

Tapping into Undercapitalized Markets:

The Business and Economic Advantage

Betsy Zeidman
Director
Center for Emerging Domestic Markets
Milken Institute
bzeidman@milkeninstitute.org
(310) 570 4609

Microenterprise: Building Assets in a Growing Market
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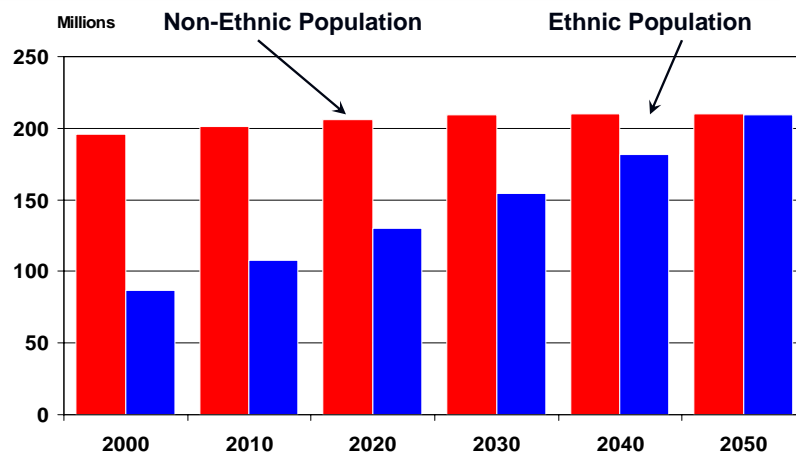
Microfinance

- Financing asset-building and business formation for low-wealth individuals and communities.

Emerging Domestic Markets (EDMs)

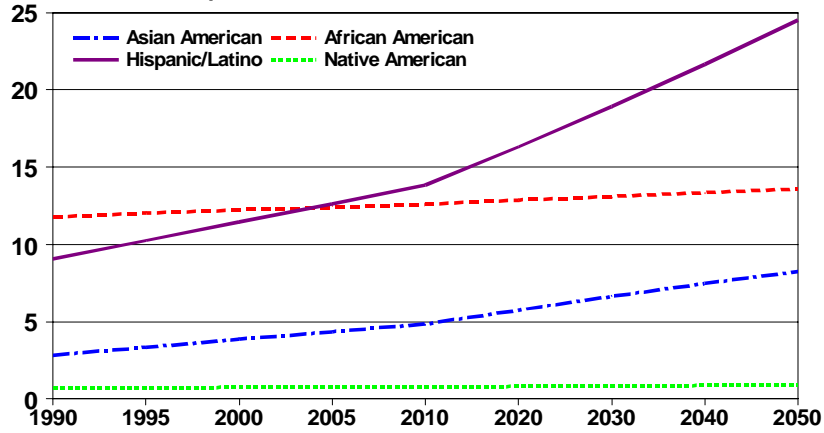
- People, places or businesses facing capital constraints due to systematic undervaluation arising from imperfect information.
- Including:
 - Inner city and rural communities
 - Ethnic and women-owned firms
 - Companies serving low-income populations

