

Funding U.S. Microenterprise: Why Now?

Microenterprise Funders Group
Silicon Valley Community Foundation

May 21, 2010
Microfinance USA 2010 Conference



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SERVING SAN MATEO AND SANTA CLARA COUNTIES

Welcome to today's session on Funding U.S. Microenterprise – Why Now? We're glad you are able to join us today. At this conference there are lots of great opportunities to learn about some of the critical issues affecting the microfinance field in the U.S., geared toward the interests of a broad variety of participants. We wanted to present a session that could speak to some of the very specific questions and issues faced by donors, funders and investors – those who provide the financial resources needed by microfinance programs. That's what this session is about.

You probably know, but I'll just restate, that the session is sponsored by two organizations: the Microenterprise Funders Group and Silicon Valley Community Foundation. The MFG is a very informal affiliation of donors who are funding in the U.S. microenterprise field, or who want to learn more about it. I'll share more about the Group at the end of this session. The MFG is staffed by the FIELD program of the Aspen Institute, which is sort of an r&d entity that supports the industry – we do some grantmaking as part of that work, although that's not predominantly who we are or what we do. I'm a senior consultant at FIELD.

Today's session:

- Up to date picture of microenterprise in the U.S.
- Hear from funders currently active in the U.S. field
- Talk with and learn from each other

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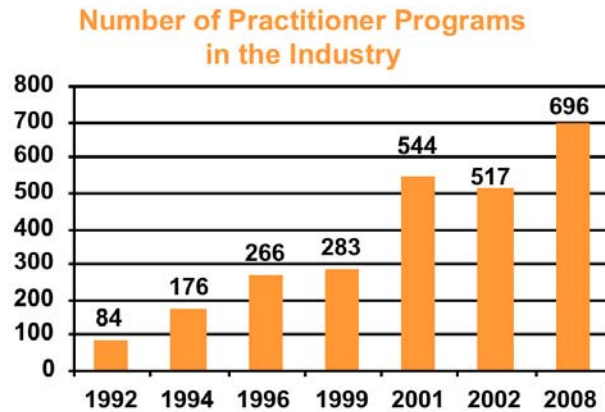


Good morning; it's a pleasure to be here today.

There are three things we want to accomplish in today's session:

- Give you a quick but good sense of the U.S. industry, and how microenterprise in the United States connects to some of the key issues we are facing as a nation. That will be based on data that FIELD has collected through its research activities.
 - Let you hear from two of your colleagues who are currently active in supporting microenterprise programs here in the U.S. I'd like to introduce them now: Amanda Feinstein, Program Officer with the Walter and Elise Haas fund. Ash Mc Neely, who is the executive director of the Sand Hill Foundation, a private family foundation that makes grants in San Mateo and northern Santa Clara counties.
- Have time to talk with each other, to hear what those of you who are hear today are doing in the field, or are interested in learning about, what your questions and issues are. Also, as you may know the next item on the agenda for the conference today is a networking lunch, and the conference organizers offered to set some tables aside for us if we'd like to continue the conversation over lunch. We'll talk about that more toward the end of the session:

Current Picture of the U.S. Field



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At FIELD we just completed a survey of the U.S. industry. Worked with a number of partner organizations, including AEO (national trade association), statewide microenterprise associations, and others, to identify and collect information from as many as we could within the industry.

We identified just under 700 organizations that are involved in directly providing services to microentrepreneurs. This is the largest number we've been able to identify. Of those, 369 microenterprise programs completed a survey detailing FY2008 information on products and services, individuals served and size of the organization, for a response rate of 56 percent.

How Many Individuals and Businesses Assisted?

Table 1: Number of Individuals and Businesses Assisted					
	Mean	Median	Minimum	Maximum	n
Number of Individuals Assisted	433	200	2	4,582	270
Number of Businesses Assisted	194	69	0	3,500	197

Survey Data:

- 116,944 individuals

Extrapolated Data:

- 274,128 individuals

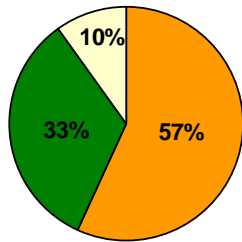


•How many people is the field reaching in the U.S.? Based on the survey, this is what we can say. The table shows summary statistics the programs that answered this question on our survey – programs serving a median of about 200 individuals and 70 businesses each year (many clients come in without a business, there are also some partnerships). Maximum can be much larger – in the thousands. Collectively, these 270 programs served almost 117,000 in 2008.

