

The CDFI Data Project

Fiscal Year 2008

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.^{1,2}

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.

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 percent of all business establishments.³ The Aspen Institute estimates that 10 million owners of these very small businesses are individuals who face barriers to mainstream financial and business development services. This group is composed largely of women, people of color, ethnic minorities, the disabled and individuals on public assistance, who are interested in starting a business.⁴

It is estimated that, in FY2008, 696 microenterprise programs assisted 274,128 individuals.⁵ The majority of clients are women (57 percent), people of color or members of traditionally disadvantaged racial or ethnic groups (53 percent), and low- and moderate-income⁶ individuals (57 percent).⁷ In the last industry-wide census of microenterprise activity, at least 43 percent of individuals assisted were below 150 percent of the U.S. Department of Health and Human Services (HHS) poverty guideline at intake.⁸

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 this dataset offered loans. However, according to an industry-wide assessment of the domestic microenterprise industry, lending is offered by two-thirds (68 per-

cent) of programs nationwide.⁹ In FY2008, microentrepreneurs received an average microenterprise loan of \$8,952, with loan amounts ranging from approximately \$214 to \$35,000.¹⁰

CDFIs and Microenterprise

Microlending is a reported activity of many CDFIs and for some it is a significant focus of their efforts. Of the 305 CDFIs that reported a breakout of their financing outstanding, 33 percent (100 CDFIs) reported microenterprise financing in FY2008.¹¹ The total microenterprise portfolio of this group of 100 CDFIs was \$114.5 million. Extrapolated data from the FIELD Program's microenterprise field-wide survey estimates the total outstanding portfolio of all microlenders in FY2008 to be \$173.6 million.¹²

While the average microenterprise portfolio at the end of FY2008 was \$1,145,453, the range in the size of microenterprise portfolios in this group was very broad, from a low of \$3,532 to a high of over \$16 million. Thirty-three CDFIs held at least \$1 million in microenterprise financing.

Table 1 distributes the 100 CDFIs engaged in microenterprise financing according to the size of their microenterprise portfolio.

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 FY2008 dataset for this chapter.

³ Association for Enterprise Opportunity, available from <http://www.microenterpriseworks.org/microenterpriseworks/files/cclibraryFiles/Filename/000000001328/US-MEBS-2006.pdf>; Internet.

⁴ Elaine L. Edgcomb and Joyce A. Klein, *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States*. (Washington, D.C.: The Aspen Institute/FIELD, February 2005).

⁵ Extrapolations are based on the field-wide survey data collected by the FIELD Program. An attempt was made to contact all microenterprise development organizations (MDOs) currently operating in the United States. There were 696 programs and 369 responded to the survey. To account for non-response, we employ a traditional weighting class adjustment technique. Because of limited Intake information only two variables, state and whether the program offered microloans, are used to create the weighting cells. Programs in the weighting cells are assumed to be homogenous. Because this is a census and the base weights are one, final respondent weights are calculated by taking the inverse of the response rate within each cell. A weight of zero is assigned to non-respondents.

⁶ Eighty percent of regional medians as defined by the U.S. Department of Housing and Urban Development (HUD).

⁷ *Field-Wide Survey Data Highlights FY2008 Data* (Washington, D.C.: The Aspen Institute/FIELD, 2010); 2-3; available from <http://fieldus.org/Publications/HighlightsFY2008.pdf>; Internet.

⁸ *Field-Wide Survey Data Highlights*, 3.

⁹ *Field-Wide Survey Data Highlights*, 3.

¹⁰ MicroTest FY2008 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.

¹¹ These figures are based on all CDFIs reporting at least \$1 outstanding in microfinancing at the end of FY2008.

¹² Extrapolations are based on the field-wide survey data collected by the FIELD Program.

Microenterprise Financing Tucson, AZ

Featuring ACCION
New Mexico • Arizona • Colorado



As both a wholesaler and retailer of specialty foods through El Barrio Market in Tucson, Arizona, Jose faced two distinct challenges to his plan for growth in 2008.

First, his major wholesale client required large orders, but its payments arrived 60 days later. Second, the store's retail customers, many of whom hail from different countries across Central and South America, demanded more diversity of products.

Jose needed access to capital to expand his inventory for both the wholesale and retail businesses. He was looking for a lender that would see the potential for his business' growth and the vital role the store plays as one of the only community markets in Tucson's long-standing South 6th Avenue neighborhood. Jose found that lender in ACCION New Mexico • Arizona • Colorado (ACCION). As a part-time instructor with Microbusiness Advancement Center (MAC) in Tucson, Jose learned about ACCION.

Soon thereafter, Jose had the funds he sought to continue growing El Barrio Market's wholesale and retail operations. With credit from ACCION, Jose invested in refrigeration units to add fresh produce for his retail customers, hired two new employees and added two distribution vehicles to his

business. Jose was also able to purchase inventory for his wholesale business and weather the 60-day accounts receivable cycle from his largest wholesale client.

