five employees
○ Combines training/technical assistance with lending
○ Targets groups historically denied access to credit and TA: low-income, minorities, women
○ Provides small loans: $500 to $35,000
○ Staff intensive programs due to small transactions and more intensive entrepreneurial assistance
○ Broader goals than traditional ED programs: poverty alleviation and human development
○ Three models: peer group lending, individual lending, training/technical assistance
  ● Decline in peer group lending: now used by < 10%
○ Approach mushroomed in past 25 years with foundation and federal government support
Program Characteristics

- 850 programs in 2014 (Aspen FIELD)
- 2014 Micro Tracker data (142 programs)
  - 99% provide training/TA: 62% supply microloans
- Average program: 1,024 individuals/609 clients
  - 714 loans/year (n=80)
  - $2.7 million loan portfolio (n=68); 4% loan losses
- Median programs smaller: 112 clients; 24 loans; $763,000 portfolio
- Clients: women (72%); people of color (81%) and low/moderate income (68%)
- Average operating costs: $1.49 million/year
  - $2,360/individual and $4,526/client
- Average 23% cost recovery rate; 33% for lenders
Heavily Grant Dependent

Figure 8: Microenterprise program operating income sources from The Aspen Institute Data Highlights has been removed due to copyright restrictions.
Focus on TA and Training

**Figure 13:** Business development services offered from The Aspen Institute Data Highlights has been removed due to copyright restrictions.
Majority of programs within a CDFI or CDC

- In Boston:
  - CDC-based programs at JPNDC and DBEDC
  - Accion stand-alone MEP organization

*Figure 10: Organization type* from The Aspen Institute Data Highlights has been removed due to copyright restrictions.
Program Outcomes

- Studies report mixed outcomes:
  - Some show positive impacts with income gains lifting a large share of participants out of poverty
  - Others show modest job impacts and income gains
  - Most effective program have job impacts on the scale of small RLFS: 100 to 200 per year
  - Many businesses are self-employment that supplement labor market income

- Differing views of economic impact
  - Efficient business development or supporting non-traded business with little net impact?
2013 Client Outcomes

- Data from 17 programs and 1,156 clients
- 888 firms: 63% FT; 35% PT/seasonal
- 51% had employees beyond owner with average of 1.9; $9,600 median annual wages

Table 1: Revenues and draw for businesses from The Aspen Institute Data Highlights has been removed due to copyright restrictions.
Michigan and Detroit Programs

- Microenterprise Network of Michigan:
  - 29 MDOs in Michigan; 2012 survey of 22
  - 10 provide loans; 13 training; 20 TA
  - Varied targeting
    - Population: Incarcerated, disabled, youth
    - Industry: food, daycare, high tech, etc.
  - Half have offices in metro Detroit
  - Six of 10 lenders are in metro Detroit
  - 2012 law: $4 million in state funding for MEPs over three years
Detroit Programs and Resources

1. Small Business Detroit Microloan Program: city and CEED partnership funded by Casino Business Development Fund
2. Kiva Detroit: Knight Foundation funded; with Accion
4. Detroit Micro-enterprise Fund
5. Opportunity Resource Fund loans for the start up or expansion of a small business
6. ACCESS Growth Center: Home-based childcare program for Refugee Women
7. Generation E Institute: youth entrepreneurial education
8. Invest Detroit First Step micro-investment program
9. Other training and TA program serve microenterprises
MEP Design & Operating Challenges

- Choosing the appropriate model and service mix
  - Trends toward individual lending model and expanded services that assist clients overtime

- Reaching and involving historically isolated groups
  - Special outreach via “enterprise agents”, partnerships, and social, community and business networks

- Managing the lending and servicing process
  - Formal lending policies and processes
  - Standards and evaluation tools that fit start-up, informal and low-income entrepreneurs: business plan, character

- Delivering diverse training & TA services
  - Address range of clients and specialized business needs; evolve over time as entrepreneurs develop

- Securing adequate and sustained operating funds
  - MEPs depend heavily on government funding (26%) followed by foundations and donors (37%)
Best Practices

- Aspen Institute FIELD Project ([www.fieldus.org](http://www.fieldus.org))
- Training
  - Pre-training assessment of readiness to start a business
  - Emphasize financial skills and real-world assignments
  - Specialized short modules to develop skills, address industry issues and provide flexibility
- Technical Assistance
  - Help to business start and succeed after training with regular contact over a one to two-year period
  - Coaching and guidance in assessing appropriate assistance (guided choice approach)
  - Growth-oriented services to help firm access markets: industry knowledge; relationship & capacity building
- New Business Models: Viet-Aid Day Care cooperative
- Integrated Approach: Neighborhood ED Center
- Lending: Accion’s customized credit scoring model
Sevron’s View of the Field

- What does she see as the key challenges facing microenterprise programs?
- What changes does she propose?
- Do you agree?
- How do they fit the challenges faced by Lawrence Working Capital?
“If the microenterprise development industry was a single business, then it could be characterized as having low market penetration, high costs, increasing competition, inadequate expenditures in R&D and technology, and promising but insufficient returns on investment”
11.437 Financing Economic Development
Fall 2016

For information about citing these materials or our Terms of Use, visit: https://ocw.mit.edu/terms.