•Our staff also used the data to extrapolate and create an estimate of the individuals served by the 696 programs operating in the country. Used a weighting process, based on where programs were located and the services they offered (basically what we could get off of their web site). Came up with an estimated 275,000 individuals in FY2008.

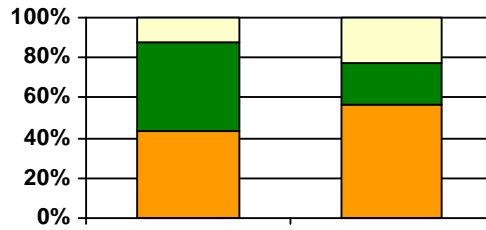
What are the Characteristics of Individuals Served?

Gender of Individuals Served



■ Women ■ Men □ Unknown
n=211

Low-Income Status of Individuals Served



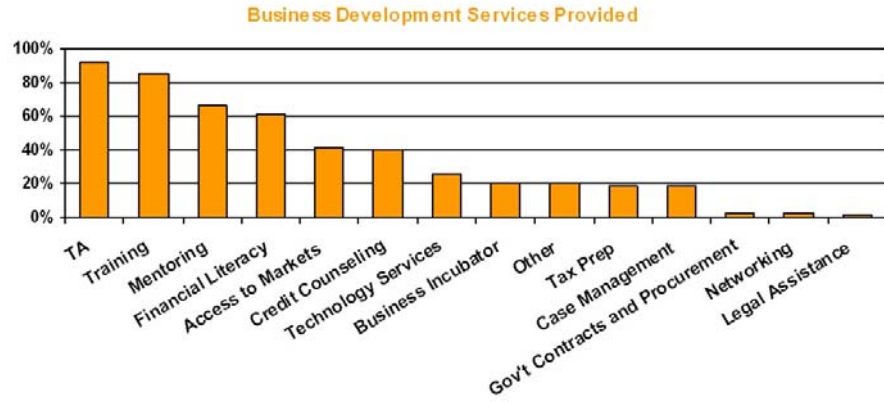
■ Below ■ Above □ Unknown

n=116

n=141



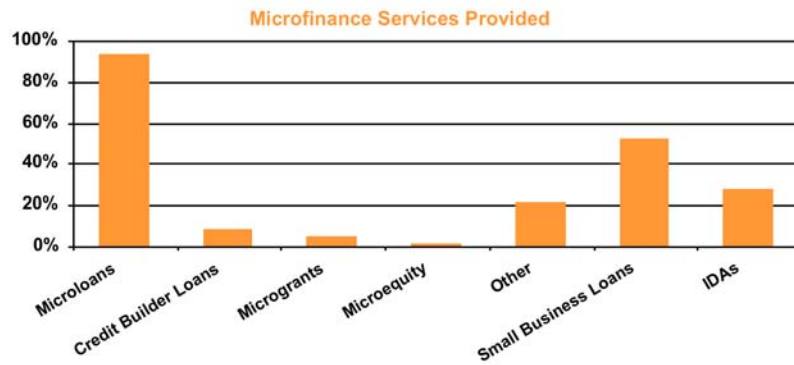
Business development services



n=266



Microfinance services



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Microenterprise programs in the U.S. also offer a range of microfinance products. Most that offer some sort of microfinance product provide microloans (business loans of less than \$35,000). About half also provide small business loans (greater than \$35,000). About a quarter offer individual development accounts (matched savings accounts), a small number offer credit builder loans (more about those later), microgrants and microequity.

What is the Volume of Microlending?

Table 2: Loans Disbursed and Outstanding in FY2008					
	Mean	Median	Minimum	Maximum	n
Number of Microloans Disbursed	44	13	0	1330	139
Dollar Amount of Microloans Disbursed	\$504,603	\$194,200	0	\$14,333,215	136
Dollar Amount of Microloans Outstanding	\$886,993	\$319,412	\$960	\$21,423,750	169

Survey Data:

- 6,178 Disbursed
- \$149.9 Million Outstanding

Extrapolated Data:

- 13,067 Disbursed
- \$240.9 Million Outstanding

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This is similar to the slide we saw about the numbers of individuals and businesses served – summary statistics about microlending (this is for business loans less than \$35,000, that first bar on the last slide). Mean, median, ranges.