Future Population Growth Due to Ethnic Population



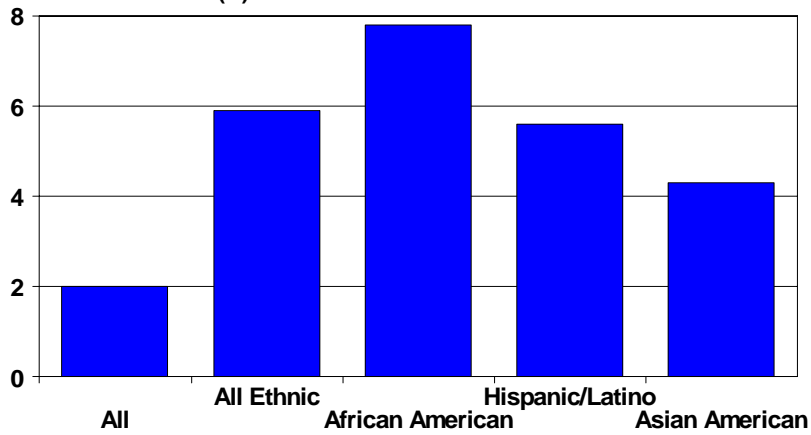
Projected Growth of Ethnic Populations

Percent of Total Population



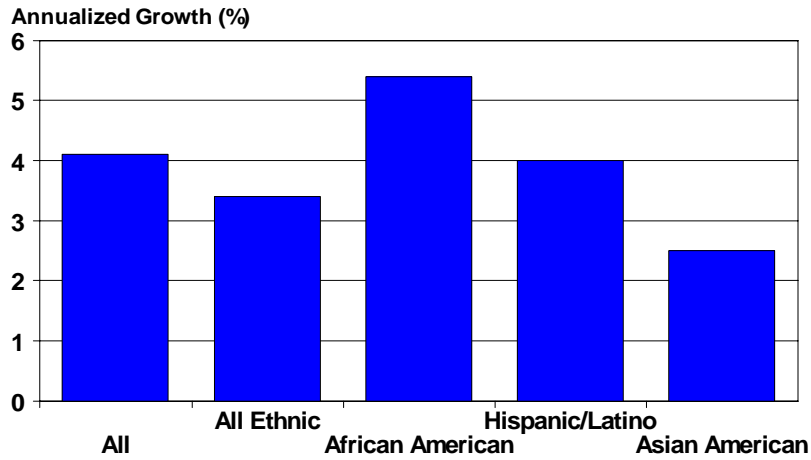
Growth in Number of U.S. Ethnic-Owned Firms 1997-2002

Annualized Growth (%)



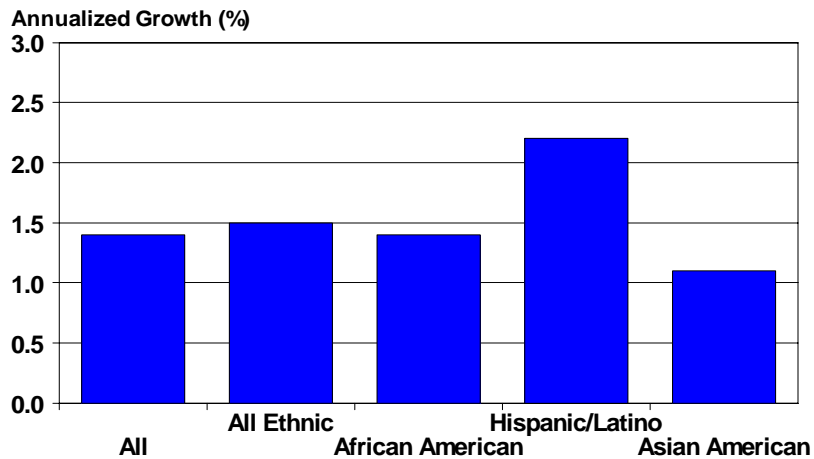
Sales Growth at U.S. Ethnic-Owned Firms 1997-2002

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Job Creation by U.S. Ethnic-Owned Firms 1997-2002

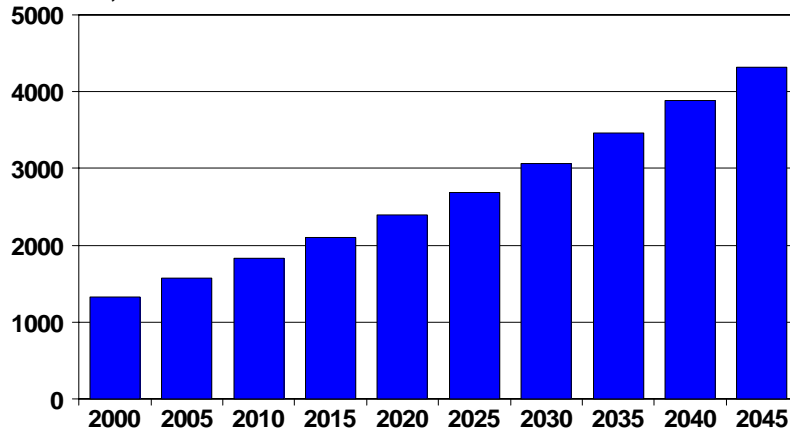
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Growing U.S. Ethnic Purchasing Power

