Asset Funders Network

BUILDING ASSETS THROUGH MICROBUSINESS

ACCESS OPPORTUNITY MOBILITY

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MICROENTERPRISE FUND FOR INNOVATION, EFFECTIVENESS, LEARNING AND DISSEMINATION (FIELD)

FIELD focuses on the U.S. microenterprise industry – exploring innovation, evaluating new ideas, helping to build the industry's infrastructure, disseminating best practices to practitioners and serving as a resource to donors interested in microenterprise.

FIELDUS.ORG

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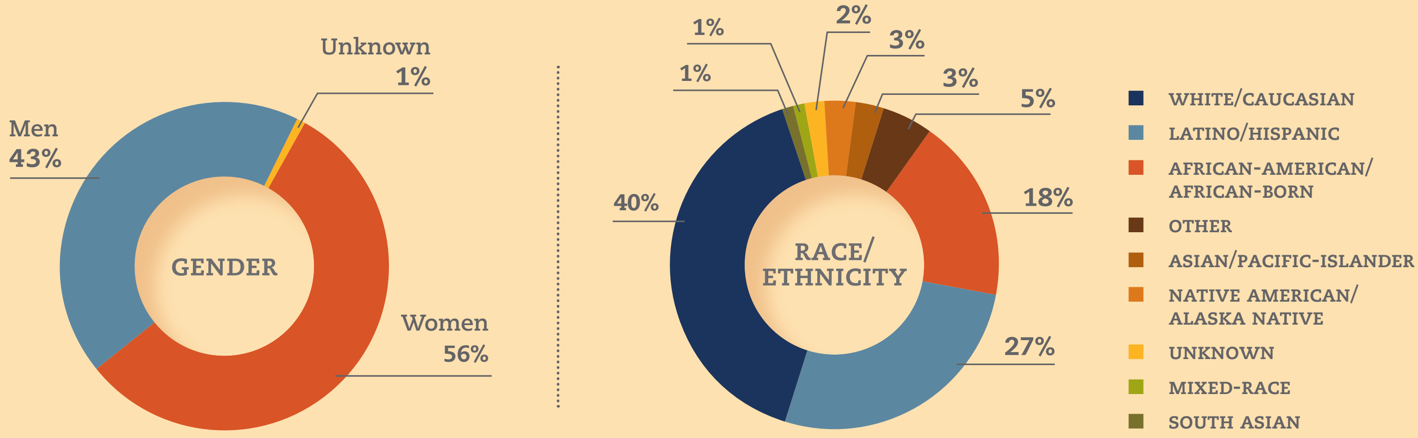
MICROENTERPRISE IS A CRITICAL DRIVER OF THE ECONOMY AND ASSISTS UNDERSERVED POPULATIONS.



SOURCE: FY 2011 U.S. Microenterprise Census, FIELD at the Aspen Institute. http://fieldus.org/Stories/CensusHighlights2012.pdf

Financial security and economic mobility are foundational to our both our culture and economy, yet for many families they remain an unrealized promise. Fifty-four percent of all U.S. households lack sufficient financial assets to make investments in opportunities that increase financial mobility, such as buying a home, creating a business, or investing in their children's education.[1] Foundations have invested in a range of approaches to make financial security and economic mobility a reality for more Americans. As the gap between the haves and have-nots in our country continues to widen, these investments become even more crucial, and more complex.

Owning a business is one key means through which individuals and families build assets. Over the past three decades, foundations, corporations, and public policy have supported the creation and growth of microenterprise development organizations, which provide access to capital and other business development services to microbusinesses – defined as businesses with five or fewer employees, requiring less than $50,000 in start-up capital, and owned by low-income or minority individuals, or others who lack access to business capital and resources. Microbusiness ownership has become increasingly more important and relevant as an asset-building and income security strategy since the Great Recession has devastated the net worth of many families, and years of erosion in wages have made family-supporting jobs a rarity. This guide elevates the ways that microenterprise programs are currently helping individuals and families realize the promise of financial security and mobility, and outlines guidance for funders looking for ways to leverage microenterprise as an asset-building strategy.