What this table hints at is that the industry is dominated by a few large-scale lenders. Know that because of the significant breadth of the range, and the difference between the mean and median value.

You can see that for the 135-140 lenders that responded, disbursed 6,178 loans totaling almost \$150M. Used the estimation technique again to extrapolate to the entire field, estimate that disbursed over 13,000 totaling over \$240 million. Again, this was in 2008.

MAYBE SKIP THIS DUE TO TIME?

That's a very brief tour of the basics about the field. We have other data which I can talk about in the discussion segment, if folks have specific questions.

Job creation

**Jobs supported by Microenterprise Program Clients - end of 2008
(clients of 24 MDOs – 1,379 completed interviews, 50% response rate)**

	Jobs	Jobs per Business	n
Including Owner	3,285	3.1	1046
Excluding Owner	2,239	2.2	1046

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We also wanted to share a bit of information about how microenterprise connects to some of the critical issues that are facing our country today, in light of the recession and financial crisis we are living through. One of the critical issues is obviously job creation; although there are some signs we may be in recovery jobs are still a critical issue. We know that microenterprises create a job and some income for the owner, the question is, do they create jobs for others?

This is data from over 1000 microentrepreneurs who were clients of 24 different microenterprise programs. 50% response rate.

We have some data on job creation among the businesses assisted by microenterprise programs. This comes from our MicroTest performance measurement program. One of the things we do in that effort is we work with programs to help them to interview clients to see how they and their businesses are faring over time. Provide a survey tool, assistance with survey administration (training on how to conduct interviews, draw a sample, etc.), and clean and analyze the data.

This is data from our most recent effort, when we worked with

Job creation – grows over time



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The survey data also allows us to take a look at how job creation might unfold over time in the businesses that receive assistance from a microenterprise program. In the data set, there was a group of respondents who had received services from the microenterprise program for five years. We compared their data to that of clients that had been with the program one year. As you can see, the five-year group was significantly different (i.e. stronger) in terms of job creation than the one-year group. They were more likely to employ others (52% employed others versus 41% of the one-year group), and they employed more paid workers per business (3.05 versus 1.68).

So, again – microenterprises do create jobs, it looks like job creation grows over time, and the jobs are okay in terms of wages and amount of hours.

Job creation has been a focus of some but not all microenterprise programs (some much more focused on individual self-sufficiency of the owner); but we are now seeing more programs think more explicitly about how they can better serve existing businesses that are both stressed in this economy, but also the potential engines for

Access to business credit: Industry trends

	Q4 2008 (n=22)	Q1 2009 (n=11)	Q2 2009 (n=20)	Q3 2009 (n=13)	Q4 2009 (n=16)
Increasing:					
Demand	77%	73%	80%	69%	44%
Originations	67%	42%	50%	62%	31%
Expected Demand	95%	92%	80%	77%	63%

Source: OFN, *CDFI Market Conditions Report, Fourth Quarter 2009 (March 2010)*



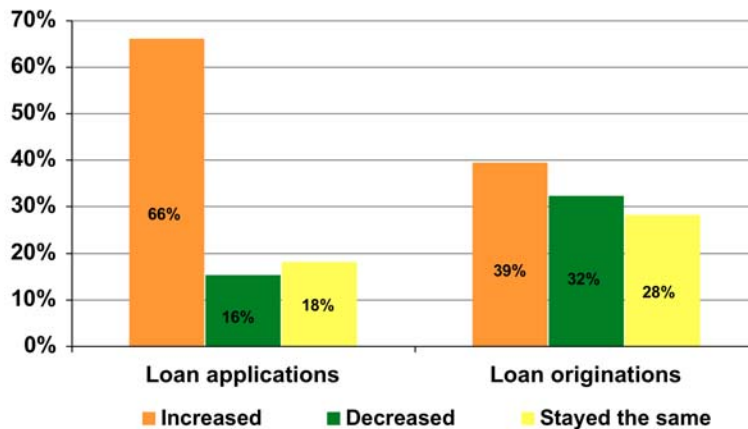
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One of the impacts of the recession and financial crisis has been the credit crunch – banks have retrenched, are no longer making business loans to those who were customers in the past. Microenterprise programs have tried to move into this breach, and have done so to some extent. At a conference last week in DC, the administrator of the SBA note that the SBA microloan program is the only one of its lending programs that has seen increased volume over the past two years (believe it was the last two). Other programs like 7a and 504 have not seen growth.

