Scaling up Microenterprise Services

FIELD

Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination

THE ASPEN INSTITUTE

The Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) is a research and development organization dedicated to the expansion and sustainability of microenterprise development efforts, particularly those aimed at poor Americans. Its mission is to identify, develop and disseminate best practices, and to broadly educate policy makers, funders and others about microenterprise as an antipoverty intervention.

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As the microenterprise development industry has matured in the United States, it is not surprising that the challenge of scaling-up services has become more important. Implementers have seen the positive outcomes for emerging entrepreneurs who receive training, technical assistance and financing from their programs. And the data tells us that there are many more who could also benefit. But, ratcheting up a program to serve many hundreds, if not thousands, of individuals demands commitment, intelligence, determination and a willingness to work on many aspects of an organization at once. The eight FIELD grantees that were funded to help us discover just what it takes to achieve scale in the U.S. have shown us that. They have engaged in market research to better know the markets they're trying to serve. They have applied themselves like experimental scientists testing new strategies for marketing, new and revised products and services, new partnerships and new organizational structures. They have relentlessly pursued funding to support their growth.

This document embodies the results of these efforts over the last two years, showing how they've progressed and how they compare to others in the field. The articles provide examples of success. They also contain lessons regarding efforts that proved less than worthwhile. Together they show how far these organizations have come, but they also suggest that there is much work yet to go. All in all, they provide inspiration for others interested in dramatically scaling-up their level of effort.

Special thanks are extended to the individuals who represented their organizations in this learning assessment and who contributed the articles in this compilation: Mohamad Alkadry, Jerry Kolo and Venezia Thompson for Florida Atlantic University/Center for Urban Redevelopment and Empowerment; Janie Barrera of ACCION Texas; Marisa Barrera of ACCION New Mexico; Jan Losby, Jill Robinson and Debra Carr of the Institute for Social and Economic Development; Terri Ludwig and Luz Gomez of ACCION New York; Walter Merkle and Terrence Ratigan of the National Federation of Community Development Credit Unions; Jeffrey Reynolds of the Center for Rural Affair's Rural Enterprise Assistance Project; and Eugene Severens of the Nebraska Microenterprise Partnership Fund. Their dedication to their clients as well as to the challenge of scale is evident in their work and in their words.

Gratitude is also extended to other members of the FIELD team who have supported this learning assessment and who have helped bring this publication to light. They include Carol Rugg, Colleen Cunningham, Jackie Orwick and Greg Landrigan who have helped with editing and production, as well as with dissemination of all the useful information that has emerged from this group. Thanks also to Britton Walker who supported the working group's learning meetings with true grace.

I hope that readers of this publication will be motivated by the example of these organizations and embark on their own scale-up initiatives. I also hope that they will benefit from the lessons these organizations have learned and build upon them. What their stories demonstrate is that scale-up in the United States is certainly possible, but only if many organizations are willing to think big, be creative, do the hard groundwork required and take some risks. The results will make the efforts worthwhile.

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What does it take to scale-up the delivery of microenterprise development services to reach hundreds of thousands of clients? A lot! That, at least, is the message from the scale cluster grantees of the Aspen Institute's Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), a group of eight institutions that for two years, have worked on increasing the volume of their services, the geographic reach of their programs, and the number of individuals served. In doing so, their experience has provided a set of useful models for others to consider, and more importantly, a set of valuable lessons.

In 2000, FIELD, at the behest of its advisory board, emitted a Request for Applications, seeking to identify organizations engaged in work with the potential to dramatically increase outreach and significantly expand the number of clients served over time. The intent was to learn more about the proper dimensions of scale in the United States, and to identify and share practical methods to move the industry closer to reaching its potential to provide services to those most in need.

The rationale for FIELD's interest in this challenge is clear. Research has documented the presence across the country of large numbers of low- to moderate-income microentrepreneurs, many of whom practitioners believe are hampered in their efforts to develop strong businesses by a lack of capital, technical training, networks and other resources commonly available to other businesses. Indeed, ACCION USA-commissioned research has estimated 13.1 million microentrepreneurs in the U.S. (defined as someone who is either self-employed or a business owner with five or fewer employees), of whom 10.8 million have never received a bank loan for their business.[1] Estimates made by Aspen Institute staff, drawing on U.S. Department of Commerce survey data and other sources, indicate as many as 2.3 million of these entrepreneurs are low-income.[2]

At the same time, data on the microenterprise industry's outreach to date suggests a significant unmet demand for services. The most recent data collected by FIELD on the magnitude of the field indicates that in 2000, there were 650 microenterprise programs across the country, of which 554 report providing direct services to clients. The approximately 300 organizations that provided data reported serving 100,000 individuals, of whom some 48,777 received substantial services in the form of loans or significant training and technical assistance.[3] These programs made 7,274 loans, served over 9,800 borrowers, and had $67,523,044 in outstanding portfolio at the end of their fiscal years.[4] Based on estimates of the likely reach of those programs on which detailed data could not be obtained directly, the field may actually have reached between 150,000 and 170,000 individuals that year.[5] These figures demonstrate a growing industry, and one that has

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1 ACCION USA commissioned a professional market research firm to conduct the study whose purpose was to determine the market size and demand for microlending in the United States, and the attitudes of microentrepreneurs toward various sources of credit. The study was conducted in September 1999 and included a random enumeration study based on telephone surveys in nine U.S. cities (Albuquerque, Austin, Chicago, Dallas, El Paso, Houston, New York, San Antonio and San Diego), as well as focus-group research. (*Executive Summary: The Microlending Market in the U.S.*, October, 1999.)

2 Peggy Clark and Amy Kays, *Microenterprise and the Poor* (Washington D.C.:. The Aspen Institute, 1999), 77. Low-income is defined as having household income below 150 percent of Department of Health and Human Services poverty line. For a family of four, that threshold was $17,417.

3 FIELD defines someone who was a borrower or who received more than 10 hours of training, technical assistance and other services during a fiscal year as a client. There were more than 48,777 clients receiving this level of services in 2000. The other individuals, approximately 53,000 of them, received fewer than 10 hours of service and were not borrowers. They may be individuals who engaged in business feasibility training or other assessment activities, or business owners and other long-term clients who attended short courses or received smaller amounts of technical assistance.

4 Britton Walker, Amy Kays and Jackie Orwick, *2002 Directory of U.S. Microenterprise Programs* (Washington, D.C.: The Aspen Institute, 2002), forthcoming.

5 The lower estimate is based on using the median number of clients (205) served by the MicroTest program in FY2000, as a proxy. The higher number is based on using the median participant number (273) for these same programs.

extended itself across significant portions of the country. In 1992, when the Aspen Institute published its first *Directory of U.S. Microenterprise Programs*, the number of reporting organizations was 108. This number included both implementers and "practitioner-support" organizations that provided a range of financial, research, technical and advocacy services to the field. Furthermore, the 650 programs identified in 2002 represent a 91 percent increase over the number reporting to the directory in 1999.

On the other hand, this data also underscores the field's fragmentation, cost inefficiencies, and still limited outreach in terms of lending. If one just compares the structure of microfinance in developing countries to that in the United States, one will generally see that international organizations are much larger with broader or deeper geographic reach (the whole of major cities or multiple regions), while U.S. programs tend to be more local in focus. On average, U.S. programs serve hundreds, not thousands of individuals. Only a small number of these organizations have taken on the challenge of going "statewide" or serving the whole of a major metropolitan region. The local focus of most microenterprise programs has many causes — including funding, institutional mission and structure of the hosting organization, and the logic of the service model itself. There are, for example, fewer economies of scale with a training or technical assistance model than with a financing model. However, even the majority of credit-led organizations do not seem impelled to scale-up, though the possibility of self-financing the costs associated with expansion is more achievable with financing programs than with training- and technical-assistance – driven programs. The lack of drive toward scale is perplexing. The most likely reasons relate to a lack of vision on the part of some leadership, the still limited understanding of the market[6] on the part of practitioners, the lack of resources, and importantly, the lack of methods and systems to efficiently support broad outreach and service delivery.

The result is that there are only a handful of programs that see scale-up as part of their missions. But, among them are a number that has taken some interesting steps in developing models and methods for increasing the scale of lending operations. And, eight of these have participated with FIELD in implementing pilots and in testing strategies under the Achieving Scale cluster. They include: ACCION New Mexico, ACCION New York, ACCION Texas, Florida Atlantic University/Center for Urban Redevelopment and Empowerment, the Institute for Social and Economic Development in Iowa, The National Federation of Community Development Credit Unions, and the Nebraska Microenterprise Partnership Fund and the Rural Enterprise Assistance Project, both in Nebraska. See Table on Page 7 for a summary of these programs' statistics.

As we have observed their efforts to increase scale, we have learned that there is a set of interrelated activities that organizations must pursue if they are interested in truly increasing the numbers of clients they serve. They must develop boards and executive leadership committed to this goal; and they need to engage in market research and marketing to better identify who their target clients are, what products and services they seek, and what are the best methods of communicating with them. They need to develop products and services that make sense to these customers and are feasible for the program to deliver with volume. They need to build staff capacity in advance of the demand that they're trying to stimulate, and develop methods of deploying staff and functions that are highly efficient. This involves investments in management information systems and other technologies that support rapid decisionmaking and product delivery. They need to focus on resource development and develop a sustainability plan that matches their methodology. They need to think "outside the box" of nonprofit structures and look to private sector models for examples.

6 It is the Mott Foundation's belief, for example, that there remains real misunderstanding of the true nature of the microenterprise market on the part of the implementers and the policymakers. For this reason, the Foundation is supporting an indepth inquiry into the intersection between microenterprise and the informal economy. FIELD will be assisting Mott in this effort.

What follows is a summary of their experience and the lessons it suggests for others interested in scaling-up their efforts. Each organization that contributed to this work would be the first to admit that their experience is new and emerging. Few have worked on all the areas discussed here, and a number has experienced failure as well as success. Nevertheless, together they offer a rich set of examples for others interested in further advancing on the rough-hewn path they've laid.

WHAT DOES SCALE-UP LOOK LIKE IN THE UNITED STATES?

One of the questions that FIELD sought to answer relates to the proper dimensions of scale-up: what could organizations focused on growth achieve, and how did that relate to the markets in which services were being offered? Clearly, the "numbers" would look different in a rural setting from those in an urban one. Statewide programs might also be expected to demonstrate different performance from city-focused programs. FIELD also wanted to understand whether the performance of its grantees was significant compared to that of others in the industry. Did their accomplishments indicate that their strategies for scale-up merited the consideration of others?

The table below provides a very quick summary of grantee efforts over the course of the grant period against just three measures: numbers of clients served, loans made and dollar value of loans. The data shows that most of the programs grew over the three years for which data was made available, some of them dramatically.

FIELD Scale-Up Grantees: Summary Statistics

	Clients			Loans			Dollar Value of Loans		
	FY 1999	FY 2000	FY 2001	FY 1999	FY 2000	FY 2001	FY 1999	FY 2000	FY 2001
Direct Implementers									
ACCION New Mexico	261	332	456	203	229	321	$458,050	$817,661	$1,519,734
ACCION New York	314	778	1,095	352	613	754	$1,574,506	$3,496,864	$4,881,647
ACCION Texas	592	729	1,032	540	702	837	$1,777,904	$3,689,823	$5,218,654
FAU/CURE	177	506	750	NA	NA	NA	NA	NA	NA
ISED	1,244	1,771	1,782	NA	NA	NA	NA	NA	NA
REAP	355	387	372	24	41	27	$124,500	$139,500	$278,142
Intermediaries									
NFCDCU[7]	118	132	156	118	132	156	$880,386	$1,085,272	$1,386,485
NMPF[8]	2,060	2,715	2,853	74	41	45[9]	$203,906	$286,536	$169,667[10]
Totals	5,121	7,350	8,496	1,311	1,758	2,140	$5,019,252	$9,515,656	$13,454,329

7 Programs above the dark line are program implementers. The two below the dark line are intermediaries whose data includes multiple implementers. NFCDCU statistics cover nine credit unions participating in their scale-up project. The number of clients reflects those credit union members accessing microenterprise loans, and does not represent the full membership of each credit union or its total outstanding portfolio.

8 NMPF statistics include all member organizations except REAP. (REAP is a member of the Partnership Fund). The reductions in volume appear to be related, in part, to NMPF member organizations' increasing their strategy of helping clients access formal bank loans.

9 Direct loans made by NMPF member organizations (not including REAP). These members participated in an additional 17 loans — through loan preparation and other services — made by commercial lending institutions.

10 With participations (including REAP), the total dollar value ascends to $1,050,809.

This program performance compares quite favorably with others in the industry. Among a pool of 56 programs that provide FIELD data under MicroTest, FIELD's performance measurement project, the six direct implementers[11] in the cluster served more than the average and median number of clients reported by the whole group in FY 2000. Four of the six served significantly more. (The average for the 56 programs was 273; the median 205.) These four were in the top quintile of all programs with respect to the number of clients served — a group that reported serving 395 clients or more.

The four lenders in the group outperform the MicroTest median for number of loans made by all 56 programs — 28. Three of the four exceed the average of 76 loans. The four programs also either meet or outperform the credit-led group in the MicroTest pool. The median number of loans made by the 26 organizations included in this category was 41. The three ACCION programs in the cluster made significantly more loans than others. Among the MicroTest performers, an organization that made 86 or more loans in FY 2000 was included in the top quintile of all organizations reporting on that measure, and the ACCION programs produced more than twice to seven times that number. Not surprisingly, these three programs also dramatically outperform the pool in the dollar value of loans disbursed. The median and average for all reporting programs were $153,685 and $395,083, respectively. The median for the 26 credit-led programs was $306,811.

It also should be noted that the two implementers with the lowest numbers of clients and loans are located in largely rural states. REAP's mission directs the program to focus only on rural counties in Nebraska and on communities with fewer than 15,000 people. When compared to the overall pool of 25 rural programs reporting data to MicroTest, their performance stands up well. REAP serves three times the median number of clients for the group — 127 — and ACCION New Mexico performs similarly. Both programs produced more than the median number of loans in FY2000 — 30, and ACCION New Mexico also significantly outperforms the median dollar value of loans made by all rural programs — $275,658.

In sum, this group demonstrates strong performance in terms of scale when compared to others in the industry. Of course, the question remains: what does this record indicate about the future direction of the industry? Where are these organizations along the growth curve? Can more growth be expected in the future, and how significant will it be? While this ques-

Does a focus on scale-up mean a reduction of targeting?

There has been a concern that a focus on growth might lead organizations to de-emphasize reaching low-income individuals, as these are often considered harder to reach and requiring more intensive services. Among the 56 organizations reporting to MicroTest, the median percent of low-income clients (defined as those with household incomes at or below 150 percent of the Department of Health and Human Services standard) was 35 percent in FY 2000. The median for the FIELD scale-up grantees was 33 percent, and the range was from 24 percent to 51 percent of all clients served during the same period.

Grantees believe that both scale-up and poverty-targeting goals can be achieved if programs make special efforts to focus on that market. Their strategies for doing this include:

- Partnering with community-based organizations whose missions focus on low-income individuals
- Combining an IDA program with microlending, allowing people an opportunity to build assets for their businesses, and build collateral for lending
- Identifying low-income neighborhoods using geographic information systems analysis (see page 10)
- Direct mail to recipients of public assistance
- Developing agreements with vocational rehabilitation departments for referrals and subsidies for specific target groups
- Ensuring that staff are mission-oriented and not "money crunchers"
- Creating performance incentives for reaching the lowest income individuals and neighborhoods.

11 The two intermediaries are excluded from this discussion, as their totals amass the performance of multiple institutions.

tion can't be answered definitively, it is important to note that most of the cluster members have projected continued growth going forward. And while projections can be deceiving (only a few organizations in the group met their targets during the grant period), they reflect institutional intent and an expectation that growth will continue as capacity-building efforts bear fruit. To illustrate where this group may be going, five of the six direct implementers are aiming for at least 8 percent growth by the end of FY2002, but two are aiming for growth rates that are even higher, exceeding 30 percent. The National Federation of Community Development Credit Unions predicts a 28 percent increase overall in the number of loans made by the 12 credit unions participating in its microenterprise development capacity-building program. In short, those programs focused on growth believe that more can and will be accomplished in the years ahead.

What's more important than the sheer numbers projected is to recognize the qualitative difference between organizations poised for growth and those that are not. The first group has recognized that the starting point is an organizational commitment to scale-up. Growing to scale is something that doesn't happen overnight. It also doesn't happen if an institution has not established scale-up as one of its strategic goals, one that has the understanding and support of both board and staff, and that informs everything that an institution does. Once that decision is made, other work follows. FIELD's scale grantees have demonstrated that the work leads in many directions — to market research and marketing, to product development, to changes in organizational structure and improvements in organizational systems, to looking for high performance and efficiencies everywhere to stretch a dollar, and to building a sustained funding base. What follows is a summary of grantee experience in each of these areas.

KNOWING THE MARKET

Many times program implementers think they know their markets. They have a profile of their typical client in their mind, and they believe they understand the services that this typical client needs and wants. They also have some sense that there are many individuals like this individual who could benefit from their program services. In some instances, they may have even done some form of market research that produced general estimates of the potential number of microentrepreneurs in their target areas. What the FIELD grantees have learned, however, is that they need to know their market in much more precise ways in order to develop products and services that will attract emerging entrepreneurs in large numbers. This has involved engaging in market research for at least four purposes:

- To define market size and location
- To determine the characteristics of potential clients and the most likely referral sources
- To generate insights for product/service improvements and new product development, and
- To understand the most effective methods of communication and messages to reach the intended target market.

Market research is an activity taken for granted in the corporate setting, but almost never budgeted for in the microenterprise community. The FIELD grantees have learned that this is an investment that can have great payoffs in building a program. Here are some examples of investments they've made and their payoffs:

- ACCION USA invested in a professional quality random enumeration study in nine major cities that resulted in the estimation of 13.1 million self-employed and microenterprise owners across the country. More importantly, the study demonstrated the potential interest of large portions of that market in loans designed for them, and follow up focus group research helped ACCION better

understand the communication challenge it faced in offering such a product to this market. These studies have guided ACCION USA's entry into new cities, as well as helped long-standing affiliates to better target their own services.

- ACCION New Mexico invested in focus groups that educated them about the price resistance that microentrepreneurs demonstrated with respect to the interest rates that the program was charging. This led to a reduction in interest rates, the introduction of incentive pricing, and an increase in borrowing.

- ACCION New Mexico also learned that although only 8 percent of respondents had received bank business credit, 50 percent would go to a bank for information about loans. This finding played a key role in the program's subsequent development of a new communications and delivery channel for their microloans — partner banks (see Page 14 for more information on this strategy).

- REAP learned through surveys of their association members that many clients were looking for individual loans rather than the group-based step loan that the association was offering. It has since developed a direct loan product that has "taken off" rapidly across rural Nebraska. The program made 20 direct loans, valued at $256,000, in the first pilot year of the direct lending program.

- FAU/CURE used geographic information systems software to identify communities within their target area that met the income guidelines that characterized the target population they wanted to reach. They also used the same software to locate potential community partners and centers that could serve as natural outlets for expanded training classes. The result was a rapid increase in the number of clients served — from 177 one year to 506 the next.

FIELD grantees have used innovative techniques like contact management software, geographic information systems, and random enumeration studies to generate information they need. They've also used familiar technologies, like phone and paper surveys, focus groups and analysis of secondary data, to sharpen their understanding of their markets. The most important messages that other implementers should take away are that these efforts need to be well done; they require an investment of resources; and while some initiatives can be implemented on an occasional basis, there should always be some systems for capturing marketing data regularly.[12]

DEVELOPING BETTER PRODUCTS AND SERVICES

One of the real lessons that the programs profiled here have learned is that while emerging entrepreneurs may have faced barriers to credit and technical assistance services, this does not mean that they will respond gratefully to any product or service on offer. Like other consumers across the United States, potential clients have real preferences and needs that condition their willingness to apply for a loan or attend a training course. In addition, their previous and often negative experiences in attempting to access credit or engage in an educational process means that they are easily turned off by services that appear to present hurdles, or do not accommodate other issues in their lives.

Many microenterprise programs also have built their services around one lending product or core training course. In doing so, they've served many well, but they've also cut themselves off from others seeking something different. This is dramatically illustrated by the case of REAP, one of the longest standing peer

12 For more information, please refer to "Marketing Strategies for Scale-up: FIELD's Grantees Share Their Experiences," *FIELD forum* Issue 13, on our Web site at: www.fieldus.org/li/scale_news.html

lenders in the United States. Their core program model has focused on building REAP associations in rural communities across Nebraska that provide training, networking services and stepped, peer loans. The peer loan product allowed members, approved by their peer group, to borrow first $1,000, then $2,000, $4,000, $8,000 and ultimately $10,000. Borrowers could only "step-up" to the next level if they had successfully paid back their previous loans. While this has been the backbone of the program, staff found their reliance on this methodology alone was reducing the size of an already difficult to reach market. Smaller communities couldn't develop an association; some business owners rejected the time commitment of a peer group; and other REAP members "outgrew" the loan limits and the group process itself. REAP found itself locked into one service while its constituency was looking for many more options. Responding to this feedback, REAP has reshaped itself in many ways. Now, instead of offering one product, it offers three loan products directly, loan leveraging and an array of technical assistance services.

REAP'S Product Line

- Peer loans: $1,000 - $10,000
- Direct, individual loans: $5,000-$25,000
- Quick GROW loans — up to $1,000 for entrepreneurs associated with GROW Nebraska, a business development services program for crafters and artisans
- Loan packaging and leveraging
- Health insurance program
- Entrepreneurial training
- Women's Business Center e-commerce training

ACCION New Mexico also found itself with a set of assumptions about microcredit, gained from ACCION International's broader experience in Latin America. There, its affiliates flourished for years offering one or two loan products with highly structured terms and a substantial interest rate calculated to propel the implementers to self-sufficiency. As indicated above, ACCION New Mexico encountered real resistance to its original interest rate. It also found that clients were seeking larger loans and greater flexibility in the pace at which their borrowing could grow. Listening to this feedback, the organization adapted quickly. They changed the terms and amounts of their loan products as well as offered financial incentives for good performance.

ACCION New Mexico's Product Adaptations

- Increased first-time loan size: up to $20,000 for start-up and existing businesses
- Wide range of loan sizes: $200 to $50,000
- Lines of credit: borrowers with six on-time payments are eligible for a line from $5,000 to $25,000
- Refinancing available to performing customers — borrowers with strong payment histories may refinance up to, and in some cases, over the original loan amount
- No set stepping: borrowers step up in accordance with business need and repayment capacity rather than a set schedule
- Incentive-based interest rates — based on loan amount and payment history

The list can go on: ACCION New York has a special peer group loan product for taxi drivers, while most other borrowers access individual loans. ISED tested a training model-cum-case management services in addition to its training-only approach. It found that graduation rates increased among clients offered this service. On the other end, it is also considering offering more streamlined training for experienced clients. The point is that increased offerings attract increased customers. Sometimes, just simple improvements can yield significant results.

There is a tension in this process, however. Additional products can mean additional costs. For programs that are already cash-strapped, adding an entirely new product may imply substantial expense and risk. How

does an organization manage the cost and implementation challenges of these new initiatives? Clearly, there is a real difference between loan products and other non-financial services. As the ACCION New Mexico example illustrates, a lender can get great mileage by first testing simple modifications in its products, and then adding others as it gains experience. Some product adaptations may require minimal changes in underwriting, documentation and management. On the other hand, other products may require more substantial work. REAP's direct-loan product demanded a different level of underwriting and paperwork from its peer-lending product. And, its Quick Grow loan in partnership with another nonprofit has presented a new set of demands with respect to developing policies and procedures. Smartly, REAP has commenced each of these products with a pilot phase to test the level of interest in the market, and the costs.

For training and technical assistance services, the challenges are even greater. Few institutions have achieved any meaningful cost recovery of these services to date. An institution needs to carefully balance the costs of offering additional services with its capacity to generate resources to support them. Again, in the REAP example, its e-commerce training is made possible with new funding streams.

FIELD grantees, when asked to reflect on their key lessons with respect to product development, underscored the following:

- Remember that clients want choice and flexibility. The more that this can be offered in a program, the more attractive the program will be.
- Products and services need to be market driven. No organization should just copy a model used elsewhere, although learning how another institution has developed and introduced a similar product can shorten the learning curve.
- Documentation for loan products is crucial. A program implementer needs to think this through fully and carefully before launching the product.
- Make sure to start with a pilot implementation of six to 12 months.
- Expect that product development will require a substantial investment of staff time and energy, but also know that it can be energizing for a program to break out of static modes of thinking.
- By launch time, the product has to be reduced to something clear and simple that potential customers can readily understand. If not, there will be limited chance for its success.
- Make sure there are methods to capture customer feedback as the product is introduced. Programs implementers will need this information to decide whether the new offering remains or not. The earlier feedback is acquired, the more possibility to tweak the product and have success at the end.
- Remember that the ultimate test of the product is its ability to increase the number of clients that the program is serving, and if it's a financial product, to contribute to the bottom line. If it doesn't meet those tests, then it should be discarded.

DEVELOPING CAPACITY AND INCREASING OPERATIONAL EFFICIENCY

Scaling-up doesn't mean business as usual. Resource demands are high — even when there is an ultimate expectation of self-sufficiency — so programs need to devise ways to extend outreach in the most efficient way possible. This means developing organizational structures that get program services near clients and yet don't carry the same costs as the initial core structure. It also means developing systems and procedures that can handle larger volumes of information and facilitate quick decision-making. If one thinks of the program as a living organism, the first—structure—is the skeleton and the second—systems and procedures—make up the nervous system. FIELD grantees have invested in both.

Organizational models

FIELD grantees have experimented with a variety of organizational structures to support their expansion efforts, each with its own unique features. Overall, however, they reflect two tendencies. At the one end are structures that are totally organization controlled, and based on the establishment of branches of some type; at the other are those where expansion is based in part on partnership arrangements wherein local partners take on key functions for the expanding program. Both credit-led and training-led institutions have experimented with each approach. ACCION New York and ISED are examples of the first tendency; ACCION New Mexico and FAU/CURE are examples of the second.

Branch Models of Expansion	
ACCION New York — a citywide credit program	**ISED — a statewide training program**
Branch structure and functions Nine loan officers are installed in offices (located in local community organizations) across the five New York boroughs and provided with laptops and cell phones to facilitate communication with the Brooklyn central office. Loan officers give orientation sessions and take loan applications at clients' homes or places of business. The focus is on outreach and maintaining existing client relationships.	*Branch structure and functions* Training and technical assistance services are offered from headquarters in Coralville as well as in four branch offices in Cedar Rapids, Waterloo, Des Moines and Davenport. Branch offices are staffed by branch managers, who are business trainers, and sometimes by volunteers. Branch managers have performance goals and are evaluated on both the scale and quality of their programs. Eleven independent contractors extend the range of services to rural areas by offering group-based and "one on one" training to clients on an as-needed basis using ISED's curriculum with clients referred by ISED. Contractors do not have performance goals, but they are encouraged to develop their local markets for microenterprise training.
Central office structure and functions In addition to management, the central office houses a loan service center that manages all loan processing duties and serves as a centralized "back office" for the operation. Staff reviews all applications, and verifies information provided by applicants by calling references, pulling credit reports and conducting further underwriting analyses. The service center also prepares all loan documents, disburses loan funds, collects client payments and provides other customer service functions.	*Central office structure and functions* The central office houses the program director and administrative staff members. The central office is responsible for collecting and maintaining the database on all past and current clients, developing the curriculum, and supervising staff and contractors. The central office convokes semi-annual meetings among all business trainers to update information and skills, and facilitate delivery of a quality training product across all sites.

Partnership Models of Expansion	
ACCION New Mexico — a statewide credit program	**FAU/CURE — an urban training program**
Partner role and functions Commercial banks serve as ACCION New Mexico partners in communities outside Albuquerque that are hubs for commerce within a larger rural region. Local banks in these target communities serve almost as ACCION field offices. Bank staff informs potential clients about the program, provide interested applicants with ACCION materials, assist in the application process, and close ACCION loans with microentrepreneurs.	*Partner role and functions* Fourteen community-based organizations serve as FAU/CURE partners across Broward County in Florida. They include community-based social and economic development organizations, faith-based organizations, school districts, housing authorities and county libraries. Their role is to provide credibility to the program, actively recruiting participants for entrepreneurial training classes offered at their locations, and providing secure and appropriate facilities.
Program role and functions Once an application completed by a bank partner is received, ACCION staff communicates directly with the potential borrower and completes the underwriting process. If the loan is approved, ACCION sends the loan documents to the partner bank and bank staff closes the loan with the borrower. ACCION manages all loan servicing and follow-up via scheduled community meetings and systematic phone communication.	*Program role and functions* FAU/CURE identifies, screens, recruits and pays all trainers who are hired as contract personnel for specific classes. The organization provides the curriculum used by the trainers, prepares all instructional materials and schedules, and publicizes the program through print and electronic media. FAU/CURE also identifies and arranges for the use of complementary resources (such as libraries for business research), and organizes and sponsors graduation ceremonies for the trainees.

Each of the models presented here has its own logic as well as its own strengths and weaknesses. The branch model used by ACCION New York places all key functions in the hands of paid staff, and thus, offers the greatest level of institutional control over results. Both ISED and FAU/CURE have incorporated contract workers in key service-delivery positions, in both instances as trainers, providing for greater efficiency than paying for full-time staff in every location, but increasing the quality control challenges for the institutions. (ISED has even found that rural clients working one-on-one with business consultants take longer to complete the training process.) The FAU/CURE and ACCION New Mexico models transfer responsibility for some functions to external organizations while maintaining the most essential core responsibilities under their umbrellas. In each of these instances, the key chore for the partner is delivering clients to the microenterprise program who are serious candidates for the services being offered.

If one looks at the cost per client measure as an indicator of the efficiency of the organization's structure, it is instructive to note that all four models cost less than the $2,066 median for the 56 programs that provided data to MicroTest in FY2000. The two ACCION programs — with costs of $1,457 for New Mexico and $1,731 for New York — cost less than the median for all 26 reporting credit programs, and ISED and FAU/CURE cost less than the median for all training-led programs. In fact, these last two organizations were among the most efficient of all last fiscal year. With cost per client numbers of $553 and $106, they were among the most efficient of all programs in the pool. It is surprising that these training-led organizations were so much less expensive than the credit-led organizations. Clearly in FAU/CURE's case, it has much to do with the program's position within a university, where substantial in-kind services are available, with their use of partners for outreach and for physical facilities, and with their total dependence on contractors to deliver their training services. Community partners are estimated to have leveraged close to five times the

dollars spent by FAU/CURE in the first year of the FIELD demonstration. Contractors are paid fairly low hourly rates for their services, and at the same time appear to be given some latitude in their training. FAU/CURE also appears to have placed less emphasis on client tracking, outcomes assessment and post-training services than have other institutions, and will be challenged to incorporate these critical program components in the years ahead. ISED, on the other hand, has a developed infrastructure for recruitment and client assessment, and has built an information system that captures detailed client demographic and outcomes data over time. They also offer technical assistance to clients during and after training. Their efficiencies depend on their standardized training product delivered by both staff and contractors, and their long-standing relationships with state-level referring organizations.

The credit-led organizations may have a higher cost per client at this stage, but also have the greater opportunity to cover costs through interest and fee income. In fact, these two organizations have already generated between 28 percent and 43 percent of the costs of their lending operations, and expect to increase this revenue generation over the years ahead. Training-led programs are much more challenged to maintain funding. The average cost recovery achieved by programs reporting to MicroTest in FY2000 was only 2 percent.

Infrastructure

The infrastructure that an organization needs to scale-up only begins with determining a staffing configuration and negotiating a partnership relationship. To make it work, FIELD grantees have learned that there are other components of the institution that must be built up as well — an infrastructure of functions, systems, processes and procedures, and personnel that are equally important. FIELD grantees have refined and improved or built completely new elements (see chart on following page).

Two lessons emerge from their experience. The first is that scale-up requires re-examining every process that the organization engages in with a view to finding a more efficient way to do business, especially as volume increases and geographic coverage grows. The second is that many of these changes require significant, upfront financial investments. Programs that have built capacity have done so in anticipation of later volume, and if lending is involved, greater revenue. Finding the funds for these investments is not easy. It requires convincing donors to understand and support organizational development with patience for outcomes down the road. It requires a good strategic plan that lays out the investment needed, projects the volume to be achieved and demonstrates management's capacity to lead the organization where it needs to go. Scaling-up needs to be highly efficient, but it can't be done on the cheap.

MARKETING AND MORE MARKETING

The maxim, "If you build it, they will come," may work for baseball fields, but it has not worked for microenterprise programs. Rather it has become clear that marketing is an essential element of program implementation that requires strategic thinking, resources and consistent attention. FIELD grantees would emphasize three points:

- There is a world of difference between a potential market and real demand. Just because there are emerging entrepreneurs in target communities who could benefit from program services, doesn't mean that they will find the program or that they will readily understand the potential value of the services being offered.