1. Shapiro, T.M., Oliver, M.L., & Meschede, T., *The Asset Security and Opportunity Index.* (Waltham, MA: Institute on Assets and Social Policy, 2009).

BUSINESSES OWNERSHIP AND ASSET ACCUMULATION

- **BUSINESS EQUITY** is the second largest source of family non-financial assets, after home equity.[1]
- **THE MEDIAN NET WORTH** of business owners is almost 2.5 times higher than non-business owners. For a black woman, the difference is more than 10x. For a Latino man, the difference is 5x.[2]
- **TWO PERCENT OF HOUSEHOLDS** with net worth below $50,000 owned a small business, compared to nearly 6% of households with net worth between $100,000 and $249,000, and 25 percent with net worth between $500,000 and $999,999.[1]

1. Federal Reserve Bulletin, June 2012, Volume 98. No. 2. *Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances.* www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf
2. Association for Enterprise Opportunity, *The Power of One in Three.* (Washington, D.C., 2011, p. 2).

BUILDING ASSETS THROUGH BUSINESS GROWTH AND EXPANSION

The core work that microenterprise programs do to help entrepreneurs access credit and build management skills leads to assets and higher net worth. Studies show the resulting growth in assets comes not only in the form of business assets, but entrepreneurs receiving services from microenterprise programs build personal assets as well.

Research by Women's Initiative, a microenterprise organization in the Bay Area, found that:

- Women's Initiative clients more than tripled their overall household wealth and increased their business equity six-fold an average of two years after participating in its Simple Steps business training.
- For every dollar of business equity owned, Women's Initiative clients had nearly two dollars of overall household wealth.
- Women's Initiative clients who were in business had 40% higher average household incomes and 48% more household net worth than clients who had not started a business.
- African-American women and Latinas who receive business management training through Women's Initiative had the highest increase in their business equity and overall household wealth among our clients. Despite starting with fewer business and household assets, two years after training these two groups accrued the highest business and overall household wealth.

SOURCE: Jagger, Karuna and Elizabeth DeRenzy, Closing the Wealth Gap through Self-Employment. (San Francisco: Women's Initiative, July 2008).

FIELD's study of Temporary Assistance for Needy Families recipients who received microenterprise assistance found that after two years:

- Participants had an average business net worth of $4,000
- Homeownership among participants increased from 14% to 22%.

SOURCE: Klein, Joyce A., Ilgar Alisultanov and Amy Kays Blair, Microenterprise as a Welfare to Work Strategy: Two-Year Findings. (Washington, D.C.: The Aspen Institute, November 2003).

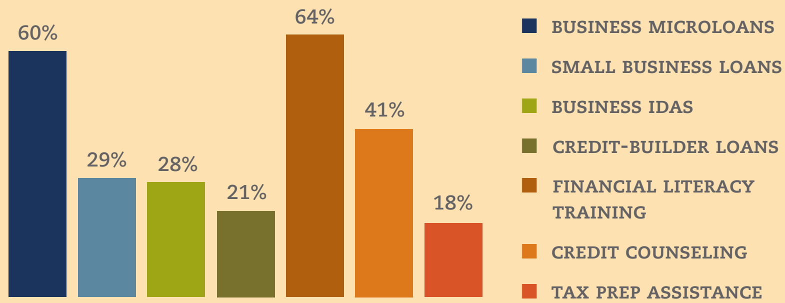
MICROENTERPRISE PROGRAMS AS ASSET BUILDERS

Microenterprise development programs have risen to the challenge to help families with scarce assets realize their dreams of business ownership.

