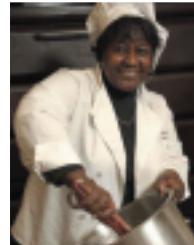
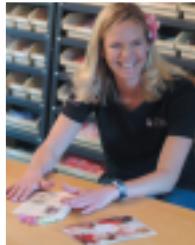


FIELD Funder Guide



Issue 5 | February 2006

Microenterprise Development Programs: The Entrepreneur Within

Across the nonprofit sector, the message is to become entrepreneurial. Social entrepreneurs are extolled for combining innovative ideas and sound business practice to solve challenging social problems. Nonprofit managers launch enterprises to generate revenues that sustain their social missions. A trade association has emerged to help managers embrace and succeed at these new sustainability strategies. And on-line communities offer ongoing information and support to those who have embarked on this path.

Perhaps not surprisingly, the microenterprise development industry has embodied this perspective since its founding. Designed to help disadvantaged entrepreneurs succeed at business, managers always understood and valued a business-like approach to program management. Viewing international microfinance as a model, credit programs expected to fully underwrite program costs with interest and fee income as volume built. And many programs expected clients to demonstrate their commitment to training services by paying something for them as well. Yet despite this orientation, and despite considerable progress in cost recovery by some, long-term sustainability remains a challenge for the industry. Why that is so, how programs can address it, and how donors can help is the subject of this guide.

The state of the field

The challenge of achieving self-sufficiency becomes readily apparent in looking at the services the microenterprise field provides. Among the more than 500 institutions engaged in the field, 161 provide credit and 346 offer training, technical assistance and other services aimed at supporting business growth.¹ While credit is inherently revenue generating, the other services have proved to be less so as programs have felt constrained in what they perceive they can reasonably charge low-income clients. The difference in revenue-generating power is readily apparent in industry data that documents three groups of institutions:²

- A small set of lenders achieve high cost recovery rates – between 30 and 68 percent – for their lending operations (and between 23 percent and 63 percent for their total operations). Most are high volume microlenders, while a few are more broadly focused community development financial institutions that can spread their core costs across a larger product line.
- A similarly small number of training-led programs have made progress in covering their training and technical assistance services through fee generation, product marketing, consulting services and other initiatives – between 12 and 40 percent of their training expenses.

Self-sufficiency vs. Sustainability

Microenterprise development practitioners make a distinction between self-sufficiency and sustainability. Self-sufficiency implies that programs are able to cover the total costs of their services through interest and fees, business sales, and other revenues generated by internal program operations.

Sustainability implies that programs are able to ensure the survival of their programs through a smart combination of internal revenue generation, and diversified external funding with some assured long-term funding streams.

While all practitioners desire self-sufficiency, most expect that high-volume lenders have the greatest opportunity to achieve it. Others face a more complex road to longevity.

- The majority of institutions – either focused solely on training and technical assistance or blending those services with a modest-sized credit program – cover a very small portion of their costs. To illustrate, MicroTest data for 2004 revealed that average program cost recovery for 50 institutions was only 15 percent (the median was 12 percent). Average cost recovery for training and technical assistance services, reported by 41 organizations, was only 6 percent (the median was 1.5 percent).

The low levels of cost recovery achieved by most programs pose a serious risk to their long-term future. And this risk is compounded by a second challenge: a funding environment that is more difficult today than it was in the field's earlier years. The challenge is due, in part, to a set of macro-level trends affecting all U.S. nonprofits. On the national level, tax cuts have led to reduced federal revenues prompting moves to cut domestic spending. While some state budgets can support microenterprise services, others remain constrained by lower revenues. And lags in certain stocks have affected some corporate and foundation giving.

In addition, while in the past, funders prized microenterprise development as a poverty alleviation strategy, today a dominant concern – in the face of declines in traditional industries and consequent job loss – is whether it can add value to broader efforts at entrepreneurship development and business creation. To garner continued subsidy, programs must demonstrate that they run high-quality, high-value programs that can contribute to state and local economic development policy.

The road ahead

To make progress toward growth and sustainability, then, the field must move in two directions:

Becoming even more entrepreneurial

Even if most programs can't anticipate achieving total self-sufficiency, they must continue to explore avenues for increased cost recovery. Focusing on cost recovery reduces dependency, promotes increased efficiency, and makes programs more responsive to market demands. Taking cues from leaders in the industry, opportunities for increasing self-sufficiency include:

- Applying technology to increase productivity and efficiency,
- Testing and adopting client fees for services, and
- Creating social enterprises that support mission and generate income.

Making a better case for microenterprise development services

To justify ongoing subsidy by public and private donors, the field needs to demonstrate its value. Key methods for doing so include more systematic outcomes tracking by many individual programs, combined with more rigorous, experimental design impact assessment of a few. Studies that look at programs' social return on investment – including benefits to clients and local economic development – also will be important in demonstrating that investments in microenterprise can yield benefits in excess of their costs.

What funders can do

Funders can support programs in both of these areas by:

Increasing the capacity of programs to generate revenues

At the simplest level, this can mean removing grant restrictions that prevent programs from charging client fees, and instead, encouraging them to apply graduated fee schedules that acknowledge different capacities to pay for services.

Funders also can provide financing to help managers test new approaches to cost recovery. Programs already have implemented initiatives, ranging from kitchen incubators to retail stores selling clients' products, to printing or coffee shops that serve local customers and also provide business experience to program clients working in the enterprise. While these enterprises have the potential to bring in new revenue, they do require management expertise, resources, and local industry and market knowledge. Such ventures can generate new revenues, but also can divert organizational

resources and capacity away from a program's core business. There is an emerging body of knowledge around what it takes to successfully launch and operate these "social enterprises," and managers need to gain that knowledge before exploring these ventures. They also need access to funding for market research, feasibility assessment and business planning as they develop promising ideas. Managers also can be encouraged to implement smaller-scale approaches to revenue generation that can collectively improve the bottom line.