- The right approach to communicating with potential clients is also not readily apparent. Programs need to engage in marketing with the soul of a scientist, testing both the message and the media used to convey it. FIELD grantees have learned surprising things about how clients perceive their

Infastructure Investments of FIELD Grantees	
Systems	
Client contact management systems for tracking individuals from inquiry through departure	ACCION Texas and ACCION New York
Management information systems	ACCION New York has purchased a new system that integrates client-contact management with loan processing and accounting. ACCION Texas has built a system that allows all staff (both headquarters and remote) to access client level information at all times, speeding inquiries and processing of loan applications. ISED has built a system that integrates client demographics, service documentation and outcomes tracking.
Telecommunications	ACCION Texas has invested in a phone system that routes callers to a toll-free number to the ACCION office closest to their location.
Standardized policies and procedures supporting service delivery	
Curricula	ISED and FAU/CURE
Informal credit grids	ACCION New York has developed credit grids that help organize and standardize loan analysis against pre-determined criteria and a rating system. This approach speeds credit approval, while assuring uniformity of approach. It also supports data collection on loan activity that may later lead to the development of more formal credit-scoring models.
Legal documentation and contracts governing loan products	REAP for its new loan products
Internal controls	ACCION New Mexico, New York and Texas
Organizational development — staff specialization and new functions	
Marketing	ACCION New York, New Mexico and Texas have each created marketing positions to focus on client and community outreach
Collections	ACCION New York created a collections department freeing loan officers from that function, and allowing them to concentrate on lending. ACCION New Mexico has outsourced some collections work to a division of Citigroup.
Central loan processing	ACCION Texas and New York built central loan processing units that support remote staff and assume all loan processing and underwriting functions.
Feeder systems for Client Recruitment	
Referrals	ISED has built a strong referral system from Promise Jobs, Iowa's welfare-to-work department within the Department of Human Services. FAU/CURE has built methods and systems for identifying and supporting community partners doing deep outreach in low-income communities in Broward County. ACCION New Mexico has developed a model for commercial bank referrals of likely candidates for ACCION loans. ACCION Texas is developing a similar referral system with the Small Business Development Centers.

materials (ISED found that potential clients thought that the organization's brochure was not inclusive enough in who was portrayed), their status (ACCION New Mexico found that people valued nonprofit status as a mark of integrity), and the media (appearing on a news show is more valuable than a commercial on the same station). They've learned that approaches that work in one community may not work in another (blockwalking, walking from store to store or door to door with literature, is a prime example), and that some tactics may generate incredible waves of initial interest, but may be extremely cost-inefficient in terms of final results. (ACCION Texas' media campaign coupled with "How to Finance your Business" seminars led to 300 inquiries but only five closed loans). The point is that programs need to establish a clear evaluation process for each technique used, collect data that will demonstrate its effectiveness, and decide to maintain or abandon it accordingly.

- The power of referral by respected community-based organizations cannot be underestimated. FAU/CURE probably represents the strongest example of an organization that has rapidly expanded its program — from around 100 clients at baseline to over 700 after two years — using community organizations as its partners and outreach mechanism. FAU/CURE notes that its partnership model helped it rapidly build trust with target communities, mobilize interest in microenterprise training, and permitted it to offer services in accessible and familiar sites that facilitate participation.

Other organizations are also good referral sources. ACCION Texas found that referrals from SBA and SBDC sites were more likely to result in loans than any other source except for word of mouth referrals by clients to their friends and families. Banks have also referred many potential borrowers to loan programs, and ACCION New Mexico has demonstrated how a well-crafted partnership program can increase the quantity of good referrals. What should be understood is that these referrals don't happen automatically. Success comes with identifying strong feeder organizations and then building a process that increases the chances that the referral will be made. ISED and ACCION New Mexico have, working with different types of partners, shown that this involves identifying and cultivating the front-line staff at the referring organizations (Promise Jobs caseworkers in ISED's case; commercial bank loan officers in ACCION New Mexico's), creating incentives for making the referral, and establishing clear and easy steps to make the handoff of the individual to the program.

Finally, programs have learned that all the investment in recruitment and outreach is worthless if the program is not prepared to handle the inquiries when they come in. Potential clients need to be able to contact the program easily (the value of the toll-free number) and find a friendly and helpful staff person at the other end of the line. Making the first steps easy is critical. Many potential clients of microenterprise programs have faced too many barriers in their quest for financing or other needed services. Microenterprise programs should be careful not to also place too many obstacles in their path, even inadvertently.[13]

FINANCING SCALE-UP

As this experience indicates, even when being highly efficient, scale-up costs money, and the larger an organization grows, the more funds are required. The operating budgets for these organizations average $767,174.[14] This is a little more than twice the average operating budget of about 300 programs providing data to the 2002 Directory of U.S. Microenterprise Programs — $349,538 — demonstrating the financial challenge implied in expansion. Not surprisingly, given the distinct nature of the organizations participating in this group, and the differences in their methodologies, they have taken different paths to underwriting their expansion and their sustainability.

13 More details on the marketing strategies of FIELD grantees and their lessons can be found in "Marketing Strategies for Scale-up: FIELD's Grantees Share Their Experiences," *FIELD forum* Issue 13, on our Web site at: www.fieldus.org/li/scale_news.html.

14 The range for the six implementers is from $53,411 for FAU/CURE to $1.5 million for ACCION Texas . Apart from FAU/CURE, whose small program budget is an anomaly and which is only understandable in the context of university subsidy, all other program budgets are greater than $429,395.

Generating Program Revenue

For credit programs, this is a natural. Interest and fee income on loans can support the costs of the credit operation, and contribute substantially to the cost of the whole program. The three credit-led programs in this group achieved operational self-sufficiency rates of 27.9 percent to 49.4 percent, and total program cost recovery rates of 22.7 percent to 37.4 percent.[15]

As significant as these contributions are to the programs' sustainability, they also suggest how much larger programs need to grow to totally recover their costs. In fact, ACCION Texas has determined that it will require $14 million ($6 million for operations and $ 8 million in loan capital) over a six-year period to become totally self-sufficient. That level of funding presumes that the program will be making 3,000 loans annually, have over 3,800 clients at any given time, and be exceptionally efficient. Only a 10 percent increase in operating funds is budgeted annually over the six-year period. Program management has determined that raising this amount of money will require creative strategies. They are exploring the possibility of issuing tax-free bonds, and finding socially responsible investment that will accept a lower rate of return in favor of the high social impact that the program will achieve.

Securing State-level Support

ISED and the two Nebraska organizations have focused on securing ongoing support from their respective states. The intention is to become "mainstreamed" into budgeting processes at this level. For ISED, a contract arrangement with the Department of Human Services that lasted over 10 years meant secure financing for entrepreneurial training provided to welfare clients. For REAP, one key part of the route to stable financing has been a Community Development Block Grant provided through the Department of Economic Development. Language setting aside a block of funds for a "statewide microenterprise program" means that the funds are dedicated to financing REAP, the only Nebraska program that meets that criterion. In addition, REAP secures state funding through the Nebraska Microenterprise Partnership Fund, a state-level intermediary whose initial purpose was to develop and secure ongoing state support for microenterprise initiatives across the state. The Partnership Fund, along with NEON, the state association of microenterprise programs, successfully advocated for passage of the Microenterprise Development Act, which was first passed in the Nebraska Legislature in 1997. A second version of the law, passed in 2000, doubled the previous appropriation from $250,000 to $500,000, although recently (spring 2002), the funding was once again reduced to $250,000 in the face of state government budget shortfalls. These funds are subgranted from the Partnership Fund to REAP and other implementers in the state.

The Nebraska Microenterprise Partnership Fund has pursued this strategy of securing state government support as it has observed the interest of some national foundations wane and as it has seen the financing needs of local programs grow. Staff has assumed that state-level sources, closer to the programs and their clients, would feel more ownership over these initiatives and support them more consistently. Certainly, ISED's experience over 10 years would seem to suggest the truth of this statement. Interestingly, however, ISED has just this year seen the "rules of the game" change as Iowa state government has had to tighten its belt and reduce funding. ISED must now compete with other training providers at the local level, winning client referrals from Promise Jobs offices on a case-by-case basis. As indicated above, the Partnership Fund has also experienced reductions. On the other hand, the Fund has managed to use its track record with state financing to secure support from two state-level banks. As reported by Severens,

> "An emerging… hypothesis is that state-level funders (at least in a state the size of Nebraska), may be readily influenced by each other, and when a major funder, like the state legislature, endorses a

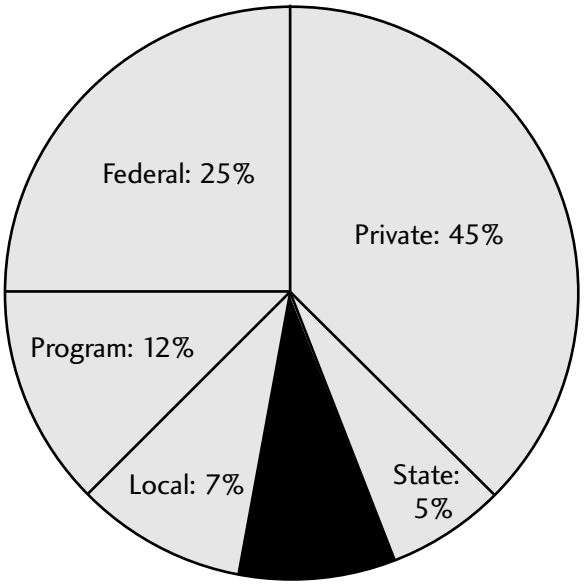
15 Operational self-sufficiency is defined as the percent of credit program operating expenses covered by interest and fees charged on loans. It does not include financial expenses such as interest on funds the program borrows or any loan loss provision made. Total program cost recovery relates all internally generated program income (from interest and fees on loans, as well as any training or technical assistance fees received) to total program expenses.

new economic development approach, other state-level funders will eventually take note and consider funding this activity. We can think of two explanations why this may be truer at the state-level than the federal-level. First, a state intermediary has, by definition, positioned itself as the one-and-only statewide grantee for re-granting (or re-lending) to microenterprise practitioners. Once state-level funders have decided to support microenterprise and want their funding to be spread statewide, the SMI [state microenterprise intermediary], by dint of its monopoly position, is the only game in town.

Second, state-level funders typically do not have the staff or budget to make elaborate independent grant making decisions. They rely instead on a kind of character-based decision that relies on the decisions and due diligence of other funders that they respect."

Funding Diversification

In addition to these two approaches, programs have intentionally sought resources from as wide a range of institutions as possible — federal, state and local, governmental and foundation. All the lenders in the group are certified community development financial institutions, allowing them access to loan capital and other support from the Community Development Financial Institutions Fund. ISED has secured resources from the Office of Refugee Resettlement and the Office of Community Service of the Department of Health and Human Services, the Small Business Administration's Microloan Technical Assistance program and Office of Women's Business Ownership, and finally, the Department of Agriculture's Office of Rural Development. Other programs have pursued corporate support from banks and other major firms in their target markets. As one grantee noted, the challenge is developing a business objective that is in the corporation's interest as well as in that of the microenterprise program. The chart below shows the breakout, on average, of the sources of support for these grantees.[16]



"A key component of our scale-up strategy was to secure significant financial resources in advance and to strive for long-term self-sufficiency. We designed a business plan that described the key elements of the scale-up clearly and the accompanying need for funds. We specifically asked funders to fund staff positions over a minimum of two years, so that we could responsibly hire new staff and at levels appropriate to our goals. We also secured large amounts of lending capital in advance of the results, so that we could be assured to have the capital in place. This allowed the management team to focus more on operational aspects and invest in a strong team prior to the actual demand for services."

— ACCION New York

16 Because these percentages are averages of the data of eight organizations, the individual numbers do not add up to 100 percent.

USING INTERMEDIARIES TO SUPPORT SCALE-UP

When FIELD launched this cluster, it was interested in learning not only what individual implementers could achieve, but also what intermediaries might contribute to fostering scale-up in the United States. To that end, the Nebraska Microenterprise Partnership Fund and the National Federation of Community Development Credit Unions were also funded. The two organizations are different in nature. The Partnership Fund is a state-level organization supporting all types of microenterprise programs, and the Federation is a national organization supporting only community development credit unions. They have played two similar roles in supporting scale-up with their constituencies. They've also experimented with different roles that hint at what a full package of intermediary activities might be in support of scale.

The primary roles of both organizations have included fundraising and capacity-building. The Partnership Fund was explicitly designed as a vehicle to receive funds from sources that individual programs could not tap, and its initial and still most important funder has been the Nebraska legislature from which the Fund has received between $250,000 and $500,000 annually in support of microenterprise programs. Building on this base, the Fund has become a certified community development finance institution and received funding from two state level-banks as well. It intends to seek additional resources available to CDFIs in the future. Partnership funds are re-granted and re-lent to support both lending and training activities of grantees. The Federation, on the other hand, has developed a capitalization program that offers collateralization deposits to CDCUs (community development credit unions) seeking to increase their microenterprise lending. Part of a much broader program that has invested $17 million in its member CDCUs, the deposits help mitigate the credit unions' exposure from microlending and make it more possible for them to expand this line of lending. By the end of 2001, the Federation had deposited $275,000 in member credit unions for this purpose. NFCDCU believes that its larger intermediation experience with its members has made them ready and willing to test microenterprise lending using this resource.

The Federation has also invested substantially in capacity-building, offering sessions at its annual CDCU Institute, and delivering on-site training to credit unions interested in increasing their microlending. During the grant period, 12 credit unions participated in this initiative, and it is expected that the number will grow each year. The Partnership Fund has used annual meetings of the grantees to introduce them to the experience of nationally-recognized, high-performing programs. It intends these sessions to serve both consciousness-raising and instructional purposes, as many of its members have missions and orientations that are more focused towards social rather than business development.

In addition to these roles, the two intermediaries have experimented with others. The Federation has developed a program to provide more staff support to its members interested in microenterprise strategies. Over three years, the program has provided more than 50 Vista volunteers to members to support their work on microenterprise development and individual development accounts. The Partnership Fund has instituted uniform data collection by members that is designed to serve several purposes. The data is used for advocacy purposes (with past performance being used to project future demand for microenterprise services). It is intended to support self-analysis by awardees of their performance in relationship to key performance measures, including quality and scale. And, it is used to identify high performers in the group who are rewarded with higher grants. The Fund can now make awards up to $100,000, depending on program performance.

The Fund has also sought to use its position to foster collaboration among grantees with the expectation that this will support greater outreach to and more service for entrepreneurs. Members have cross-referred clients to each other, increasing the training services available to them. And, the group is now engaged in designing an active referral program to ensure that more inquirers will find the services they seek. Building

on this, a working group is exploring how they can work together in even more substantive ways. Two members, REAP and Grow Nebraska, have developed a joint loan product (see discussion, page 11) that provides an example of what these joint efforts might look like.

What are the early results of these efforts? The Federation has documented an average increase of 33 percent in the number of microloans made by the nine credit unions that provided data for this report and have remained active in the capacity-building program over a two-year period. The Partnership Fund has documented an increase in the number of loans outstanding (from 158 to 251) and a doubling in the amount of loans outstanding (from $743,000 to $1,589,000) over the four-year period from 1998 to 2001, since the intermediary has been functioning. The number of new loans, including those made directly by the members and others which they helped clients secure from formal financial institutions, increased the least, from 83 to 89 annually.

What do these experiences suggest for the future role of intermediaries in scale-up in the United States? Where do they make a difference? Clearly, their capacity to leverage new funding for local programs is an important contribution. For the industry to expand, more resources will be required, and these need to come from new sources and utilize new financing mechanisms. In some contexts, intermediaries can create more visibility for microenterprise than local organizations, and they can establish mechanisms for managing resources more efficiently. They also can help set an agenda for growth that can inspire others. The Federation's investment in helping individual credit unions solve the unique risk challenges that their regulated structure imposes should encourage many more in their membership to implement a microenterprise strategy. The Partnership Fund's incentive for high performers is another powerful way to get buy-in to a growth goal. Spotlighting successful experiences will lead the way for others to try. There is so much work to be done to fulfill the industry's potential in the U.S. that committed players at both implementer and intermediary levels are needed.

LOOKING AHEAD

The work of the FIELD grantees demonstrates the potential and the challenges in scaling-up to reach more microentrepreneurs. These programs have made great headway in testing new strategies for outreach and in building strong institutions that can support an expanding number of clients, but the work is far from done. They have shown that scale-up starts with a strong institutional commitment and is built on a detailed understanding of potential clients as a market that needs to be won with quality products and services delivered with high accessibility. It requires a willingness to examine every aspect of a program's methodology and operations, and the resources to invest in staff capacity and systems development to support high volume and high efficiency. Because of this, growth requires patient funders who understand the value of these investments for later returns. And, winning that support requires leadership who can articulate business models that set out challenging goals and well-reasoned plans for achieving them.

But, the work is not easy, and it raises the question whether further advances might be accelerated not only by working institution-by-institution, but also by combining forces to work on technologies and new organizational arrangements with the power to increase efficiencies and extend outreach into communities yet untouched. With this end in mind, FIELD has worked with leading implementers to improve management information systems software for the industry, and to foster the use of uniform performance measures to help programs document results in ways that are meaningful to them and to potential investors. The Corporation for Enterprise Development has created the National Fund for Enterprise Development to support state-level intermediaries similar to the Partnership Fund. The National Federation of Community Development Credit Unions pursues "turnkey" approaches to microlending within the credit union move-

ment with the vision that these might unleash an incredible potential for scale-up throughout its membership. There are yet other areas where collaboration might overcome the barriers that smallness has created — from credit analysis to loan processing to internet-based technologies for delivering an array of services to microentrepreneurs. To what extent is the industry prepared to model the strategic vision of the FIELD grantees documented here and take up the challenge of working on these areas together?

REPORT STRUCTURE

This report is designed to share the experiences of the eight FIELD grantees in the Achieving Scale cluster. Presented here are articles by staff of each of the funded organizations, describing their initiatives over the two-year grant period. The articles are of three types. The first presents organizations' experiences with very specific components and tools associated with the scale-up process, and most especially with market research and marketing. The second discusses the overall scale-up strategy of the organizations, documenting the interrelated decisions and activities that they have engaged in. These articles demonstrate the point that has been made in this introduction, that scaling-up requires attention to structures, systems, staffing, capacity building, products and services. The final type describes the experiences of intermediaries in promoting scale-up by the implementing organizations they serve.

The eight organizations and the focus of their articles are:

ACCION Texas

A summary of the organization's experiment with a multi-market public relations and media campaign designed to promote ACCION products and services to a wider audience.

ACCION New Mexico

A detailed discussion of how this organization has extended its reach statewide through the development of strong partnerships with local banks that both refer clients to ACCION and assist entrepreneurs with completing applications and closing loans. The article also discusses the strategies the organization uses to keep bank staff aware of and motivated to assist ACCION.

Florida Atlantic University/Center for Urban Redevelopment and Empowerment

"Geographic Information System Market Research" discusses the organization's use of this tool for market research and the development of a marketing plan. "Outreach through Community-Based Organizations" is a summary of the organization's rapid growth through alliances with a variety of community-based institutional partners. The strategy achieves strong efficiencies through clear delineation of responsibilities and a defined, "minimalist" training model.

ACCION New York

An overview of the work of this credit-led, New York City-based program. The article summarizes their market research findings and how these have translated into a set of pilot marketing initiatives, strategic media partnerships, and development of a mobile lending initiative called "Street Reach." The article also discusses their work to develop a more sophisticated management information system to support a structure with loan officers out in the field and a central loan processing unit located at headquarters.

Institute for Social and Economic Development

An overview of the experience of this longstanding training-led program. The article documents the choices this organization has made with respect to structure, staffing and outreach. It also discusses how the institution has been able to fund its large program over the last 10 years, and how changes in longstanding funding streams are posing new challenges to its ability to maintain its high volume training program.

Rural Enterprise Assistance Program

A discussion of how changes and additions to REAP's product line have led to increased scale. The article particularly discusses the impact of the introduction of an individual loan product into an organization that had built its reputation on peer lending. How REAP has deployed staff and developed partnerships to increase efficiency is also discussed.

National Federation of Community Development Credit Unions

This contribution describes the efforts of the Federation to increase the capacity of member credit unions to deliver microloans and microenterprise assistance. It focuses on the development of a training program to help CDCUs build internal systems and institutional knowledge and discusses additional tools, including capital and volunteer staff, that the Federation has put in place to support lending.

Nebraska Microenterprise Partnership Fund

This article presents the experience of a statewide intermediary in promoting scale-up through the organizations that it funds. It highlights how an intermediary can generate new investors for microenterprise services and how performance-based funding criteria, coupled with capacity building and data collection, can stimulate greater outreach.

A MULTI-MARKET PUBLIC RELATIONS AND MEDIA CAMPAIGN
ACCION Texas

ORGANIZATION'S BACKGROUND

Launched in 1994 in San Antonio, ACCION Texas provides low- and moderate-income microentrepreneurs with loans and business support services not available from commercial banks. Now, ACCION Texas has extended its reach and makes loans in eight major Texas cities and 70 counties. In addition to loans, clients also can receive ongoing technical assistance in both business practices and product marketing.

STATEMENT OF CHALLENGE

As one client noted, "How to improve ACCION? Promote it! Nobody knows about it."

The challenge ACCION Texas faced in 2000 and continues to face today is wide-scale promotion of its program to potential borrowers in a cost-effective manner. After the fanfare and media attention of new market entry, and after the most visible and most accessible borrowers have been contacted and served, ACCION lending activity begins to slow.

ACCION Texas tracks a range of demographic information on clients, as well as: contacts with potential borrowers; number of microbusiness owners attending orientation and completing the application and interview process; number of loans approved; and number of loans accepted and issued. From this data, ACCION Texas has determined that only one in five microentrepreneurs who make contact with an ACCION Texas loan officer or staff member qualify for a loan. Of those who attend an orientation session and complete and submit an application and references for review and processing, 60 percent are approved and receive loans from ACCION Texas. Simply put, only one in every 10 to 13 contacts with a microbusiness owner results in a loan.

To generate large volumes of closed loans, ACCION must exponentially increase the number of inquiries from potential borrowers. Experience has proven that expanded outreach is necessary to reach new borrowers. Media campaigns, annual community events that build name recognition, and Spanish language advertisements have been successful in attracting new borrowers, but are costly. With funds from FIELD, ACCION Texas set out to test the impact of a multi-market public relations and media campaign designed to promote ACCION products and services to a wider audience. The goal was to generate high volumes of inquiries, resulting in proportionately high numbers of new loans.

With funds from FIELD, ACCION Texas set out to test the impact of a multi-market public relations and media campaign designed to promote ACCION products and services to a wider audience.

Specific intended outcomes of the campaign were to:

1) Significantly increase the total number of loan inquiries,
2) Significantly increase the total number of loans,
3) Significantly increase the number of new borrowers,
4) Prove effective in both urban and rural communities, and
5) Seek out the neediest microentrepreneurs.

ACCION Texas proposed working with a professional media-consulting firm to develop radio, television, direct mail and newspaper advertising to promote ACCION Texas' services in target markets. The promotions would be layered over current promotional activities to reinforce the ACCION Texas name and motivate microbusiness owners to call the ACCION Texas' "1-888" phone number where potential borrowers could be directed to a loan officer. Outreach was to focus on Hispanic microentrepreneurs and utilize less expensive Spanish-language mediums.

STRATEGY FOR SCALE-UP

Because marketing funds were limited, focus was placed on generating free media time through on-air Public Service Announcements, television and radio talk show interviews, and media coverage for a series of free seminars on starting and operating a small business. In addition, $45,000 of Spanish-language radio advertising was purchased. Muñoz Public Relations, a professional media-relations firm, was hired to coordinate the outreach program for ACCION's seven largest lending markets: Austin, Dallas, El Paso, Houston, McAllen, San Antonio and Laredo. Direct media purchases were handled both internally and by Muñoz Public Relations. ACCION Texas staff coordinated set-up and execution of seminars with participating co-sponsors.

The final outreach program included:

- Hiring of Muñoz Public Relations at a cost of $50,000 to develop and implement a media and outreach strategy that leveraged $450,000 in radio and television Public Service Announcements and 52 on-air interviews.
- In-house purchase of $20,000 in Spanish-language radio advertising in five major Texas markets.
- Purchase of an additional $25,000 in radio spots by Muñoz Public Relations.
- Seven widely promoted seminars on small business start-up and operation in seven markets in conjunction with local technical assistance providers.

The campaign began the last week of January with media outreach building through March, April and May of 2001.

The media campaign was very successful at increasing the number of loan inquiries received. ACCION defines an inquiry as a new potential borrower phoning or walking in to inquire about a loan. As the campaign unfolded, inquiries in March, April and May increased 96 percent, 36 percent, and 56 percent respectively over February figures. (*February inquiry and loan figures are used as a basis for comparing pre- and post-campaign results. The assumption is that ACCION would have performed at least as well in any month as it did in February when no promotions were running.*)

In the first month of the campaign, inquiries nearly doubled from 398 to 781. In April, inquiry volume was 542 — an incremental 144 inquiries over the February basis of 398. May inquiry volume surpassed April inquiries and increased an incremental 223 inquiries over February. Total inquiry volume in 2001 was approximately 5,800. Inquiries directly related to the promotions represent about one third of total inquires in 2001.

ACCION Texas Loan Inquiries Feb - May 2001

	Inquiries vs. Feb Change	Total Change %
May	223	56%
April	144	36%
March	383	96%
Feb	398	

Did increased inquiry volume generate increased loan volume? Yes, increased inquiry volume did result in a parallel increase in loans. The campaign generated an incremental 750 inquiries and 69 incremental loans for the period March through May.

Incremental Inquiries and Loans vs. February		
	Inquiries	Loans
May	223	29
April	144	18
March	383	22
Total	750	69

While the media campaign did accomplish the objectives of increased inquiries and loans, the campaign **was not** deemed successful, because the media campaign did not improve ACCION's historical loan-to-inquiry ratio. From experience, ACCION Texas has learned that roughly 13 loans are extended for every 100 loan inquiries received. During the campaign, the loan-to-inquiry ratio remained at or below the historical ratio of one loan for every 13 inquiries. A "successful" media campaign would have improved this ratio.

Inquiry and Loan Analysis Feb-May 2001					
	Inquiries	Pre Apps	Apps	Closed Loans	Loan/Inquiry Ratio
May	621	258	98	81	1 in 13
April	542	258	95	70	1 in 13
March	781	306	91	74	1 in 9
Feb	398	211	70	52	1 in 13
Total	2342	1033	354	277	1 in 12

The campaign was also deemed unsuccessful because it proved cost-ineffective. At a final cost of nearly $100,000 to implement, the campaign's cost per incremental loan generated was nearly $1,500 per loan. Cost per incremental inquiry generated was just over $133 per inquiry, astronomically more costly than any other outreach approach.

Cost Analysis - Media Campaign March - May 2001			
		Incremental	
Expense		Inquiries	Loans
Media consultants	50,000		
Radio buys	45,000		
Seminars	5,000		
Total	$100,000	750	69
Cost Per		$133	$1,449

An analysis of loans closed from January through June of 2001, showed only 15 percent of loans originated from media-driven inquiries. The expectation was that the media campaign would prove to be the primary source of referrals for new loans for the period of, and immediately following, the media campaign. Nearly 70 percent of loans for the period, however, were referrals from organizations and individuals. The media campaign, once again, under performed other outreach strategies.

CLOSED LOANS Jan-June 2001		
Inquiry Source	# Loans	Loans % Inquiries
Organizations	151	10%
Individuals	74	11%
Media	46	7%
ACCION Direct	19	9%
Unknown	11	12%
Total	301	100%

A more detailed analysis of inquiry-to-loan ratios by specific source showed television and radio media ineffective, relative to other types of outreach. Only 4 percent of television- and 9 percent of radio-generated inquiries resulted in loans. During the quarter coinciding with the campaign, only 14 of 321 loan inquiries were tracked to radio advertising. An additional 10 loans were tracked to television interview programs. Newspaper advertising proved a more effective medium. Twenty-four loans were tracked to newspaper ads and 13 percent of newspaper inquiries resulted in loans. However, television, radio and newspapers failed to out-perform referral programs with the SBA and SBDC that cost little or nothing to conduct.

Cost Analysis - Loans March - May 2001					
Inquiry Source	% Inquires resulting in loans	Number Loans	Cost		
			Total	Per Loan	
Television	4%	10	30,000	$3,000	Expensive
Radio	9%	14	55,000	$3,929	Expensive
Seminars	0%	2	5,000	$2,500	High cost per person
Newspaper	13%	24	10,000	$417	Moderate
SBA	13%	21	-	$0	Free
SBDC	19%	24	-	$0	Free
Banks	7%	27	-	$0	Free
Individuals	47%	74	-	$0	Free

Seminars were also ineffective. Although more than 300 persons attended seminars, only two loans were ultimately closed with attendees. Post seminar discussions concluded that seminars should have focused on existing businesses, that attendees were not yet at a borrowing stage, and that on a cost-per-person basis, the seminars are time-consuming to implement and cost-ineffective.

ACCION Texas will continue to track inquiry-to-loan ratios and to evaluate its outreach strategies. A consultant has been contracted to assist in the design of formal referral programs between ACCION Texas and government agencies, business assistance and technical assistance providers, banks and clients. Part of this work entails a review and revamping of ACCION's current partner-training manual.

LESSONS LEARNED

The scale-up strategy of increasing the number of loan inquiries to generate more loans is still a viable strategy. Increasing inquiry volume does generate increases in loans. ACCION Texas will focus on cost-effective ways to reach large numbers of borrowers. Programs that encourage technical assistance partners, banks and clients to refer potential borrowers are virtually cost-free and generate large numbers of pre-screened high-quality loan candidates. Because of the poor performance of media outreach relative to other programs, ACCION Texas will curtail the use of expensive television and radio media buys. Seminars may be used in the future, but will be re-designed to attract pre-qualified existing business owners.

SCALING UP THROUGH BANK PARTNERSHIPS
ACCION New Mexico

ORGANIZATION'S BACKGROUND

ACCION New Mexico is an award-winning non-profit organization that increases access to business credit, makes loans and provides training, which enable emerging entrepreneurs to realize their dreams and be catalysts for positive economic and social change. Based in Albuquerque, ACCION New Mexico is an independent associate of the ACCION US network. In operation eight years, ACCION New Mexico has lent more than $3.9 million to over 900 microbusinesses through some 1,600 loans of an average amount of approximately $2,500.

STATEMENT OF CHALLENGE

The socioeconomic needs facing New Mexico are sobering — the state has the highest poverty rate in the nation, the highest percentage of persons lacking health insurance and the fourth highest rate of unemployment. It is in rural New Mexico, where some 60 percent of the state's population resides, that the situation is direst. Over the last decade, several of New Mexico's rural counties have been confronted with poverty rates above 30 percent and unemployment rates reaching 25 percent.

In response to the economic distress besetting many of the state's rural communities, ACCION New Mexico began to expand its geographic service area in 1999. Previously, the organization had served only the greater Albuquerque area. Based on a statistical study released in 1998 by ACCION International,[1] the organization was convinced that access to microcredit could have a profound impact on the lives and livelihoods of New Mexico's rural entrepreneurs. Per the study, low-income borrowers who received four loans from ACCION New Mexico experienced average increases of 231 percent in business profitability, 88 percent in take-home business income, 33 percent in full-time equivalent job provision and 32 percent in overall household income over the course of their first three loans.

While the potential positive impact of extending its microcredit services to rural New Mexico was apparent, geographic expansion presented ACCION with a formidable challenge —how to cost-effectively deliver small loans to rural entrepreneurs given the state's sparse population[2] and large size.[3] Anticipating that loan demand in rural communities would be limited due to population size, the costs associated with pursuing a traditional expansion model — opening and staffing additional offices — threatened to adversely affect ACCION's pursuit of scale. To serve rural New Mexico, ACCION needed to formulate a credit delivery methodology that would allow the organization to accommodate significant increases in scale in terms of both loan volume and service area while also delivering net gains in self-sufficiency.

STRATEGY FOR SCALE-UP

To address this challenge, a team of ACCION staff, board members and clients developed an innovative microlending methodology to bring credit to New Mexico's rural entrepreneurs via lending partnerships between ACCION and commercial banks. This new credit delivery strategy capitalizes on an existing bank's infrastructure in communities that serve as hubs for commerce within a larger rural region. Local banks in

1 Lisa J. Servon and Cristina Himes, *Measuring Client Success: An Evaluation of ACCION's Impact on Microenterprise in the U.S.* (Somerville: ACCION International, 1998).
2 New Mexico's population is approximately 1.8 million per the 2000 US Census.
3 New Mexico is the fifth largest state in terms of geographic size.

these target communities serve as ACCION "facilitators" — informing potential clients about the program, providing interested applicants with ACCION materials, assisting in the application process and closing ACCION loans with microentrepreneurs.

In analyzing how to partner strategically with banks to increase program scale, ACCION became aware that many of the entrepreneurs banks had historically referred to the program did not go on to contact ACCION. In some cases, the entrepreneur may have lost the program's contact information or forgot to follow up on the provided information. However, applicant and client feedback has indicated a more likely scenario is that entrepreneurs may not follow up on a simple referral because they believe the application process will be cumbersome, or worse, that a denial will result.

With its partnership methodology, ACCION sought to improve the probability that a microentrepreneur who learns about the program from a bank goes on to become an applicant and then a client. Given this goal, the program asked partner banks to do more than make a simple referral. Highlighting the accessibility of credit through ACCION, partner banks display promotional program materials and loan applications in their offices, and in some cases, make an introductory video about the program available for viewing. Trained bank personnel are available to inform entrepreneurs about the small business loans and services available through ACCION, and to assist interested entrepreneurs in completing the ACCION application process.

Frequently, bank officers will introduce ACCION as an option for entrepreneurs who do not meet initial bank eligibility requirements for business credit, such as start-up businesses or those looking for a small amount of credit. The banker will typically provide the entrepreneur with an overview of ACCION's mission and products, supply ACCION application materials and answer any initial questions about completing the application. In many cases, the potential borrower will return to the bank with the completed application, and the bank will then fax application materials to the ACCION office for consideration. Some applicants who actually applied for but did not receive business credit from the bank may request that a copy of their bank application materials be forwarded to ACCION. The banker is thus able to provide the service of having the application considered by ACCION without the entrepreneur having to produce a new loan application package.

Once the ACCION office in Albuquerque receives an application initiated by a partner bank, program staff communicates with the potential borrower (in some cases, the applicant has already been in contact with program staff, often through a phone call initiated by the referring bank) and completes credit underwriting. ACCION staff contacts the applicant directly with the resulting credit decision. With the applicant's permission, ACCION will keep the referring bank apprised. If the application is approved, bank staff meets with the microentrepreneur in the local community to close the loan on behalf of ACCION. Loan servicing and follow-up is performed by ACCION, and the loan is reflected in the organization's portfolio. Personal contact between ACCION and the entrepreneurs served through the bank partnerships is achieved through systematic telephone communication and periodic community visits and gatherings. Thus, the cost associated with expansion into sparsely populated target communities is minimized, while clients are able to build a relationship with both ACCION and a local bank.

Implementation

ACCION originally proposed its lending partnership concept to a number of banks. Not surprisingly, the first two banks to agree to pilot the untested methodology, Wells Fargo and First State Bank, had a long history with ACCION. Both banks had provided significant financial support to the program for several years. Perhaps more importantly, the top leaders of both banks had served on ACCION's board of directors and/or had provided strategic direction to the agency since its inception. Their familiarity with ACCION,

and the organization's responsible track record, served to reduce perceptions of risk and exposure in agreeing to pilot a new partnership model.