2000-2045

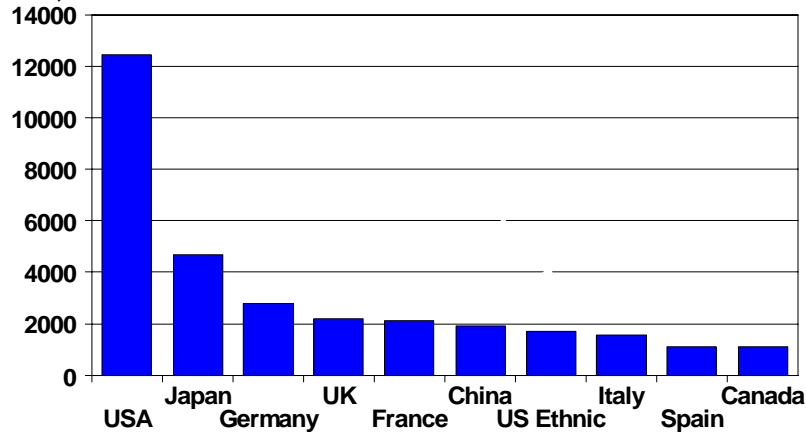
1998 USD, Billions



U.S. Ethnic Market

World's 7th Largest Economy in 2005

USD, Billions



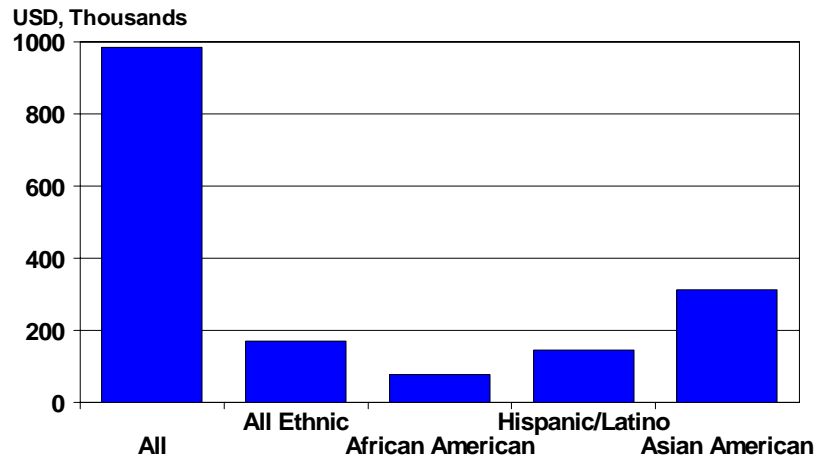
Economic Importance of Microenterprise

	Employment Size of the Enterprise							
	0		1-9		10-99		0-499	
	number	share	number	share	number	share	number	share
Firms (thousands)	770	13.5%	3,706	65.1%	1,122	19.7%	5,681	99.7%
Establishments (thousands)	771	10.7%	3,723	51.7%	1,346	18.7%	6,173	85.7%
Employment (thousands)	0	0.0%	12,337	11.0%	28,120	25.0%	56,366	50.1%
Annual Payroll (\$ billions)	38	1.0%	338	8.6%	865	21.9%	1,777	45.1%
Receipts (\$ billions)	215	1.0%	1,826	8.3%	3,970	18.0%	8,559	38.8%

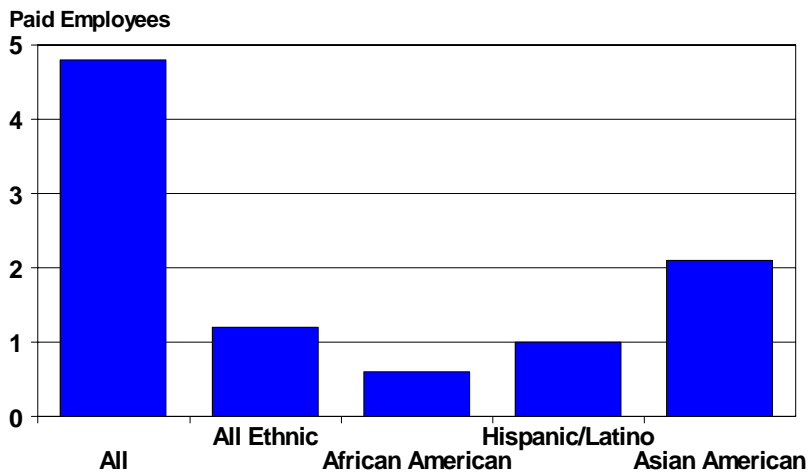
Business Ownership Rates Vary Across Demographic Groups