As practitioners have responded to the financial circumstances of their clients, they have learned that helping entrepreneurs develop the financial skills and acumen to manage their businesses also facilitates financial inclusion and capability. As such, practitioners have joined forces with foundations, corporations, financial institutions, government, and a rich array of community development organizations to expand beyond a focus on access to credit and business development services to also promote savings, financial capability, and tax benefits for low-income families.

With these mechanisms, microenterprise programs are both diversifying their services and bringing their clients closer to the financial mainstream.

FINANCIAL CAPABILITY PRODUCTS AND SERVICES OFFERED



Data represents the percentage of microenterprise development organizations offering each product or service.

SOURCE: FY 2011 U.S. Microenterprise Census, FIELD at the Aspen Institute.

MICROENTERPRISE PROGRAMS have found that building financial capability is essential in developing business skills and accessing credit.

DEVELOPING FINANCIAL KNOWLEDGE AND CAPABILITY

Making sound, day-to-day decisions about finances is not easy in today's complex financial marketplace. For microbusiness owners, these choices are complicated further by the fact that business and personal finances are often interrelated and intertwined. For example, most lenders rely heavily on an individual's personal financial and credit history in determining whether to extend a business loan. For that reason, microenterprise programs have found that building financial capability is essential in developing business skills and accessing credit.

More than half of the organizations responding to the U.S. Microenterprise Census in 2011 reported offering some form of financial literacy training. For example, at the Maine Centers for Women, Work & Community (WWC), a statewide economic development organization that helps women start businesses, build assets, and make career transitions, a 15-hour course called "My Money Work: Tools for Smart Money Choices" is required for IDA account holders. Participants finish the class with an action plan to pay off their debts, increase savings, or repair credit—all necessary steps to start a business.

WWC is conducting a comprehensive survey of My Money Works training graduates to assess achievement of short and longer-term financial goals and progress. Current and recent funding support for WWC's asset development programming, including financial literacy, includes the John T. Gorman Foundation, the Rose Foundation for Communities and the Environment, The Worthington Foundation, and the FINRA Investor Education Foundation.

In particular, one of the most daunting financial tasks facing business owners is filing taxes – particularly those filing for the first time. The U.S. Microenterprise Census found that in 2011, close to 20% of microenterprise programs offered tax assistance to entrepreneurs to help them to file their taxes and take advantage of tax-based asset building opportunities of which they might not otherwise be aware. For example, self-employment earnings, if properly documented, can be used to help qualify an individual for the Earned Income Tax Credit.

SUPPORTING SAVINGS AND TRANSITION TO THE FINANCIAL MAINSTREAM

Low-and-moderate income families are able to save, but many lack access to appropriate savings vehicles, and the encouragement and support needed to develop and maintain a savings habit. Without the cushion of savings, these families are vulnerable to significant financial set-backs. Microenterprise programs across the country are supporting savings among their clients through a variety of approaches.

- **Individual Development Accounts (IDAs)** offer low-income families a way to multiply their savings with matching contributions from public or private sources. Administered by microenterprise development organizations and other institutions, IDA account holders make regular contributions (up to a maximum of $2,000) that are then matched, typically at a 1:1 or 2:1

IN TODAY'S ECONOMY, a good credit score is an important financial asset.

rate. IDAs provide not only an accessible mechanism for low-income families to save, the majority of whom are un-or-underbanked; they also incentivize the practice of saving by providing match dollars. The Corporation for Enterprise Development's 2010-2011 IDA Program Survey showed that 23 percent of account holders chose to save for a business. Of the 205 microenterprise development organizations responding to FIELD's U.S. Microenterprise Census, 47 (22 %) administered IDA programs in 2011. Microenterprise programs are a natural fit for administering an IDA program, as they typically have the infrastructure needed to open and manage the accounts. Mercy Corps Northwest, a microenterprise organization based in the Pacific Northwest, runs one of the largest business IDA programs in the country. Since its inception in 2003, more than 500 clients have successfully graduated from the program, with a total of $1.7 million saved and invested, including matched funds.