ACCION's proposed partnership offered tangible organizational incentives to banks. Banks certainly recognized the potential Community Reinvestment Act (CRA) benefits to be realized by providing support services to ACCION. Also critical in New Mexico's competitive bank market was the significant public relations value of such a microlending partnership. By collaborating directly with ACCION in microlending, banks had a new vehicle through which to serve customers who might otherwise have been turned away — the partnership was thus an opportunity to increase customer loyalty and cultivate future customers. One participating banker says of the microenterprises receiving credit through the partnership, "If you've helped them start out with ACCION, hopefully you've made a customer."

While buy-in by top leaders and clear organizational incentives were key elements in getting banks to agree to launch ACCION's partnership strategy, support at the branch level proved to be key to sustaining the partnerships. Although designed to be efficient for bank employees, entering into the partnership would entail branch staff spending more time with interested applicants as well as undertaking new responsibilities such as ACCION loan closings. Before committing to the lending partnership, the leadership of both Wells Fargo and First State Bank encouraged ACCION to meet with the frontline bank staff that would be instrumental in building a successful partnership to gauge their interest in the concept. Staff from both banks in several communities reported strong interest in the proposed partnership because of its potential to increase their ability to satisfy customer needs, and equally importantly, to help make a greater positive impact in their community.

With a green light from both Wells Fargo and First State Bank, ACCION initially implemented its bank partnership methodology in the communities of Grants, Las Vegas, Santa Fe and Taos. Early on, program staff provided training to bank representatives on ACCION's mission, values, target market, underwriting criteria and lending process. With this knowledge, bank staff began to provide entrepreneurs whom they felt were good candidates for an ACCION loan with the program's application materials, oftentimes assisting with the application process and even faxing completed applications to the ACCION office for potential clients.

With a strong initial response from the frontline staff of participating banks, ACCION had to address the need to sustain awareness of the partnership at the branch level. This was achieved partly on an individual basis — ACCION cultivated warm relationships with key bank staff such as loan officers and branch managers. Perhaps most important to keeping participating bankers motivated was sharing the success stories of clients they had helped obtain credit from ACCION. Through phone calls, letters and in-house produced postcards featuring a client photo and profile, bankers were able to learn of the direct impact of their efforts. On an organizational level, ACCION also strove to ensure that participating banks received recognition for their efforts. The program profiled the partnerships in its annual report, ran thank-you ads in local newspapers and hosted community receptions aimed in part at thanking local banks for their efforts to help microenterprises access credit.

Perhaps most successful in thanking and motivating banks has been ACCION's "bank blitz" — a period of heightened outreach to bank officers involving layered and regular communication via phone calls, office visits and mailings. During the blitz period, banks (all area banks are included, not just those banks that close ACCION loans) and bankers are challenged to refer a certain number of microentrepreneurs to ACCION within a limited time. The blitz then culminates in a reception hosted by ACCION with prizes awarded to the top referring banks and bankers — cultivating friendly competition and team spirit. During a two-and-one-half–month "blitz" in 2001, bank referrals accounted for 23 percent of program inquiries with 22 businesses receiving first-time loans from the program over the eight-week period.

To strengthen its capacity to reach and remain in contact with entrepreneurs and bankers around the state, ACCION created an outreach director position in 2001. In addition to driving "bank blitz" efforts, the outreach director coordinates opportunities for clients and partner banks outside of Albuquerque to have regular interaction with program staff.

One participating banker says of the microenterprises receiving credit through the partnership, "If you've helped them start out with ACCION, hopefully you've made a customer."

Results to Date

The structure of ACCION New Mexico's bank partnerships has allowed the organization to meet the following goals: 1) increase access to credit for rural entrepreneurs; 2) create a new point of entry for traditional financial institutions to nurture microenterprise development; 3) capitalize on existing bank infrastructure and resources to reduce the need for ACCION to create and staff additional offices, keeping overall program operating costs down; 4) capitalize on existing interpersonal relationships between bank staff and community members, reducing the potential barrier of distrust that may exist when a new organization enters a small community; and 5) include banks in microcredit delivery channels given the insight gained from a 1997 market study commissioned by ACCION New Mexico that indicated banks are the most common source of loan information for microentrepreneurs.[4]

Now in its third year, ACCION's microlending partnership with commercial banks has shown significant success and continues to thrive. Partly because of the lending efficiencies introduced through the bank partnerships, the annual number of loans disbursed increased 92 percent from year-end 1998[5] to year-end 2001, while total annual expenses increased by only 30 percent over the same time period.[6]

Since implementing its bank partner strategy in September 1999 to serve New Mexico's smaller communities, ACCION has issued 164 loans totaling $764,853 outside of the Albuquerque metropolitan area. In 2001, 28 percent of loans disbursed by ACCION New Mexico were issued to entrepreneurs outside of Albuquerque, where the organization is based. Through ACCION's bank partnerships, the entrepreneurs who received these loans were able to do so in a timely manner in their own communities without ACCION incurring the staff and travel expense associated with deploying staff for each closing. A rural entrepreneur who received her ACCION loan at a local Wells Fargo office says, "working with ACCION was a very comfortable experience. I was able to close the loan here locally in Las Vegas (New Mexico) instead of traveling two and one-half hours away, and since I have young children in school, it saved me a great amount of time."

Encouragingly, the introduction of this new lending methodology has not had a significant negative effect on portfolio quality. In 1999, with only a small number of loans issued late in the year using the bank methodology, the organization's year-end portfolio at risk[7] was 5.46 percent. For year-end 2001, with nearly 30 percent of the program's lending activity directed outside of Albuquerque, year-end portfolio at risk was 5.83 percent. Importantly, cumulative net dollars written off has remained at a relatively constant 2 percent - 2.5 percent of cumulative dollars lent.

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4 In 1997, ACCION New Mexico contracted with an Albuquerque-based market research firm to conduct a study of the local microenterprise market. A component of the study involved a telephone survey of some 400 microenterprises. One of the most notable research findings of this survey was that although only eight percent of the respondents indicated that they had received a bank business loan, 50 percent indicated that they would go to a bank for information about loans. ACCION New Mexico's market study is further detailed in: Sarah Abbe, William Burrus and Anne Haines Yatskowitz, *A Guide to Strategic Marketing Research for Microenterprise Development in the United States* (Somerville: ACCION International, 2001.

5 1998 figures for ACCION New Mexico represent 14 months of activity (Nov. 1, 1997 to Dec. 31, 1998), due to a change in the organization's fiscal year.

6 Based on preliminary 2001 figures.

7 Portfolio at risk is equal to the total outstanding principal balance of loans past due more than 30 days divided by the total active loan portfolio.

The dramatic increase in loan volume since launching the bank partnerships, without a commensurate rise in operating expenses, has allowed the organization to enjoy an increase in self-sufficiency[8] from 19.4 percent in 1999 to an anticipated 29 percent in 2001.

ACCION New Mexico currently partners with three bank systems to help deliver credit to microentrepreneurs in numerous communities. As the organization continues to work with banks to serve additional communities and to eventually deliver credit statewide, attention must be paid to how many lending partnerships to take on. The more banks helping inform entrepreneurs about ACCION's services, the greater the market penetration and impact the organization can expect to achieve. However, with a small program staff, the number of bank systems actually closing ACCION loans must remain administratively manageable.

LESSONS LEARNED

Over the last three years, several lessons have emerged in implementing and sustaining ACCION's microlending collaboration with banks: 1) start with banks that know your microlending program; 2) get buy-in at the top levels of bank leadership; 3) highlight bank incentives beyond CRA such as increased customer loyalty and community goodwill; 4) create and sustain awareness of the lending partnership at the branch level, being sure to share client success stories with frontline bank staff; and 5) create recognition events and opportunities to reward and motivate participating banks and bankers.

Importantly, ACCION's lending partnerships have proved beneficial for the entrepreneurs served and for participating banks. The microentrepreneurs who have received financing through ACCION's bank partnerships have been able to access credit quickly within their own communities while building a relationship with a local financial institution that may be able to meet future financial needs of their businesses and families. Banks that have partnered with ACCION report a positive impact on their Community Reinvestment Act ratings, increased community goodwill and the cultivation of customer loyalty. By having banks work directly with microentrepreneurs, and by maintaining a repayment rate of approximately 98 percent, ACCION has helped counter stereotypes regarding the "credit worthiness" of microentrepreneurs.

By having banks work directly with microentrepreneurs, and by maintaining a repayment rate of approximately 98 percent, ACCION has helped counter stereotypes regarding the "credit worthiness" of microentrepreneurs.

ACCION New Mexico has designed an innovative methodology to achieve scale and efficiency in delivering business credit to microentrepreneurs in remote rural areas. By serving almost as field offices for ACCION, strategic bank partners minimize the program's overhead while increasing the organization's client base and loan volume. Based on the success of ACCION's microlending collaboration with commercial banks, microcredit organizations in other states have voiced significant interest in ACCION New Mexico's partnership lending strategy. ACCION New Mexico's collaborative lending model promises to have a significant impact on the national microlending field by providing an avenue to radically increase scale and reach, decrease cost per loan, maximize efficiency and increase an organization's self-sufficiency. This, in turn, could have a broad-based impact on the availability of credit to underserved populations throughout the United States.

8 Self-sufficiency is calculated by dividing revenue from lending operations and investments by total expenses (less expenses incurred through in-kind contributions).

BANKS CLOSING ACCION LOANS*

Wells Fargo in the following communities:
Anthony
Espanola
Gallup
Grants
Hatch
Las Cruces
Las Vegas
Santa Teresa
Springer
First State Bank in the following communities:
Belen
Los Lunas
Moriarty
Santa Fe
Taos
First National Bank of Santa Fe in the following communities:
Los Alamos
Santa Fe

* Numerous other area banks display and/or dispense ACCION materials and refer microentrepreneurs to the program. However, these banks do not close loans on behalf of ACCION.

GEOGRAPHIC INFORMATION SYSTEM MARKET RESEARCH

Florida Atlantic University's Center for Urban Redevelopment and Empowerment

ORGANIZATION'S BACKGROUND

Florida Atlantic University's Center for Urban Redevelopment and Empowerment (FAU-CURE) was established in 1992 to conduct applied research, community outreach, program design and evaluation, policy analysis and non-credit educational activities in low- and moderate-income neighborhoods in the university's service area. FAU-CURE has been involved in microenterprise training for low-income populations since 1994. The program collaborates with numerous community partners to offer seamless services to microentrepreneurs including: training, microloan referrals, credit counseling (seminars and one-on-one counseling), technical assistance, business planning and post-training mentoring.

INTRODUCTION

There are some fundamental conditions for the success of any microbusiness or microloan program. The most fundamental of these conditions is the ability of programs to attract participants from the community, and their ability to attract those who were targeted originally by the program. The move to digitize demographic data over the last few decades has made this task of identifying and targeting participants much simpler for someone who is skilled in these strategies. This chapter will provide an overview of how advances in Geographic Information Systems (GIS) affect the way Florida Atlantic University's Center for Urban Redevelopment and Empowerment identifies customers and targets them.

The first part of the chapter will discuss key marketing principles as they relate to the marketing of non-profit programs such as microenterprise programs. The second part will provide an overview of the GIS technology and accessibility of demographic data through this technology. The third part will use the case study of the Micro-Business Support Program at FAU-CURE to demonstrate the use of GIS technology in conducting a market analysis and a marketing plan.

PART I: MARKETING 1-2-3s

A successful marketing strategy involves two components: a market analysis and a marketing plan. The market analysis helps in identifying target population, or a targeted consumer group, that is likely to consume the products or services a program provides. On the other hand, the marketing plan outlines a strategy for ensuring participation of a targeted consumer group in the program. The market analysis identifies the consumers while the marketing plan sells the programs and services to these potential consumers. Profit-driven market analysis and marketing plan drafting are substantially different from those for non-profit and public programs. Primarily market forces and the potential for more profit drive for-profit market analysis. Profit-driven market analysis deals with competition as a hostile force. Non-profit and public market analyses are driven by need in the market and not the potential profit. They also deal with competition in a collaborative and friendly manner.

Market Analysis

The first step in a market analysis is defining a market area. The market area could be delimited by demographic characteristics or by geographic characteristics. Examples of demographic characteristics include population size and density, racial distribution and income, among other things. A city block, a zip code, a city, a county, a state, a nation or a number of nations are examples of geographic boundaries of a target market area.

The definition of the market area is driven by many constraints and opportunities. While potential profit is the main engine behind for-profit programs, not-for-profit programs tend to be driven by organizational missions and capacities rather than profit. Many non-profit organizations are constrained by their organizational mission and other service boundaries. For instance, FAU-CURE is constrained by a service area defined by the state's Board of Regents and a mission that focuses the outreach of the Center in low-income and minority neighborhoods within the University's service area.

Once a market area is identified, it is important to evaluate existing and future demand for services or products in that market area. Evaluating existing demand is somewhat complicated for microenterprise and microloan programs. There are no clear indications of income or other demographic characteristics that would help identify the potential customers of a microenterprise training program.

Finally, it is important to look at the supply of services or products that an organization intends to provide. Evaluating existing supply in the private sector is often termed as an evaluation of the competition. In the public and non-profit services, where most organizations are interested in providing services to serve an unmet need in the community, evaluating supply is not done to evaluate the competition, but rather to establish pockets of unmet need. These pockets may be defined demographically (i.e., women, African Americans) or geographically (i.e., cities with economic problems).

A market analysis will ultimately include an evaluation of demand in light of existing supply in a particular market area. This will provide information on not only the targeted consumer group, but also the expected volume of services that would be potentially provided by the program. This sets the ground for developing a marketing plan.

Marketing Plan

A market ensures that the right services are designed to meet people's needs. A marketing plan acts to make these services known to people. A marketing plan has many steps, including setting market goals, positioning the organization, developing a marketing plan and developing a promotions campaign.[1] Market goals are important in terms of having measurable results that would act to confirm the success of marketing plans in reaching the target consumers and providing them with enough motivation to become consumers of certain products and services. Positioning the organization involves ensuring that the organization's mission identifies with the needs that will be satisfied.

The marketing plan revolves around the six P's of marketing: Product, Publics, Price, Place, Production and Promotion. The plan should ensure that the provided product or service is exactly what the targeted consumer group needs. The plan should also revolve around the same publics identified as the targeted consumer group. The price varies with competition and is not as much of a concern for non-profit and public organizations. The place is the market area already defined by the market analysis. The plan should also consider the ability of the organization to meet rising demand in terms of producing the demanded good or providing the required services.

PART II: GEOGRAPHIC INFORMATION SYSTEMS

Technology has changed everything. One of the positive changes of technology is that it has made identifying customers and studying consumption trends much simpler for those who need to do so. Relevant geographic information systems (GIS) is best described in *Sales and Marketing Management* as a software that "combines two databases, one containing a cartographic set of geographic boundaries and one made up

1 Gary J. Stern, *Marketing Workbook for Non-Profit Organizations* (St. Paul, N.M.: Amherst H. Wilder Foundation, 1990).

of the company's relevant data, such as sales figures or demographics. The combination produces an informative map that visually shows the relationship between geography and the characteristics for which the user is looking."[2]

The U.S. Bureau of Census in the mid 1990s joined the bandwagon of the GIS revolution and started to provide much of the 1990 census data in formats that are compatible with many GIS software packages. Many private vendors supplemented the Census data with yearly estimates and much more information on individual consumers.[3] Jon Goss makes no exaggeration when he entitles his article, "We Know Who You Are and We Know Where You Live."[4] Indeed, researchers today can access a list of individuals, along with their home addresses and phone numbers, who fit a certain socio-economic status. For instance, it is possible to purchase from a commercial GIS data vendor a list of all African Americans with incomes below the poverty line, and who live in Broward County. This information is available in tabular as well as map format. However, pinpointing the customers comes with a moderate price tag, which could be easily offset by the price of non-targeted mass mailings. Many businesses are starting to realize that the cost of using the GIS technology is offset by marketing efficiencies that result from this technology.[5] Government agencies are starting to move away from the use of GIS technology solely for its traditional land-use and engineering data.[6] Instead, demographers and market analysts are using GIS technology to help identify community needs and provide services to meet those needs. Broward County makes geo-demographic data available to citizens on its public website.

Technology has changed everything. One of the positive changes of technology is that it has made identifying customers and studying consumption trends much simpler for those who need to do so.

GIS applications are useful for both the market analysis and the marketing plan. As Bertazzon, Crouch and Draper ascertain, GIS applications can "concentrate on the spatial task of finding, analyzing, and mapping market characteristics."[7] Michael Michelsen argues that GIS technology is used by industries to study markets and monitor marketing activities, "while retailers use GIS to select the best sites for new locations."[8] GIS technologies, by better identifying market areas and targeted consumer groups, enable managers to "allocate scarce resources more effectively, choose territories that match the level of sales force competencies and product line offerings, pre-empt competitive encroachments by actively protecting key markets, improve retention efforts by concentrating on customers' specific needs, transfer successful account strategies across geographic boundaries, and target markets that offer the most potential and return on investment."[9] This is precisely how microenterprise and microloan programs could use the GIS technologies in their scale-up effort. In fact, this technology was used by FAU-CURE in the substantial scale-up of their microbusiness program. The following case study demonstrates how FAU-CURE used the GIS technology to provide more effective delivery of services to the targeted consumer group.

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6 Ellen Perlman, "Maps That Sell," *Governing* 14, no. 3 (2000): 68-73.
7 Stefania Bertazzon, Geoffrey Crouch and Dianne Draper, "GIS Applications in Tourism Marketing: Current Uses, and Experimental Application and Future Prospects," *Journal of travel and Tourism Marketing* 6, no. 3 (1997): 35-59.
8 Michael W. Michelsen, Jr., "GIS Guides Marketers into Future," *Advertising Age's Business Marketing* 79 (June 1994): 29-30.
9 Jenny Thom, "A Map for Marketing: Sales Territory Planning," *Sales and Marketing Management* 144 (July 1992): 102-104.

Technical Information about GIS Software

Most geodemographic data is accessible through a number of software packages that are traded commercially. The cost of purchasing such software is between $250 and $1,500. In order to produce a geodemographic GIS map, a researcher needs geographic boundaries and demographic data. Demographic data is available from the U.S. Bureau of Census free through their website (www.census.gov) or through a data DVD/CD that ranges in price from $60 to $400. The U.S. Bureau of Census website also includes downloadable geographic boundary files for all 50 states and for different geographic entities (counties, cities, census tracts, zip codes, municipalities) within them. A user with advanced computer skills, basic GIS software, and access to the Internet could download and run much of the data. Other data is available through various data vendors.

GIS applications are useful for both the market analysis and the marketing plan.

For users with some access to university resources and/or private or non-profit agencies, it might be more convenient to request some pro bono GIS services. Most universities have GIS centers and almost all of them have community service mandates. A microenterprise program could attempt to enlist the services of these GIS centers. Similarly, many marketing, planning and architecture firms have access to GIS data and technology. Some of these firms might be interested in providing free GIS services to local communities.

PART III: USE OF GIS TECHNOLOGY BY FAU-CURE TO CONDUCT MARKET ANALYSIS FOR SCALE-UP

Florida Atlantic University's Center for Urban Redevelopment and Empowerment (FAU-CURE) aims to empower and foster economic development in low-income communities by investing in the human capital of these areas. FAU-CURE's microbusiness training and support program and its neighborhood outreach (computer-training) centers are the primary outreach programs of the University in low-income communities . It is well documented that self-employment is a viable option for people with low-income or those who are dependent on social assistance.[10] One of the main challenges of the microbusiness program is selling the self-employment option to potential microentrepreneurs in the community. This is precisely what distinguishes the FAU-CURE program from other microenterprise support services that are not provided in target neighborhoods. The FAU-CURE program assumes the role of not only providing training and support for those who wish to start a new business, but also selling self-employment as a viable individual, and ultimately community, empowerment option. FAU-CURE achieves this task by creating partnerships with credible community and faith-based organizations.

FAU-CURE aimed to make its microbusiness training and support services available "on site" in all low-income neighborhoods in Broward, Palm Beach and Martin counties — an area inhabited by more than 2.3 million residents of whom 307,269 people live in poverty.[11] FAU-CURE faced a number of constraints when it conducted its original market analysis.

Defining Market Area

CURE's microbusiness support program dates back to 1994. In the first year, two training sessions were held. Community response to the program was immediate and positive. Extensive and positive media cover-

10 S. Raheim, "Microenterprise as an Approach for Promoting Economic Development in Social Work: Lessons from the Self-employment Investment Demonstration," *International Social Work* 39, no. 1 (1996): 69.

11 U.S. Census Bureau, "Small Area Income and Poverty Estimates Program," *County Estimates for People of All Ages in Poverty for Florida: 1995*.

age helped to propel the program into a high-growth mode, and by 1999, 14 training sessions were held at seven different sites. This represented a dramatic increase from the program's beginning in 1994. With a mandate to serve low-income neighborhoods in Broward, Palm Beach, Martin and St. Lucie counties in South Florida, FAU-CURE has limited choices when it comes to defining its target consumer group. Most of the training held in 1999 was concentrated in Broward County when no similar services were available in other communities. Therefore, the goal of the FIELD-funded scale-up was to cover more low-income residents throughout a larger geographic area that resembled CURE's service area.

When FAU-CURE decided to expand its microbusiness training program, it had three market area goals: 1) continue to serve low-income neighborhoods in CURE's service area, 2) offer microbusiness programs in more sites in the four-county area, and 3) serve more people to reduce the cost per trainee through the recognition of economies of scale. Therefore, defining the market area for the scale-up was somewhat determined by FAU-CURE's mandate and geographic area restrictions.

The challenge before the scale-up project was not to decide which customers' demographics to serve or to which city to take the program. It was rather a challenge of finding the concentrations of low-income residents in the three counties that FAU-CURE serves. Although the targeted consumer group was defined by FAU-CURE's mandate, it still needed to find ways to pinpoint the neighborhoods where these potential trainees reside. This need was reinforced by FAU-CURE's philosophy that microenterprise training should be accessible to people and that trainees should be able to walk or easily commute to the training sites.

Therefore, CURE used GIS data and maps to find those neighborhoods with higher concentrations of poor residents — poverty defined as any household income below 150 percent of the poverty threshold, according to the HHS standards. Since South Florida is a fast growing area, using 1990 Census data would have been insufficient to define 1999 realities. Therefore, FAU-CURE used updated 1999 data to find all neighborhoods in South Florida with median incomes of less than 150 percent of the poverty line. This meant that half of the residents in these neighborhoods had incomes below that threshold.

Data Collection

Demographic data is usually summarized in similar ways as Census data. For instance, the information is summarized by Traffic Analysis Zone, Block Group, Census Tract, Zip Code, City/Census Place, County or State. Market researchers have the choice of selecting the unit of analysis that is most appropriate to their study. Since FAU-CURE aims to find locations for providing its training in particular neighborhoods, it was decided that a Block Group would be the most appropriate unit of analysis to identify future training sites.

The U.S. Bureau of Census estimates that 177,365 (12.2 percent) of Broward's 1.4 million residents live in poverty. The figures for Palm Beach and Martin counties are, 118,676 (11.9 percent), and 11,228 (10.0 percent) residents.[12] Since the aim of FAU-CURE is to reach out to low-income households in its communities and through its community organizations, its outreach plan focused on those residents who lived in low-income neighborhoods. (For purpose of the market analysis, a low-income neighborhood was defined as one where more than half of the households had incomes lower than 150 percent of the HHS poverty threshold). While residents of other neighborhoods received the training, they were not specifically targeted in the program's new outreach strategy.

To narrow down the demand for its services and delineate its market area, FAU-CURE identified 182 U.S. Census Block Groups in Broward, Palm Beach and Martin counties. These block groups had a total of 124,750 residents who lived below 150 percent of the national poverty level. These residents became the

12 U.S. Census Bureau, *County Estimates.*

primary target population in this Aspen-funded achieving scale initiative. The attempt to serve 748 clients per year stemmed from program capacity calculations and not market demand. Based on experience and data collected from neighborhoods with similar characteristics, FAU-CURE's program anticipated demand in the 182 U.S. Census Blocks to be greater than 1,247 trainees per year. Using the same methodology in the three counties, there was a demand of 3,073 low-income trainee spots per year in the three counties in the service area of Florida Atlantic University. This was mostly unmet need. FAU-CURE also anticipated that people from other neighborhoods were likely to be interested in this training.

The target population of the "Micro Business Support Program - Achieving Scale Initiative" included residents of Broward, Martin and Palm Beach counties who resided in low-income neighborhoods. The area that the new initiative covered is more than 90 miles long and 40 miles wide. For purposes of focusing its efforts, the program divided the market area into six different geographic market sectors. The definition of these sectors was based on the geographic proximity and not market size.

Prior to the FIELD-funded scale-up, the FAU-CURE microenterprise training program provided free microenterprise training at seven low-income neighborhood locations mostly located in Broward County. FAU-CURE could not hold the training in each of 182 identified block groups. However, it was important to spread out the offering across this tremendously long (90 miles) service area. Therefore, the area was divided into six geographic market sectors in order to establish the need in each one of the sectors. This division was done so that no one would have to drive more than 15 minutes or 15-20 miles to get to the nearest training site.

Outcomes/Results

One of the extremely beneficial capabilities of GIS technology is that data can be easily extracted from maps and presented in tabular format. For instance, when originally scouting the market for the scale-up, information in Table 1 was extracted from the map that was drawn. Table 1 highlights the number of low-income residents in each of the targeted market sectors/segments, the number of existing partnerships in that sector, the number of anticipated partnerships, and the number of anticipated trainees. In essence, this table outlines the market analysis delineated by six market sub-areas.

As outlined in Table 1, CURE expected to create at least nine new partnerships in the six market sectors. It was anticipated that the program would deliver training (MBT) to 405 prospective entrepreneurs receiving the full training and to 270 entrepreneurs receiving only certain workshops. Given that the median income was used to identify and extract the target areas, and because FAU-CURE knew the population of each block group, it became easier to estimate the number of people living under 150 percent of the poverty line. For instance, Sector A covering Martin County had 8,820 people living in the identified poor neighborhoods. Because the median income was $20,105, it was easy to deduce that half of the population lived on incomes below the median. Therefore, FAU-CURE estimated that 4,410 people in Sector A's target neighborhoods lived in poverty (150 percent of HHS Income). The GIS data also provided information that 31 percent of people living in these neighborhoods were minorities. Before, the scale-up project, FAU-CURE had no microbusiness partners in this sector. FAU-CURE's goal was to establish at least one new partnership within this sector and train 45 people in the microbusiness training course and 30 in the different supplementary workshops.

GIS data could also be used to study the proximity of the nearest microbusiness training facility to each of the target neighborhoods. FAU-CURE is a non-profit education and training organization that aims to supplement all existing efforts to empower communities and individuals in South Florida. Therefore, FAU-CURE rarely competes with existing community organizations or even pri-

GIS data could also be used to study the proximity of the nearest microbusiness training facility to each of the target neighborhoods.

Table 1. Six Market Sectors in the Service Area of FAU-CURE							
Sector	**Location**	**# Poor**	**Median Income**	**% Non White**	**Existing Partners in Sector**	**Anticipated New Partnerships**	**Anticipated # Trainees (3 sessions per year, 2 workshops)**
A	Martin	4,410	20,105	31%	No existing Partners	One New Partner	45 MBT 30 Workshops
B	North Palm Beach	14,455	15,741	83%	Two Partners Riviera Beach East Riviera Beach West	One Additional Partner	45 MBT 30 Workshops
C	South Palm Beach	34,643	16,208	37%	No existing Partners	Three New Partners	135 MBT 90 Workshops
D	North Broward	4,578	12,077	61%	Two Partners Pompano Beach Deerfield Beach	No Additional Partners	No Additional Trainings
E	Central Broward	36,448	19,035	66%	Three Partners Fort Lauderdale (Mount Bethel) (Salvation Army) (NAACP)	One Additional Partner	45 MBT 30 Workshops
F	South Broward	32,402	23,257	50%	One Partner: Dania Beach	Three Additional Partners	135 MBT 90 Workshops
Total		**126,936**			**328 MBT 92 Workshops**		**405 MBT 270 Workshops**

vate industry for its share of the market. FAU-CURE's strategy is to work with these entities to fill the gaps in the supply of services in the community. Therefore, it was beneficial for CURE to avoid locating training where other organizations provided similar resources. However, none of the existing organizations had outreach programs in the low-income neighborhoods in CURE's service area. What is unique about the FAU-CURE program is that its employees are missionaries not only of training but also of self-employment philosophy. None of the other support centers had the capacity or mission to reach out to clients in their own communities. Instead, community members came to these resource centers when they needed help in starting up a new business. FAU-CURE goes out into the community and sells the idea of starting a new business even before training the individuals.

FAU-CURE's Microbusiness Training Marketing Plan

FAU-CURE aims to empower communities by lending help to community organizations that serve their own residents. After identifying 182 potential high-need locations (Census Block Groups) with 126,936 people who live below 150 percent of the poverty level, FAU-CURE actively pursued partners in these communities in order to make for easier access of community members to microenterprise training. Prior to scale-up, FAU-CURE had seven microenterprise partners and held training in four different sites in each session. After one year of the scale-up project, the Micro Business Support Program Achieving Scale Initiative increased the number of partners from seven to 16, and training was held simultaneously at 16 sites compared with only four prior to scale-up.

FAU-CURE divided its target market into six geographic sectors. Then, it identified demand and existing supply of services within each of the sectors. After identifying the number of new partnerships needed to meet the demand within each market sector, FAU-CURE identified potential neighborhoods that would be central enough to allow easy access of other neighborhoods within each sector. This allowed for optimal commuting distances for residents who wish to obtain the microenterprise training. This is a task that is easily achieved by many of the available software packages. Optimal commuting distance is easily obtained through GIS software.

The next step was to identify active community organizations within each of the target neighborhoods in the target market sectors. These were organizations that existed for a reasonable (one year, two years, three - five years) duration and which had a reputable record of service in their neighborhoods. Once these organizations were identified, FAU-CURE staff approached them with a proposed partnership plan and a draft Memorandum of Understanding (MOU) that outlined the role of the Center as well as that of the potential partner. Many credible community organizations were immediately interested in such partnerships. FAU-CURE paid for all supplies and instructor salaries while partners provided space and, with assistance from FAU-CURE staff, marketed the services in the community.

Instead of developing one marketing plan for all sites, FAU-CURE advertised locally in each of its target neighborhoods. FAU-CURE's microbusiness coordinator met individually with each community partner and drafted with them individualized marketing plans. FAU-CURE used many promotional strategies including, but not limited to, brochures, feature stories, networking, news releases, newsletters, posters, public speaking, annual reports, radio and television Public Service Announcements, and videos. The success of CURE's marketing plans has much to do with their local natures. Community partners felt ownership of the program and as a result, made special efforts of getting the word out. About 55 percent of trainees who registered for microbusiness training learned of the program through "Word of Mouth" Marketing.

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OUTREACH THROUGH COMMUNITY-BASED ORGANIZATIONS

Florida Atlantic University's Center for Urban Redevelopment and Empowerment (FAU-CURE)

ORGANIZATION'S BACKGROUND

Florida Atlantic University's Center for Urban Redevelopment and Empowerment (FAU-CURE) dates back to 1992, following special funds from the Florida Legislature for Florida Atlantic University to undertake certain community research and training activities. The Florida Board of Regents then formally established FAU-CURE as a Type II research center, one that is responsible for activities such as applied research, community outreach, program design and evaluation, policy analysis and non-credit educational activities relevant for enhancing redevelopment and the quality of life in low- and very low-income neighborhoods in the university's service area.

FAU-CURE operates on the Integrative Community Development (ICD) model represented by seven issue areas: Affordable Housing, Education, Economic Development, Community Safety/Policing, Health and Wellness, Infrastructure and Community Advocacy/Leadership. ICD focuses on how one aspect of a community is related to the others, and how the policies and programs formulated to address quality-of-life (QOL) must complement each other. ICD requires that program planners look at the holistic picture of development in communities, inquiring about relationships between people, between neighborhoods and places, between functions, between services and between the environment and people's values. FAU-CURE's modus operandi is strategic collaboration between various community entities that share common interests.

Since 1994, FAU-CURE has been providing an array of capacity-building services, including microenterprise training, to very low- and low-income residents of its service area.

Since 1994, FAU-CURE has been providing an array of capacity-building services, including microenterprise training, to very low- and low-income residents of its service area. FAU-CURE collaborates with community-based partners to provide "on-site" training within these communities.

Description of FAU-CURE Service Area

FAU-CURE's service area is defined by Florida Atlantic University's service area, which covers an area that is approximately 90 miles long and 40 miles wide. The service area includes four counties (Broward, Palm Beach, Martin and St. Lucie) and a population of nearly 2.5 million people. FAU-CURE operates primarily within very low- and low-income communities along the I-95 Corridor. These communities are plagued with a variety of problems, the most crippling of which are physical blight (land-use conflicts, distressed properties, Brownfields, etc.); social decay (crime, family disintegration, domestic violence, drugs and alcohol abuse); and economic distress (redlining, underemployment, unemployment, capital flight, business attrition, etc.).

The 1990 Census identified over 90 percent of the residents along this corridor as African-American, with increasing numbers of newly arrived Black and Latino immigrants from Caribbean Basin countries, Central and South America. This latter group (immigrants) represents a wide variety of cultures and languages, including Haitian Creole, Spanish and Portuguese. According to the Coordinating Council of Broward County[1], Haitians are the largest immigrant group in Broward County. The Haitian Community Center estimates that nearly 100,000 Haitians reside in Broward County — a drastic increase since 1990 when Haitians numbered less than 10,000.

1 Richard F. Ogburn, Coordinating Council of Broward County (1996).

The same study of Broward County students, grades k-12, identified 189 birth countries and 79 languages spoken. At least 11 percent of the student body was born outside of the United States and 13 percent of them used non-English home languages. Additionally, a cultural diversity profile of these students placed Haiti, Jamaica, Columbia, Bahamas and Brazil as the five top places of birth outside the United States.

The Need to Achieve Scale

The flagship program of FAU-CURE's applied research and community outreach agenda is the microenterprise training program. It is well documented that self-employment is a viable option for people with low income or those who are dependent on social assistance.[2] One of the main challenges of the microenterprise program is selling the self-employment option to potential microentrepreneurs, particularly immigrants, in the community.