	Population (millions)	Number (thousands)	Receipts (\$ billions)	Employees (thousands)	Payroll (\$ billions)
White	211	19,895	8,304	52,209	1,549
Male Share	49%	60%	81%	78%	82%
Female Share	51%	28%	10%	13%	10%
African American	35	1,198	93	771	18
Male Share	48%	48%	70%	65%	70%
Female Share	52%	46%	23%	23%	22%
Asian American	10	1,105	343	2,294	59
Male Share	48%	58%	73%	68%	73%
Female Share	52%	31%	16%	19%	17%
Hispanic/Latino	35	1,574	226	1,546	37
Male Share	51%	59%	76%	72%	76%
Female Share	49%	34%	16%	18%	17%

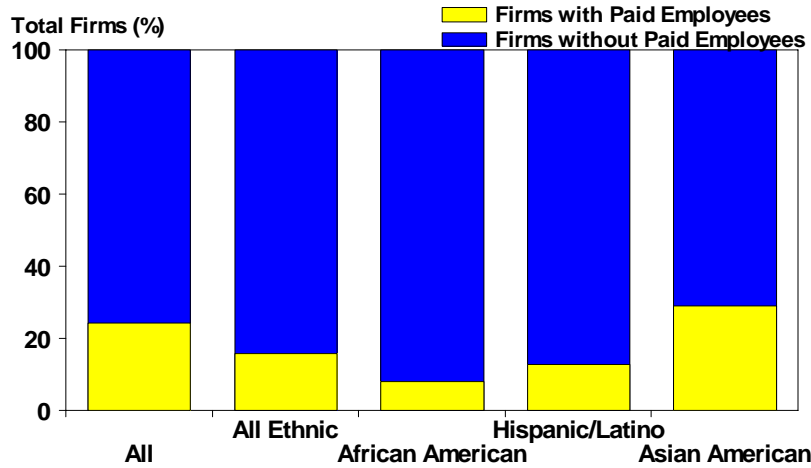
U.S. Firms - Sales Per Firm



U.S. Firms – Paid Employees Per Firm



U.S. Firms with Paid Employees



Selected Large MSAs Shares for Establishments with 0 Employees

MSA	Number	Receipts	Payroll
Los Angeles-Long Beach, CA	13.5%	1.6%	2.1%
Dallas, TX	10.3%	0.8%	0.9%
Atlanta, GA	12.6%	1.0%	1.0%
Miami, FL	14.5%	2.0%	1.8%
Seattle-Bellevue-Everett, WA	11.5%	1.0%	1.0%
Phoenix-Mesa, AZ	12.2%	1.0%	1.0%
Minneapolis-St. Paul, MN-WI	13.5%	1.1%	1.0%
Riverside-San Bernardino, CA	10.7%	1.0%	1.0%
St. Louis, MO-IL	9.0%	0.5%	0.5%
Tampa-St. Petersburg-Clearwater, FL	12.9%	1.2%	1.0%

Selected Large MSAs

Shares for Establishments with 1-4 Employees

MSA	Number	Employment	Receipts	Payroll
Los Angeles-Long Beach, CA	38.7%	4.9%	5.0%	5.5%
Dallas, TX	33.6%	3.6%	3.3%	3.1%
Atlanta, GA	36.3%	4.3%	3.0%	3.4%
Miami, FL	46.7%	7.7%	8.4%	6.5%
Seattle-Bellevue-Everett, WA	37.8%	5.1%	3.9%	3.3%
Phoenix-Mesa, AZ	34.1%	4.0%	3.8%	3.7%
Minneapolis-St. Paul, MN-WI	34.3%	3.8%	3.6%	3.1%
Riverside-San Bernardino, CA	34.7%	4.8%	4.6%	4.0%
St. Louis, MO-IL	35.1%	4.2%	3.1%	3.2%
Tampa-St. Petersburg-Clearwater, FL	39.8%	5.1%	4.5%	4.2%

