



Microenterprise Development in the US: Current Challenges and New Directions

Lisa J. Servon
Community Development Research
Center
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Presentation Outline

- Background
- Methodology
- Questions
- Current Context
- Challenges
- Ways Forward



Background

- Previous research
- Interactions with field experts
- Knowledge of current funding environment



Methodology

- Literature review
- Interviews with:
 - 13 practitioners
 - 5 funders
 - 5 CDFI trade association staff
 - 3 researchers
 - 7 other field experts
- Data analysis:
 - CDFI Data Project
 - 2002 Directory of US Microenterprise Programs
 - MicroTest (secondary analysis)



Working Hypothesis

- The US microenterprise field is at a crossroads
 - Scale and sustainability remain elusive



Questions

- Do the initial goals of the field remain appropriate?
- How should the knowledge gained inform the future of the field?
- What are the current challenges, and how can they be addressed?

Current Context

- Declining federal funding
- Broader range of CDFIs serving the target market
- Growth of fringe financial services
- Mainstream financial services moving farther downstream

Current Context, cont.

- Professionalization of the US field:
 - AEO
 - Growth of SMAs and SMIs
 - CFED's NFED
 - Aspen's EOP
 - FIELD
 - MicroTest

Current Context, cont.

“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.”

▪ AEO, 2002

Current Context

- Competition from other entities
- Inability to reach the target market
- Lack of a clear identity
 - MDOs are neither pure financial services providers nor are they pure social services entities

Current Challenges

- Fragmentation
- Insufficient data
- Lack of accreditation and regulation
- Narrow product lines
- Inconsistent/unreliable funding streams

Fragmentation

- Geographic:
 - Many small programs
 - Some areas unserved, others overserved
- Programmatic:
 - 98 of the 191 programs that do lending had <25 borrowers
 - 13 programs lent more than half of all loan dollars

Select Characteristics of Microenterprise Development Organizations by Program Type

| | Programs That Provide Only Training | Minimal Lenders (Value of Loans Disbursed in 2000 < \$100,000) | Larger Lenders (Value of Loans Disbursed in 2000 > \$100,000) | Thirteen Largest Lenders |
|--|-------------------------------------|--|---|--------------------------|
| Number of programs | 100 | 86 | 81 | 13 |
| Median number of clients served | 60 | 62 | 108 | 332 |
| Median loan fund | - | \$100,000 | \$518,560 | \$1,765,000 ^a |
| Median value of loans disbursed | - | \$30,000 | \$293,932 | \$1,200,000 |
| Median number of loans disbursed | - | 6 | 25 | 165 |
| Percent of programs providing technical assistance or training | 100% | 97% | 91% | 77% |

^a n = 11

Source: U.S. Directory of Microenterprise Programs (2002)

Fragmentation, cont.


- Duplication of effort
- Inability for field to realize potential economies of scale
- Flip side of customization is inefficiency and high unit cost
 - Programs that do very small amounts of lending are entirely inefficient

Insufficient Data

- Most important aspect of programs' work that must be standardized
- Aggregate data needed to:
 - Assess costs and benefits
 - Access capital
 - Convince funders and policy makers of the upside
 - Create relationships with potential partners

Insufficient Data

- CDP Data Project
 - 442 organizations represented
 - Aspen, NCCA, CDVCA, CFED, NFCDCU, NCIF
 - NCCA more confident in financial data than impact data
- MicroTest is a terrific first step, but insufficient
 - 77 programs currently participating, only 14% of the 554 practitioners listed in the 2002 Directory
 - 61 programs (11%) contributed performance data
 - 17 (3%) contributed outcomes data
 - Unlikely that this group is representative of the larger field
 - MicroTest was designed "first as a management tool and secondly as a source of data for research on the industry"



Lack of Accreditation and Regulation

- Field is opaque and less likely to attract funding and investment
- AEO: National Microenterprise Standards and Accreditation Project
 - 2 broad sets of standards: numerical and behavioral
 - Might motivate a winnowing of the field



Narrow Product Lines

- Needs are broader than products offered
- Training: little variety in curricula
- Lending:
 - failure to address the diverse nature of credit needs
 - Very small business loans are high cost and serve a small niche



Inconsistent/Unreliable Funding Streams

- Decline in public funding
- Some philanthropic funders have eliminated micro funding
- Few programs have devised ways to cover their cost of doing business



Ways Forward

- Three criteria for recommendations:
 - Creating new and leveraging existing infrastructure
 - Creating an appropriate incentive environment for programs
 - Moving the field from a social services mentality to a business mentality



Recommendations

- Restructure the field
- Innovate
- Standardize and Accredit



Restructure the Field

- Encourage mergers
 - Enables economies of scale
 - Allows greater reach
 - Reduces competition for scarce resources

Restructure the Field, cont.

- Separate training from lending
 - Divorce any part of the transaction that is not about the relationship from the MDO
 - Regional lenders
 - Back office “outsourcing”
 - Increases efficiency
 - Allows greater specialization
 - How much value-added does training provide?
 - Intensive screening, at least, is necessary

Restructure the Field, cont.


- Partner
 - Regional networks of partners
 - NEF
 - ACENet
 - Other financial institutions
 - Bethex/RiteCheck
 - ACCION New Mexico

Innovate

- Expansion of product lines
 - ACCION US: credit builder loan
 - Bethex: Cash in a Flash
 - Cascadia Revolving Loan Fund: quasi-equity fund
 - Montana CDC: patient capital fund

Innovate, cont.

- Employment of technology
 - Credit scoring: Count Me In
 - Automated sourcing
 - Providing access to tools and loan managers via website: Circle Lending



Standardize and Accredit

- Standardization

- Data collection

- “Until we get a majority of organizations counting beans the same way, we can’t have scale.”

- Loan documentation
 - Screening procedures
 - Aspects of curriculum
 - Pre- and post- testing



Accreditation

- Field has now matured sufficiently to know what reasonable performance looks like
- Could help move the field to industry status



Conclusions

- Good news: lots of innovation that challenges assumptions
- Need to look for “both/and” solutions with respect to business and social goals
- Funders, intermediaries, and trade associations *must* play a large role moving forward