FAU-CURE began offering the program in 1994. In the first year, two training sessions were held in Broward County. The popularity and success of the program resulted in widespread demand for FAU-CURE to offer the program in various communities across the region. The thrust of the training program is to provide existing and aspiring business owners with the knowledge or information capacity to excel in their undertakings. This is accomplished through an intensive 30-hour hands-on training, conducted by experienced and professional trainers, on the critical aspects of running a business, mainly market research, business planning, purchasing and pricing, loan/financial packaging, marketing and personnel management. FAU-CURE links trainees with credible agencies and entities in the region that have the resources and technical expertise to assist the trainees in practical ways. This follow-up or after-care is a key component of the microenterprise training program. The follow-up allows special bonds to be developed to nurture the trainees long after they complete the training program.

Widespread demand for the microenterprise training program and its effectiveness in equipping trainees with the information to make informed decisions about business ownership and operation provided the rationale for FAU-CURE's decision to seek the Aspen Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) grant to meet this critical need in the university's service area. The FIELD grant provided the resources that allowed the Center to cover more territories, train in volume and reduce costs. In short, the FIELD grant was a perfect fit with FAU-CURE's institutional vision to achieve scale-up. FAU-CURE's track record in conducting this training demonstrated the Center's capacity to handle the additional challenge and work load that would result from the Aspen FIELD grant.

STATEMENT OF CHALLENGE

The FAU-CURE service area is unique for many reasons, a few of which are discussed below. It should be noted that each unique attribute offers both opportunities and challenges for the microenterprise training program. The first attribute is the cultural and ethnic diversity of the area. There is a rich mix of African Americans and Caribbean blacks, Latinos of all national origins, and whites. Most of the immigrants are from developing countries where poverty and illiteracy rates are high, yet the spirit for entrepreneurism and self-reliance is strong. Herein lies the dichotomy of opportunity and challenge. The challenge is reflected in the language and educational barriers that immigrants face entering into the mainstream of American politics and economy, coupled with other individual problems such as a lack of credit, poor credit, lack of collateral and lack of business track record. Conversely, the opportunity is reflected in the desire and yearning to be an active part of the American political and economic system. Based on this desire, programs such as FAU-CURE's microenterprise training appeal to immigrants across the board. Community-based and local

2 S. Raheim, "Microenterprise as an Approach for Promoting Economic Development in Social Work: Lessons from the Self-employment Investment Demonstration," *International Social Work* 39, no. 1 (1996): 69.

government agencies consider it part of their duties to their constituents to disseminate information about effective programs in their jurisdictions. FAU-CURE's microenterprise training program enjoys wide publicity through the agencies, and this has translated into trainees registering in the program.

The second challenge faced in implementing the training program is transportation. Transportation has been known to be a fundamental obstacle in low-income communities for those desiring access to programs and services located beyond walking distance in those communities. FAU-CURE addressed this challenge by offering the microenterprise training program "on-site" in the partnership communities. One of the advantages of FAU-CURE's partnership with community-based organizations is to have access to facilities where the training program can be offered and easily accessible to community residents. Many of the residents of FAU-CURE's service community rely on the public bus system or on shared rides with fellow community residents. The uncertainties of those modes of transportation are minimized or eliminated by offering the training program at sites that are easily accessible by foot, bicycle and automobile.

The third challenge is cost. For very low-income people struggling to make a living, the extra cost of "education and training" could be prohibitive. This is the justification for seeking grant funds to offer programs that provide people with the capacity to improve their quality of life. FAU-CURE makes it a point to impress upon trainees that grant funds are essentially taxpayer monies. Therefore, class attendance, participation and a desire to succeed become measures of the responsibility and accountability expected of those registered in the training program.

The fourth challenge is scheduling. Most of the employed residents of FAU-CURE's service area work in the daytime and on weekends. It is important, therefore, to schedule the microenterprise training sessions for times that are most convenient for the majority of the people interested in the program. FAU-CURE has discovered that evening hours work well for meeting and training sessions in low-income communities, except where the trainees unanimously adopt alternative hours.

The fifth challenge is the "hand holding" that many trainees need after graduation to start or expand their operations. Most graduates are practically unable to "go on their own" and start or expand a business right after graduation, due partially to systemic problems, such as discriminatory lending practices, insurance and bonding problems, and monopoly of product supply sources and markets by mainstream corporations, as well as personal problems, such as poor or inadequate credit, lack of business track record, and very limited know-how about business management in a competitive market economy.

FAU-CURE has addressed this challenge by identifying appropriate institutional and personal resources in the local area that can assist clients who graduate from the training program. The resources exist in the non-profit sector, the corporate sector and the public sector. A directory of the resources is periodically updated and provided to trainees by FAU-CURE.

STRATEGY FOR SCALE-UP

A partner is, "a person associated with another or others in some activity of common interest… partner implies a relationship, frequently between two people, in which each has equal status and a certain independence but also implicit or informal obligations to the other." — The American Heritage Dictionary.

One of the main challenges of the microbusiness program was selling the self-employment option to potential microentrepreneurs in the community. This was precisely what distinguished the FAU-CURE program from other microenterprise support services that were not provided in target neighborhoods. The FAU-CURE program assumed the role of not only providing training and support for those who wished to

start a new business, but also selling self-employment as a viable individual, and ultimately community, empowerment option. FAU-CURE achieved this task by creating partnerships with credible community and faith-based organizations.

Why Was Partnership Necessary?

The partnership with community-based organization was necessary for several pragmatic reasons. First was the need to build trust between FAU-CURE and its community partners, especially in light of the "ivory tower" complex from which institutions of higher learning have suffered, and which has undermined their community outreach efforts. FAU-CURE ensured that the partnership was designed to be mutual (win-win situation), to be based on two-way dialogue, and clearly in the interest of the community and its residents. Trust was aimed at destroying the misgivings, misinformation and misperceptions that have undermined university-community collaboration over the decades.

This idea of resource leveraging has become increasingly critical in the face of declining or keenly contested resources for community capacity development.

A second reason for partnership was to mobilize community support for, and interest in, the microenterprise-training program. There is ample evidence that communities across America have become overly saturated with print advertisement materials, therefore, the general public's reaction to such materials is to ignore and trash them. Given this problem, which is even more pronounced in the low-income communities that FAU-CURE serves, partnership with community-based organizations allows the deployment of "word of mouth" recommendations and "testimonies," even referrals, by recognized and credible organizations to mobilize people to support and register in FAU-CURE's microenterprise training program.

A third reason, one related to the second, is credibility for the training program. Community-based organizations enjoy substantial credibility in their communities, and this "currency" is transferable to any program or cause that the organizations support or are part of. Partnership with the organizations translates into automatic credibility for FAU-CURE's training program, something that would take too long to achieve through conventional information dissemination avenues, such as print media.

A fourth reason for partnership was the need to avail the training program of a location that would be easily and readily accessible to people with transportation problems, that would be cost-free to FAU-CURE, and that people would feel comfortable with or less intimidated by.

Community-based organizations operate out of facilities located in the heart of their service communities. The facilities are accessible, and residents identify with them through constant usage. These elements of accessibility and familiarity are advantages for programs that originate from outside the community. Familiarity translates into a level of confidence that makes residents receptive to a university-offered program. It is very common for residents of low-income and minority communities to be intimidated by programs offered in territories, such as university campuses, with which residents are very unfamiliar, and where most people differ in perception and lifestyle. Through partnership with community-based organizations, FAU-CURE is able to offer its training program in a friendly and familiar territory to residents of low-income communities.

Related to the fourth reason above is a fifth, which is the opportunity that partnership provides for FAU-CURE to train in volume. The credibility that accrues to the program through partnership with a community-based organization, the accessibility and familiarity of the training site, and the free cost of the training program all combine to heighten the interest of the community in the program, and the number of people who desire to undergo training. Training in volume is a great return on investment in human capacity development and, according to FAU-CURE's credo, communities are best restored only through the empowerment of one resident at a time. The more empowered individuals become, the greater the chances that they will become a formidable force for community development and improvement.

The final reason for partnership is to maximize FAU-CURE's resources to provide service, or in this case, to conduct the microenterprise training program. The idea here is to use the community partners to identify both financial and in-kind resources, especially facilities and personnel, which can complement, supplement, or stretch FAU-CURE's program resources. This idea of resource leveraging has become increasingly critical in the face of declining or keenly contested resources for community capacity development. Through partnership with community-based organizations, especially in immigrant communities, FAU-CURE is also able to access not-too-readily available resources, such as interpreters, instructors, mentors, and other expertise. The key to leveraging is creativity and innovation. Partnership with community-based organizations has enabled FAU-CURE and its partners to use their creative powers and limited resources to serve more people and to achieve scale.

FAU-CURE's Community Partners

FAU-CURE partners with a number of organizations to deliver programs to its target population. As part of the microbusiness program, our partners include:

- **County Libraries:**
  a. Broward County: Collier City Branch; Carver Ranches Branch
  b. Palm Beach County
- **Faith-based Organizations:** Mount Bethel Baptist Church; Bible Church of God; Salvation Army Center for Hope
- **Housing Authorities:** Deerfield Beach Housing Authority; Boca Raton Housing Authority
- **Non-Profit Organizations:** Liberia Economic and Social Development (LES, Inc.); New Beginnings Community Development Center; Lake Worth Community Development Corporation; Northwood Business Development Center; Latin American Cultural Center; Argentina Arts Organization; Pioneer Terrace Adult Residential Community; and the Center for Technology, Enterprise, and Development (TED Center)
- **School Districts** (high school level): Dillard High School (Broward County) and Palm Beach Community High School (Palm Beach County)
- **Hospital District:** North Broward Hospital District (North Region Family Success Center)
- **Other:** City of Pompano Beach; University of Fort Lauderdale; Qwest Financial Center; and the Techni-Pro Institute

Characteristics of Effective Partners

FAU-CURE's partnership selection process is a very pragmatic and straightforward one. The Center uses four main criteria when seeking out potential partners:

- **Mission:** FAU-CURE partners with existing organizations whose mission, like the Center's, is to build community capacity and empower low-income residents to become self-sufficient.
- **Track record:** FAU-CURE looks at a potential partner's history of working with its target population.
- **Organizational experience or capability:** Because the success of the partnership is closely linked to each entity's ability to get the job done, FAU-CURE entertains partnership only with entities that will prove to be an asset and not a liability.
- **Reputation:** This criterion is extremely important because one partner's poor reputation may affect that of the other(s). As a result, FAU-CURE spends time researching the background of potential partners from credible sources and references in the relevant communities.

These criteria have ensured that FAU-CURE collaborates with only the most credible of organizations. Still, there are potential pitfalls that can arise in these kinds of arrangements. First, there may be instances where partners do not fulfill their end of the deal, such as conducting assigned tasks or keeping schedules. To prevent this, FAU-CURE makes frequent site visits and holds partnership "building" meetings to reinforce the goals of the partnership. As a last resort, the Center may terminate an agreement with a partner that becomes problematic.

Secondly, partners may not communicate internal organizational changes that may affect the partnership. For example, there may be a change in contact person, relocation of the organization or dissolution of the organization. Although the latter has never occurred with any of its partners, FAU-CURE's proactive strategy is to keep in touch with partners through telephonic and electronic contacts as well as through regular site visits. Fortunately, partners have notified the Center whenever there are actual or anticipated internal changes.

A third potential pitfall is changes in a partner's capabilities. A partner's capacity to implement assigned roles or responsibilities may change because of staff changes, financial setbacks or changes in budget allocations. As a result, the partnership may become strained and the goals are not achieved. In such cases, it becomes imperative that the scope of services be redefined in a revised agreement in order to protect the integrity of the program.

Finally, information crossing is another potential pitfall. There may be instances where partners are confused about their roles and responsibilities and, as such, end up duplicating each other's efforts. Not only is this costly in terms of money and time, but also it creates a gap in service delivery, oftentimes in some crucial areas. To avoid such a pitfall, FAU-CURE develops a Memorandum of Understanding (MOU) with each partner in which all roles and responsibilities are clearly defined.

Defined Roles and Responsibilities

The strategy employed to implement the Aspen FIELD grant was primarily a mutual partnership or collaboration between FAU-CURE and its community partners. In this strategy, each entity comes into the partnership fully aware of its roles and responsibilities, and that the success of the partnership depends on how well the partners play their roles. For the microenterprise training program, the roles and responsibilities of the entities involved in each partnership are summarized in the table below.

ENTITY	ROLES AND RESPONSIBILITIES
FAU-CURE	1. Draft Memorandum of Understanding (MOU) for review, changes and approval by Board of partnership agency. 2. Identify, screen, recruit and pay instructors. 3. Prepare instructional materials and schedules. 4. Publicize program (print and electronic media). 5. Recruit trainees. 6. Identify and arrange use of local institutional resources (library). 7. Organize and sponsor graduation ceremonies.
Community Partner	1. Review and approve MOU. 2. Identify, supervise and maintain training site, facility or space. 3. Publicize program and assist with "word of mouth" recruitment.

Microenterprise Training

Once an agreement is reached with a partnership agency through a signed MOU, an official representative, often the director, of the agency is introduced to the instructor assigned to the site and training is ready to begin. The FAU-CURE Microbusiness Coordinator ensures that arrangements or plans are in place for the trainees to visit and learn how to use library resources for research, for guest speakers on specialized topics such as insurance and private lending (bankers and venture capitalists), and for the students to take field trips to successful small enterprises.

Training sessions are primarily hands-on in that trainees are engaged in practical and simulation exercise on specific tasks and situations they would confront in the real business world. Trainees are also encouraged to establish new and extensive networks of contacts and resource persons, and to maintain close rapport with those contacts for future or post-training access.

The course materials used for training have been fine-tuned and customized over the years by FAU-CURE staff, using input and feedback from instructors, guest speakers, students and other experts. The materials are instructive in terms of educating students about various dimensions of business ownership and operation. They are also diagnostic in terms of assessing the pace and scope at which trainees are learning new or scheduled content. Finally, the materials consist of exercises that allow students to practice or simulate "real life" decision-making and problem solving.

The course materials are packaged by FAU-CURE staff and made available to trainees at no cost upon registering in the program. At the end of the training, the materials become the property of graduates for future use and reference.

Upon successful completion of the training program (completing a business plan), trainees are officially notified of a graduation ceremony where they are honored with a Certificate of Completion. The ceremony is often brief yet substantive in content. Trainees are directly involved in planning, speaking at, and entertaining their guests at the graduation ceremony. Relatives are invited to witness the graduation, special awards are given for performance by distinguished students, food and music are provided by the graduates, and the guest speaker is invited to motivate the graduates. Graduates are encouraged to become ambassadors of the program by publicizing the program, recruiting or referring prospective trainees to the program, volunteering to be guest speakers — on as needed basis — in the future training sessions, and most importantly, responding promptly and truthfully to the surveys and inquiries that would follow as part of the tracking exercise.

Program Management

The coordination, direction, implementation and supervision of all the activities involved in all the phases of the training program are handled by the Program Director at FAU-CURE. An important additional duty of the Program Director is the payment of the instructors and other critical service providers, following strict University recruitment, compensation and service procurement guidelines. The Program Director must deal with the time, legal and procedural dimensions of operating the program in tune with the contractual terms of the funding agency. In all the roles, the success or effectiveness of the Program Director depends largely on the mastery and skills necessary for:

a. Communication with all parties and stakeholders, especially the funders, university personnel and all partnership agency officials;

b. Negotiation with all parties and stakeholders, especially instructors, service providers, partnership agency officials, university personnel and funders;

c. Research and report writing, for purpose of designing the training materials and accounting/ reporting to the funders;

d. Organizing and planning, in order to synchronize the various facets and activities of the training program;

e. Diplomacy and conflict resolution, in order to resolve both minor and major non-legal conflicts that may arise in the course of implementing the program, for example, between instructors and agency officials;

f. Resource development, especially grant writing, in order to mobilize new financial and in-kind resources for the program and its sustenance.

Results/Outcomes

FAU-CURE offers microenterprise training three times per year. Each cycle spans 10 weeks for three hours per week. With the Aspen FIELD grant, FAU-CURE successfully increased its microenterprise training sites from seven before the grant, to 20 as a result of the grant. Additionally, prior to scale-up, FAU-CURE had seven microenterprise community based partners. After one year of the scale-up project, the Micro Business Support Program Achieving Scale Initiative increased the number of partners from seven to 19.[3] The data on the intake and graduation rates of the post-award sites are summarized in the table below:

Year 1 Total Rates				Year 2 Total Rates			
	Intake	Graduation	%		Intake	Graduation	%
June 00-Aug 00	229	193	84.3	May 01-July 01	261	151	57.8
Oct 00-Dec 00	238	166	69.7	Oct 01-Dec 01	160	103	64.4
Feb 01-Apr 01	171	147	86.0	Jan 02-Mar 02*	329	200	60.5
TOTAL	**638**	**506**	**79.3**	**TOTAL**	**750**	**454**	**60**

3 One community partner operates two sites.

Leveraging Resources

FAU-CURE has had a history of combining community resources synergistically. The Center's reputation and track record have made it successful in leveraging much needed resources to provide quality programs in the community. The dollar value of this leverage is illustrated in the table below:

SITES	PROGRAM COSTS		TOTAL PROGRAM COSTS	CLIENTS SERVED	
	($Value)	FAU-CURE		Number (Graduates)	Cost per Client
Deerfield Beach Housing	9,600				
Center for Minority Human Service Provider	39,800				
Center for Technology, Enterprise, & Development	10,979				
Collier City Library	2,160				
Carver Ranches Library	2,160				
Mt. Bethel Human Services Providers	5,148				
Subtotal	69,847				
Other 14 Sites	42,000				
TOTAL	**111,847**	**23,122**	**134,969**	**506**	**266.74**

The table above includes FAU-CURE's microbusiness community partners' total contribution, over one-year of the FIELD grant, in order to demonstrate the dollar value of the leverage. As reflected above, FAU-CURE invested a total of $23,122 for year one of the Aspen FIELD grant, while only six community partners provided in-kind support (facilities and utilities, personnel, advertisement and interpreters) valued at $69,847. FAU-CURE realistically estimates that the additional 14 sites (not listed above) each provided in-kind support valued at $3,000 for a total of $42,000. Therefore, FAU-CURE's microbusiness program has leveraged approximately $111,847 for a total program cost of $134,969 in the first year of the Achieving Scale initiative. Finally, as shown above, the cost to train each client (graduates only) was $266.74.

LESSONS LEARNED

FAU-CURE has learned that the key to successful partnership is for one member of the partnership entities to develop a clear and strategic vision, which would translate into a plan for all the members of the partnership to follow or improve. Once a clear vision is in place, it becomes easier to develop and publicize a plan, and to secure the buy-in from prospective stakeholders. This vision and its conversions into a workable plan are very critical, especially with cases involving universities, where there are always high expectations that the university would come to the partnership table with significant programmatic currencies or resources. Visioning and planning involve enormous amounts of work (research, strategizing, potential funding plans, etc.) and not too many agencies, especially non-profits, have the capacity to engage in this "first step" of a viable partnership. The lesson is "to never expect anyone to want to 'carry' an entire partnership on its shoulders, but for everyone to want somebody else to." The vision and plan should specify the roles and responsibilities of every member of the partnership, as well as the "rules of engagement," such that no party becomes a parasite on the team.

A second lesson is to have a strong center (office and personnel) to coordinate and facilitate the implementations of the partnership. From planning partnership meetings to organizing training materials, partnership activities can be demanding on the time, schedule and resources of the partnership members. A strong coordinating center can go a long way to eliminate the potential for duplicative efforts and initiatives, and save precious time and resources.

A third lesson learned is to establish a powerful information dissemination network that combines both print and electronic media with other "informal" means, such as "word of mouth," group presentation and mass mailing. The network enables information to be disseminated about a program that would help people buy into, support or patronize the program. It also allows success stories to be told about the program if such stories exist.

Hand in hand with this lesson is a fourth, which is to package a well articulated message that does not over-dramatize the purpose and the capability of the program. Crafting a "realistic" and "truthful" message, and deploying the message via easily accessible channels of publicity would go a long way to project and ensure the integrity of a program, and to temper people's expectations of funded programs, especially those offered through institutions of higher learning, and for which people tend to be disappointed when their expectations are dashed by reality. A good lesson is to project this reality before expectations are formed or fuelled.

A fifth lesson is to document all information about the various aspects of a program. Documentation, whether required or not by funders, preserves the history of the program, provides information for those who want to inquire about the program, helps to publicize the program, and speaks about the legitimacy and credibility of the program. Documentation, in spite of modern technology, is a demanding task in terms of the time required to put information in a presentable and professional form, the analytical and descriptive skills to make the information credible, and the time required to package and disseminate information.

A final lesson is to continuously seek resources from the public, private and philanthropic sectors to sustain or institutionalize a program. Once a program becomes popular in a community for whatever reason, more so for its success, there comes the attendant price of success, which is "higher expectations" for more and better offerings. When such public demand ensues, the burden arises to either find the resources necessary to meet demand, or to dash the hopes of those desiring the program. The latter could have political and credibility ramifications that any agency would work hard to avoid, yet the former could be an uphill task given the complexities and difficulties and the unpredictability of securing grant funds. This is why resource development has to begin early in the life of a program and be a continuous exercise beyond the life of any specific funding for the program.

FAU-CURE understands the need for early and continuous resource planning in order to sustain its programs. Prior to the Aspen FIELD grant, the Center was awarded a three-year grant from the U.S. Department of Housing and Urban Development (HUD), Office of University Partnerships. Within two years of that grant, the Center solicited and received the two-year FIELD grant, which enabled program expansion and increased promotion and curriculum development. In October 2001, six months before the Aspen FIELD grant expired, FAU-CURE was awarded the Program for Investment in Microentrepreneurs (PRIME) grant through the U.S. Small Business Administration (SBA). The PRIME grant provided $250,000 with a five-year renewable. PRIME will ensure that FAU-CURE's microenterprise program is maintained at the level that the Aspen FIELD grant has allowed.

Additionally, FAU-CURE continues to seek grants that will allow it to add other dimensions to its program and better serve the needs of disadvantaged microentrepreneurs in its service area. The Center, in collaboration with the Minority E-Commerce Association (MECA), has recently applied for a technology grant through the Sun-Sentinel Diversity Venture Fund to train microentrepreneurs on conducting business online. Finally, FAU-CURE plans to collaborate with Metro Broward Capital Corporation and the Business Loan Fund to establish a microloan program. FAU-CURE believes that a microloan program will serve as an incentive to attract more potential participants as well as make the microbusiness-training program more holistic.

MARKETING, STRUCTURE AND SYSTEMS DEVELOPMENT FOR SCALE

ACCION New York

ORGANIZATION'S BACKGROUND

ACCION New York was launched in 1991 by ACCION International as its first U.S. affiliate to bring micro-credit to economically disenfranchised small businesses. The New York program serves neighborhoods throughout Staten Island, Brooklyn, Queens, Manhattan and the Bronx. Both credit and technical assistance are provided to clients.

STATEMENT OF CHALLENGE

ACCION New York (ANY) is seeking to achieve a scale of lending operations large enough to reach and impact a significant number of individuals living within economically distressed communities in New York City. In addition, unlike most non-profits, ANY is striving for operational self-sufficiency, whereby 100 percent of its program costs are covered by earned revenue. ANY has aggressively sought ways to increase the efficiencies within its lending program to obtain higher levels of self-sufficiency and serve greater numbers of people. With this vision in mind, ANY seeks to create and implement programs that are innovative as well as effective in reaching microentrepreneurs on a mass scale.

ANY's organizational vision was bolstered by a national market study conducted by the ACCION US network illustrating the potential market of microentrepreneurs and the need specifically within New York City. ANY's challenges to achieving scale included marketing strategies that could convert this need into demand, and building the organizational capacity to support the growth as described below.

First, ANY wanted to create a more detailed understanding of the small business needs in the communities it serves in New York City. ANY recognized that additional market research was needed to construct a comprehensive marketing strategy and targeted action plan. Secondly, ANY sought to continue its expansion into low-income communities with pilot marketing initiatives. And thirdly, ANY planned to build program capacity by expanding its mobile loan initiative, Street Reach; developing its service center operation; and upgrading its management information system. These three goals would both assist ANY in breaking into the large potential microentrepreneur market and facilitate greater efficiencies to handle its quantitative scale goals.

Specifically, ANY projected its program to have the following impact in 2001 through the implementation of the aforementioned projects:

PROJECTED IMPACT FOR 2001	
Year	2001
Total # of clients served	1318
#/% of low-income clients	416/35%
$ value loans to all clients	$9,223,375
$ value to low-income clients	$2,304,078

As will be discussed below, there were many lessons learned through the process of implementation and this was only a first step towards exploration of methods to reach mass scale in the US microenterprise market.

STRATEGY FOR SCALE-UP

Market Strategy

Market Research

From year 2000-2001, ANY devoted much of its efforts to developing and implementing several new marketing initiatives. The completed ACCION New York Marketing Plan analyzes the type of market segments ANY's products are suited for; explores the targeted markets' responsiveness to certain marketing techniques; and then, presents a marketing strategy to help ANY effectively penetrate this market segment.

In short, the study concluded that given ANY's limited marketing resources, it should concentrate its efforts on trying to reach two specific target groups: the foreign-born Hispanic market and specific small business market segments (e.g., contractors, printers, bodega owners, direct sales market, etc.). The study concluded that ANY should focus its marketing efforts on foreign-born Latinos, who are highly entrepreneurial and often have less access to other sources of credit than U.S.-born Latinos, and on particular business segments that interact frequently with other microbusinesses. By focusing its word-of-mouth campaign on a certain sector, such as small business services (e.g., contractors, printers, painters), that interacts with other sectors, ANY creates a domino effect whereby the first sector targeted touches all others. Within a market segment of a specific type of business, word-of-mouth spreads more rapidly, therefore lowering ANY's advertising costs and maximizing the return on its marketing efforts.

Finally, the marketing plan highlighted the importance of differentiating ANY from the numerous sources of credit sources in the US (i.e., banks, credit cards, loan sharks, pawn shops and finance companies). Consequently, creating an appropriate image and message to capture ANY's particular foreign-born market was of particular importance when updating its marketing materials.

Pilot Initiatives

Following the Marketing Plan, ANY conducted a series of focus groups with internal and external staff to identify strategies that held potential to significantly alter the scale of its lending, but were relatively low-cost and easy to implement. As in all of its programs, the ongoing evaluation of the effectiveness of a specific strategy is pivotal to the overall success of the marketing program. Therefore, ANY set up expected outcomes as well as points where it would abandon the effort and consider it unsuccessful.

Immigrant Assistance Programs: In order to reach the foreign-born Hispanic market, ANY identified Immigrant Assistance Programs throughout New York City, a central source of information for many immigrants. Given the sheer number of those organizations, ANY directed its efforts to targeted neighborhoods where it is trying to increase its market penetration.

ANY set up ongoing orientation sessions in many of these organizations, and it is beginning to see the impact of these relationships. It has recognized that the relationship building necessary in these close-knit communities is a time-consuming process. Thus, identifying the organizations that provide the strongest referrals, and narrowing its efforts has been essential for this strategy. Referrals from organizations from 2000 to 2001 increased from 20 percent to 22 percent. Despite only a 2 percent gain, ANY believes this strategy is key to building trust among this particular market segment and will be continued.

Putting Clients to Work: ANY also started heavily promoting its programs to specific small business segments. As stated above, it found that within particular market segments, like the direct sales market (Mary Kay, Waterbrite, Tupperware, etc.) word-of-mouth spreads easily. In fact, it has data that confirms that 54 percent of its referrals are derived from "word-of-mouth." Since the direct sales market largely uses this

method to spread the word about their own products, ANY expected that it could use these existing networks to promote itself. Moreover, targeting certain small business segments, like Mary Kay, which are comprised mainly of low-income women, has also enabled ANY to reach women entrepreneurs in a cost-effective and efficient manner. In addition to Mary Kay clients, ANY has made particular inroads working with entrepreneurs who sell herbal nutritional products through their personal networks.

Additionally, ANY began a pilot program targeting existing clients who operate businesses with ongoing contact with many microentrepreneurs who could be potential ANY clients. Clients were chosen based upon their history with ANY and extent of their small business networks. Motivated by both their commitment to ANY and a small monetary incentive, clients would agree to assist other microentrepreneurs fill in ANY informational postcards and distribute ANY promotional items to their customers.

In this referral program, ANY established a series of warning signs to pull the program if it was in danger of not producing results relative to resources expended. One of those warning signs was if the client assisting ANY became delinquent, in which case ANY would immediately suspend the program because of the potential negative effects on the portfolio. Unfortunately, the first client that ANY targeted did indeed become persistently delinquent, and ANY discontinued the program. ANY is currently studying its client base and reviewing the strategy to determine if it should implement the program again.

Check Cashing: Many microentrepreneurs in New York City rely on check cashing institutions for most of their financial services. These same clients often utilize loan sharks to fulfill their credit needs. By developing targeted referral partnerships with a portion of the 600 check cashers in New York City, ANY would be tapping into institutions frequented by potential ANY clients, while bringing them closer to the formal banking sector.

The second largest check-cashing network in New York City had agreed to allow ANY to have an information table on premises at various locations throughout Washington Heights and the Bronx. However, when researched further, ANY discovered a high security risk to have an ANY employee and/or volunteer at a table inside the cash checking centers without the glass barriers. It also considered the use of flyers and other promotional materials, but decided after a test case, that the expense involved in creating and regularly distributing materials made the program unattractive. ANY and the check-cashing network pulled out of the project as conceptualized, yet would like to revisit this program in the future. Promising work has been started by several credit unions, which may make an interesting platform on which to adapt and build the strategy.

Strategic Media Partnerships

ANY has drawn lessons from the use of different media sources and subsequently has embarked on a strategic partnership with the largest Spanish language newspaper in New York City — *El Diario*. ANY's previous experience with the use of paid radio advertisements in the summer of 2000 was its first testing ground. Using a commercial created by an advertising agency, ANY embarked on a three-week radio campaign. From that campaign, it received 127 inquiries that converted into 32 loans. In retrospect, ANY concluded that the response relative to the cost of acquiring a client proved to be too expensive. However, it does acknowledge that these types of campaigns are an excellent means of "branding" a product. Thus, ANY has since crafted its current media campaign with *El Diario* in a more substantive way.

ANY's first consideration was the choice of a strong strategic partner. It chose *El Diario*, also known as the "El Campion de los Hispanos" (the champion among Hispanics), based on its name recognition among Latinos in the New York area. In addition, ANY had executive level buy-in with the editor-in-chief serving on the ANY Board. Although *El Diario* is a for-profit entity, its goals and the image it strives for is to "serve and empower the Latino community." In mid-August, ANY launched a 24-week print campaign to generate

immediate program inquiry, while educating the public about ACCION's mission. The package included a half-page weekly in *El Diario* in addition to a more comprehensive "value-added" component described below.

El Diario's creative team designed a unique format that provided space for ANY's clients to advertise and market their services to El Diario's readers. The first two months the ad ran in this "business-card design" where ANY could list some of its clients' businesses at no cost to the client. After running the ads for a month, ANY had mixed results. Thus, to test the effectiveness of a different ad design, it ran another ad format through January. The second ad again used testimonials, highlighting a client's perspective regarding ANY. Most importantly, the ad was co-branded with ANY and *El Diario's* logos, which served to illustrate a partnership with *El Diario* — not merely paid advertising.

In addition, *El Diario* committed to co-sponsoring three events in community venues that would be marketed widely to *El Diario* readers. *El Diario* would promote those seminars on access to credit as a part of their commitment to community service and there would be additional promotion of these events through radio ads and additional print ads for the specific event. The first of those events in Upper Manhattan yielded 60 new contacts; the next two events will be held in Queens and Brooklyn. The events were also co-branded — again with the idea to affiliate ANY with a trusted Hispanic institution such as *El Diario*, bolstering ANY's name recognition and image. Finally, through this partnership ANY was also able to gain entrance to many cultural festivities, which were otherwise cost-prohibitive, and where it was able to distribute literature and promotional items.

The results of ANY's *El Diario* media strategy show the total number of new Spanish media contacts shifting from 3-4 percent to 6-7 percent of all new contacts in the first two months. From August through the end of January, *El Diario* ads accounted for 22 percent of all total new contacts (242 new inquiries). Although initial contacts look promising, this was a very expensive strategy and utilized over 50 percent of ANY's entire annual marketing budget. Therefore, ANY will be able to fully evaluate its effectiveness only when it has completed the large seminars and evaluated the full cost/benefit. In addition, ANY was reminded of the importance of the systems and staffing to handle the tracking of referral sources for accurate assessment.

Organizational Considerations

Organizational Structure

Street Reach: In order to more effectively reach a growing number of microenterprise owners and reduce the many barriers to accessing credit, ANY launched a mobile lending initiative called *Street Reach*. Loan officers are placed in targeted communities, serving microenterprise owners directly in the neighborhoods where they live and operate their businesses. The loan officers give orientation sessions at local sites and take applications from potential borrowers at their homes or places of business if the clients prefer, enabling microentrepreneurs to overcome logistical challenges such as transportation or childcare. Currently the program has nine mobile lending officers that operate in all five boroughs.

Each *Street Reach* loan officer is equipped with a laptop and cell phone to enhance his/her mobility, and is based in a community partner office. This reduces the need to travel to the Brooklyn home office, provides an alternative and credible place to interview clients, and ensures sufficient access to ANY's remote lending systems. Furthermore, having more permanent space in each neighborhood is important for establishing the ANY "brand" and being seen as part of the community. An important component of the *Street Reach* model is carefully partnering with complementary, high quality community institutions where ANY is now housed by region.

***Creation of the Service Center*:** This decentralization of the loan officer team was accompanied by the creation of a service center to handle much of the administrative burden. The loan service center was created to increase efficiency of ANY's program by shifting the time-consuming loan processing duties to a centralized "back-office," enabling loan officers to focus on maintaining existing client relationships and reaching out to new clients. In addition, this provides a measure of quality control so that each loan can be assured a similar review process.

Currently, the loan officers meet with clients and collect information. The service center verifies this information by calling references, pulling up credit reports and conducting further underwriting analyses. The service center also handles preparing the loan documents, disbursing loan funds, collecting client payments and providing other customer service functions.