- **Required savings teamed with savings accounts.** Grameen America, a nonprofit microfinance organization headquartered in New York, requires that borrowers in its lending circles make regular deposits into a savings account. Through an innovative partnership launched in 2008 with Citi Microfinance, Grameen America members can access free savings accounts. In this model, participants use the loans to build their business and increase their income; with the savings accounts, they build valuable assets and are introduced to mainstream financial services. Between 2008 to mid-2013, Grameen America served 17,335 women who have collectively deposited more than $1 million in savings accounts.

BUILDING CREDIT AS AN ASSET

In today's economy, a good credit score is an important financial asset – one that plays a significant role in an individual's ability to secure a loan, credit card, housing, or even a job. Over the past several years, microenter-

CREDIT-BUILDING ACTIVITIES AMONG MICROENTERPRISE DEVELOPMENT PROGRAMS, 2008-2012

	ALL REPORTING PROGRAMS		PROGRAMS ENGAGED IN DIRECT LENDING	
	2008	2011	2008	2011
TRACK CREDIT SCORES	32%	54%	51%	80%
REPORT CREDIT PERFORMANCE	17%	32%	27%	51%
MAKE CREDIT-BUILDER LOANS	6%	19%	9%	30%

2. Data from FY2008 and FY2011 U.S. Microenterprise Census, FIELD at the Aspen Institute. In FY 2008, 369 microenterprise development organizations completed the Census; 229 were direct lenders. In FY 2011, 207 organizations completed the Census; 122 were direct lenders.

FOUNDATIONS CAN INVEST in and support microenterprise, ultimately helping families and communities shift from getting by to getting ahead.

prise programs have developed a variety of approaches to help entrepreneurs and would-be business owners to build their credit, including tracking their client's credit scores (often as part of a financial education process), reporting their borrowers' loan performance to credit bureaus, and offering credit-builder loans or other products – such as secured credit cards – that can help their clients to improve their credit scores. The three-year period from 2008 to 2011 saw a significant increase in the number of microenterprise programs engaged in these activities.

One of the major resources supporting the credit-building efforts of microenterprise programs is the Credit Builders Alliance (CBA). Founded in 2006 by a number of microenterprise organizations working with the Center for Financial Services Innovation, CBA bundles and analyzes portfolio data from community lenders and reports it to the major credit bureaus. It also provides a suite of credit-building tools and services to community organizations, including low-cost access to credit reports. CBA, with more than 350 non-profit members, including microenterprise development programs, has collectively reported 21,000 trade lines and $500 million in loans, and pulled 60,000 credit reports for financial counseling, loan underwriting and to track improvements in clients' credit scores.

FUNDERS' ROLE

Foundations can invest in and support microenterprise, ultimately helping families and communities shift from getting by to getting ahead.

Five ways funders can make a difference:

☑ FINANCE THE COST OF MICROENTERPRISE SERVICES

Although microenterprise programs generate earned revenue through interest and fees on loans, and often charge some fees for education and counseling services, their clients alone cannot cover the costs of their services. Foundations, corporations and the public sector play a key role in providing the funds to cover both operational expenses, and the capital to expand microlending. Such investments can often leverage other dollars and opportunities. For example, both the U.S. Small Business Administration and the U.S. Department of Agriculture have programs that lend funds to microlenders for re-lending to microentrepreneurs. The programs require the organizations that borrow funds to provide a 15% cash loan loss reserve. Because many participating organizations were facing challenges in raising funds for the loss reserves, Bank of America created a $10 million grant program to fund loss reserves for Community Development Financial Institutions (CDFIs) and other nonprofit microlenders. In 2010, Bank of America announced that its first $3.7 million in grants enabled participating programs to access nearly $27.5 million in lending capital from the Federal sources[3].