Selected Large MSAs

Shares for Establishments with 5-9 Employees

MSA	Number	Employment	Receipts	Payroll
Los Angeles-Long Beach, CA	13.8%	5.5%	4.4%	4.4%
Dallas, TX	12.9%	4.2%	3.2%	3.4%
Atlanta, GA	12.2%	4.5%	3.0%	3.7%
Miami, FL	13.0%	7.1%	7.0%	6.1%
Seattle-Bellevue-Everett, WA	13.9%	5.8%	3.7%	4.0%
Phoenix-Mesa, AZ	12.6%	4.6%	3.4%	4.0%
Minneapolis-St. Paul, MN-WI	12.5%	4.5%	3.9%	3.6%
Riverside-San Bernardino, CA	14.6%	6.0%	4.4%	5.1%
St. Louis, MO-IL	14.0%	5.1%	3.5%	4.2%
Tampa-St. Petersburg-Clearwater, FL	12.4%	5.1%	3.4%	4.2%

Top LMI Markets Total Income in Billions



	MSA	LMI
1	Los Angeles-Long Beach, CA	\$23.60
2	Atlanta, GA	\$12.34
3	Dallas, TX	\$11.67
4	Minneapolis-St. Paul, MN-WI	\$11.65
5	San Diego, CA	\$9.19
6	Phoenix-Mesa, AZ	\$8.94
7	Orange County, CA	\$8.87
8	Riverside-San Bernardino, CA	\$7.91
9	Oakland, CA	\$7.83
10	Seattle-Bellevue-Everett, WA	\$7.81

LMI Share of Population Top 10



	MSA	LMI
1	Yolo, CA	49.1%
2	Dutchess County, NY	46.2%
3	Vallejo-Fairfield-Napa, CA	46.1%
4	New York, NY	45.9%
5	Oakland, CA	45.3%
6	Bryan-College Station, TX	45.1%
7	Sacramento, CA	45.1%
8	San Francisco, CA	44.9%
9	Albany, GA	44.6%
10	Tuscaloosa, AL	44.2%

LMI Share of Income Top 10

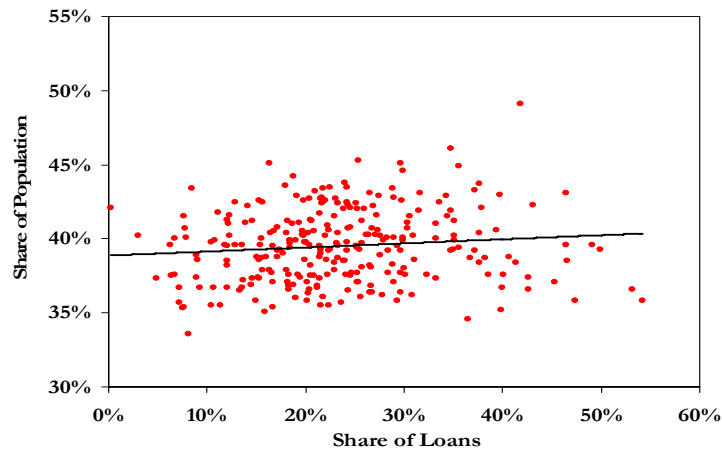
	MSA	LMI
1	Appleton-Oshkosh-Neenah, WI	16.5%
2	Dover, DE	16.5%
3	Topeka, KS	16.0%
4	Sharon, PA	15.9%
5	Bloomington-Normal, IL	15.8%
6	Vallejo-Fairfield-Napa, CA	15.8%
7	Kalamazoo-Battle Creek, MI	15.7%
8	Missoula, MT	15.6%
9	Clarksville-Hopkinsville, TN-KY	15.5%
10	Springfield, MO	15.5%

LMI Share of Business Loans Top 10

	MSA	LMI
1	Des Moines, IA	54.2%
2	La Crosse, WI-MN	53.2%
3	Macon, GA	49.9%
4	Spokane, WA	49.1%
5	Lawton, OK	47.4%
6	Fargo-Moorhead, ND-MN	46.6%
7	Odessa-Midland, TX	46.5%
8	Decatur, IL	46.4%
9	Santa Barbara-Santa Maria-Lompoc, CA	45.3%
10	Corpus Christi, TX	43.1%

Shares of Business Loans and Population Uncorrelated

Loans to Businesses in Low- and Moderate-Income Communities



Measures of LI and LMI “Loan Bias”

- Deviation from proportionality of :
 - Share of loans to businesses in LI (LMI) communities in a MSA
 - and the share of the total population in a MSA comprised by LI (LMI) individuals
- $1 - (\text{share of loans} / \text{share of population})$