Management Information Systems

ANY's management information system is critical to serving an increasing number of clients and being able to support a decentralized model of loan officer mobilization. ANY's Service Center requires three system components to support its processing functions. These components include a contact management system that tracks prospective clients, a loan accounting system that tracks and manages all loans post disbursement and a general ledger financial accounting system. Historically, each of these components ran on separate, incompatible platforms. In December ANY began to replace its existing systems with a new MIS that, upon completion in 2002, will fully integrate its three processing components and greatly improve the efficiency of its Service Center.

Loan Accounting and General Ledger: For the loan processing and financial accounting needs, ANY chose Electronic Data Systems' (EDS) credit union package, CUBE*OL* because of their ability to act as a single source solution provider, to provide state-of-the-art technology, to integrate ancillary packages, and to host other clients with similar needs to ANY. This new system has been installed, and ANY began using CUBE*OL* on December 7, 2001.

CUBE*OL* represents a significant improvement in efficiency, flexibility and functionality over ANY's existing back-end and general ledger systems. CUBE*OL*'s general ledger component will be responsible for aggregating financial information for the purpose of preparing financial statements as well as printing checks for disbursals. The loan accounting component of CUBE*OL* will be responsible for tracking, creating and automating the following:

- Record disbursement and payment histories
- Create and print monthly billing notices
- Create and print delinquency notices for clients, co-signers and co-borrowers
- Add late fees to outstanding balance
- Create monthly reports analyzing size and quality of the loan portfolio.

Contact Management: To manage a wide range of information for prospective clients and to track an application's progress through the service center, ANY is upgrading its current ACCESS-based system to Microsoft SQL Server 2000. ANY plans to seamlessly interface this newly developed front-end processing system with the outsourced EDS system upon installation of the new Contact Management system in early 2002. The new Contact Management system will serve as the tracking database for the following information:

- Orientation schedules
- Referral information
- Demographic statistics for applicants
- Clients' financial statements
- Collateral or co-signer information
- Current status of application.

In addition to recording the above information, the new Contact Management system will perform the following automated tasks:

- Through the integration with CUBE*OL*, forward accepted applicants' personal information to the loan servicing system
- Forward cosigner contact information to loan servicing system
- Automatically download applicants' credit reports
- Tabulate inputted financial information on various reports and approval sheets.

The improved loan accounting capabilities will allow ANY to diversify the credit products offered, as well as expand the means of delivering these products. With this new technology infrastructure, ANY will be able in the future to take advantage of ATM transactions, call center technology, and eventually, Internet lending. Furthermore, the efficiencies gained through the successful integration of systems will not only expedite the processing of ANY loans, but also put ANY in a better position to handle the anticipated increase in its client base over the coming years.

In addition to this MIS initiative, ANY is also working to streamline the way in which information is collected by its loan officers and transferred to the Service Center. ANY has consulted with Compartamos, an ACCION affiliate in Mexico City, which has pioneered the use of a Personal Digital Assistant (PDA) based loan processing software. Loan officers at Compartamos use PDAs, such as a Palm,' as the sole means of collecting and inputting information on clients. ANY has also consulted the software developer that created this product and discussed ways that such an innovation could be used with ANY's program.

The question and challenge for the microfinance industry is: How do we assist entrepreneurs in building more assets (savings rates) in low-income communities to strengthen their ability to weather the harsher economic climate?

Once the new MIS system is fully complete, ANY will equip loan officers with a Palm to add a new dimension of flexibility and mobility. The PDA software will be fully customized to reflect ANY's lending methodology and will integrate with its new MIS. ANY expects that the loan officers will be able to use wireless technology to transmit these applications to the Service Center. Wireless technology holds out the promise of freeing ANY's mobile loan officers from many infrastructure limitations. The PDA's traditional uses, such as calendars and address book functions, will also be useful to all loan officers. Other benefits ANY expects to realize from this innovation include: improved client service through reduced processing time, improved loan analysis through less human errors, improved loan officer productivity, and thus, improved institutional efficiency.

LESSONS LEARNED

Targeting Low-Income clients: Although ANY's mission of providing access to credit naturally involves targeting low-income clients, it learned a great deal about the needs and programmatic implications involved in serving more low-income clients.

First, ANY observed that its low-income clients especially needed smaller payments and longer loan terms, typically because of limited cash flow and little savings. This struggle to meet cash flow obligations intensified in the midst of a recession when these borrowers often have fewer resources with which to cushion the blow of harsher economic times. Extending loan terms has staffing and programmatic implications in the long term. Loan officers' active portfolios grew quickly as a result, and they had to devote more time to managing these accounts over time, as did ANY's service operation. The interest earned, especially on the many smaller loans to lower income clients, does not cover the costs involved in managing those longer term loans. Those budgetary constraints consequently have implications for ANY's self-sufficiency goals.

Secondly, in working particularly with low-income clients, the challenges in financial literacy and resulting gaps in technical assistance provision have become more apparent. Specifically, the issue of credit education remains a critical one among ANY's target market. Today clients are finding themselves with more credit options, and as a result, ANY is seeing more applicants with tattered credit ratings and overextended credit. Without the financial skills to handle the increase in debt service or understanding credit in general, clients often fall into economic troubles. Currently, ANY has a VISTA volunteer conceptualizing the best way to integrate credit repair and a stronger financial literacy component into the ANY program to both safeguard its portfolio and the clients' businesses.

The question and challenge for the microfinance industry is: How do we assist entrepreneurs in building more assets (savings rates) in low-income communities to strengthen their ability to weather the harsher economic climate? And, when assisting clients: How do we do so in a way that keeps program expenses down?

Organizational Structure: A key lesson is to invest in the capacity building elements before one begins the scale-up and tests the concept. ANY began a pilot of Street Reach in 1999, which helped it to test its plan, anticipate many of the challenges that it would face in building scale and adapt accordingly. For example, the creation of the service center was a direct result of the need to have more administrative support in place for an off-site loan officer team. The scale-up also required ANY to strengthen its human resource function, such as strengthening its recruiting channels and building training modules.

It is clear that ANY's strategy of organizational decentralization (*Street Reach*) has made a tremendous impact on extending its reach. However, this structure significantly changes ANY's staffing and management needs. Notably, loan officers now need to have significant marketing and presentation skills, because they are the primary marketing contacts in the field. While commitment to mission will always remain fundamental,

ANY's hiring began to emphasize strong skills in marketing. The underwriter adds expertise to the financial analysis within the service center as a balance for this change. The start-up time for a loan officer to become fully productive was longer than ANY anticipated. This was attributed to the need for significant training and the need to establish a new client base more independently since in a remote operation.

The decentralized make-up has taught ANY that different management configurations need to be put in place to manage the larger production goals. Thus far, it has created Team Leaders for all the regions to manage the weekly operations of the loan officers in the remote locations, including coordinating marketing activities. Additionally, it will need a Sales/Marketing Manager to coordinate the production and marketing goals citywide.

In order to maintain strong repayment rates, we added an additional collections manager. This is due to the increased number of active clients and the rapidly expanding workload. We did not hire this additional person in advance, which we would next time to take preventative action. After September 11, we saw a dramatic downturn in our clients' businesses, so we continue to emphasize the importance of having sufficient personnel to manage these relationships. It remains a great challenge to keep quality high as the portfolio rapidly expands.

Also, logistically maintaining ANY's low-cost remote locations in the midst of a tight New York real estate market remains a challenge in all of the neighborhoods in which it works. Furthermore, all of the organizations that ANY partners with are non-profits, so they are subject to moving/reducing space according to funding streams.

Finally, the decentralized organizational structure allowed ANY to respond very quickly to the September 11 tragedy. It was able to immediately respond and deploy a disaster-relief team using its remote systems to handle the volume of inquiries. In four months, ANY has made more than 90 disaster-relief microloans totaling over $1 million, and handled more than 3,500 inquiries.

Management Information Systems: Upgrading ANY's technology system has been a tremendous challenge to its organization. First, to create economies of scale and reduce costs, the ACCION US network had to agree upon a common platform. Essentially, ANY had to standardize its lending to a certain degree across programs. Although there are many similarities across its sister programs, there were also many differences. Consequently, ANY had to standardize processes to be able to implement the use of the systems across the network. This standardization required a very time-consuming process of consensus building among network programs.

The most important lesson learned in this process of experimenting with media partnerships is that the environment and timing during which these strategies were employed are pivotal to their success.

Converting to this more advanced technology system also had budgetary consequences beyond the simple cost of the system. There were many "hidden expenses" that arose after the conversion took place, such as the need for technology support, faster communication lines and hardware upgrades. Clearly, ANY expects the longer term benefit will greatly outweigh these additional costs, but planning for these incremental expenses is vital.

In sum, ANY learned that individual programs had to give up some leeway if ANY expected to receive the benefits of economies of scale in upgrading its technology system. It had to analyze the trade-offs and evaluate the costs and benefits. Furthermore, it would be ideal to have the system conversion occur *before* the scale-up occurs!

This improved capacity of ANY's MIS systems has never been more important than in the wake of the September 11 disaster. ANY's ability to access databases remotely with its pipeline and inquiry tracking system has been critical to quick turnaround of callbacks and approved applications for the disaster-relief loans.

Media Strategy: Because it often takes a few months to convert these contacts into clients, ANY does not have all information to present conclusive findings here on total numbers of approved clients. Thus far, of those approximately 242 new contacts, approximately 15 percent of those have actually gone into the ANY interview process.

These statistics are cited with some important caveats that skew the response rate of this media strategy. After the attacks on the World Trade Center, ANY noticed a much more generalized caution among new and old borrowers. Some applicants in the pipeline immediately dropped out of the process due to the uncertainty of the economic environment. Additionally, old ANY clients were very reticent to take on any additional or new debt because of a drop of sales volume in many industries of up to 30 percent. Moreover, the attack compounded by the recession gave ANY many more inquiries from start-up businesses. These start-ups, however, were not serious about the process. They were more often than not people who had become unemployed over the last few months and were not serious about following through on the business project.

Because of contractual obligations, the first seminar was conducted in Washington Heights only a few weeks after the attack on the World Trade Center. Although a tremendous amount of grassroots outreach was done in conjunction with the advertisement, turnout was weak. Now that some of the turmoil of the September attacks has subsided, ANY must analyze the effectiveness of the next two seminars and see what type of response they yield compared to the first one in October 2001.

The most important lesson learned in this process of experimenting with media partnerships is that the environment and timing during which these strategies were employed are pivotal to their success. Given the harsher impact of a disaster such as the World Trade Center attacks and an economic recession on low-income communities, it is ANY's belief that the campaign would have been much more successful under a different set of economic circumstances. However, ANY does see that this campaign has had a positive impact on its branding efforts. Loan officers cited that although clients had heard about ANY through friends, it was not until they saw the ads that they made the call to ANY.

Securing Funding: A key component of ANY's scale-up strategy was to secure significant financial resources in advance and to strive for long-term self-sufficiency. ANY designed a business plan that described the key elements of the scale-up clearly and the accompanying need for funds. ANY specifically asked funders to fund staff positions over a minimum of two years, so that it could responsibly hire new staff and at levels appropriate to its goals. ANY also secured large amounts of lending capital in advance of the results, so that it could be assured of having the capital in place. This allowed the management team to focus more on operational aspects and invest in a strong team prior to the actual demand for services.

Results to Date: Program Statistics

As a direct result of refining and implementing its marketing plan, building awareness through its strategic Spanish media program, expanding its *Street Reach* initiative, launching new products and upgrading its technology, ANY has experienced a tremendous growth in the program. In 2000 and 2001, it increased the number of new clients served by 116 percent and 28 percent, respectively. The actual dollars on the street increased by 120 percent in 2000 and 41 percent in 2001. The number of loans disbursed increased by 74 percent in 2000 and by 23 percent in 2001.

The chart below summarizes ACCION New York's performance for 2001:

	1999	2000	2001
Number of New Clients	191	413	527
Number of Active Clients (at year end)	334	647	980
Total Amount Disbursed	$1,612,000	$3,573,000	$5,037,191
Total Number of Loans	351	611	750
Payback Rate	95%	96%	90%

As mentioned earlier, there was a negative variance in the actual outcome of scale-up projections in 2001 due to the nationwide recession and the intentional slowdown in ANY's lending following September 11. Among its existing clientele, ANY noted a tremendous slowdown in the months following September until year-end, especially in some industries (i.e., travel, tourism-related, taxi), but also more generally across the New York City small business community. As mentioned previously, many of ANY's clients noted more than a 30 percent drop in business activity and traffic in the last quarter of 2001.

Against this backdrop, ANY was stricter on its underwriting standards and pulled back its aggressive marketing activities, especially in the last quarter of year 2001. Concurrently, to mitigate its exposure, it also lowered the loan sizes being approved, when possible. In the above projections, ANY had factored measured loan increases and larger loans over time. Thus, balancing these worsening conditions against prudent credit-risk analysis impeded its ability to meet the goals it set out for itself in 2001.

Into the Future: Next Steps in Scale-up

Banking Partnerships

The Bank Referral Pilot Program to develop bank referrals was implemented on a limited basis in late 1999. Although the absolute number of client referrals in 2000 (104) was modest, the conversion rate was the highest of all referral sources in 2000 (34 percent). The absolute number of referrals has increased in 2001 to 308 with a total of 48 new clients.

In 2001, ANY began a number of new strategies that it will continue through 2002 with a number of its bank partners. First, it began to embark on richer relationships with its bank partners, targeting the extensive branch networks of two banks. It held two joint events with banking partners with the goal of bringing more clientele into the bank and ANY. For these two events, in Queens and Upper Manhattan, ANY and the bank conducted grassroots marketing on many fronts. A combination of block walking, local media coverage, giving out information in the branches, and working with other community organizations resulted in an excess of 200 attendees. Just from those two jointly held events, a total of 20 loans in Upper Manhattan/

Bronx and 13 loans in Queens were disbursed. In 2001, total loans disbursed from this *one* strengthened banking partnership were 35. This is a significant increase over one year, given that in 2000 ANY made only 36 loans from referrals from *all* its banking partners.

Based on these numbers, ANY has now shifted the loan officer who constructed the strategy to a functional position — Bank Referral Program Manager. The program manager is charged with energizing the relationships with ANY's banking partners and increasing the absolute number of referrals for its targeted banking partners. Over the coming year, ANY will evaluate the decision of taking a loan officer out of her traditional duties to work full-time on this promising program.

The continued challenge in this program is to construct programs with a mutually beneficial business objective in mind. ANY's bank partners are a natural fit for creating new business on both ends: retaining a client's account even if the bank cannot make the loan; creating an image of good will in terms of customer service; Community Reinvestment Act recognition for working with a community development partner; and additional business inquiries on the bank products. Thinking about partnerships from a business opportunity perspective also allows for expansion across regions and states.

Product Development

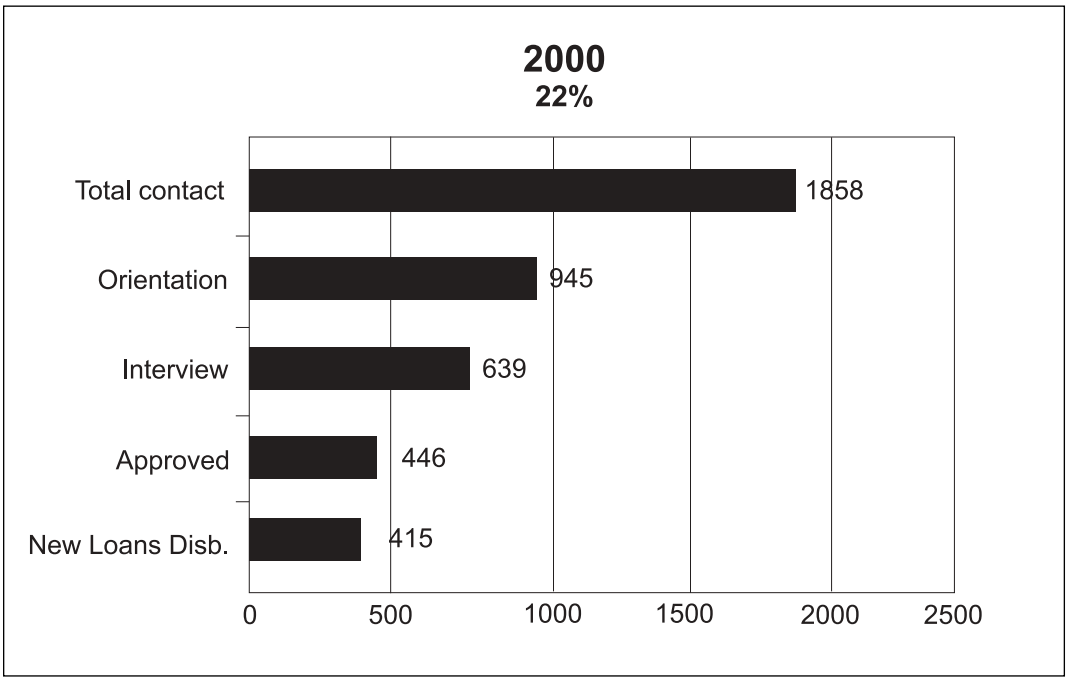
In early 2001, ANY put together a team of people to conduct 1,000 reverse inquiries to determine the key reasons why 50 percent of its inquiry callers drop off after initial contact. After completing the inquiry, the team analyzed what processes — if any at all — should be modified in order to improve ANY's conversion rate from the time of initial contact to the time potential clients come in for orientation. Increasing its conversion rate would significantly enhance program efficiency, because it would mean that ANY's marketing cost and efforts are being used effectively.

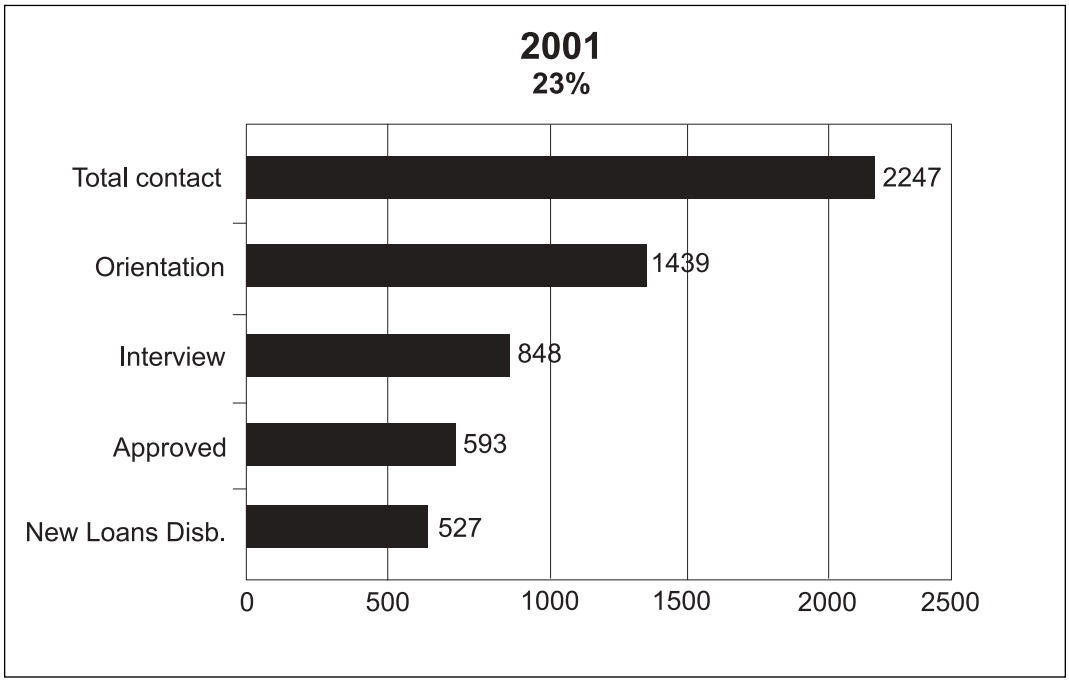
What ANY found after analyzing the data collected was that most people who fell out were not happy with ANY's process/requirements. Some people lived outside the service area, felt the process was too long, were start-up businesses, or didn't want to apply given the collateral or cosigner requirement. ANY was able to respond to some of these concerns, such as considering start-up businesses and slowly expanding and including such service areas as Westchester and Long Island, but was not willing to dismiss its collateral or cosigner requirements. Product development efforts will be central over the next two years to continue to address customer needs.

Additionally, in 2001 ANY made a concerted effort to increase its conversion rates. By becoming more flexible with pre-screening clients, more people went to orientation and through the interview process. However, ANY found that, although it interviewed many more clients, it was still only approving/disbursing the same percentage of those clients — its total conversion rate remained 23 percent. Therefore, in 2002, ANY is strengthening its pre-screening process to reduce time wasted by both loan officers in interviewing very weak clients, and service center staff from processing those files. As always, ANY aims to free up loan officer time on the front end to leave more time for marketing activities to increase the total number of inquiries to the program (see table on following page).

CONVERSION RATE 2000-2001

(NEW CONTACTS)





BUILDING A TRAINING-LED ORGANIZATION FOR SCALE

Institute for Social and Economic Development

ORGANIZATION'S BACKGROUND

The Institute for Social and Economic Development (ISED) operates a statewide microenterprise development program in Iowa to help economically and socially disadvantaged individuals and members of economically distressed communities to start, expand or strengthen small businesses and to become economically independent. ISED helps people use their talents and skills to start small businesses, obtain quality jobs and build financial assets. Since 1988, nearly 7,000 people have chosen ISED to help them gain the skills and confidence to achieve economic self-sufficiency and build a solid future for themselves and their families. More than 1,350 people have started or expanded businesses within Iowa and have accessed $7.8 million in financing. ISED participants have a business survival rate of 58 percent.

This article documents ISED's efforts to "achieve scale"—the creation of a microenterprise training program that is financially strong, offers effective services, and handles a significant client load. This research project reflects ISED's strategies for providing statewide coverage.

STATEMENT OF CHALLENGE

Given the broad geographic area that ISED serves — the state of Iowa is 56,290 square miles — the overarching question answered in this report is: *How does ISED serve 1,000 clients each year?* The specific questions addressed in this report include:

1. How does ISED structure its microenterprise development services — administrative structure, staffing patterns and quality of services?

2. How is ISED able to leverage resources for statewide coverage?

3. What lessons have been learned?

STRATEGY FOR SCALE-UP

In this section ISED's strategy for serving 1,000 clients each year is documented, including the program's historical background and evolution. ISED's strategy for scaling-up is to continue to offer high-quality, statewide microenterprise development services, recognizing that one size does not fit all.

Structure of Services

ISED is distinguished from most U.S. microenterprise programs by its explicit focus on serving low-income individuals and welfare recipients. ISED has served more welfare recipients than any other microenterprise organization in the United States, and this population continues to comprise a large part of its target clientele — over 40 percent of the businesses have been owned by persons receiving welfare at the time of enrollment in the program.

ISED offers a comprehensive business training program that helps people without business experience gain the skills and knowledge they will need to plan, start, expand and operate a microenterprise. ISED's curriculum is a step-by-step process to start a microenterprise, covering the fundamentals of business planning, marketing

and management. In the training, participants assess their business and personal readiness, prepare a business plan, conduct feasibility research, draft marketing plans and determine capital needs. The training itself consists of a formal series of weekly three-hour workshops over a 13-week period (39 hours of classroom instruction). Some training sessions are offered in a condensed cycle with multiple three-hour workshops occurring in one week.

The classroom training is supplemented by one-on-one technical assistance, access to business financing to help business owners stay in business and follow-up assistance. ISED does not charge a fee for any of these microenterprise services.

- Technical Assistance: ISED meets individually with participants to resolve specific issues related to business operation, including refining business and marketing plans.

- Access to Business Financing: ISED helps participants access financing through existing state, local, private and commercial loan sources.

- Follow-up Assistance: ISED works with business owners to assist them to meet new and on-going challenges, including problem-solving and business expansion.

The delivery of these microenterprise services was shaped by key funding opportunities that permitted ISED to grow geographically as well as to expand its client base. ISED's first federal grant led to a sole-source contract with Iowa Department of Human Services (DHS) in 1993 to provide microenterprise development services to welfare recipients statewide; this program was called the Entrepreneurial Training (ET) Program. Several factors contributed to ISED obtaining DHS as a funding and referral source:

- During an earlier federal demonstration project, ISED staff established relationships with county and regional DHS staff, exposing them to the microenterprise strategy. ISED began receiving local referrals from these sources.

- Based on ISED's performance under the federal demonstration project, ISED had a good track record for helping welfare recipients start businesses. The reputation for strong service delivery led DHS to ask ISED to provide the services statewide.

- The president of ISED had a positive working relationship with the director of DHS and other key staff people. Based on these relationships, ISED could approach the department and expect to be heard. It was also instrumental that DHS saw microenterprise services as a tool to help people leave welfare. This combination — a personal relationship plus a belief in the services — led to a natural collaboration.

ISED's service delivery structure has evolved over the years. Initially, ISED presented the training program as targeted solely to welfare recipients. Over time, this image became too restrictive. Potential clients who were not welfare recipients did not consider ISED as a program that was available to or appropriate for them. Through successfully bidding for state, federal, and private funding sources, ISED was able to repackage its services to a wider audience while still holding true to its founding philosophy.

Administrative Structure

Finding the best administrative structure to provide services statewide is challenging. ISED offices could not be opened in each of Iowa's 99 counties, nor could offices be opened in most counties. Fiscally it is impractical to staff and sustain many physical offices. ISED's solution was to keep the administrative component in one central office and open branch offices in areas with a high population base to provide microenterprise development training. There was a single business trainer at each branch office. Many years later, volunteers were added at the branch offices.

At its inception, ISED operated the SEID (Self-Employment Investment Demonstration) program out of a single office in eastern Iowa. The success in delivering services under this program led to the opening of branch offices in three metropolitan cities (Cedar Rapids, Waterloo and Davenport) by 1990. A unique opportunity was presented in 1991 when ISED assumed the assets of the Women's Economic Development Group Enterprise (WEDGE) of Des Moines. After the merger with WEDGE, ISED raised funds locally to open a branch office in Des Moines.

Strengths: The most obvious strength of this administrative structure is that it maximizes scarce resources and keeps overhead costs down. It would have been financially inefficient to open an office in every county and to duplicate administrative functions at each of the branch offices.

Through this administrative structure, ISED can tailor the microenterprise development services provided in each branch office to the particular needs of that community. Among the branch offices, there are commonalities to the type and quality of services provided, but branch offices also have the autonomy to tailor their services to the community residents. Over time, branch office managers have been given greater responsibility to explore the feasibility of obtaining local sources of financial support.

Challenges: An obvious challenge to this approach is that the branch offices are vulnerable to fiscal cycles. Over the years the number of branch offices has expanded and contracted. Some branch offices were opened and later closed for a variety of reasons, such as insufficient population or demand for services, or loss of funding support. Sometimes the amount of funding in a particular geographical area did not match the demand for services, so the type of services offered were modified. For example, in one branch office ISED secured funds for a three-year project. After the three-year period was over, it was clear that the demand for services was not sufficient to warrant the redistribution of resources from elsewhere in the state. Therefore, that branch office was closed. In another branch office there was a great deal of funding available, but there was difficulty in recruiting enough clients for business training. When efforts were made to tailor the services to a minority population in the area, the demand for services increased.

An additional challenge is finding a balance between branch office autonomy and standardization among the offices. Branch office managers are hired because they have strong business skills, the ability to work well independently, and existing ties to the community. This combination of skills lends itself to periods of adjustment in which there is resistance to central control and direction.

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Staffing Patterns

Fiscally it is not possible to serve the entire state of Iowa by hiring all employees to provide microenterprise development training. *Business trainers* is the term used to refer to the staff members who actually provide classroom training or one-on-one technical assistance to clients. All business trainers currently operate their own businesses or have formerly owned a business. Business trainers can be either employees or independent contractors.

The term *employee* refers to a person employed by ISED on a full- or part-time basis with a salary and a benefit package. Employees are typically managers of a branch office. Employees are hired with specific performance goals that are tied to their evaluations. Employees were assessed based on their enrollments and business outcomes and are assigned to work in urban areas.

The term *independent contractor* or *contractor* refers to a person hired by ISED to provide specific services. Contracting for services allowed ISED to dedicate scarce resources to those geographic areas that could support a contractor. The population base is not large enough to warrant the use of a full-time staff person, and paying for travel to these areas is not efficient. Independent contractors are responsible for offering microenterprise training services in rural areas and are not branch managers. Although contractors do not have performance goals, they are encouraged to develop their local markets to create a demand for microenterprise development services. Contactors are assigned to rural geographic territories in the state.

In addition to employees and independent contractors, ISED utilizes volunteers for many aspects of its programs. Volunteer staff members are funded by the Workforce Investment Act of Welfare-to-Work and the Volunteers in Service to America (VISTA) program of the Corporation for National and Community Services. Volunteers assist with recruitment and outreach or work directly with clients as assistants to the business trainer. Volunteers through the Retired Senior Volunteer Program and Green Thumbs have assisted in administrative tasks.

This staffing pattern is still in use by ISED today, although the system has been modified over time due to the changing funding streams and demand for services. There are strengths and challenges to this staffing configuration.

Strengths: This staffing pattern allows ISED to serve the entire state while keeping its operating costs low. The criterion for business trainers to have been business owners themselves has proven to be a wise decision in terms of maintaining quality instruction. Providing “real-life” experiences during the training is an essential ingredient to ISED’s success.

Another strength is that this staffing pattern recognizes that the demand for services is not the same across the state. For example, some rural areas do not have enough clients to offer the traditional classroom training; therefore, it was necessary to experiment. The solution was to offer one-on-one technical assistance with clients. This trend continues to this day. In general, branch offices offered classroom trainings and contractors offered one-on-one sessions (though classes are offered if there is a sufficient number of enrollments). While it is a strength that ISED can be responsive to the needs of the various communities and offer one-on-one technical assistance, it is more expensive to provide services in this manner. It also appears to take longer for clients to move through the training material in a one-on-one situation.

Having both employees and contractors prompted ISED to prepare a single resource book. ISED gathered all of the information for employees and contractors into one binder that includes all forms, data collections tools and administrative procedures for all microenterprise development services. Compiling all of the information in one place made employee/staff orientation and training more efficient.

Challenges: Over the years it has been a challenge to maintain clear communication with employees and independent contractors. All microenterprise development employees and contractors are required to convene at two trainings each year to learn what is happening across the state, share their experiences, learn best practices and learn about new services. Since each group of staff members operates under slightly different employment/contractual guidelines, it was often quite confusing to offer joint staff development trainings. However, financially it was frequently impossible to offer separate staff trainings.

Maintaining open and consistent communication across a wide geographic area was problematic in the early years. With the increased availability of electronic communication, this difficulty has been lessened. With fewer independent contractors, it is easier to keep them well-trained and knowledgeable about the range of available services.

Supervision of staff across the state is a challenge. Supervisors are located in the central administrative office. Because of this arrangement, supervisors cannot observe daily performance. On-site observation of actual training classes or one-on-one technical assistance is done periodically and communication is maintained by e-mail and telephone.

The distinction between employees and independent contractors has implications at the administrative office. Since each group of staff members operates under different employment/contractual guidelines, the reimbursement process is a little more complicated. For example, credit for travel time varies depending upon whether the staff person is an employee or independent contractor.

Another challenge is that the number of independent contractors fluctuates. Over time, the number of independent contractors has decreased. Originally the DHS contract required a certain number of contractors, but later this became more flexible as long as all areas of the state had access to services. At its peak, ISED had 16 contractors; currently, ISED has eight. It is difficult to make headway in a community when ISED's presence may not be permanent. Other community agencies may be reluctant to learn about our services when there is some concern about our stability.

It is sometimes a challenge to fill staff openings depending on the community and the specific needs of the position. For example, when services were offered to refugee clients, bilingual independent contractors were hired to work with clients who did not have English proficiency or faced more barriers to self-sufficiency. This hiring process is often quite lengthy, which directly affects the ability of ISED to offer promised services.

Standardized Curriculum

ISED developed its own business training curriculum. The goal was to develop a curriculum early on to ensure that all clients received quality training. At the early stage of ISED's growth, it was critical to have the internal capacity to develop and modify the curriculum. The first curriculum was released in 1989. Four revisions have been made since the first edition. Having control over its own curriculum has had mixed results.

Strengths: It is a benefit to have control over curriculum. This ensures the material presented across the state is uniform. Since ISED has control over the curriculum, it is in the position to modify the material or the types of services offered. For example, internal revisions have been made to add more elements to the curriculum, update the information, make the curriculum into a reference guide that business owners can use over time, make it more user-friendly and move sections of the curriculum not relevant to all potential business owners to an appendix.

In addition, ISED has been able to supplement its training with additional services. Most recently, ISED is exploring whether adding a case manager improves the enrollment and graduation rate of clients. ISED recognizes that clients very often have personal issues that may interfere with their ability to successfully complete the microenterprise training. As part of a research project with the Aspen Institute, ISED is tracking the graduation rates for a group who has a case manager and a group who does not have a case manager. Early findings indicate that having a case manager does in fact reduce the number of people who stop attending the training. As the data collection period comes to an end, more detailed results will be forthcoming.

ISED recognizes a standardized curriculum does not stop all further development. On the contrary, being able to make improvements is a natural by-product of in-house control. ISED continues to be strategic in its refinements. ISED generally attempts to tie advances to data-supported findings. For example, as part of a research project with the Aspen Institute, ISED found that business trainers who are more dynamic in their presentation of training materials have clients who achieve better outcomes. Therefore, the next curriculum revisions will include material to prompt more trainer-specific contributions.

Challenges: Having a single curriculum has been a challenge for some staff members. It can be difficult to require all staff to use the same material. Staff members have unique skills that may make it difficult for them to cover a particular section. Staff have individual strengths that they bring to the classroom training or one-on-one technical assistance and they may find the standard curriculum to be too restrictive.

Curriculum modifications require extensive time and resource commitment. Business trainers are in the best position to make contributions to the curriculum, but they are often the staff members who are over-committed. Instituting a curriculum revision requires extensive re-training of existing staff. There is also a philosophical distinction when the changes are made internally compared with the changes being made externally by a third party. If the changes were dictated by an outside entity, staff attitude might be less resentful. This is different from the attitude that might be taken when the changes are initiated by fellow staff members.

Leveraging Resources for Statewide Coverage

ISED does not generate internal revenue by charging clients directly for its services. Hence, ISED must secure external funding sources.