3. Press release from Bank of America, October 6, 2010.
http://newsroom.bankofamerica.com/press-release/community-development/bank-america-awards-first-round-grants-nonprofit-community-lende

SMALL LOANS MAKE A BIG IMPACT

ONE YEAR POST-LOAN BUSINESS OWNERS REPORT

$10,000 ON AVERAGE

STRONGER BUSINESSES

97%

OF BUSINESSES REMAIN OPEN DESPITE CHALLENGING ECONOMIC TIMES.

EMPLOYMENT OPPORTUNITIES

5.6

AVERAGE NUMBER OF JOBS CREATED OR SUSTAINED FOR BUSINESSES WITH EMPLOYEES.

INCREASED PAY

32%

REPORT INCREASES IN INCOME FROM BUSINESS.

SOURCE: U.S. Microfinance: Small Loans, Big Results. Data from The Accion Network's 2012 microTracker survey, conducted in partnership with Opportunity Fund. http://us.accion.org/microTracker/Infographic

☑ FUND SAVINGS PROGRAMS THAT INCLUDE BUSINESS OWNERS

The federal government, through the Assets for Independence Act, is a main source of funding for IDA programs, but requires a 1:1 dollar match from non-federal sources. When asked what resource their program most needed in order to be successful, nearly half (49 percent) of IDA programs identified non-federal matching funds. Foundations can help meet this need, by serving as a non-federal matching source. Private support also allows IDA programs to be more flexible with key elements of the program, including income eligibility limits and allowable savings goals.

☑ PROMOTE EXPANSION OF PRODUCTS AND SERVICES

As natural sponsors of asset-building and financial capability strategies, microenterprise programs are seeking to improve their products and services. However, adding new product features – credit-building loans and counseling, tax preparation assistance, or savings products – implies building staff and organizational capacity, and sometimes cultivating new partners. Funders can invest in product and service delivery enhancements by which microenterprise programs can expand program offerings and strengthen their asset-building capacity; they can also support the inclusion of microenterprise organizations within larger integrated and comprehensive asset building efforts.

☑ INFORM PUBLIC POLICY

Public policy is a critical piece in ensuring low-and moderate-income families have a fair shot at getting ahead. Foundations can play a role in shaping policy in several ways, including supporting advocacy efforts, engaging with policymakers, and funding research that factually supports policy change. Foundations can support and shape policy change at all levels – local, state and federal – that improves the ability of microbusiness owners to access capital and resources, and to grow their businesses. At the local level, business licensing and zoning regulations can impede the ability of emerging firms to start or grow. Local and state governments can allocate their own resources to fund microenterprise programs and services; they also play a key role in determining how federal funds that can be used to support microenterprise development – such as the Community Development Block Grant – are spent. Additionally, funders' support of policy efforts aimed at improving access to key asset protecting and building tools - such as retirement savings - should ensure these efforts are inclusive of the needs and circumstances of self-employed microentrepreneurs, who will not have access to employer-based mechanisms.

☑ RESEARCH AND EVALUATE EFFECTIVENESS

Foundations that fund ongoing data collection are enabling programs to improve their outcomes and effectiveness. Investing in research - that demonstrates needs and opportunities, and models innovations - is crucial in developing effective and replicable asset-building strategies. In 2012, Sam's Club Giving Program provided funding to the U.S. Accion Network to enable four of its member organizations, and Opportunity Fund in the Bay Area, to conduct a comprehensive client outcomes survey that measured important metrics such business survival rates and job creation.

BUILDING BUSINESSES, CREDIT, AND FINANCIAL CAPABILITY

INVESTMENTS IN ACTION: THE INTERSECT FUND

"We have helped many clients establish a relationship with a mainstream financial institution, and positioned them to access larger loans sooner so they can start building their businesses."

–ROHAN MATHEW
INTERSECT FUND'S PRESIDENT AND CEO

The Intersect Fund is a non-profit microenterprise development organization founded by students at Rutgers University in 2008 that equips low-income entrepreneurs in New Jersey with the skills and capital they need to develop successful businesses, generate income, and build assets.