But although we believe there has been growth across the industry, it has not been universal, and it has not kept pace with demand. Have some data to give you a sense. Data from a market conditions study done by the Opportunity Finance Network, which is the network or membership group of CDFIs in the U.S. Wanted to track the impact of the recession and financial crisis on their members, so started in 2008 to do a quarterly survey of members, in Q4 2008 started to break out just data on microlenders (predominantly microlending).

What do we see – until last quarter of 2009, saw large majority of respondents experienced increasing number of applications over the last period, even higher percentages expected that demand would continue to increase. Also see, however, that originations not increasing as fast as applications – consistently lower percentages saw their originations increase from quarter to quarter.

FIELD Webinar participants (in 2009, compared to 2008)



n=72 as of 5:00 PM EST, 3/2/10

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At FIELD found similar outcome in an informal survey we conducted. We held a webinar on this topic: how were market conditions affecting demand, volume and funding. Asked registrants for the Webinar to tell us what they were seeing in terms of applications and originations. 72 responded.

Walk through data:

In talking with practitioners, we've learned that there are several factors at play here, that are affecting why originations aren't expanding to meet demand:

- It is true that some lenders lack capital to deploy. Can reference OFN data on this issue here. But for others, a more nuanced picture that includes;

- Changing profile of applicants – both weaker and stronger. Weak credit profiles and other factors (lack of secondary source of repayment, lack of cash flow coverage) among applicants

- Need to focus on existing portfolio

- Lack of capacity to process increased number of applications

- There are more resources available – through stimulus funding, appropriations at Federal level, and investment capital from the private sector. The issue is the lack of funding to build the capacity to expand lending – systems, staff, skill building, marketing and outreach, loss reserves/core capital.

Credit Challenges: U.S. Statistics

- Bankruptcy rate: 2.7 /1000
 - Median Credit card debt: \$2,960
 - Median installment debt: \$14,887
 - Foreclosure rate: 3.0%
 - Mortgage debt as % of home value: 76.9%
 - High-cost mortgage loans: 17.5%
- Source: <http://scorecard.cfed.org/downloads/pdfs/nationalProfile/unitedstates.pdf>



A last trend or critical issue affecting this country is that credit scores and credit worthiness are becoming more important just as many more people are in difficulties due to their debt position, types of debt they've been able to secure. Partly about ease of consumer debt, partly about predatory products, and more. These are some basic statistics on a nationwide basis from CFED's asset and opportunity scorecard. Levels are high, they are much worse in some individual states (better in others, of course).

Building credit

Credit building and financial education in U.S. microenterprise field	
Program service	Number of programs
Documenting or tracking credit scores	118
Participating in Credit Builders Alliance	93
Providing financial literacy services	162
Offering credit counseling services	106

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In response, note that microenterprise programs are stepping up to the plate to help their clients to build their credit. This chart shows the number of programs responding to our field-wide survey that indicated they provided these services. Note that MDOs have been engaged in this area for many years, particularly in terms of the provision of financial literacy (which recognized long ago is essential to business success), and credit counseling. More recent development is in the arena of credit building – working more specifically to improve scores and creditworthiness.

It is in this area that folks are documenting and tracking scores, reporting scores to credit bureaus, and beginning to offer the credit builder loans we identified earlier. And in some ways they are on the leading edge of practice in this field, as recognition grows that the core issue is financial capability, and that people need more than information and education, that these need to be accompanied by products that can help them to establish more credit and establish their ability to manage it. Micro programs are able to step into this space because they have the combination of both educational programming and financial products.

This is an area where we've begun to see micro programs again

For More Information

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