The delivery of these microenterprise services was shaped by key funding opportunities. In 1987, ISED was awarded its first grant — the Self-Employment Investment Demonstration (SEID). SEID was a national five-year project testing self-employment as a self-sufficiency strategy for welfare recipients. Iowa was one of only five states chosen for this demonstration project. Through this project, ISED provided microenterprise development training and technical assistance to welfare recipients in 12 counties in eastern Iowa.

The SEID project was critical to ISED's growth for two reasons. First, ISED was one of the top performers of the SEID program, and therefore, Iowa Department of Human Services (DHS) saw microenterprise training as a viable option. Because of DHS's mandate to make services available to everyone in the state, the microenterprise services were required to be offered in all 99 counties. DHS clients were already being referred to ISED through the SEID program in 12 counties, so the infrastructure was in place to scale-up. It was a natural progression to offer services statewide.

Secondly, ISED's success in implementing SEID led DHS to apply for and obtain waivers of federal welfare policies. These waivers allowed welfare recipients who enrolled in the microenterprise training to continue to receive the full welfare cash assistance for 12 months in order to protect self-employed individuals' resources and income, such as existing income, assets, business expenses and access to seed capital for business start-up costs. The 12-month waivers are implemented after the business start or expansion at a time that is most beneficial for the business owner. However, the 12-month waiver period must begin while the individual is still an ISED client.

Iowa was the first state to implement such a waiver. DHS agreed to proceed with a waiver since at the time the state was drafting other waivers to experiment with public assistance programs. Submitting the self-employment waiver was not considered an administrative burden.

ISED created a niche by focusing on welfare recipients in the early years. At that time, it was a unique strategy and one that received attention in the national SEID program. Iowa's leadership at that time was open to exploring the option of instituting microenterprise development services statewide. Iowa DHS was also attracted to the arrangement since ISED had the capacity to take on this task. Iowa DHS was not interested in creating this capacity internally — they were looking to subcontract with an agency.

ISED's contract with DHS ended December 31, 2001. Because of a state budget crisis and economic difficulties, DHS eliminated the ET Program. As of January 1, 2002, ISED no longer had a sole-source contract to provide microenterprise development services to welfare recipients. ISED can still continue to deliver services to welfare recipients, but the contractual arrangement is no longer automatic. ISED now has to compete with local community colleges and other training agencies to be reimbursed for the training provided to welfare recipients. In the entrepreneurial spirit, this prompted ISED to be more aggressive in its marketing and more deliberate in its relationship-building with local community agencies (moving beyond PROMISE JOBS as the single gatekeeper).

Upon learning of the contract change, ISED quickly assessed the best plan of action. ISED management took proactive steps. First, ISED re-packaged the former ET Program into Get SET (Get Self-Employment Training) in order to market its services to the local PROMISE JOBS (Iowa's employment and training program) offices. ISED was in a favorable position to do this since the personal relationships already existed between ISED staff/contractors and the individual PROMISE JOBS staff. Secondly, ISED assessed the benefits of restructuring the billing and referral process under the old DHS contract and made recommendations to PROMISE JOBS to streamline these processes.

Losing the DHS contract had mixed results. The financial loss removed funds for staff development, research and evaluation, and capacity building. For example, under the previous contract funds were set aside to support staff attending professional conferences. There were benefits to losing the contract. The state billing process under the old system was quite cumbersome and inefficient. Under the new arrangement, PROMISE JOBS staff at the local level can electronically submit payment for services rendered. In addition to this streamlined billing approach, ISED can charge per hour of service plus mileage costs. Previously, ISED received a flat rate for each ET participant regardless of how many hours the participant actually spent working with an ISED employee/contractor. Under this arrangement, former ET participants could enroll in the training multiple times, if desired, and ISED was still only paid a single time.

Table 1
Comparison of Former ET Program and New Get SET Program

Former ET Program	Current Get SET Program
Flat-rate compensation	Per hour compensation + mileage
Time-consuming billing process	Automated billing process
Evaluation component	No funds for evaluation
Capacity building	No funds for capacity building

With the loss of the DHS contract, the state welfare waiver was also eliminated. The original language for the waiver specifically referred to the ET Program. Thus, when the ET Program was eliminated, by definition the waiver was eliminated. ISED is in discussions with DHS managers to explore the possibility of modifying the waiver language to refer to microenterprise training. With this terminology change, ISED's services offered under Get SET would be covered.

Rather than facing the loss of the DHS contract as an insurmountable problem or set-back, ISED staff considered it an opportunity for improvement. ISED took a lesson it often teaches participants — that it is critical to market one's product — and made numerous marketing trips to sell the Get SET program. Fortunately, ISED was in a position to build upon its existing relationships with local PROMISE JOBS staff. Plus, ISED already had the existing training curriculum. Although this transition to the new Get SET Program is still in its infancy and it is premature to predict its future, there is every indication there will continue to be a demand for microenterprise development services by welfare recipients.

Over time it became clear that it was not viable to solely rely on a single contract with Iowa DHS. As a grant-funded organization, it was too risky to count on DHS exclusively. Since ISED's origins are tied to grants, it was already a part of its philosophy to seek additional funding sources. To continue its statewide coverage and safeguard its funding, ISED successfully secured grants from federal and private sources. With each new grant, ISED expanded its client base (e.g., refugees, low- and moderate-income), services (e.g., computer lab, business networks, Internet), funding base and geographic area. Some of the major funding milestones are highlighted below.

- In 1991, ISED received its first three-year grant from the U.S. Department of Health and Human Services, Office of Refugee Resettlement. ISED targeted its services to Bosnian, Southeast Asian and Sudanese refugees. The project involved the development of collaborative partnerships with members of the organizations serving ISED's targeted populations to market the program, recruit participants and address cultural/language barriers. ISED continues to receive funding from this federal source.
- In 1994, ISED began providing technical assistance to low- and moderate-income individuals under the U.S. Small Business Administration, Microloan Technical Assistance Program. Through this seven-year project, ISED provided comprehensive small business development services to Iowa residents to help them access capital and become successfully self-employed.
- In 1997, ISED implemented a three-year project designed to create jobs in high-poverty neighborhoods in four Iowa cities. The Job Opportunities for Low-Income Individuals (JOLI) Community Business Network project was funded by the U.S. Department of Health and Human Services, Office of Community Service. The primary objectives were to create local advisory councils, construct a service delivery system that supports self-employment and develop Community Business Networks. These activities included specialized small business lab sessions — such as computer training and cash flow tutorials, small business speaker's series, mentors and alumni group meetings.
- In 1998, ISED received funding from the U.S. Small Business Administration, Office of Women's Business Ownership, to operate the Iowa Women's Enterprise Center. ISED is the lead agency in a coalition to provide small business development assistance to low-and moderate-income business owners in eastern and central Iowa. This project involved a collaboration of the University of Northern Iowa John Pappajohn Center and the Iowa Small Business Development Centers. The project involved a significant technology/on-line component, including reporting project outcomes through the OWBOZone website and providing content and support to the Online Women's Business Center and other SBA forums. The project has also produced three technology curriculums geared to women business owners.
- In 2001, ISED was awarded two rural business grants by the U.S. Department of Agriculture, Office of Rural Development. It is under these grants that ISED has been targeting communities with populations less than 20,000 to market its Get SET Program. For example, ISED is working in one community in which a major employer recently closed its factory. ISED is meeting with the members of the local Chamber of Commerce to explore ways to meet the training needs of the unemployed residents.

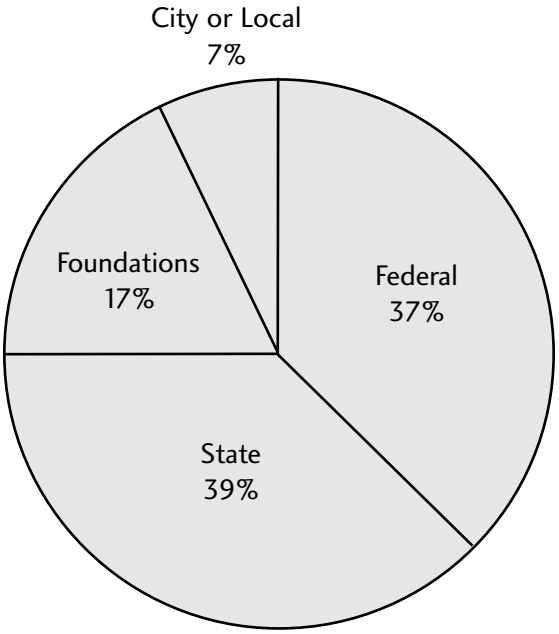
LESSONS LEARNED

In ISED's effort to "achieve scale" — the creation of a program that is financially strong, offers effective services and handles a significant client load — many valuable lessons have been learned. Of critical importance throughout the provision of services statewide are varying the funding sources, having quality assurance procedures and tailoring the services to meet the needs of the local communities. Each of these lessons is highlighted below.

One critical component to offering effective services is responding to the needs of local communities.

Creation of a Program that is Financially Strong

Early on, ISED realized that statewide services could not be sustained using only DHS funding alone. ISED intentionally sought multiple sources of funding for specific client populations and geographic regions. Over the years, ISED moved from a solely-federal funded microenterprise division (under the SEID grant) to a division whose funding comes from multiple sources — 39 percent state, 37 percent federal, 17 percent foundations and 7 percent city government or local non-profit agencies. The current percentages are depicted in the graph below.



Continuing to Offer Effective Services

Tailoring Services. One critical component to offering effective services is responding to the needs of local communities. ISED recognizes the importance of offering specific services to people who have unique needs. To accomplish this goal ISED has added asset development to its menu of available services. While ISED originally delivered services only to welfare recipients, broadening this scope was necessary. As new sources of funding were secured, new populations could be served — low-income people who did not receive public assistance, refugees, women and incarcerated women.

In 1999, ISED undertook a new initiative to provide comprehensive assistance to economically-disadvantaged individuals and families. ISED began operating the Individual Development Account (IDA) program. By offering these services to its clients, ISED can assist more people who wish to start/expand/stabilize their own business. The IDA is just another tool available to interested clients.

This new initiative, called the Iowans Save! Program, is an asset-accumulation program which helps low-income families save income, earn matching funds (federal and state) and then use their savings to purchase assets such as first homes, additional education or training, or small businesses. The initiative is funded by the U.S. Department of Health and Human Services Administration for Children and Families (through the Office of Community Services) and the Iowa Department of Human Services. Also in 1999, ISED received federal money from the U.S. Department of Health and Human Services Administration for Children and Families (through the Office of Refugee Resettlement) to provide asset-accumulation services to refugees. Under the Iowans Save! For Refugees Program, clients are able to purchase assets such as first homes, additional education or training, small businesses, computers or cars.

In 2000, ISED further expanded its outreach and direct assistance to distressed communities by developing a job-training initiative that helped low-income women and minorities, especially welfare recipients and non-custodial parents, to obtain apprenticeships and jobs in the construction trades. In this multi-year project, ISED is working with the local community college and employment placement agencies to provide employment training and support necessary to assist participants enter nontraditional employment. This project involves a comprehensive set of services provided via a virtual "one-stop shop" of construction training and job-placement services. Fully integrated into the project are the supportive services (both social and clinical services) necessary to assist clients to overcome personal, community and industry-specific barriers they face in finding and retaining employment in the construction trades and achieving self-sufficiency.

In 2001, ISED was awarded a grant from the Ms. Foundation to demonstrate that microenterprise training is a viable self-sufficiency option for released women inmates. ISED is operating the Pathways to Progress, an innovative policy initiative and direct services program that serves women incarcerated in the Iowa Correctional Institution for Women.

Securing Financing. Although ISED is not a direct microlender, securing needed financing for entrepreneurs is a critical service. Therefore, the establishment of relationships with financial institutions is a keystone in ISED's providing access to business financing for low-income clients. It improves the outcomes of clients to have established ties with lending institutions. ISED's approach to small business lending is to secure agreements with existing private and public sources of capital to finance ISED-sponsored clients. ISED has developed a strong working relationship with the banking sector and with state and federal government programs designed to provide low-income individuals with access to business capital. ISED's approach to ensuring access to financing features a four-prong approach.

- **Commercial Banks.** ISED has developed strong linkages with statewide and community-based banks throughout Iowa. Many of these banks have agreed to set aside microloan funds for ISED clients and to give priority consideration to financing requests from individuals who complete the program and have a final ISED-approved business plan.
- **Credit Enhancement.** ISED has a Loan Guarantee Fund which can be used to reduce the often high risk associated with loans for start-up businesses. This fund provides a partial guarantee for a bank loan when additional security is needed — up to 50 percent of the loan, to a maximum value of $10,000. This credit enhancement feature serves to reduce the risk to the lender and establishes a successful relationship between the client and the bank, which can be built upon in the future.
- **Government Loan Programs.** ISED works closely with government loan programs that provide business financing to low-income business owners. ISED works closely with the SBA district offices to access SBA's loan guarantee programs. ISED also has a strong working relationship with the Iowa Department of Economic Development (IDED), which is the state's business development agency. IDED administers two loan programs targeted to low-income, minority, women, and disabled individuals.

- **Private Funding Sources and Grants.** ISED is the Iowa coordinator for the Trickle-Up program, which provides grants of $700 to low-income entrepreneurs. This program targets individuals who have very small capital needs and little opportunity for financing.

ISED continues to identify financial services as an area for continued growth. For example in 2000, ISED formed a subsidiary called Iowa Community Capital. Iowa Community Capital (ICC) is a nonprofit organization formed to strengthen the social and economic well-being of individuals and communities through financing services. The formation of Iowa Community Capital grew out of ISED's experiences over the past 13 years in helping its economically- and socially-disadvantaged clients access business and microenterprise financing. ICC is in the process of becoming certified as a CDFI (Community Development Financial Institution). ISED made the decision to pursue CDFI certification because in some communities ISED does not have the necessary ties to local lending institutions to facilitate borrowing for clients. CDFI is not being viewed as something to replace ISED's traditional pattern of doing business; it is considered another service available to clients.

Maintaining Significant Case Load

1. Recruiting Clients. In addition to being the primary source of funding in the early years, the contract with DHS also provided the main mechanism for recruiting clients. ISED built essential relationships with this key referral source. The ET Program was administered through PROMISE JOBS. The goal of PROMISE JOBS is to help increase the availability of employment and training activities for welfare recipients. PROMISE JOBS staff members conduct orientation and assessment to help welfare recipients identify self-employment as a strategy to reach self-sufficiency. To increase awareness of ISED's services, DHS conducted a mailing twice each year to all current welfare recipients. Every welfare recipient who expressed interest in self-employment needed an official referral from PROMISE JOBS to ISED.

In addition to the bi-annual mailings and word-of-mouth, ISED recognized that the frontline workers had a considerable amount of control over the referral process. Therefore, ISED spent resources to build its relationships with Iowa DHS and PROMISE JOBS. In order for the ET Program to be successful, ISED made deliberate efforts to nurture its relationship with PROMISE JOBS staff. Since the program's inception, ISED implemented four major activities: (1) developed a video for the ET Program, (2) developed the ET resource guide, (3) created new marketing brochures and posters targeting low-income individuals, and (4) initiated site visits to PROMISE JOBS regions.

ISED sought private funds to assist in the recruitment and referral process at the local level. In 1998 ISED began a multi-year project from the Charles Stewart Mott Foundation to improve the delivery of services to Iowa welfare participants. This project integrated ISED's microenterprise development activities with new strategies for welfare clients which have helped ISED to strengthen its linkages with DHS at the local level, revise the training curriculum to more effectively serve the increasingly multiple-barrier welfare clientele, create a seamless transition to employment for those who do not immediately start businesses and improve the policy environment to support self-employment for welfare participants.

As part of a research project with the Aspen Institute, ISED examined recruitment and marketing efforts by convening focus groups of former clients, current clients and community service providers. Through these focus groups, ISED was able to better understand what impression it had with clients and potential referral sources. ISED learned that it is still viewed as an organization that serves welfare recipients. Based on this finding, ISED needs to do more marketing that clearly highlights the wide range of clients it serves. ISED also found that PROMISE JOBS staff members know the most about its services while other community agencies are less certain about the exact nature of its work. Clearly ISED's outreach efforts have been successful with PROMISE JOBS, but it may need to now broaden its scope to include other service providers.

Over the years, ISED conducted site visits with PROMISE JOBS staff to meet with supervisors and caseworkers. The purpose of the visits was to disseminate and explain the new marketing materials, and to engage PROMISE JOBS staff in a dialogue about their experiences, and to answer any questions or concerns about the ET Program. Based on the series of site visits, ISED prepared a one-page handout entitled "The Seven Most Frequently Asked Questions about the ET Program."

Clearly, marketing its services to PROMISE JOBS staff has been key to ISED's growth throughout the state. This marketing strategy remains as the foundation of its future expansion. ISED recognizes that PROMISE JOBS staff members are the gatekeepers to many potential clients and it is only through their support that ISED can maintain its enrollments statewide.

Quality Assurance. Part of ISED's success in serving a large number of clients each year is related to its commitment to maintaining high-quality services. If ISED provided a poor-quality product, it would be impossible to continue to recruit new clients. Therefore ISED takes deliberate steps to maintain its quality. These include:

- **Internal Management Information System (MIS).** ISED maintains its own internal Management Information System. This database contains a vast amount of client-level data collected throughout the training process, including demographics, income and welfare receipt, business information, attendance at training, outcomes and annual tracking data for those participants who start businesses. ISED has two staff members dedicated to the maintenance of this system. As a measure of quality control, it is essential that ISED have the capacity to monitor its own progress.

- **Client Satisfaction Surveys.** Clients are surveyed after each business training class. Feedback from surveys is used to improve the training curriculum and the instruction provided by staff. ISED considers its reputation or track record to be a major part of its marketing. Continuing to provide highly personalized service is one of the best marketing tools. ISED provides both classroom instruction and one-on-one technical assistance depending on the needs of the clients. In addition to the 13-week course or one-on-one technical assistance, ISED business trainers are available to clients during the first two years of their business. This on-going technical support is a critical aspect of achieving positive business outcomes. A satisfied client is a good source of referrals. Clients who find the services valuable are likely to tell other people about ISED's services.

CONCLUSION

Over the years, ISED has grown and evolved as the needs of the individuals and communities have changed. One lesson is clear — maintenance is a dynamic process. To continue to serve the entire state of Iowa, ISED has needed to re-invent itself and aggressively seek new funding opportunities. By not being tied to a single funding source or target population, ISED has broadened its menu of services while refining its core services. As ISED has proven, delivering microenterprise development services statewide is doable, but it requires flexibility and a willingness to try new undertakings.

ORGANIZATIONAL CHANGE FOR RURAL STATEWIDE COVERAGE

RURAL ENTERPRISE ASSISTANCE PROJECT

ORGANIZATION'S BACKGROUND

REAP is a program of the Center for Rural Affairs, Walthill, Nebraska. Established in 1973, the Center for Rural Affairs is a private, non-profit organization working to strengthen small businesses, family farms and ranches, and rural communities through action oriented programs addressing social, economic and environmental issues.

REAP is the only full-service microenterprise development program serving the vast rural areas of Nebraska. REAP seeks to reach low-income entrepreneurs in communities of 15,000 or less. According to the Nebraska Blue Book, Nebraska has 521 incorporated communities with a population of 15,000 or less and only 11 with a population greater than 15,000. In addition, 384,731 citizens do not live in an incorporated community. Combined, communities with a population of 15,000 or less and citizens who do not live in an incorporated community account for 830,864 (50 percent) of Nebraska's total population of 1,662,719. The state encompasses 100,000 square miles with two metro areas in eastern Nebraska and six regional trade centers.

REAP started in 1990 with a staff of two serving northeast Nebraska. Since then, the project has scaled-up by adding field staff across the state, and currently has a staff of seven. REAP provides microlending, training, networking and technical assistance services to rural startup and existing microentrepreneurs. REAP has also moved aggressively forward with its products and services. REAP has assisted over 2,000 member-businesses since its inception. Sixty percent have been female-owned. These businesses are located in the rural area of the state on farms and in communities that are typically less than 15,000 in population.

This article reflects on the work of the Rural Enterprise Assistance Project's (REAP) efforts to achieve maximum scale of its microenterprise services in rural Nebraska. REAP has been working towards rural - statewide coverage since inception in 1990. The past two years has brought increased focus to this goal.

REAP's overall growth has been steady and consistent. Since 2000, REAP has seen a 35 percent increase in lending dollars loaned and 34 percent increase in leverage growth. The number of loans has remained basically the same, but the loan size has increased. From April 1, 2000 to March 31, 2001, REAP provided services to 495 clients. REAP provided services to 520 clients from January 1, 2001 to December 31, 2001. This represented an increase of 22 percent in yearly client activity since Fiscal Year 1999. REAP projects serving 600 clients a year by 2005.

Based on REAP data from the last four fiscal years:

- 73% of clients receiving loans were low-to-moderate income.
- The majority of clients receiving loans were women.
- REAP's current default rate is 2.36 percent on peer loans and 0 percent on REAP direct loans.

Achieving scale in Nebraska on a statewide - rural basis has many challenges and barriers. *Geography* will always be a barrier. REAP has been able to deal with this through the placement of staff in field-based offices across the state. Still, as it increases reach in served counties and enters those that are not yet served, the geographic barrier can create challenges. Scaling-up can also lead to *staff* barriers. It has been necessary to revise the

REAP delivery model to make it possible for existing staff to reach new areas of the state and yet avoid burnout. A third barrier is funding. As private foundations continue to move away from funding program delivery, it must be replaced by other sources. To achieve growth, REAP led an effort to secure sustainable public support for microenterprise development. The public support from the State of Nebraska has been a key funding source for microenterprise programs in Nebraska. Keeping this funding stream viable for Nebraska-based microenterprise programs will be critical for future survival.

Answering these questions has been the basis to REAP scaling-up in Nebraska. The following article details REAP's research, exploration and implementation of these issues and others.

STATEMENT OF CHALLENGE

REAP's overall goal was to address, through research and application, the hypothesis that building the scale of a successful program to serve all rural areas of a state while securing long-term state support for this work is possible. The following questions are addressed:

1. What changes, additions and/or enhancements should REAP make with its current products and services to better serve rural Nebraska clients?

2. How should REAP approach staff deployment and administrative issues to better reach maximum capacity?

3. What strategies are most effective for financing scale-up?

4. What lessons have been learned?

STRATEGY FOR SCALE-UP

REAP's product and service structure is discussed in this section. This section also documents the key changes, additions and/or enhancements pertaining to products and services that will position REAP to serve 600 clients annually by 2005. REAP is evidence that building the scale of a successful program to serve all rural areas of a state while securing long-term state support is possible.

Products and Services

REAP is a full-service microenterprise program that delivers small business training, networking, one-on-one technical assistance, and microlending to businesses that are members of a REAP "association" or members of the REAP Individual Program. The Rural Enterprise Assistance Project was started in January 1990 to fill these gaps.

- **Small Business Training:** REAP offers group-based training in an efficient four-session (12 hours) training format. REAP signed a cooperative agreement with Nebraska EDGE in 2001 to enhance REAP's Business Training Curriculum and to offer microbusinesses across Nebraska more business-plan basic training workshops. This arrangement also helped REAP update its training materials. REAP now utilizes the NxLevel Guide for Microentrepreneurs as our training curriculum. The participant produces a basic business plan for his or her business at the end of the four sessions.

  REAP also offers group-based e-Commerce training in a four-session training format. REAP entered into a cooperative agreement in 2001 with the University of Nebraska Cooperative Extension to uti-

lize their existing "Access Minnesota Main Street" curriculum. The REAP Women's Business Center (WBC) project sponsors the e-Commerce training workshops across Nebraska.

- **Networking:** Association members meet monthly for training, repayment of loans, reviewing loan applications, etc. REAP staff attend these meetings quarterly to assist with any questions, serve on the loan review committee, and bring new information to members. REAP began hiring field staff positions in 1993 to make it possible to reach more distant areas of the state. Association members welcome staff visits with ready access to technical assistance and training. This association (peer-group) model provides an excellent, confidential environment through which members can network with each other. As REAP members, they also gain access to networking opportunities with staff as well as members of other REAP associations.

  Advisory committee meetings are held throughout the state to educate and act as "sounding board" meetings for REAP. Members are linked to other organizations, programs and business people through REAP's statewide connections. REAP also produces a statewide member directory for linking with business people across the state.

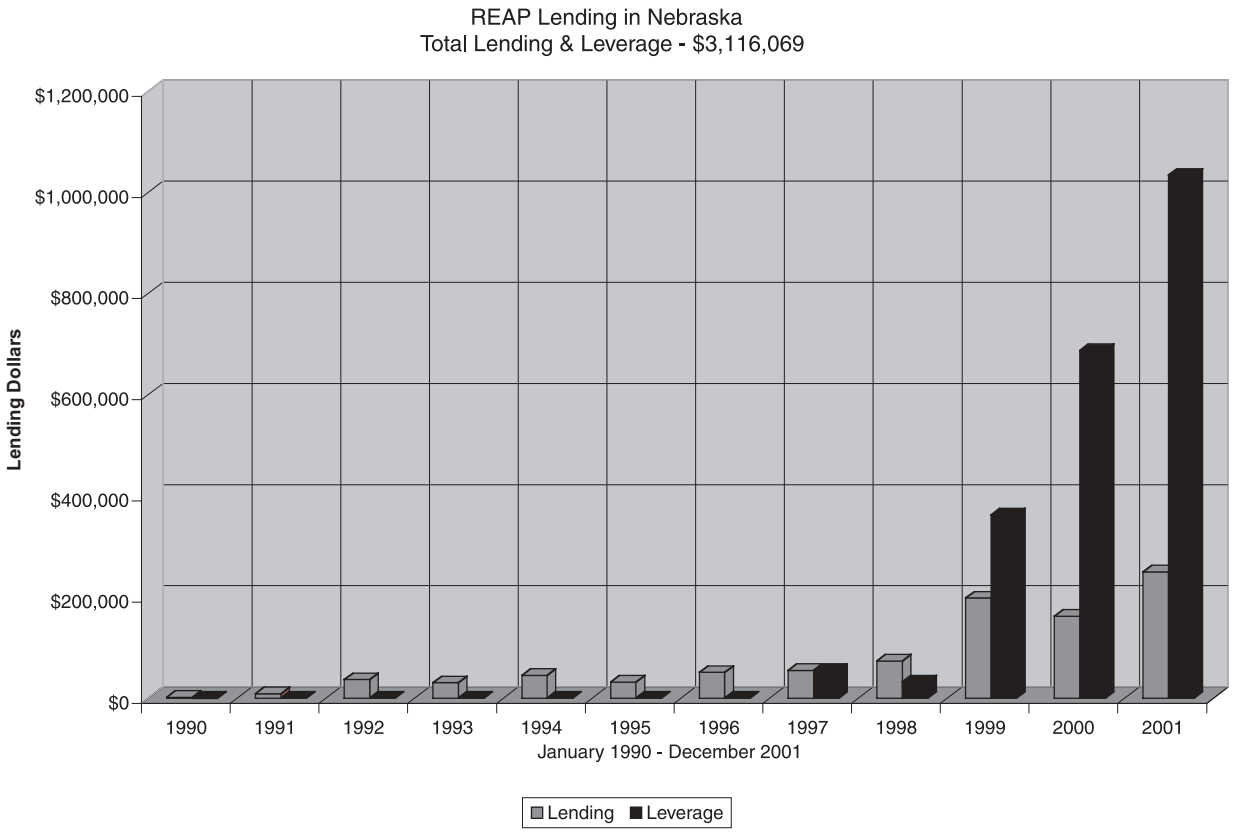
- **One-on-one Technical Assistance:** REAP staff have provided one-on-one technical assistance to over 2,000 startup and existing businesses at association meetings, at the business site, over the phone, and at REAP offices. Staff review loan applications with members prior to their presentations at association meetings. This provides them the opportunity to fine tune any questions and gather valuable input. REAP staff keep files of technical information to share with businesses.

- **Microlending:** REAP provides peer and individual lending services. REAP utilizes a unique "peer-group/step-up lending" model. In the "step-up" model, REAP members are able to borrow at various loan levels with the first being $1,000, followed by levels of $2,000, $4,000, $8,000, and ultimately, $10,000. (A borrower may begin at the $2,000 level if he or she has a completed business plan.) Borrower can only "step-up" to the next level if they have successfully paid back their previous loans. Interest rates are prime plus 1 percent on the first two loans a prime plus 4 percent or SBA maximum allowable rate (whichever is lower) for all subsequent loans.

  REAP has learned that businesses sometimes need financing beyond that which the REAP peer-group/step-up lending model can provide, yet they are not established enough in equity or experience to access traditional lending sources to fully meet their debt financing needs. REAP added the REAP Direct Loan Program in 1999 which offers loans in the $5,000 to $25,000 range to address this need.

  REAP has learned that businesses sometimes need financing beyond that which the REAP peer-group/step-up lending model can provide…

  Unlike the peer-group/step-up lending model, the REAP Direct Loan Program does not run through the association, it is not subject to step-up loan levels, nor is the association's Local Loan Loss Reserve at risk in the event of a loan loss. Borrowers utilizing this lending product work directly with a REAP business specialist. REAP feels it has "hit the mark" with this size of loan. In its one-year pilot phase, REAP placed 20 loans totaling $256,000. A majority of this loan capital also comes from the SBA Microloan Program. (REAP's loan and leverage history can be found on page 84.)



- Direct Loan Program began 1/99
- REAP began officially tracking leverage 1/99

As part of REAP's technical assistance services, REAP provides business planning services to REAP members. These services have resulted in leveraged lending in many instances. There have been many cases where a REAP client has completed their business plan in consultation with their area REAP Business Specialist and have been able to secure a loan from a traditional lender development district, community action agency, or a local loan fund. REAP staff have also helped in "packaging" loans that would include other lenders in addition to REAP's loan fund.

Quick Stats as of 4/9/2002:

Total Peer-group loans:	$433,973
# of Peer-group loans:	256
Average Peer loan:	$1,695
Average current Peer:	$2,196

Total Direct loans:	$644,895
# of Direct loans:	46
Average Direct loan:	$14,019

Combined Loan Funds:	
Total loans:	$1,078,868
# of loans:	302

Default rate is currently 1.2%

Delivery Mechanism of Products and Services

REAP associations (peer groups) consist of small businesses from a rural community or communities that formally organize to receive the services that REAP delivers. Most associations consist of eight to 10 member-businesses. They typically meet once a month to network, receive business training and address loan requests in an atmosphere where confidentiality is of the highest priority. They are self-driven based on their specific business and community development needs and goals. These associations are the vehicles through which internal and external networking opportunities are accessed. Currently, there are 46 active REAP associations in Nebraska serving over 400 member-businesses with small business assistance.

REAP implemented an "individual" program in 2002 to complement its Peer-Group Program. The individual program addresses these needs: 1) there are areas of Nebraska that do not yet have a REAP association geographically accessible, 2) the peer-group model may not fit the schedule of the small business owner, and 3) Peer-Group Program members will graduate from the association. Regionally based trainings are given for the benefit of both Individual and Peer-Group members.

REAP services are delivered through REAP business specialists who work full-time from home-office locations and serve territories in southeast, southwest central, northeast central, and Panhandle (west) areas of Nebraska. Business specialists are available for face-to-face consultation at the client's place of business and at association meetings. They provide business training, create networking opportunities and deliver critical one-on-one technical assistance to the member-businesses in their territories. They also facilitate the delivery of microlending that includes loan preparation, application, approval, pre-loan/post-loan technical assistance, loan packaging and loan tracking.

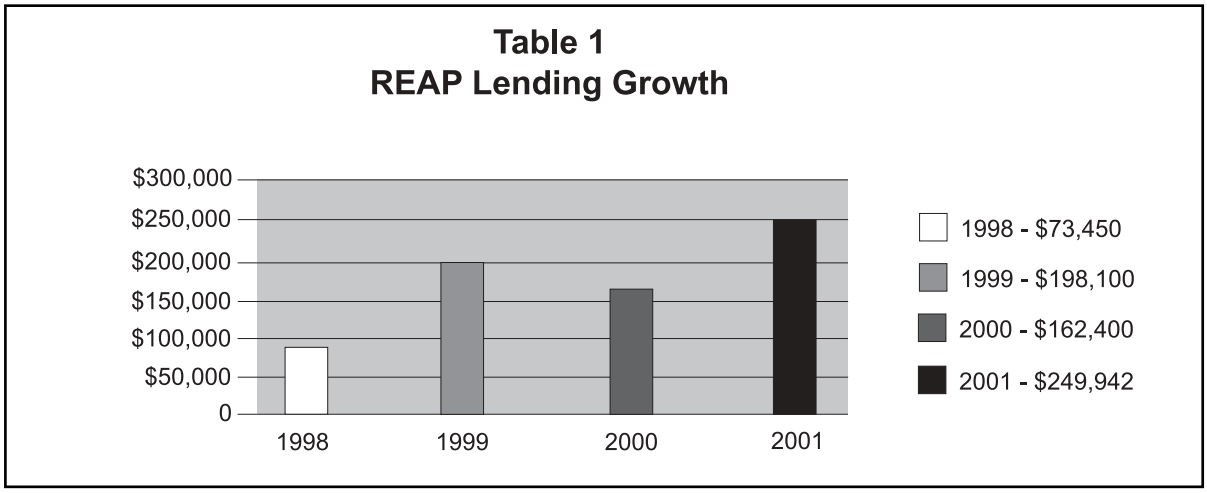
Changes and Additions to Products and Services

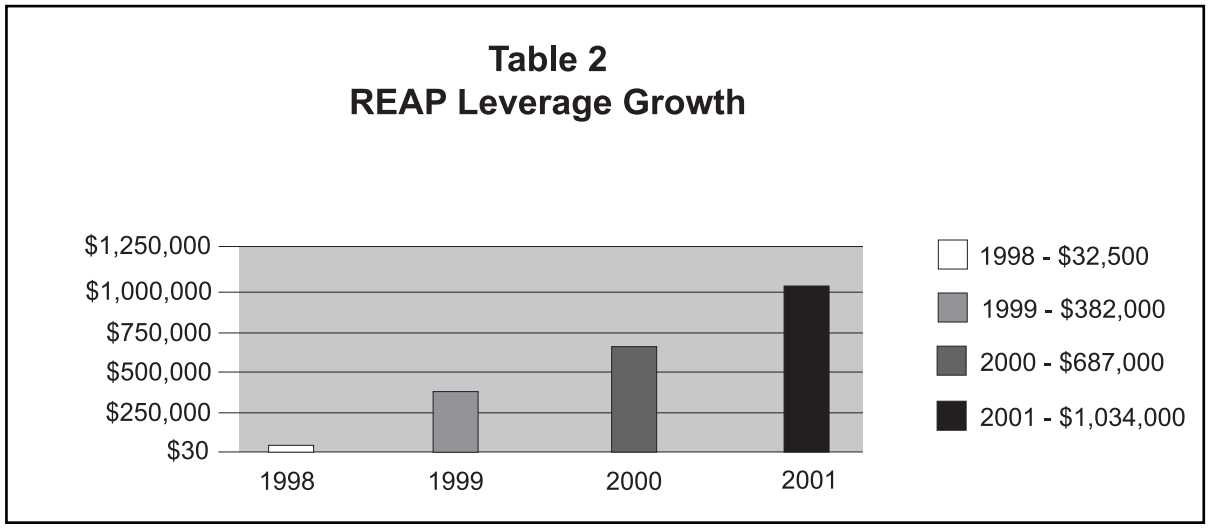
REAP services were delivered exclusively through locally formed peer groups from 1990 to 1999. REAP staff made a decision in 1999 to expand the lending portfolio to provide direct loans to individuals. This decision developed from experience in trying to meet the needs of a growing microsector. Peer borrower businesses often grew beyond REAP lending limits, but were not eligible for loans at the local banks. And in areas where there were no REAP associations, individuals who could not access loans at the banks did not have access to lending capital.