Since 2010, the organization has increased its service volume more than seven-fold, serving more than 800 individuals in the first six months of 2013. The Intersect Fund has combined valuable investments from foundations, financial institutions, and government partners with strategic planning to achieve this growth, with its revenue doubling year-over-year for each of the past four years.

The Intersect Fund has also been able to nimbly evolve its products and services to meet the unique needs of its target market. More than two-thirds of its borrowers have no credit score or a score under 600, so the organization began offering a bundled credit-building product called the JumpStart Loan. The JumpStart Loan, supported by Capital One, splits a $600 loan into an installment loan, a line of credit, and a secured Capital One credit card, thus establishing three active trade lines. "Partnering with Capital One has been crucial to the success of this product," says Intersect Fund's President and CEO, Rohan Mathew. "We have helped many clients establish a relationship with a mainstream financial institution, and positioned them to access larger loans sooner so they can start building their businesses."

Since September 2010, Intersect Fund has disbursed 173 JumpStart Loans, and has seen recipients' median credit scores rise by 68 points. In 2013, Intersect Fund received additional funding from Capital One to conduct an outside study of the quantitative and qualitative impact of these loans, which has led to improvements in the marketing, closing, and ongoing follow-up assistance of the JumpStart Loan.

Daniel Delehanty, Senior Director for Community Development Banking at Capital One, notes that the investment in the Intersect Fund has helped Capital One meet multiple goals. "Our partnership on the JumpStart Loan supports our investments in both economic development and financial capability. We've found it useful and important to support multiple aspects of Intersect Fund's work to develop and offer this new product – both their costs to deliver the product, as well as the research that allows us to understand its effectiveness for their clients."

KEY TERMS

ASSET DEVELOPMENT

- A strategy to enable greater access to economic security and opportunities, particularly for low-income communities and communities of color.
- Consists of programs, policies, institutional practices and tools that enable individuals, families, and communities to build a strong foundation of resources they can draw upon to meet more than their basic survival needs.

ASSETS

Personal Resources	Home and Social Resources
▪ Home ▪ Cash savings ▪ Stocks and bonds ▪ Good helath ▪ Vehicles ▪ Retirement accounts ▪ Business ownership	▪ Education ▪ Job skills and experience ▪ Health care ▪ Social networks ▪ Community services

CREDIT BUILDER LOANS

Typically $1,000 or less, these loans are made to customers with limited or impaired credit for the purpose of enabling them to improve their credit scores.

INDIVIDUAL DEVELOPMENT ACCOUNT (IDA)

A savings account for lower income individuals. An IDA is used for specific purposes such as education, purchasing a first home, or starting a business. Savings are matched by private or public funds.

MICROBUSINESS

A business with five or fewer employees, requiring less than $50,000 in start-up capital, and owned by low-income or minority individuals or others who lack access to business capital and resources.

MICROENTERPRISE DEVELOPMENT PROGRAM

A nonprofit entity or a program administered by a nonprofit, including community development corporations or other nonprofit development organizations that provide services, such as training, access to capital and technical assistance to underserved entrepreneurs.

SCHEDULE C

Is a report that is part of an individual income tax report on IRS Form 1040. Schedule C shows the income of the business for the tax year and deductible expenses, with the resulting net profit/loss of the business.

ASSET FUNDERS NETWORK (AFN)

AFN provides grant makers with valuable opportunities to learn and connect. From veteran practitioners to newcomers with fresh ideas, AFN provides a safe and neutral forum for candid conversations among peers with similar and opposing views. Our programming increases the capacity of our members to more effectively promote economic opportunity and security and make better strategic funding decisions.

Formed in 2005, AFN increases the capacity of its foundation and grantmaker members to effectively promote economic security by supporting efforts that help low- and moderate-income individuals build and protect assets.

To learn more and to become involved in advancing the field, please visit AFN on the web at www.assetfunders.org

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