Providing Capital
Building Communities
Creating Impact

Community Development
Microenterprise Financing

Fiscal Year 2007
Microenterprises are defined as businesses with five or fewer employees, with capital requirements of up to $35,000 in order to start up or expand, and whose owners do not have access to mainstream commercial banking services.¹

What assistance do business owners receive?
Microenterprise development programs typically offer a variety of services to help clients grow their businesses. Business training and technical assistance, used to expand managerial skills, are the most commonly offered and utilized services across the field. Virtually all microenterprise clients receive some form of training or technical assistance. Because CDFIs have a lending focus, nearly all of the organizations in the CDFI Data Project (CDF) FY 2007 dataset offered loans. However, according to an industry-wide assessment of the domestic microenterprise industry, lending is offered by two-thirds (64%) of programs nationwide, and utilized by approximately 20% of the clients served.⁸

In FY2007, microentrepreneurs received an average microenterprise loan of $7,500, with loan amounts ranging from approximately $500 to $35,000.¹⁰ Increasingly, many CDFIs are offering services to improve financial literacy and develop

| Figure 1: Services by CDFIs with microenterprise programs in FY2007 |
|-------------------------|--------|--------|
| Client                  | CDFIs  |
| Business Development    | 42,671 | 72     |
| Business Development TA | 35,066 | 89     |
| IDAs                    | 2,259  | 26     |

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 2007 dataset for this chapter.
⁴ Edgcomb, Elaine and Joyce Klein; Opening Opportunities, Building Ownership: Fulfiling the promise of Microenterprise in the United States; The Aspen Institute, February 2005.
⁵ Ibid; The estimate was based on FY2000 data. It is assumed that the number of entrepreneurs who receive services annually has grown since then.
⁶ 80% of regional median as defined by HUD.
⁷ Ibid
⁸ 2005 Data Collection Project, which surveyed the U.S. microenterprise industry in FY2002; The Aspen Institute and the Association of Enterprise Opportunity.
⁹ MicroTest FY2007 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, has been used by more than 154 microenterprise organizations since 1997.
¹⁰ These figures are based on all CDFIs reporting at least $1 outstanding in micro-financing at the end of FY2007. Out of these 115 organizations, 7 did not report the number of outstanding transactions.
¹¹ 108 CDFIs reported the number of outstanding microfinance transactions.
¹² There were 606,786 outstanding transactions in total in FY2007. Out of these transactions, however, only 55% (331,368) were identifiable with a particular economic sector or purpose.
As a child, Arga Bourgeois saw her father travel around Houston teaching people to improve their health by transforming their diets. Years later, inspired by his example, she used a $2,600 tax refund to open a health food store to serve Houston’s 3rd Ward, a neighborhood known for its high concentration of poverty.

At first, Sunfired Foods consisted of a single shelf of products, but Ms. Bourgeois had bigger things in mind. In 2005, after a year in business, she came to ACCIÓN Texas seeking a small loan and a chance to prove herself.

With a $13,000 loan and technical assistance from ACCIÓN Texas, Ms. Bourgeois has transformed her business and her community. Today Sunfired Foods is a full-service health food store that offers classes in healthy living and a wide selection of herbs, vitamins, and foods not usually available in low-income neighborhoods. Her company employs six, including her father.

Ms. Bourgeois is grateful for the loan—and everything else—ACCIÓN Texas provided. “They didn’t just say, ‘Here you are; take it and you’re on your own,’” she says. “I also received education through them. It’s a lifetime of learning and resources, and that is what I appreciate most.”

One of the nation’s leading microlenders, San Antonio-based ACCIÓN Texas is dedicated to serving small business owners like Ms. Bourgeois. Since 1994, the organization has made more than 8,000 small business loans (in amounts averaging $7,900) to more than 4,500 borrowers who were unable to obtain financing from traditional sources.
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 2007 data on 508 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 and the W. K. Kellogg Foundation, this initiative convenes leading organizations in the CDFI industry.

Partner Organizations
> Aspen Institute
www.aspeninstitute.org
National nonprofit that disseminates best practices and educates policymakers, funders, and others about microenterprise
> Association for Enterprise Opportunity
www.aeo.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.cdcu.coop
Certified CDFI intermediary that serves more than 200 low-income credit unions across the United States
> Opportunity Finance Network
www.opportunityfinance.net
The leading network of private financial intermediaries with a proven expertise in lending prudently and productively in unconventional markets often overlooked by conventional financial institutions.

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 these loans are an important element of the community strategies being implemented by CDFIs, microenterprise lending strategies need to expertly balance risks and community benefits. As can be seen in Tables 4 and 5, delinquencies are being effectively managed. Risks are maintained at a prudent level and the portfolio indicators have strengthened over time, although they have risen slightly over the most recent year.

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 support their lending with training and technical assistance in business and financial management. Ongoing public and charitable investment is needed to serve this market. However, some programs have begun implementing innovations in program efficiency, pricing, and scale that have increased performance in rates of operational self-sufficiency over time (see Table 6).

Figure 4: Delinquency Data for FY 2007

<table>
<thead>
<tr>
<th>Days Late</th>
<th>31–60</th>
<th>61–90</th>
<th>91–Plus</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microenterprise-Focused CDFIs</td>
<td>1.97%</td>
<td>1.11%</td>
<td>2.59%</td>
<td>$3,739,483</td>
</tr>
<tr>
<td>Other Community Development Loan Funds</td>
<td>2.47%</td>
<td>0.95%</td>
<td>3.35%</td>
<td>$26,690,301</td>
</tr>
</tbody>
</table>

Figure 5: Portfolio indicators of microenterprise-focused CDFIs (have at least 50% of their portfolio dedicated to micro)

<table>
<thead>
<tr>
<th>Risk</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 30 days</td>
<td>15.1%</td>
<td>13.6%</td>
<td>13.6%</td>
<td>11.1%</td>
<td>7.6%</td>
<td>4.99%</td>
<td>5.67%</td>
</tr>
<tr>
<td>Write-offs</td>
<td>5.7%</td>
<td>8.8%</td>
<td>8.1%</td>
<td>6.9%</td>
<td>4.2%</td>
<td>3.45%</td>
<td>4.60%</td>
</tr>
</tbody>
</table>

Figure 6: Microenterprise Lending Program Operational Self Sufficiency

<table>
<thead>
<tr>
<th>FY</th>
<th>Average OSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>36%</td>
</tr>
<tr>
<td>2002</td>
<td>36%</td>
</tr>
<tr>
<td>2003</td>
<td>39%</td>
</tr>
<tr>
<td>2004</td>
<td>40%</td>
</tr>
<tr>
<td>2005</td>
<td>43%</td>
</tr>
<tr>
<td>2006</td>
<td>46%</td>
</tr>
<tr>
<td>2007</td>
<td>49%</td>
</tr>
</tbody>
</table>

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

15 Operational Self Sufficiency is defined as Total Income from Loan Fund/Total Credit Program Operating Expenses.

16 At least 50% of all transactions are ME transactions.

17 Out of 34 Microenterprise-Focused CDFIs, 28 reported complete delinquency data.

18 MicroTest data

19 Top 20% of programs in OSS