In early 2000, the REAP Direct Loan Program became a permanent part of the lending products offered to REAP member businesses. This new program, which now makes individual loans in the $5,000 to $25,000 range, provides loan capital for those who are currently falling between the cracks where no other lending capital is available. REAP has placed 41 loans totaling $589,142, leveraging an additional $3,057,000 from other sources.

REAP lending has increased dramatically over the past four years. The implementation of the REAP Direct Loan Program has been instrumental with this progression. Table 1 shows the total REAP dollars loaned since 1998.

Many REAP clients had a need to utilize multiple lending sources in order to finance their business opportunities. As part of REAP's technical assistance services, REAP provides business planning services to REAP members. These services have resulted in leveraged lending in many instances. There have been many cases where REAP clients have completed their business plans in consultation with their area REAP business specialist and have been able to secure loans from traditional lenders, development districts, community action agencies or local loan funds. REAP staff have also helped in "packaging" loans that would include other lenders in addition to REAP's loan fund. Since 1999, REAP has "leveraged" loans totaling $3,057,000. Table 2 shows the total loan dollars leveraged since 1998.





REAP was selected by the Small Business Administration to create a rural women's business center that began on July 1, 2001, the first such program in Nebraska. The REAP WBC service center operates without "walls." REAP is utilizing its existing infrastructure with business specialists located throughout the state to deliver the WBC services in conjunction with its current services to rural small businesses.

In 2002, REAP officially launched the REAP Individual Program to serve microbusiness owners who do not have access to REAP associations. The new Individual Program is available for graduated members from the peer program or if there is no association available. Individual members have the option of attending regional meetings, but are not required to attend monthly meetings of a peer group.

Implementing the individual component has been challenging for REAP. The process of evaluating REAP, its target market, and how to most effectively increase outreach necessitated the need for an individual component. The ability to form and maintain peer groups in every area of Nebraska is not possible without a huge increase in staffing. The Individual Program has effectively given REAP staff the ability to provide services in areas where no peer group is available and to clients who prefer the individual approach opposed to the peer approach.

Although the peer component remains a large part of the REAP program, changes needed to be made. Difficulty in forming and maintaining groups has increased over the years. After intensive staff planning retreats and analysis, REAP staff felt that the peer process was still a viable mechanism for reaching rural clients in Nebraska, but needed some key changes. REAP staff completed the design process of a new model for the delivery of its peer and individual programs. The new model contains many of the features of the original peer group model, but provides more options for group structure and flexibility in scheduling. The model includes a "graduation" strategy, yet clients still have access to continued REAP service. Under the new model, associations will be required to meet for 24 months. Beyond this time period, associations will have three options: 1) Graduate and help with the formation of a new association, 2) Sign a new contract for continuation of the peer model services, or 3) Join the REAP Individual Program.

REAP now utilizes a "dual delivery" system with the inclusion of an individual model. This system gives more options to clients seeking services. Staffing questions and continued viability of the peer component will remain the major concern with this delivery method. REAP will closely monitor these issues and will be prepared to make changes and additions as needed. This is part of the continual evolution of REAP and necessary to maximizing program outreach, performance and efficiency.

The following is a list of products and services that were added during the past two years and some yet to be implemented:

- Direct loans (up to $25,000)
- Dual Delivery System (Peer and Individual)
- Loan packaging and leverage
- Health insurance program
- Website – online model (to be completed by March 31, 2002)
- Women's Business Center Project
- Quick GROW loans (up to $1,000) (Contract was signed between REAP and GROW Nebraska on February 1, 2002)
- Quick GROW direct loans (up to $5,000) (Product will be developed for use in 2003)
- Hispanic component (yet to be determined)

Collaboration

A major component of REAP's strategy for scale-up has evolved around increasing effective collaborative relationships. Examples of this increased collaboration is evidenced by recent formal partnerships being formed with GROW Nebraska, Nebraska EDGE, and Cooperative Extension. These partnerships are further discussed in this section.

A major component of REAP's strategy for scale-up has evolved around increasing effective collaborative relationships.

It has always been the focus of REAP to base the focus of the work performed on the needs that exist locally. After all, if it is not focused on locally identified needs, it is not the local community's project, but one that belongs to someone else. This results in short-lived efforts with little long-term buy-in on the part of the local citizenry and little or no positive impact.

REAP's record of collaboration is exemplary. When working in communities, REAP explores what other resources are in use in the community and those that are not, but could be valuable. Local financial institutions and organizations become involved with the local REAP group by donating to the association's loan loss reserve. This loan loss reserve is matched by REAP 10:1 to give association members access to lending capital. This "buy in" by local organizations helps to contribute to the overall collaborative effort of all involved. The Center understands that for a community to thrive, it takes a community effort. That includes the community of resource providers. Furthermore, it is only wise to avoid duplication of efforts and the resulting unnecessary drain on human and financial resources. Moreover, resource collaboration can create a vastly improved product for the community to utilize. REAP staff attend monthly meetings of the Nebraska Development Network held in their respective regions. It is at these meetings that federal, state, local, public, and private non-profit resource providers network and explore ways of linking services to meet the needs in the region.

Cooperating partnerships exist to help REAP maximize impact for client-businesses. Various organizations partner with REAP as funders, partner lenders, Community Development Block Grant administrators, business training partners, common client base, loan fund sources and project advocates.

REAP field staff are available to meet with clients and to provide training during evening or flexible hours. Staff also attend evening association meetings in their respective regions. REAP has been a very accessible microenterprise program to serve people across the state. REAP provides lending, training, technical assistance, counseling and networking services to start-up and existing entrepreneurs on a statewide rural basis across rural Nebraska. REAP collaborates with existing service providers when possible, but much of the rural area is not served or is extremely underserved. REAP makes referrals to other service providers and receives referrals from other providers and human service agencies.

Integrating services with mainstream financial institutions is already being done by REAP. REAP's goal of moving clients to traditional lending sources is being done through REAP's peer and direct lending models, educational components, technical assistance and loan packaging services. REAP will look to continue building relationships with local bankers which will impact and facilitate mainstream financing for REAP members.

GROW Nebraska

GROW Nebraska is a training-based organization that works with crafters and artisans in Nebraska. GROW Nebraska would like to make loans to its clients without going through the process of setting up and maintaining a loan fund. GROW Nebraska's client base fits the target of potential REAP clients.

REAP has the ability to offer GROW Nebraska a lending product for its clients. The Quick Grow Loan is a collaborative effort between REAP and GROW Nebraska. This loan product was exclusively developed for use by GROW Nebraska clients. A Loan Loss Reserve (LLR) will be established by GROW Nebraska. REAP will provide loan capital in relation to the LLR. A 15 percent loan loss reserve will be required. Example: $50,000 of REAP loan capital would require a LLR of $7,500.

The Quick Grow Loan can be used for startup and existing business purposes and is designed for easy borrower application process and quick turn around. The loan can be $1,000 or less and requires no collateral. Subsequent larger loans can be obtained through existing microlending organizations in Nebraska. REAP and GROW will assess progress at the end of the first year of implementation and will look at developing a second loan that would address loans up to $5,000. This product could be called a Quick Grow Direct Loan.

GROW Nebraska will identify, provide marketing technical assistance, and start the loan process. REAP will provide loan technical assistance, and close and administer the loan. GROW Nebraska will be paid a fee of 2 percent for all Quick Grow Loans closed.

GROW Nebraska will forward appropriate loan documents to the potential borrower. At the same time, a referral form will be sent to REAP. The potential borrower will contact REAP and plan for technical assistance and follow up. The borrower will forward the completed loan application to REAP. REAP will send a copy of the completed loan application to GROW Nebraska. REAP will review and initiate the Loan Review Committee (LRC) call. Loan reviews are done by conference call. The LRC will consist of two REAP staff and one GROW Nebraska staff. If approved, REAP will close the loan and have the borrower sign the appropriate loan closing documentation. Once closed, REAP will send a check to the borrower.

The contract is for a period of one year from February 1, 2002 to January 31, 2003. Future contracts could include the development of a second loan product and potential sharing of REAP's SBA Technical Assistance funding for GROW Nebraska. (The policies, procedures and description of the Quick Grow Loan are included at the end of this article.)

Nebraska EDGE Program

The Nebraska EDGE (Enhancing, Developing and Growing Entrepreneurs), a program of the Center for Applied Rural Innovation at the University of Nebraska, is the umbrella organization for rural entrepreneurial training programs hosted by local communities, organizations and associations. EDGE training courses are taught by entrepreneurs for entrepreneurs.

REAP saw the need to upgrade its current business training curriculum. Since inception, REAP had utilized an in-house curriculum that was aging and in need of a complete make-over. After careful deliberation, REAP decided to utilize NxLevel materials as its business training curriculum.

REAP signed a cooperative agreement with Nebraska EDGE in 2001 to enhance REAP's Business Training Curriculum and to offer microbusinesses across Nebraska more business-plan basic training workshops. This arrangement also helped REAP update its training materials.

REAP now uses the NxLevel Guide for Microentrepreneurs as its training curriculum. The NxLevel Network works to develop the best training curriculums possible, and it is used nationwide. EDGE belongs to the NxLevel network.

University of Nebraska Cooperative Extension

In early October 2001, nine potential instructors for the REAP Women's Business Center e-Commerce classes attended a "train the trainers" event in Grand Island. Phyllis Schoenholz of the University Extension service instructed REAP trainers with the Access Minnesota Main Street curriculum. This curriculum is also being used by "Connecting Nebraska" which is the extension service's e-Commerce program as well. They felt that because of the high demand for e-Commerce information across rural Nebraska, that REAP classes would help fill some of the gaps that exists for such training. Because they are allowing REAP to use the curriculum, REAP did not have to go to the time and expense of having its own curriculum developed.

Since the October training of REAP instructors, contacts have been made across Nebraska to set up training sites. In November 2001, the first e-Commerce class was completed in Superior. There were six businesses that took the training. Evaluations received from participants rated the class as excellent. This training was co-sponsored in Superior by the Business Development and Technology Center there and the Stateline Business Development Association that is their local REAP group. Five more e-Commerce courses are

planned to begin in January and February 2002, in Aurora, Beatrice, Bridgeport, Dunning and Peru. Chadron and Norfolk or another Northeast Nebraska location are a couple other locations where plans are pending.

NEON

The Nebraska Enterprise Opportunity Network (NEON) was formed in 1994. This organization provides staff training, conducts policy work, and provides an opportunity for networking amongst microprograms. REAP staff remain committed to NEON by participating at events and serving on the NEON Executive Committee. NEON provides a unified voice for microprograms in Nebraska and a great networking tool for organizations.

It is clear that one program cannot meet the needs of every client. It takes the efforts of many programs working together for a common goal. REAP's formal partnerships with other service providers and willingness to collaborate with other organizations are having a great impact for microentrepreneurs in rural Nebraska.

Staff Deployment and Administrative Issues

The organizational implications of this work for REAP has centered around reworking its overall organizational structure and at the same time keeping a budget that was manageable.

REAP has reduced program administrative staff from three to two. Historically, REAP utilized a project leader, assistant project leader and administrative assistant. Four business specialists in the field gave REAP a staff of seven. REAP has phased out the assistant project leader position and now utilizes a program director and administrative assistant. REAP's Women's Business Center director position could be considered administrative, but the majority of this work is field-based.

It is important to point out that REAP is a program of the Center for Rural Affairs and does utilize some administrative staff from the greater organization. Accounting and media activities are the main areas utilized. A small part of REAP's overall budget goes towards these costs which make them considerably less than a stand-alone organization. Utilizing Center for Rural Affairs administrative staff does make it possible for REAP to reduce program specific administrative staff.

REAP is putting the majority of its funds into field staff. Plans are to hire an eighth employee who would serve as a statewide loan/technical assistance specialist. This person would provide loan and technical assistance on a statewide basis and would provide needed relief in high demand areas. REAP continues to utilize four business specialists who each serve a region of the state. However, all staff, with the exception of the administrative assistant, serve a portion of the state. The new hire would help reduce the size of each region served by REAP staff, thus helping staff capacity. In the past, REAP has separated the state into four regions. The new hiring will allow the state to be separated into five regions.

There were several issues that necessitated the change in REAP's staff philosophy: 1) Funding for administrative positions is at best "difficult" to obtain; 2) The ability to serve and effectively reach a statewide - rural audience relies on field staff capacity; and 3) Reduction in REAP administration could be compensated by increased efficiency.

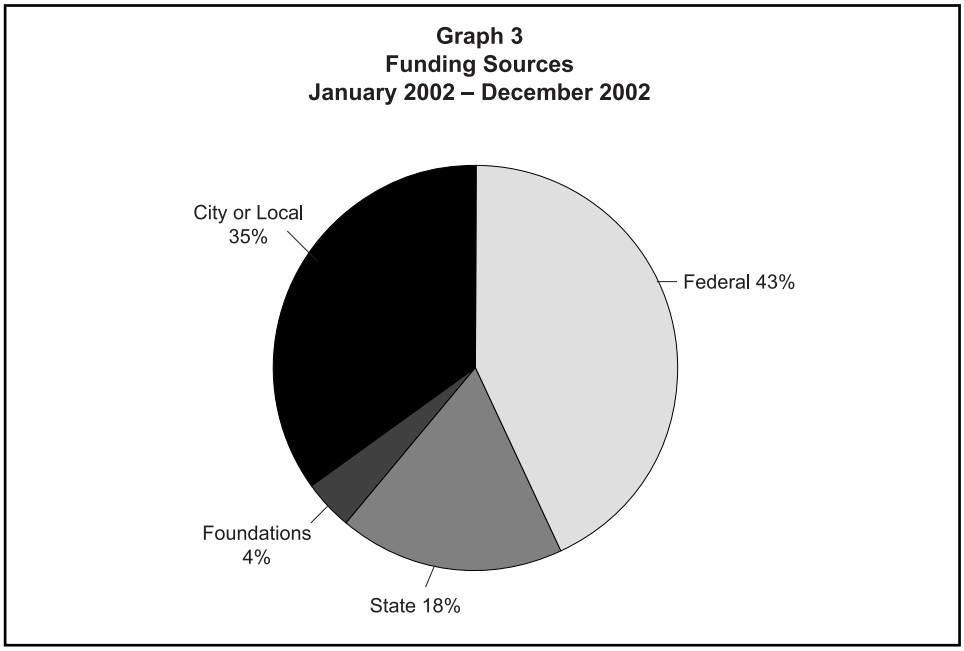
REAP's financial dilemma and reduction in administrative staff are not new in the microenterprise field. Many organizations have had to work through these issues and arrive at various solutions. Programs that have large revenue producing streams or sources of discretionary funds are more likely to be in a better position to fully fund their program administrative structure.

The bottom line is that this work showed that REAP needed more staff that was field-based to reach its maximum potential. Increased numbers of clients are receiving services and overall outreach has been greatly improved.

Financing Scale-up

Successfully scaling-up a program relies on careful planning, ability to execute the plan, and most importantly, financing. REAP has been very successful in obtaining the necessary funding base in order to ramp up its services in Nebraska. The funding from FIELD has made it possible for REAP to actively pursue this area.

REAP's funding outlook was very marginal at the beginning of 2000. Since 2000, REAP has been able to maintain existing funding and leverage new funding sources. Diversification has been key to REAP's funding base. At one time, as with many microprograms, REAP was 100 percent foundation funded. It was very apparent that foundations were slowly moving away from funding microenterprise work. For REAP to survive long-term, a diversified funding base had to be obtained. REAP's current funding base comes from multiple sources — 43 percent federal, 18 percent state, 4 percent foundations, and 35 percent from city government. The current percentages are shown in Graph 3.



REAP has received Community Development Block Grant (CDBG) funds since 1994. REAP continues to receive CDBG funds which are a solid cornerstone of its funding portfolio. REAP was approved for $200,000 from CDBG on July 1, 2001. This application tied all four of REAP's CDBG grants into one and required using one host city as opposed to four. The Nebraska Department of Economic Development in relation to their 2001-2002 Action Plan and 2000-2005 Consolidated five-year plan has committed $200,000 of CDBG funds for "Statewide Microenterprise Development." As REAP is currently the only statewide microenterprise development program in Nebraska, this $200,000 is for REAP.

REAP was approved for SBA Women's Business Center (WBC) funding. REAP is receiving $150,000 per year and is renewable for a total of five years of funding. The REAP WBC is implemented through REAP's existing infrastructure. REAP has enhanced services to include regionally based trainings. The new programming commenced on July 1, 2001. Glennis McClure is serving as REAP's WBC director. REAP hired a new REAP business specialist to replace Glennis in Southeast Nebraska.

The majority of REAP's loan fund capital comes from the SBA Microloan Program. REAP has been an SBA Intermediary since 1992. REAP receives a technical assistance grant from SBA yearly. REAP currently receives approximately $100,000 per year from this source. The technical assistance grant through the SBA Microloan Program has been a key source of funding for REAP and it anticipates that this funding will continue in the future.

REAP was approved for new funding from the Nebraska Microenterprise Partnership Fund (NMPF). REAP is approved to receive $100,000 beginning April 1, 2002, and ending March 31, 2003. NMPF grants funds to microenterprise organizations in Nebraska. The Microenterprise Development Act (LB-327) was passed in the Nebraska Legislature in 1997 creating this funding. LB-1348 was passed in 2000 that amended LB-327 and doubled the previous appropriation from $250,000 to $500,000 for each of three years. This funding is critical for organizations like REAP. Award size has been removed and is now based on providing services to distressed and unserved counties, and fulfills the goal of "equitable access by all geographic areas."

Microenterprise funding from the State of Nebraska is due to sunset at the end of 2003. REAP will be working with the Nebraska Enterprise Opportunity Network (NEON) in making sure these funds are continued. This will not be an easy process. The current economic conditions and projected state budget shortfalls will be major hurdles for continued funding. Recent state budget cuts created a 4 percent cut with this funding year and a 5 percent funding cut for 2003. Staff from REAP and the Self Employment Loan Fund (SELF) of Lincoln gave testimony to the appropriations committee on the importance of this funding from the State of Nebraska. Future advocacy efforts will be critical in continuing this funding from the state.

REAP will be exploring and potentially pursuing CDFI funding and other sources. REAP will also be exploring the possibility of larger loans as a revenue source and other loan products.

LESSONS LEARNED

REAP has learned and continues to learn many lessons in achieving scale in rural Nebraska. Increasing overall outreach in rural areas is difficult. Working on increasing outreach has centered on rethinking the way REAP delivers services. There is much work to be done, but the addition of the REAP Individual program has been effective.

REAP has found that reaching individual clients is not an easy task. Increased media exposure, public relations, speaking engagements and collaborative arrangements are all necessary to get the word out. This all takes place when first forming a peer group, but is more manageable once the group is functioning. In most cases, the peer group becomes the vehicle for PR in that community or area. Having a solid media plan is critical to achieving scale. This is an area where REAP has been effective, but can improve.

REAP's challenge is reaching all rural clients who need services on a statewide basis. It was clear that an individual component needed to be added. The question now evolves around the future of REAP's peer component. Although the peer component is still a prominent part of REAP, trends and feasibility of continuing in the long term are suspect.

Overall capacity remains an issue. Adding the Individual model and continuing the peer model at the same time have presented many capacity problems. Peer group organizing has slowed and more clients are choosing the Individual approach. Through all this, REAP continues to evolve. We have learned that we must change the way we deliver our peer services. There are many thoughts and ideas on this subject. The next two to three years will be critical in the further enhancement of the REAP model. Whether the peer component stays or goes is yet to be answered. The important point is that REAP recognizes its problems

and challenges and is laying the groundwork to make more positive changes in the future. Many changes have already been made, but further development is needed and is continuing.

Effective and reciprocal collaboration is vital to reaching a large market. Relationships with business training partners and lending arrangements with training-only organizations are key to REAP's ability to achieve scale on a statewide rural basis. It was a matter of finding organizations that provide the services lacking and forming alliances with those organizations.

The program model utilized for scale-up is critical. It is important to look at the area served and determine the best method of reaching the target market as efficiently as possible. Once this is figured out, it is important to contact other programs to see how they operate. Many times it is not necessary to reinvent the wheel. Most importantly, service providers should not be afraid to try new methods of delivery. The microworld is always changing and it's important that programs keep changing to meet the demands of clients.

Major Findings:

Through the 10-year history of REAP, several perceptions have changed regarding delivery of services to microbusinesses in rural areas of the Midwest. Among the findings of REAP are:

- Local capital contributions give community and association members ownership of the local effort. They become active, creative partners in shaping the local association and recruiting members. They also assume on-going responsibility for association development.
- The local contribution also creates an additional repayment dynamic because members who assist in raising the local match feel a responsibility for maintaining the integrity of the loan loss reserve.
- Small town micro- and start-up business owners in small, farm-based communities in rural Nebraska readily accept group-borrowing methodology.
- Small loans (less than $10,000) can make a major impact on the profitability of microbusinesses.
- A majority of members do not borrow money; consequently, the program cannot rely on lending revenue as a major source of operating funds.
- Association meetings provide an opportunity for networking which often builds the confidence level with regards to business management.
- Association members are quick to accept responsibility for association formation and management of proposed association structures and procedures.
- Group structures and open-to-the-public business training sessions reinforce community ownership, create high project visibility, and provide a vehicle for on-going recruitment of new members.
- Microbusinesses have a need for just-in-time technical assistance. A little information at the right time makes a big difference for a small business.
- There is an ongoing need for training for businesses.
- REAP has found it necessary to broaden services as it learns more about clients.
- Providing an individual based program has been key to increasing outreach.

- Direct loans (less than $25,000) can have a significant impact for microbusinesses and can produce additional leveraged funds from traditional sources.
- Developing a range of products and services has been effective in reaching larger numbers of microentrepreneurs.
- REAP has found that it is possible to serve all of Nebraska's rural areas through effective partnerships and key model changes and additions.

Conclusion

Since beginning in 1990, REAP has continued steady growth. REAP has shown that it is possible to build the scale of a successful program to serve all the rural areas of a state while securing long-term state support. One constant with REAP has always been to provide quality services and products for its clients. Although the services and products have changed and evolved, the quality remains. Not being afraid to change and offering a program that meets today's ever-changing society have been key for REAP. REAP doesn't claim to have all the answers, but feels that it is on the right track and on course to achieving maximum scale on a statewide - rural basis in Nebraska.

APPENDIX
QUICK GROW LOAN
LOAN POLICY

A. Description of Loan Product

The Quick Grow Loan is a collaborative effort between the Rural Enterprise Assistance Project (REAP), a program of the Center for Rural Affairs, and GROW Nebraska. This loan product has been exclusively developed for use by GROW Nebraska clients. A Loan Loss Reserve (LLR) will be established by GROW Nebraska. REAP will provide loan capital in relation to the LLR. A 15 percent loan loss reserve will be required. Example: $50,000 of REAP loan capital access would require a LLR of $7,500. The LLR must always be at a minimum of 15 percent of the outstanding balance owed on Quick Grow Loans. The LLR percentage amount could be lowered in future contracts depending on the performance of the portfolio.

The Quick Grow Loan can be used for startup and existing business purposes and is designed for easy borrower application process and quick turn-around. The loan can be $1,000 or less and requires no collateral. Subsequent larger loans can be obtained through existing microlending organizations in Nebraska. REAP and GROW will assess progress at the end of the first year of implementation and will look at developing a second loan product that would address loans up to $5,000. This product could be called a Quick Grow Direct Loan.

GROW Nebraska will identify, provide marketing technical assistance for, and start the loan process. REAP will provide loan technical assistance, and close and administer the loan. GROW Nebraska will be paid an origination fee for all Quick Grow Loans closed.

GROW Nebraska will forward appropriate loan documents to the potential borrower. At the same time, a referral form will be sent to REAP. The potential borrower will contact REAP and plan for technical assistance and follow-up. The borrower will forward the completed loan application to REAP. REAP will send a copy of the completed loan application to GROW Nebraska. REAP will review and initiate the Loan Review Committee (LRC) call. Loan reviews are done by conference call. The LRC will consist of two REAP staff and one GROW Nebraska staff. If approved, REAP will close the loan and have the borrower sign the appropriate loan closing documentation. Once closed, REAP will send a check to the borrower.

B. Maximum Loan Levels

1. The maximum loan is $1,000 per borrower.

C. Collateral

1. Collateral is not required with Quick Grow Loans unless requested from the Loan Review Committee (LRC). If requested, legal security documents will be filed with the State of Nebraska and with the respective county. The borrower is responsible for filing fees if collateral is utilized.

D. Term of Loan

1. The repayment period will be 12 months or less.

E. Interest Rate

1. The prime interest rate shall be determined monthly through the Wall Street Journal on the first business day of each month. If the rate varies up or down less than 0.5 percent from the last REAP adjustment, no adjustment will be made.

2. The interest rate shall be fixed for the term of the loan.
3. Interest will accrue daily on the balance of the loan.
4. The interest rate will be prime plus 4 percent or SBA maximum limit (whichever is lower).

F. Other Regulations

1. Spouses may have separate loans, at the same time, if each is engaged in a separate business and each pays separate dues.
2. A business may have two loans at one time, with a balance due being not more than its present maximum loan level of $1,000.
3. REAP loan capital comes from different sources and some sources have special restrictions on use. The current restrictions include no lending for: pyramid sales schemes, sales of religious items, refinancing debt, or the purchase of real estate (land).

G. Loan Application

1. A borrower notifies GROW Nebraska of intent to apply for a loan. GROW Nebraska forwards the appropriate loan documents to the potential borrower. At the same time, a referral form will be sent to REAP. The potential borrower will contact REAP and plan for technical assistance and follow-up.
2. The borrower will complete the loan application:
   a. REAP/GROW:029 for existing businesses or REAP/GROW:030 for start-up businesses.
3. The borrower will mail the completed loan application to the REAP office in Walthill or his or her REAP business specialist. REAP will photocopy the application, returning a copy to the borrower and GROW Nebraska. REAP will discuss the content with the borrower prior to presenting the loan to the Loan Review Committee (LRC). Follow-up technical assistance will be established if needed.
4. REAP will review and initiate the Loan Review Committee (LRC) call. The LRC will consist of two REAP staff and one GROW Nebraska staff. If all three vote yes, the loan is approved.
5. If approved by LRC, REAP will close the loan and have the borrower sign the appropriate loan closing documentation. Once closed, REAP will send a check and amortization schedule to the borrower (Section H.2. below).

H. Loan Grade

1. REAP will review the payment history of the borrower and assign a letter grade (see below) appropriate for the repayment history with the Quick Grow Loan.

2. If the borrower disagrees with the grade given, he or she may appeal to the Loan Review Committee.

I. Loan Disbursement

1. Process for Loan Disbursement
   a. Loan Review Committee authorizes the disbursement after approving the loan by signing the loan application and marking the space marked "Approved." The loan application is then forwarded to REAP's main office.
   b. REAP staff have the borrower sign the appropriate documentation. The documentation and loan application will be delivered to the REAP office in Walthill by the REAP staff.

LOAN REPAYMENT GRADES		
GRADE	**NUMBER OF LATE PAYMENTS**	**STEP-UP LEVEL**
Grade A	0 *	Same amount as previous loan amount.
Grade B	1 *	Same amount as previous loan amount.
Grade C	2 *	Same amount as previous loan amount.
Grade D	3 or more *	Must wait one month before borrowing at 75% of previous loan amount.
Grade E	Delinquent at loan expiration date	Loan can be rescheduled to workable terms. No new money extended. When rescheduled loan is repaid; borrower must wait 3 months to borrow at no greater than 50% of previous loan amount.
Grade F	Defaulted on loan	Will not be allowed to borrow from REAP again, and will not be allowed to participate in any GROW Nebraska trainings or services.
*** Loan paid off on or before loan expiration date.**		

c. The REAP office in Walthill will review the loan application and issue the loan check. They will mail the borrower the loan check, amortization schedule and a copy of the loan application, normally within seven days. They will also mail a copy of the amortization schedule to GROW Nebraska and the REAP business specialist.

J. Repayment Procedure

1. The borrower's first loan payment will be made on the 15th of the second month following receipt of the loan check. If the 15th of the month falls on a weekend, holiday or other day when the bank is closed, the bank due date becomes the first business day following.

2. REAP loan payments are made monthly using Automated Check Handling (ACH). An automatic deduction of the loan payment amount is made to REAP from the borrower's bank or savings account on a regular monthly basis, (15th of each month) until the loan is paid in full.

3. The REAP Loan Fund is held in the Plainview Bank. This is where loan payments are sent through the ACH system. Plainview Bank will send REAP a statement of loan payments received.

4. REAP will send a loan repayment report to GROW Nebraska and the REAP Business Specialist. If a loan payment did not go through and has become delinquent, then the REAP business specialist should contact the borrower to get the loan situation back on track.

5. Incentive for Early Payments

   a. REAP calculates interest on a daily basis. If extra payments are made in addition to the regular ACH monthly payment, the borrower will realize interest savings. The final loan payment will be reduced by all accumulated savings on interest.

   b. There will be no penalty for early loan pay-off.

6. The loan pay-off figure will be calculated by REAP. The amount may be larger or smaller than the last payment on the amortization schedule, depending on when loan payments are made since interest is accrued daily.

K. Delinquency and Default Procedures

1. The loan is considered delinquent (late) if the loan payment was not made on its due date. A late fee will be charged to the borrower for each late payment.

    a. Month No. 1 — Borrower does not make payment on the due date (account has insufficient funds to cover the loan payment on the 15th).

        i. REAP's Role — REAP will send a letter to the borrower to inform him or her of payments made and due. A copy of the letter will be sent to GROW Nebraska. This will accompany the monthly loan report. The REAP business specialist will visit with the borrower, either by phone or in person, to determine why payment was not made and to encourage the borrower to make his or her payment. If the borrower can't be reached by phone or in person, a letter will be sent to him or her. (Is there a need to reschedule the payments? Are they too large? Has there been a crisis in the business or personal life of the borrower?)

    b. Month No. 2 — Borrower has not made the previous month's loan payment, or the current month's loan payment on its due date.

        i. REAP's Role — A certified letter will be sent to the borrower as part of the monthly loan report. This letter will state that if the missed payment(s) is not made before the next month, GROW Nebraska will be notified of a draw-down of the Loan Loss Reserve account. REAP will make contact directly (by phone or in person) with the borrower. If the borrower can't be reached by phone or in person, a letter will be sent to him or her.

2. The loan is considered to be in default if no payments have been made for three months (90 days).

    a. Month No. 3 — Borrower has not made the previous two months' payments, or the current month's payment on its due date, and is not willing or able to work with REAP in rescheduling the loan. The loan is considered to be in default at this point.

        i. REAP's Role — Loan will be considered to be in default, and REAP will declare a loan loss. The borrower will be notified by certified mail and GROW Nebraska will be notified in the monthly loan report that REAP will draw down the Loan Loss Reserve account in 30 days for the defaulted amount (including the unpaid loan plus all interest and late fees). REAP will send the borrower a certified letter stating that REAP will turn the loan over to a collection agency 30 days from the date of the letter for full repayment, if REAP does not hear from the borrower by that date. The loan will be turned over to the collection agency the day following the date specified in the letter to the borrower.

    b. Month No. 4 — Loan Loss Reserve Drawn-down

        i. GROW Nebraska's Role — GROW Nebraska will need to replenish the Loan Loss Reserve.

        ii. REAP's Role — REAP will draw down the Loan Loss Reserve account for the amount of the balance due after 30 days have passed from the date that GROW Nebraska was informed of the defaulted loan. Balance due includes the unpaid loan plus all interest and late fees.

3. Delinquency Solutions

    a. In the case of partial payments, the borrower is required to contact REAP to discuss future loan payments.

    b. REAP may choose to reschedule a delinquent note.

c. The amount of a rescheduled note shall include all accumulated late fees as part of the principle, in addition to all unpaid principal and interest. The interest rate will be the same as the original note.

d. A fee will be charged for the first rescheduling. Any subsequent rescheduling on this loan or subsequent loans will also have a rescheduling fee.

4. Default

a. If the collection agency is successful in collecting the defaulted loan:

i. The collection agency will retain 33 percent to 50 percent of the collected money for its fee.

ii. The balance of the collected money will be used to pay REAP for the balance due on the loan that the Loan Loss Reserve did not cover previously.

iii. Any remaining collected money will go to replenish GROW Nebraska's Loan Loss Reserve.

iv. If the balance in the Loan Loss Reserve following the default is insufficient to meet the loan demand of the next six months, GROW Nebraska will confer with REAP to negotiate a solution to the problem. GROW Nebraska will be given an opportunity to rebuild the Loan Loss Reserve to serve the near-term borrowing needs of the GROW Nebraska members.

L. Insufficient Funds Procedures

1. With the first occurrence of non-sufficient funds (NSF) or a returned check, the REAP office will contact the borrower. The REAP business specialist will also be contacted.

2. With the second occurrence of a non-sufficient funds (NSF) or a returned check, the REAP office will again contact the borrower, and will also notify the REAP program director and business specialist.