"Without the help of ACCION, I would not have been able to achieve this expansion and growth," noted Jose. "More than anything else, ACCION believes in what I am doing. I am very thankful for everything they have done for us."

Founded in 1994, ACCION New Mexico • Arizona • Colorado (ACCION) is an award-winning nonprofit organization that invests in the ability of entrepreneurs to create greater economic independence for themselves, their families, and their communities. ACCION offers credit from \$200 to \$150,000 to emerging entrepreneurs who experience barriers to qualifying for business credit from traditional financial institutions. Since inception, ACCION has issued 4,494 small business loans totaling more than \$29.2 million to finance the start-up or growth of 2,815 microenterprises.

Table 1: Size of Microenterprise Portfolios within CDFIs (FY 2008 data)

Size of Micro Portfolio	Number of CDFIs	Average Micro Portfolio	Average Total Portfolio	Range of % of Total Portfolio in Micro	Aggregate Micro Portfolio
Less than \$250,000	36	\$88,536	\$13,537,842	0.01% - 100%	\$3,187,299
\$250,001 to \$500,000	17	\$346,120	\$11,413,609	0.62% - 100%	\$5,884,041
\$500,001 to \$1,000,000	14	\$725,939	\$16,406,855	0.74% - 100%	\$10,163,143
More than \$1,000,000	33	\$2,888,208	\$57,075,460	0.30% - 100%	\$95,310,863
Total	100	\$1,145,453	\$27,945,798	0.01% - 100%	\$114,545,346

Table 2: 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	2008
> 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)	10.36% (n = 18)
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)	9.79% (n = 20)

Microenterprise lending can be a relatively large or small percentage of total lending in all portfolio categories. Large lenders make the bulk of microenterprise loans. Eighty-three 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.

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 Table 2, delinquencies rose in FY2008, coinciding with the start of the recession in the broader economy. Interestingly, the delinquency rates for all other CDFIs did not rise. It is not clear why this is; however, the data presented is snapshot data and not longitudinal; therefore, the difference may simply be explained by

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 2008 data on 495 CDFIs. The data set includes approximately 40 data points on operations, financing, capitalization, and impact. Supported by the John D. and Catherine T. MacArthur 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

> 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 Jumana Poonawala of Opportunity Finance Network at jpoonawala@opportunityfinance.net (215.320.4316).

which programs reported in the various years. (See Table 3.)

Because of their size, risk, and pricing for charitable purposes, 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. And while some programs have implemented innovations in program

efficiency, pricing, and scale that led to increased performance in rates of operational self-sufficiency¹³, we see a worsening of self-sufficiency rates in FY2008. While the data presented is snapshot and not longitudinal data, the FY2008 cohort appears less sustainable than previous cohorts. This may be a function of lower revenues due to several factors; worsening portfolio performance and increased expenditures due to greater monitoring of portfolio performance and work with clients. (see Table 4).

Table 3: Delinquency Data

	Microenterprise-Focused CDFIs ¹⁴	Other Loan Funds and Banks
FY2008		
>30 days late** FY2008	10.36%	3.80%
>91 days late FY2008	5.70%*	0.92%
Average Outstanding Portfolio FY2008	\$3,559,264 (n=18 ¹⁵)	\$110,790,106 (n=113)
FY2007		
> 91 days late FY2007	2.59%	3.35%
Average Outstanding Portfolio FY2007	\$3,739,483 (n=28 ¹⁶)	\$26,690,301 (n=101)
FY2006		
>91 days late FY2006	2.42%	2.60%
Average Outstanding Portfolio FY2006	\$3,024,769 (n=33)	\$28,908,505 (n=82)

*Delinquencies as a percentage of total financing outstanding.

**Includes delinquencies that are included in the > 91 row.

Table 4: Microenterprise Lending Program Sustainability¹⁷

Operational Self-Sufficiency (OSS)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Mean	36%	36%	39%	40%	43%	46%	49%	33%
Median	21%	16%	19%	20%	21%	19%	22%	16%
n	48	56	49	44	43	38	35	30
Average OSS Among Top Performers ¹⁸	59% (n = 10)	52% (n = 11)	56% (n = 10)	41% (n = 8)	74% (n = 8)	81% (n = 7)	75% (n = 7)	57% (n = 6)

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

¹³ 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.

¹⁴ At least 50 percent of the portfolio is outstanding to microenterprises.

¹⁵ Out of 20 microenterprise-focused CDFIs, 18 reported complete delinquency data.

¹⁶ Out of 34 microenterprise-focused CDFIs, 28 reported complete delinquency data.

¹⁷ MicroTest data.

¹⁸ Top 20 percent of programs in OSS.