

Providing  
Capital  
Building  
Communities  
**Creating Impact**



Community  
Development  
**Microenterprise  
Financing**

# Community Development Microenterprise Financing

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.<sup>1</sup>

Community development financial institutions (CDFIs) offer microenterprise development services in order to implement a variety of civic goals, including poverty reduction and the economic empowerment of traditionally disadvantaged populations, the development of entrepreneurial skills and the seeding of new industries, and place-based economic development strategies.<sup>2</sup>

According to statistics compiled by the Association for Enterprise Opportunity, the trade association for microenterprise development in the United States, there were 24.9 million businesses with five or fewer employees in the United States in 2006. These businesses accounted for approximately 88% of all business establishments.<sup>3</sup> The Aspen Institute estimates that 10 million of these very small business owners 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.<sup>4</sup>

Conservatively, approximately 150,000 – 170,000 entrepreneurs receive microenterprise development services annually<sup>5</sup>. The majority of clients are women (58%), minorities (69%), and low- and moderate-income<sup>6</sup> individuals (70%). In the last industry-wide census of microenterprise activity, at least 14% of clients were

in poverty at intake, and 16% reported receiving some form of public assistance.<sup>7</sup>

## 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 (CDP) 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.<sup>8</sup> In FY2007, microentrepreneurs received an average microenterprise loan of \$7,500, with loan amounts ranging from approximately \$500 to \$35,000.<sup>9</sup> Increasingly, many CDFI programs are offering services to improve financial literacy and develop

household assets, including personal credit repair and 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 508 CDFIs that reported to the CDP in FY 2007, 23% (115 CDFIs) reported microenterprise financing outstanding.<sup>10</sup> The total microenterprise portfolio in this group of 115 CDFIs was \$110.9 million. A little over 3% of outstanding transactions are microenterprise transactions (11,345 microenterprise transactions<sup>11</sup> out of 331,368 total transactions<sup>12</sup>). This represents the fourth largest number of transactions, behind consumer loans, housing, and other.

While the average microenterprise portfolio at the end of FY 2007 was \$964,394, the range in the size of microenterprise portfolios in this group was very broad, from a low of \$1,200 to a high of over \$13 million. Thirty-two CDFIs held at least \$1 million in microenterprise financing. The median number of microenterprise trans-

**Figure 1: Services by CDFIs with microenterprise programs in FY2007**

	Clients	CDFIs
Business Development Training	42,671	72
Business Development TA	35,068	89
IDAs	2,259	26

<sup>1</sup> Association for Enterprise Opportunity, the trade association for microenterprise in the United States.

<sup>2</sup> The CDP authors would like to thank Ilgar Alisultanov for his assistance in analyzing the CDP FY 2007 dataset for this chapter.

<sup>3</sup> Association for Enterprise Opportunity. <http://www.microenterpriseworks.org/microenterpriseworks/files/ccLibraryFiles/File/000000001328/US-MEBS-2006.pdf>

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

<sup>5</sup> Ibid; The estimate was based on FY2000 data. It is assumed that the number of entrepreneurs who receive services annually has grown since then.

<sup>6</sup> 80% of regional median as defined by HUD.

<sup>7</sup> Ibid

<sup>8</sup> 2005 Data Collection Project, which surveyed the U.S. microenterprise industry in FY2002; The Aspen Institute and the Association of Enterprise Opportunity.

<sup>9</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> 108 CDFIs reported the number of outstanding microfinance transactions.

<sup>12</sup> 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.

# Microenterprise Financing Houston, TX

Featuring ACCIÓN Texas



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.*

actions by a CDFI was 36, with the range stretching from one to 1,748 transactions.<sup>13</sup>

Table 2 distributes the 115 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. Seventy-seven percent of the total microenterprise financing portfolio is held by those CDFIs with microenterprise portfolios in excess of \$1 million. Some of these large microenterprise lenders focus exclusively on microenterprise lending. Others have very large, very diverse portfolios, with microloans making up a relatively small percentage of total lending.

Table 3 below shows the incidence of microenterprise financing among CDFIs. While financing microbusinesses is a part of the activities of 40% of CDFIs reporting the breakdown of the financing outstanding by a particular economic sector<sup>14</sup>, 13% of them have made microfinancing the main focus of their community development activities.

**Figure 2: Size of Microenterprise Portfolios within CDFIs (FY 2007 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	43	\$98,209	\$7,730,975	0.01% – 100%	\$4,222,973
\$250,001 to \$500,000	22	\$355,750	\$6,815,840	0.77% – 100%	\$7,826,500
\$500,001 to \$1,000,000	18	\$738,814	\$8,975,737	3.01% – 100%	\$13,298,644
More than \$1,000,000	32	\$2,673,663	\$60,954,273	0.31% – 100%	\$85,557,210
Total	115	\$964,394	\$22,560,699	0.01% – 100%	\$110,905,326

**Figure 3: Incidence of Microenterprise Financing**

Microenterprise (ME) Transactions	Number of CDFIs	Percentage of All Reporting CDFIs (N=272)	Percent of Active Microlenders (N=108)
Have at least 1 microenterprise transaction	108	40%	100%
At least 50% of all transactions are ME transactions	34	13%	31%
100% of transactions are ME loans	17	6%	16%

<sup>13</sup> These figures are based on 108 CDFIs reporting the number of outstanding microfinance transactions.

<sup>14</sup> Out of 508 CDFIs in the database, 272 reported the breakdown of the financing outstanding by a particular economic sector or purpose.

# 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.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

### > 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.cdccu.coop](http://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](http://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](mailto: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<sup>15</sup> over time (see Table 6).

Figure 4: Delinquency Data for FY 2007

	31–60 Days Late	61–90 Days Late	91–Plus Days Late	Average Outstanding Portfolio
Microenterprise-Focused CDFIs <sup>16</sup>	1.97%	1.11%	2.59%	\$3,739,483 (n=28 <sup>17</sup> )
Other Community Development Loan Funds	2.47%	0.95%	3.35%	\$26,690,301 (n=101)

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

Portfolio at Risk	2001	2002	2003	2004	2005	2006	2007
> 30 days	15.1% (n = 43)	13.6% (n = 29)	13.6% (n = 27)	11.1% (n = 29)	7.6% (n = 33)	4.99% (n = 33)	5.67% (n = 28)
Write-offs	5.7% (n = 42)	8.8% (n = 30)	8.1% (n = 28)	6.9% (n = 25)	4.2% (n = 36)	3.45% (n = 34)	4.60% (n = 34)

Figure 6: Microenterprise Lending Program Operational Self Sufficiency<sup>18</sup>

Sustainability Measures	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Mean	36%	36%	39%	40%	43%	46%	49%
Median	21%	16%	19%	20%	21%	19%	22%
n	48	56	49	44	43	38	35
Average OSS Among Top Performers <sup>19</sup>	59% (n = 10)	52% (n = 11)	56% (n = 10)	41% (n = 8)	74% (n = 8)	81% (n = 7)	75% (n = 7)

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

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

The credit program operating expenses do not include interest paid on borrowed loan capital or the amount of loans reserved or charged off in a given year.

<sup>16</sup> At least 50% of all transactions are ME transactions.

<sup>17</sup> Out of 34 Microenterprise-Focused CDFIs, 28 reported complete delinquency data.

<sup>18</sup> MicroTest data

<sup>19</sup> Top 20% of programs in OSS