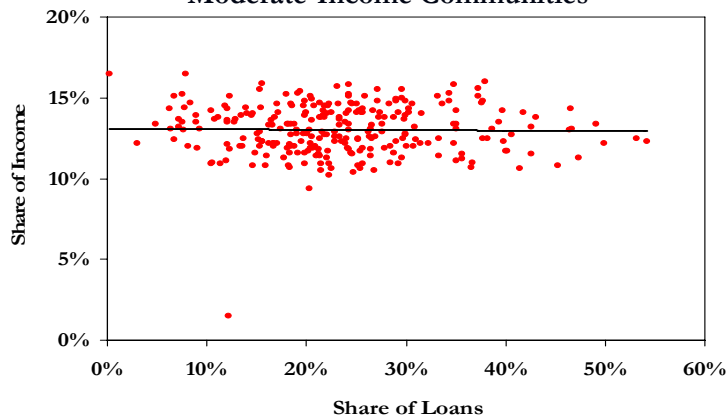
	LI	LMI
Maximum	1.000	0.995
Minimum	-0.261	-0.514
Mean	0.749	0.406
St. Deviation	0.236	0.249

Loan Bias – Selected Large MSAs

MSA	LMI	LI
Los Angeles-Long Beach, CA	0.249	0.580
Dallas, TX	0.487	0.800
Atlanta, GA	0.503	0.858
Miami, FL	0.275	0.635
Seattle-Bellevue-Everett, WA	0.307	0.891
Phoenix-Mesa, AZ	0.210	0.534
Minneapolis-St. Paul, MN-WI	0.693	0.793
Riverside-San Bernardino, CA	0.452	0.800
St. Louis, MO-IL	0.611	0.758
Tampa-St. Petersburg-Clearwater, FL	0.449	0.964

Shares of Business Loans and Income Uncorrelated

Loans to Businesses in Low- and Moderate-Income Communities



Measures of LI and LMI “Loan Bias” - Income and Loan Shares

- Deviation from proportionality of :
 - Share of loans to businesses in LI (LMI) communities in a MSA
 - and the share of the total income in a MSA comprised by LI (LMI) individuals
- 1-(share of loans/share of income)

	LI	LMI
Maximum	1.000	0.987
Minimum	-5.841	-7.404
Mean	-0.220	-0.848
St. Deviation	1.175	0.882

Loan Bias of Selected Large MSAs – Income and Business Loan Shares

MSA	LMI	LI
Los Angeles-Long Beach, CA	-1.584	-2.168
Dallas, TX	-0.555	0.031
Atlanta, GA	-0.509	0.296
Miami, FL	-1.363	-0.709
Seattle-Bellevue-Everett, WA	-1.241	0.427
Phoenix-Mesa, AZ	-1.360	-1.436
Minneapolis-St. Paul, MN-WI	0.185	0.017
Riverside-San Bernardino, CA	-0.712	-0.308
St. Louis, MO-IL	-0.177	-0.283
Tampa-St. Petersburg-Clearwater, FL	-0.682	0.836

Conclusions from Analysis

- The financing received by businesses in many LI and LMI communities diverges from what some might consider appropriate, even when accounting for income disparity as suggested by the measure of “loan bias”.
- Financial variables are important for entrepreneurship and microenterprise.
- Discrimination appears to persist, particularly as relates to capital access by African American entrepreneurs.

Continuing Challenges

- Gaps in accessible data and standard definitions/terms limit ability to identify and evaluate opportunity
- Scale and sustainability – how much is enough? how much is too much?
- Limited range of financial instruments available to market
- Delicate balance required between expertise/specialization (i.e., drill down) *vs* product/market extension (i.e., go wide)

Capitalizing on the Opportunity

- Access markets
- Target innovation with impact in products and service delivery
- Forge strategic alliances: partnerships between national/local institutions
- Build training and business advisory
- Foster leadership

A Closing Thought

Emerging Domestic Markets Represent a Better Risk Profile than International Emerging Markets

Risk Factors	Emerging Domestic Markets	Emerging International Markets
Political Risks	x	✓
-Expropriation	x	✓
-Regime Volatility	x	✓
-Legal Contract	x	✓
Currency Risk	x	✓
Market Risk	✓	✓

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