Supporting research to document the value of microenterprise programs

One study of microenterprise has used an experimental research design – a 1995 look at the employment and income outcomes of unemployment insurance recipients who elected to pursue self-employment. Other, less rigorous longitudinal studies have assessed the outcomes of other populations seeking enterprise services – welfare leavers, and emerging business owners disadvantaged by income, racial or ethnic status and other barriers. To make its case in the current environment, the field needs more rigorous evaluations that use experimental research designs, and others that look closely at the social and economic returns on investment in the industry. Designing and implementing high-quality evaluations will not be easy; they require significant resources, and there are challenging design and technical issues to be resolved. However, funding such research can be critical to policy discussions at the state and federal levels.

Providing longer-term, more substantial funding to programs that have demonstrated progress and the potential for high impact

Finally, programs that have demonstrated strong performance need funds that can provide stability and position them for growth and change. With the preponderance of funding being distributed as one-year grants, programs spend too many of their resources – important, high-level management and leadership time – in the continuous pursuit of funds to sustain operations. In this situation, it is difficult to dedicate the time necessary to plan and build the capacity for growth. Moreover, programs become reluctant to invest in growth or in new products and services, if it is unclear that they can be sustained over the longer term. Donors that want to help take the field to the next level of development, should consider making multiyear funding commitments, and invest in the key management and organizational capacities that provide long-term stability to programs, and help to position them for growth.

Becoming More Entrepreneurial: The Case of GROW in Nebraska

A 2001 grant from the Ewing Marion Kauffman Foundation, and its recognition of GROW Nebraska's role in building entrepreneurial talent, stimulated GROW to take a hard look at its own operations and finances. GROW Nebraska is a membership organization providing "entrepreneurial coaching" and market access opportunities to its members, most of whom are artisans, craftspeople and food producers. Ensuring GROW's own long-term success would require becoming as entrepreneurial as its members, and that the organization's leadership make cost-recovery a cornerstone of its strategy. Frequent strategizing with funders such as the Nebraska Microenterprise Partnership Fund and the Nebraska Department of Economic Development helped shape the path forward.

A \$150 annual membership fee became the entry point for inclusion in GROW's print and Internet directory, and membership growth goals were set to achieve 75 percent self-sustainability by 2007 and 95 percent by 2010. To meet those targets, the organization instituted a referral program, offering \$25 for each new member recruited, and attracted 48 new members. Keen to keep GROW open to low-income entrepreneurs, a scholarship program was created. When members join or renew, they can donate to the scholarship fund or to a Discovery Fund, which underwrites new pilot services. GROW also brings in revenue through sales of GROW products and fees for services such as Web-site design and participation in food show booths. In 2004, 17 percent of earned income came from membership fees, 22 percent from net product sales, 23 percent from shows, and 38 percent from other program service fees.

GROW also pruned services that members did not consider worth paying for. This meant letting go of money-losing wholesaling of member products, and instead operating holiday stores. In 2004, due to its new approach, the organization reported earned revenues covered 35 percent of expenses, a percentage placing its performance near the top for technical assistance providers in the industry.

Sustained Support and the Growth of Mountain Microenterprise Fund, North Carolina

The Mary Reynolds Babcock Foundation made an organizational development grant to the Mountain Microenterprise Fund (MMF) in 1996, a time when MMF was weathering an organizational crisis, and a new executive director was attempting to get the organization back on track. While providing minimal services with a bare bones staff of two, the grant allowed the executive director to concentrate on creating personnel policies, mapping technology needs, developing a funding strategy, and building an organizational infrastructure from the ground up.

The Babcock Foundation continued to support MMF through multiyear commitments for program operations. Concentrating on the Southeastern United States, the foundation then focused on four interrelated areas, two of which were “Organizational Development” and “Enterprise and Asset Development.” It found that support in the first area led to increased effectiveness, and that even greater impacts could be achieved when funding in two or more areas were combined. MMF confirmed the results achieved by such an approach, growing to serve more than 500 clients a year. The foundation also listened when MMF established a certified Community Development Financial Institution, the Mountain Microenterprise Loan Fund, and said it needed additional equity to grow. The foundation provided \$100,000 that helped leverage additional capital. MMF has set sustainability goals of 50-60 percent for the fund.

MMF has worked consistently on sustainability. It has a sliding-scale fee for the basic business development class, a \$120 member fee for established clients to receive ongoing services, fees for seminars and other short trainings, and a for-profit store. The board continues to explore the best mix of earned income, individual donations and corporate sponsorship to build a sustainable organization while keeping services affordable to clients in greater financial need.

For more information

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. Pages 43-44 provide more data on cost recovery in the industry; pages 80-81 and 102-104 also discuss the challenge of achieving sustainability and offer more detailed recommendations for programs and support organizations, as well as funders. Available from: <http://www.fieldus.org/publications/FulfillingthePromise.pdf>.

For earlier issues of this funder guide series, please see <http://fieldus.org/Projects/donorResources.html>. Information on a donors' group on microenterprise development also is available there.

Endnotes

1. Highlights from the 2005 Data Collection Project, <http://www.fieldus.org/Publications/Highlights2005.pdf>.
2. Data from MicroTest, a performance measurement program managed by FIELD. See www.microtest.org for more information.

FIELD Funder Guides are produced by the Aspen Institute's FIELD program, dedicated to promoting best practice and policy for microenterprise development in the United States. Series funding is provided by the Charles Stewart Mott Foundation.

© 2006 by the Aspen Institute