3. There will be a fee charged for each occurrence of a non-sufficient fund account or returned check.

M. Fees Charged

1. Late Payments

a. Borrower's payment is late — $10.00.

b. Insufficient funds or bounced check — $10.00 per occurrence.

2. Rescheduled Loans

a. First time rescheduling — $10.00.

b. Second time rescheduling — $20.00.

3. Loan Processing

a. Quick Grow loan fee — $10.00.

ENHANCING CREDIT UNION CAPACITY FOR MICROLENDING

NATIONAL FEDERATION OF COMMUNITY DEVELOPMENT CREDIT UNIONS

ORGANIZATION'S BACKGROUND

The National Federation of Community Development Credit Unions (NFCDCU) is an intermediary trade association of 212 community development credit unions located in 39 states, the District of Columbia and Puerto Rico. Established in 1974 by a coalition of credit union leaders dedicated to revitalizing low-income and minority communities, NFCDCU is the only national organization dedicated to strengthening community development credit unions. In addition to a capitalization program that currently has $22 million in assets under management and investments in 116 credit unions, NFCDCU provides a range of member services, including technical assistance, training, education, research and advocacy at the national, state and local levels.

Introduction

In January 2000 the National Federation of Community Development Credit Unions applied for funding to support the development and implementation of a nationwide pilot program to increase the scale of microenterprise lending by our members. The Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) provided a $100,000 grant for NFCDCU to develop a turnkey micro lending training program that would be designed specifically for community development credit unions. Enhanced training capacity would strengthen the existing NFCDCU micro lending program that already included the provision of training, technical assistance, capital and specialized staff to member credit unions seeking to introduce or expand their micro lending programs.

The following article reviews the experience of this initiative over the past two years (May 1, 2000 – February 28, 2002), and the lessons that may inform future credit union strategies for expanding support to micro-entrepreneurs in low-income communities.

STATEMENT OF CHALLENGE

Challenge to scale

In a 1997 survey, 85% of NFCDCU member credit unions reported that they would like to increase their microenterprise lending, but were limited by capacity constraints, specifically in the areas of technical knowledge, access to capital and supply of skilled staff. Two-thirds of these credit unions stated that the greatest need was for training and technical assistance to build their institutional capacity to promote and manage a growing portfolio of microenterprise loans.

A review of existing microenterprise and microfinance training programs showed that existing models did not fit the needs or capacities of community development credit unions (CDCUs) as regulated, multi-purpose financial institutions. The challenge for NFCDCU was to develop a cost-effective way to build the capacity of CDCUs to expand the scale of their microenterprise lending. As a first step, NFCDCU decided to develop a turnkey training program to help CDCUs build the internal systems and institutional knowledge that are required to manage a healthy portfolio of microenterprise loans. The strategy was designed to provide CDCUs with a selection of essential tools that would enable them to meet the demand for financial services from local microentrepreneurs.

Rationale and Institutional Vision

The 1997 survey cited institutional training as the greatest need, but not the only one. Between 1997 and 2000, NFCDCU had already made significant progress to address the other expressed needs by providing specialized capital products and personnel to credit unions seeking to expand their microenterprise lending. The NFCDCU Capitalization Program introduced microenterprise collateralization deposits in 1999 to help credit unions mitigate the exposure to losses from microlending. By the end of 1999, NFCDCU had raised $225,000 of investment funds that could be used for these deposits, and by the end of 2000, had placed a total of $100,000 of these deposits in four CDCUs.

NFCDCU also offered assistance with personnel in the form of Americorps*VISTA staff who were assigned to individual credit unions to develop asset-building initiatives such as microenterprise lending and Individual Development Account (IDA) programs. From 1997 through 1999, a total of 65 Americorps*VISTA staff had been placed in 55 different credit unions to work on microlending and IDA programs. Fifteen of these Americorps*VISTA staff were assigned to 11 different credit unions to work exclusively on developing microenterprise lending programs.

In response to the demand for more technical support, in 1999 NFCDCU hired a microenterprise and business-lending expert to strengthen its delivery of training and technical assistance for microenterprise lending. NFCDCU also introduced courses at the CDCU Institute™ that focus on the management and expansion of a microenterprise loan portfolio. Nevertheless, by the end of 1999 it was clear that these efforts would not be able to meet the nationwide demand for training and technical assistance for large numbers of CDCUs that were interested in expanding their microenterprise lending. Community development credit unions continued to stress the need for a microenterprise training program tailored to their particular needs.

Key Assumptions

NFCDU believed that developing a turnkey training model for microenterprise lending would enhance the institutional capacity of credit unions to conduct microlending programs and would capitalize on the services already being offered, as discussed above. This focus on the training needs of credit unions was based on a number of key assumptions.

- First, that given the opportunity for relevant training, the expressed demand for training would translate into effective participation and implementation of new programs at the credit union level.
- Secondly, although institutional capacity takes time to develop, NFCDCU assumed that credit unions with enhanced capacity and new systems in place would encounter strong and immediate demand for financial services from microentrepreneurs and enjoy rapid growth in their loan portfolios.
- Finally, while some of this growth was expected in the short term, the greatest increases in scale were expected to occur from three to five years after the initial investment in building institutional capacity, as credit unions would gain in experience, efficiency and reputation as microenterprise lenders.

Goals and Objectives

The ultimate goal of this program is to increase economic opportunities for individual entrepreneurs in low- and moderate-income communities by increasing their access to microenterprise loans from community development credit unions. The intermediate objectives focused on strengthening the capacity of CDCUs to manage microenterprise lending programs and expand the scale of lending to microentrepreneurs. The project chose a selection of formative performance indicators instead of attempting to measure impact for several reasons. First, the program assumed that the most significant impact of training on the scale of microenterprise lending would occur after the conclusion of the two-year project cycle. Secondly, the project design depended heavily on the consolidation and analysis of lessons learned through experience. Formative indicators were considered most appropriate for both of these purposes.

The performance indicators that were selected for the NFCDCU Microenterprise Program included the following:

Technical Knowledge

- Provide ongoing technical assistance to 25 practitioner CDCUs
- Expand NFCDCU's own capacity to deliver microenterprise training
- Develop a national turnkey model training program tailored to the needs of CDCUs and based on global best and promising practices

Access to Capital

- Successful microenterprise programs will become eligible for NFCDCU Microenterprise Collateralization Deposits

Supply of Skilled Staff

- Increase number of Americorps*VISTA staff providing specialized microenterprise support to CDCUs

Research & Lessons Learned

- Evaluation conducted after one year and results shared throughout NFCDCU membership

Credit Union Performance

- Five to 10 CDCUs will implement targeted microenterprise programs within the first year
- Increased tracking of microenterprise lending by member CDCUs (baseline 52%)
- Increased scale of microenterprise lending

  (See quantitative indicators in table below.)

Original Quantitative Impact Indicators		
Indicator	**2000 Projected**	**2002 Projected**
Total Number of microenterprise clients served	1,469	1,703
Number of microenterprise loans	1,224	1,419
Value of microenterprise loans	$7,441,920	$8,634,100
Number of training clients	294	511
Average training hours	1	2
Number of TA clients	1,175	1,447
Average TA hours per client	1	2
Percent of cost recovery	75%	80%
Number of assisted businesses	1,469	1,703

Expected Impact

Based on the data collected for the 1997 survey of microenterprise lending in CDCUs and follow-up surveys on a select sample of credit unions, NFCDCU program staff had determined that a little over half of its member credit unions tracked their microenterprise loans. These CDCUs averaged a little more than one microloan per month. Given the time needed for NFCDCU to design and deliver the new training model, the additional time required for CDCUs to absorb and act upon the content of that training, and finally for microentrepreneurs to respond to these new opportunities, no significant increases in the scale of microlending was expected within the two-year project period.

These projections were based on the assumption that rates of microlending would remain constant at historic levels among the 160 credit unions that were NFCDCU members as of 1999. While the original survey data was collected in 1997, a small sample of credit unions was re-surveyed in 1999 to validate the original findings and estimate any underlying trends. The follow-up survey determined that rates of microlending were fairly stable, with little growth shown or expected in the short term.

STRATEGY FOR SCALE UP

Summary of Experience

The program strategy was to build an effective training model that complemented the considerable experience that CDCUs already had in lending to microenterprises with the lessons learned from leading domestic and international programs. *For practical and regulatory reasons, most credit unions do not track their lending to microenterprises; these transactions generally are recorded as personal consumer loans. As a result, most CDCUs have more experience with microlending than is often recognized, and even more than they themselves believe.* The new training model would channel this valuable experience into a set of formal and transparent systems and procedures that would help credit unions to assess and manage the risk of microenterprise lending on a much wider scale.

Name & Location Of Credit Union	Year Chartered	Assets	Capital Ratio	Loans to Shares & Deposits	Delinquency
ASI FCU, Harahan, Louisiana	1961	146,086,548	7.68%	84%	0.98%
Bethex FCU, Bronx, New York	1970	7,719,198	14.19%	38%	5.74%
Central Oklahoma FCU, Davenport, Oklahoma	1988	14,266,414	6.81%	78%	2.81%
Consumer's FCU, Gregory, South Dakota	1977	4,053,187	6.18%	69%	1.89%
Genesee Coop FCU, Rochester, New York	1981	5,112,545	10.52%	98%	1.65%
Homesteaders FCU, New York, New York	1987	2,970,797	10.03%	44%	1.57%
Lower East Side People's FCU, New York, New York	1986	6,929,568	8.02%	27%	0.49%
Newport News Neighborhood FCU Newport News, Virginia	1968	290,172	7.00%	5%	0.00%
O.U.R. FCU, Eugene, Oregon	1969	3,919,019	1.98%	67%	3.59%
Progressive Neighborhood FCU Rochester, New York	1995	2,215,363	9.56%	51%	4.62%
Rowan-Iredell Area CU, Salisbury, North Carolina	1942	1,906,750	0.87%	65%	9.14%
Union Settlement FCU, New York, New York	1957	7,633,584	8.04%	36%	1.58%

Source: Callahan and Associates. Data as of June 2001

The training model was developed with the help of 12 CDCUs that were recruited to provide information on capacity constraints and training needs, and ultimately test different elements of the model. The 12 credit unions listed in the table above are representative of the NFCDCU membership; the CDCUs serve low- and moderate-income communities in rural and urban areas, with median assets of less than $5 million and a median full-time staff of five.

The technical content of the training model was based on a research into the best and most promising practices of leading microfinance programs within the United States and around the world. The structure of the training model was shaped by a needs assessment of the 12 credit unions listed above.

Organizational Implications

The new training model required organizational adjustments for both NFCDCU and the participating credit unions. The NFCDCU microenterprise and business-lending expert was initially hired to work with New York area CDCUs and deliver technical assistance directly to both credit unions and their microenterprise borrowers. The national ambition of this new program required that a different model be developed that would allow effective training services to be delivered to a larger number of geographically dispersed credit unions as efficiently as possible.

Credit unions have to make a complex series of organizational adjustments to introduce or expand a microlending program. First, board members of individual credit unions need to endorse an expansion of microenterprise lending as a worthy and feasible goal for their individual credit unions. Secondly, credit union management has to assign responsibility for the microenterprise program to one or more staff — a particularly difficult challenge for the smallest credit unions that have fewer than five full-time staff. Finally, credit unions have to adjust their normal operating systems and procedures to promote and manage a new microenterprise initiative.

For large credit unions, the advantage of having more staff and financial resources is balanced against the normal challenge of introducing change into a complex system of established routines. For smaller credit unions there is typically a shorter distance between training and implementation, since the trainees are often the people who will be responsible for carrying out the entire program themselves. But, while smaller CDCUs may appear to be more nimble, they are also challenged by the heavy and diverse workloads borne by individual staff that prevent any one employee from focusing exclusively on a given program or initiative.

For large credit unions, the advantage of having more staff and financial resources is balanced against the normal challenge of introducing change into a complex system of established routines.

Results to Date

Of the 12 credit unions selected to pilot the training model, 11 have significantly expanded their focus on microlending and their capacity to track these loans to a reasonable standard. One credit union was forced to withdraw from the pilot program due to a reduction in staff.

The table below summarizes the results achieved to date in comparison with the original performance indicators.

Original Performance Results Indicators	Results to Date	Comments
Technical Knowledge		
Provide ongoing Technical Assistance to 25 practitioner CDCUs	TA provided to 12 CDCUs	The initial assumption was that 25 new credit unions could be trained in each of the first two years. The time required to develop the turnkey manual shortened the effective period to one year, and reduced the pilot training group to 12 CDCUs.
NFCDCU's own capacity to deliver microenterprise training will expand	Done	Capacity was enhanced both through the completion of the turnkey manual, expansion of training sessions at conferences and the CDCU Institute™ and successful application for an SBA PRIME award to extend the training model to include the development of the entrepreneur through strategic partnerships.
Develop national turnkey model training program tailored to CDCUs based on best practices	Done	The first drafts have been completed and tested among the 12 participating CDCUs. Based on feedback received from these credit unions, technical staff and other reviewers, additional revisions are expected to maximize the effectiveness of this tool.
Access to Loan Capital		
Successful microenterprise programs will become eligible for NFCDCU Microenterprise Collateralization Deposits	$75,000 of microenterprise collateralization deposits were awarded in 2001	This is an ongoing initiative of the NFCDCU Capitalization Program to raise capital from private investors and promote the use of these deposits among qualified member credit unions.
Supply of Skilled Staff		
Increased number of Americorps*VISTA staff providing specialized microenterprise support to CDCUs	Eight microenterprise and 43 IDA staff assigned to CDCUs during 2000-2002	Number of microenterprise VISTAs declined from nine in 1998 to three in 2002, but this was offset by growth in IDA VISTAs, who increased from 18 in 1998 to 23 in 2002. Since micro-enterprise is one of the potential uses for IDA savings accounts, many CDCUs prefer to have their VISTA staff handle both IDA and microenterprise initiatives. In addition, improved technical and training services from NFCDCU appear to have diminished the demand for full-time VISTA staff devoted exclusively to microlending.
Research & Lessons Learned		
One-year evaluation conducted and results shared throughout NFCDCU membership	Pending	The initial plan for this exercise did not allow sufficient time for the training model to be designed, produced and tested, and has been re-scheduled for April 2002. A 1997 survey of the general membership will be used as a baseline to compare the experiences of the 12 CDCUs that participated in the microlending training pilot. The results from this evaluation will be shared with NFCDCU members during the annual meeting in Indianapolis in June 2002.
Credit Union Performance		
Five-10 CDCUs will implement targeted microenterprise programs within the first year	Done	Ten CDCUs implemented targeted microenterprise programs within the first two years.
Increased tracking of microenterprise lending by member CDCUs (baseline 52%)	Increased to 83% among trained CDCUs	Ten of the 12 CDCUs that participated in the pilot program (83%) have implemented microlending tracking systems to a reasonable standard. Only four (33%) tracked these loans before the training.
Increased scale of microenterprise lending	Average number of microloans per CDCU grew by 33% between 1999 and 2001	Anecdotal data is encouraging at this point, but reported increases in microlending must be evaluated in the context of complementary factors, such as presence of Americorps*VISTA staff, access to capital or location in an active microenterprise marketplace.

Another indication that the training program elevated the profile of microenterprise lending within individual credit unions is the revived interest in obtaining certification as a Small Business Administration (SBA) lender. As of January 2000, only one out of 12 (8 percent) of the CDCUs that participated in the microlending training program was an approved SBA lender. As of January 2002, four of the 12 (25 percent) had been approved and a fifth credit union had applied and was awaiting approval from SBA. By comparison, only 7 percent of the 208 NFCDCU member credit unions are currently certified as SBA lenders.

Effects on Increasing Scale

Although there is not enough data to determine the statistical significance of increased microlending by the credit unions that participated in this program, the early signs of growth are encouraging. The data reported by these credit unions indicates that by the end of 2001, the rate of microenterprise lending was already twice the 1999 baseline rate. Comments from these CDCUs have generally pointed to the practical benefits of the training model, and credit the program with providing a framework that, in the words of one respondent, is "…helpful in rolling out the program."

While these early indications are encouraging, it would be misleading to attribute these positive changes exclusively to the effects of technical training. The training model was designed to complement other forms of external support for credit unions; training was considered necessary for building institutional capacity, but not sufficient by itself to achieve the desired results. Regardless of the quality of external support, credit unions themselves must have both the organizational will and the market opportunity to capitalize on external investments of technical, financial and human resources. The value of training for any particular credit union must be evaluated within this broader operational context.

Next Steps

In November 2001, NFCDCU was awarded an SBA PRIME grant to further refine and expand the current model for one more year. One of the training elements that will be emphasized in the next phase will be the strategy for delivering high-quality technical assistance to the entrepreneurs themselves. Few credit unions have the resources to develop a resident capacity for entrepreneurial training, but many CDCUs can find local partners that specialize in that type of assistance. Future training will provide examples of successful partnerships between CDCUs and other community-based organizations to meet the critical need for this type of entrepreneurial assistance.

We will give more emphasis to techniques for marketing and outreach in future training programs. Experience to date indicates that microlending programs require a targeted promotional strategy beyond the ones normally used for recruitment of general members. Future training will also devote more attention to the client intake process and initial assessments, and the development of individual entrepreneur action plans.

Few credit unions have the resources to develop a resident capacity for entrepreneurial training, but many CDCUs can find local partners that specialize in that type of assistance.

LESSONS LEARNED

Strategy

Evidence indicates that appropriate training can indeed increase the confidence and capacity of CDCUs to engage in microlending. This increased capacity, in turn, can increase the scale of microenterprise lending. Although the national microlending training strategy is basically sound, experience has shown that some of the underlying assumptions must be revised. Perhaps the most important assumption was that the demand for microenterprise loans would readily meet any increases in CDCU supply. In fact, while CDCUs continue to see evidence of strong demand for microloans in their communities, they now recognize that more time and resources must be devoted to marketing and outreach to bring entrepreneurs through the credit union doors.

A second assumption was that the turnkey training manual could present a single recipe for the introduction and expansion of microlending programs for all CDCUs. However, an early analysis of the needs assessments from the 12 participating CDCUs showed how their distinct organizational characteristics translated into diverse training requirements. This diversity reflects an underlying strength of CDCUs as community-owned financial institutions. This diversity also argued for the training manual to include a variety of approaches that could be adapted to different institutional circumstances — the need for a simple cookbook rather than a single recipe.

The training strategy clearly benefited from being part of a larger effort by NFCDCU to promote microenterprise lending by our member credit unions. The availability of Americorps*VISTA staff and microenterprise collateralization deposits provide a measure of assurance to credit unions who perceive that the risk of microlending is simply too great to be absorbed by their human and financial resources. In the coming year, an improved NFCDCU web site will offer credit unions easy access to the lessons and experiences of other CDCUs engaged in microlending.

Principal Challenges

One of the principal challenges faced by the CDCUs that participated in the training program was having adequate and appropriate staff to take on the microlending initiative. Ironically, staffing was an issue for both the smallest and largest credit unions in the exercise. The smallest credit union was forced to withdraw from the program in the second year due to a reduction in staff, and the largest CDCU in the program lost momentum when the employees who had received training left the credit union. The latter remains committed to microlending, but now must select new staff to be trained and to champion the introduction of a more formal microlending program.

Marketing and outreach remain a considerable challenge for CDCUs. Microentrepreneurs have proven to be fairly elusive and immune to the promotional techniques that CDCUs employ for general membership. In some cases this is intentional, as many entrepreneurs operate undocumented, informal enterprises. To be successful, CDCUs must understand the market for their microloans and find effective ways to promote their new loan products within this informal community of entrepreneurs.

As regulated, multi-service financial institutions, credit unions are also challenged by NCUA examiners who tend to be skeptical of any new initiatives. Regulators are particularly uncomfortable with programs that are supported with grants or other subsidies, for fear that the activity will drain resources in support of something that is fundamentally unsustainable.

Lessons for Broader Industry

A number of important lessons have emerged from this pilot:

- **Marketing and Outreach:** The particular challenges of reaching microentrepreneurs argue for continued research and discussions among practitioners to identify the best and most promising techniques for CDCUs to promote their microlending programs and products. Time-tested strategies for growing the general membership of a credit union will almost certainly prove inadequate to the task of attracting new business from microentrepreneurs.

- **Continuous and Charismatic Leadership:** Whether a credit union is large or small, microlending programs need an internal champion who will maintain the vision and work creatively to overcome challenges as they arise. High rates of staff turnover, or a simple lack of staff in the smallest of credit unions, may rob the initiative of much needed momentum.

- **Advocacy with regulators and investors:** Credit unions and related trade associations need to raise the profile of microlending among regulators to decrease the perceived risk of these activities. Social investors should also be encouraged to provide capital to help offset the risks of new and expanding microlending programs.

- **Collaboration with other Community-Based Organizations:** Strategic partnerships with other community-based organizations can extend the outreach and improve the performance of a credit union microlending program. Community development credit unions generally cannot meet the needs of microentrepreneurs for non-financial services, yet most communities have entrepreneurial training services that can complement the financial services offered by the local credit union. Such partnerships can enhance a credit unions microlending program in two important ways. First, the partner organization can serve as a marketing vehicle that allows CDCUs to promote their microenterprise program directly to a target audience of entrepreneurs. Secondly, a partner training organization can provide pre- and post-loan technical assistance to entrepreneurs, thereby reducing the credit risk for CDCUs.

NFCDCU
Preliminary Survey of Microenterprise Loan Originations
Among Credit Union Participants in Pilot Micro Lending Training Model

Micro Loan Originations										
Credit Union	historic						projected			
	1999		2000		2001		2002		2003	
	# loans	amount	# loans	amount	# loans	amount	# loans	amount	# loans	amount
CDCU 1	39	$333,395	50	$425,080	59	$500,690	68	$575,000	77	$650,000
CDCU 2	31	$400,000	35	$450,000	39	$506,250	44	$569,531	49	$640,723
CDCU 3	26	$64,390	17	$62,424	12	$57,168	24	$96,000	36	$144,000
CDCU 4	6	$22,501	10	$37,805	16	$63,380	21	$80,000	26	$100,000
CDCU 5	8	$24,000	9	$30,000	14	$140,000	15	$75,000	15	$75,000
CDCU 6	6	$25,100	6	$21,963	11	$29,997	11	$40,000	13	$45,000
CDCU 7	1	$5,000	2	$35,000	2	$31,000	10	$100,000	15	$150,000
CDCU 8	1	$6,000	3	$18,000	3	$18,000	6	$36,000	9	$54,000
CDCU 9		$0		$5,000		$40,000		$55,000		$85,000
CDCU 10										
CDCU 11										
CDCU 12										
Totals	**118**	**$880,386**	**132**	**$1,085,272**	**156**	**$1,386,485**	**199**	**$1,626,531**	**240**	**$1,943,723**
Averages	**15**	**$97,821**	**17**	**$120,586**	**20**	**$154,054**	**25**	**$180,726**	**30**	**$215,969**

Notes:

1. Identities of individual credit unions are not disclosed to protect confidentiality of credit union information.

2. Data is unavailable from three credit unions, one of which withdrew from pilot program due to reduction in staff. The remaining two are temporarily unable to report, but are viewed as among the most successful performers, so tabulated averages are considered valid and perhaps conservative.

STATEWIDE INTERMEDIARY STRATEGIES FOR ACHIEVING SCALE

Nebraska Microenterprise Partnership Fund

ORGANIZATION'S BACKGROUND

The Nebraska Microenterprise Partnership Fund (NMPF) serves as a statewide financial intermediary and support organization for microenterprise practitioner organizations across Nebraska. Certified as a CDFI in 1998, the Partnership Fund's primary objective is to serve as a vehicle for raising funds that would not otherwise be available to Nebraska practitioner-programs. In addition, the Partnership Fund works with the Nebraska Enterprise Opportunity Network (NEON), the state's microenterprise trade association, to increase public awareness about microenterprise. It also assumes research and development functions to determine which other microenterprise delivery activities can be effectively performed at the statewide level.

Statewide intermediary strategies for advancing microenterprise development and, implicitly, achieving scale can be traced back to 1988, but the various efforts since then have not been seriously studied. With this in mind, NMPF applied to become part of the FIELD Achieving Scale project, so that these experiences can be better understood.

The definition of a *statewide microenterprise intermediary* used here is a statewide strategy or institutional framework designed to attract new state-level funding to distribute to microenterprise practitioners serving that state.[1] The core financial functions performed by a statewide intermediary are fundraising and redistribution. Other non-financial functions, however, also can be important, including collecting and aggregating statewide data, using that data to stimulate program learning and policy-maker understanding, creating mechanisms for adopting best practices, coordinating program delivery and reducing duplication, and promoting other microenterprise-related efforts like individual development accounts.

Two important factors support greater interest in statewide microenterprise approaches. First, state-level funding sources, both public and private, have not actively supported microenterprise development in many states. One explanation for this omission is the absence of an appropriate statewide funding vehicle that corresponded with these missing investors' statewide, rather than local, perspective. Secondly, the increasing use of the block-granting of federal programs has put more and more decision-making for federal dollars in the hands of state and local officials. Again, the absence of a statewide intermediary funding vehicle may diminish microenterprise practitioners' capacity to access these growing, state-controlled funds. The original rationale for NMPF was the creation of a statewide intermediary vehicle which could respond and enhance perceived new fundraising opportunities. At NMPF's founding in 1994, this had become more urgent as selected national foundations began a gradual, but steady withdrawal from support for microenterprise programming.

The politics and structural options of various statewide intermediary strategies is outside the scope of this paper, but it should be noted that current strategies vary dramatically from state to state. The Nebraska approach is one example, and can be characterized as a model which uses a newly created, dedicated statewide non-profit organization to perform the intermediary functions. NMPF was created specifically to serve as a wholesale-level intermediary that aggressively raises and then, redistributes these funds (through re-granting and re-lending) to microenterprise-practitioner programs through a competitive request for proposal (RFP) process. For more information on the legal structure of Nebraska and other state models, see "Securing State-Level Funding: The Role of State Microenterprise Intermediary Strategies," *Effective State Policy and Practice* (Vol. 1, No. 2), available from the Corporation for Enterprise Development (CFED).

1 Regional rather than statewide intermediaries may be effective in selected sub-state or multi-state areas.

STATEMENT OF CHALLENGE

NMPF's participation in FIELD's Achieving Scale learning cluster was intended to explore how the greater statewide scope of a statewide intermediary could help achieve improved delivery scales and broader customer access to microenterprise services. NMPF activities focused on three hypotheses:

1. ***"New investors" hypothesis:*** New funding and investment capital is needed to finance program expansion and greater scale, and a statewide microenterprise intermediary was a vehicle to attract new, otherwise unavailable funding to finance this new scale. This would primarily come from local- and state-level funding sources which, until NMPF's existence, lacked an appropriate funding vehicle for investment in microenterprise development. One corollary of this hypothesis is that, in a state the size of Nebraska (population 1.6 million), the pool of state- and local-funders observe and communicate with each other closely and are readily impacted by each other's charitable investment activities. As a result, switching to state- and local-level funders could have a snowball effect resulting in multiple funding opportunities for the same single effort. A second corollary to this hypothesis was that these "more local" funding sources would be more reliable over the long-term than national-level sources. A statewide standardized data collection system would be implemented, analyzed and used to demonstrate the effectiveness of the strategy to keep those funders apprised of local measurements and impacts and, as a result, retain these funders as permanent sources of supportive income streams.

2. ***"Program expansion" hypothesis:*** By using its statewide perspective and authority as a funder, NMPF could focus distribution of funds to those programs fulfilling important goals of broader access and higher scale. The statewide data, mentioned in number 1 (above), would be utilized both as a learning tool for practitioner-grantees and as a device for developing new performance goals for each subsequent round of funding.

3. ***"Delivery coordination" hypothesis:*** As a funder of microenterprise programs equipped with a statewide data collection system, NMPF would be in a position to work with practitioner-grantees to explore programs' comparative advantages and remove delivery duplication as well as promote access to underserved rural communities and urban neighborhoods. This would result in enhanced delivery and improved scale. In addition, certain non-financial intermediary functions could be utilized to expand delivery scale.

An important tool in all these hypotheses was the use of a standardized data collection system which would be analyzed and reported to optimize both investors' and practitioners' understanding.

State Intermediaries and Scale

As described in the background to the 2000 FIELD "Request For Applications" (RFA), there is a large discrepancy between the potential U.S. microenterprise market and the microenterprise field's capacity to serve that potential market. While 1999 projections estimated that there were 2.3 million low-income microentrepreneurs in the U.S., only a small percentage of these were being served by microenterprise programs. The FIELD Achieving Scale cluster was formed, in part, to probe this discrepancy by supporting and studying proposals with the "potential to dramatically expand outreach and generate significantly higher numbers of clients over time." NMPF proposed addressing the scale discrepancy in Nebraska by using a statewide intermediary strategy to achieve improved aggregated scales.

Page 2 of the FIELD Achieving Scale RFA identified the challenges to scale in the U.S. The first column in the table below summarizes those challenges and Column 2 shows theoretic ways in which NMPF hoped to address them.

Challenges of achieving scale	NMPF's related actions
1. Little precise knowledge about demand.	a. Continue and improve statewide data collection systems to learn more about demand.
2. Slow-growing programs.	b. Use improved data collection to prompt self-analysis by awardees. c. Use grant-making authority to create incentives for higher performing programs.
3. Lack of earned revenues to support program expansion; the resulting greater dependence on fundraising made training-led or training-only programs particularly vulnerable.	d. Raise new, otherwise available state-level funds to subsidize microenterprise development, in effect, turning state-level funding into a reliable income stream that promotes expansion. e. Educate state-level policy-makers about the wisdom of supporting microenterprise as a permanent state policy.
4. Uneven distribution of services, including duplication of service.	f. Use statewide data to clearly identify delivery discrepancies and access inequities. g. Initiate practitioner discussions on how to explain and address discrepancies and inequities. h. Use grant-making authority to create incentives that address inequities.
5. Failure of practitioners to "see scale-up as part of their organizational mandates."	i. Use grant-making authority to create incentives for expansion and improving sustainability. j. Facilitate trainings by nationally recognized, high-performing programs.

STRATEGY FOR SCALE-UP

NMPF was formed as a dedicated statewide microenterprise intermediary in 1994. It was incorporated in 1996 and certified by the Community Development Financial Institutions (CDFI) Fund as a CDFI "intermediary" in 1997. From the beginning, NMPF chose to forge formal public-private partnership arrangements with state government and quasi-public entities, as well as available private sources with statewide perspectives. The governor at the time was sympathetic to microenterprise strategies, and, as will be discussed in more detail below, he promoted constructive relationships between the Nebraska Department of Economic Development and NMPF and the state's microenterprise trade association, the Nebraska Enterprise Opportunity Network (NEON).

NMPF's strategies for each of the above three hypothesis are summarized below.

New investor: In NMPF's early experience, the process of attracting and, even more importantly, *keeping* local- and state-level investment in microenterprise development is a different process from dealing with national-level funders (federal government and national-level foundations). By definition, the funders that NMPF was approaching were located and committed to the very communities in which the state's practitioners were working. In a state the size of Nebraska, whether state legislator, local donor or statewide banking chain, a local investor's concern for his or her constituency or community will be both more cogent and informed. These local investors are likely to be more involved and more responsive to actual perceived impacts. They are also more likely to have their own independent sources of information and, as a result, documentation and measurements of impacts will be more critical.

Accordingly, NMPF developed a strategy to make both formally collected data and anecdotal evidence more readily available to these funders. In 1999, NMPF worked closely with the 12 practitioner-grantees to

develop a joint data collection scheme. Recently, this scheme has been revised to make it comply with national measurements used by MicroTest. This data needed to be collected and analyzed and then effectively and regularly reported to these funders. NMPF's strategy held that persistent and selective exposure combined with solid performance and a commitment to evaluation could convince state-level funders that microenterprise development was a critical investment for the state. NMPF implemented this objective by maintaining close coordination with NEON which, as a trade association, served as the public policy voice for microenterprise.

Program expansion: NMPF's strategy for promoting program expansion included using the re-granting (and re-lending) process to reward high performing programs. Over the four-year period of NMPF's grant distributions, the maximum grant has grown from $25,000 to over $100,000 per year. Size of grants is directly related to measured performance. In one year, microlenders were granted $350 per microloan supplement to a base award. A program originating 50 loans per year would receive a $17,500 supplemental award. Similarly, programs serving hard-to-reach customers were provided supplements for serving distressed target markets that could be documented using federal data.

Delivery coordination: Program expansion was also served using improved data collection (discussed above) to jointly analyze under-served populations, and discussing a coordinated strategy for serving those populations. NMPF also used its funds to invite representatives from innovative and high-performing programs from outside Nebraska to provide insights and summaries of new delivery models. More recently, it used its PRIME grant to provide strategic-planning training to all grantees and one-on-one strategic planning assistance to high-performing programs interested in upgrading their work and applying for CDFI certification.

As a statewide intermediary, NMPF is in a unique position to engage grantees-practitioners and stakeholders in discussions about how NMPF can enhance microenterprise development in Nebraska. NMPF is currently working with grantees and NEON members to develop a statewide referral system that will become a mechanism for linking all microenterprise programs and then linking commercial lenders and others into this statewide system. This project is funded in part through a grant from the Local Capital Markets Initiative Fund of the Corporation for Enterprise Development.

Results

State intermediaries are new structures with few models to guide their development. One or two years of data may produce erratic numbers which are not reliable for future projections. However, NMPF's seven-year history, including five years of fundraising and four rounds of grant redistributions, begins to provide sufficient perspective to gauge results. These are discussed using the three hypotheses introduced at the beginning.

1. New investors

a. **State policy-maker actions**: In mid-year 2000, NMPF's strategic partners, NEON and the Center for Rural Affairs,[2] succeeded in doubling the microenterprise appropriation, under the Nebraska Microenterprise Development Act (LB 327), from $250,000 per year to $500,000 per year. This was a significant achievement, especially considering that it occurred under a different administration and change of political parties. More recently, however, continual state revenue shortfalls have threatened these increased appropriations over a series of special legislative sessions (Fall 2001) and then again during the regular session (Spring 2002). NEON mobilization, including the effective use of aggregated

2 The Center for Rural Affairs, a rural advocacy organization in Walthill, Nebraska, is the parent organization of the Rural Enterprise Assistance Project (REAP), the largest microenterprise program in the state.

data and constituent support, held the first threat to an across-the-board 5 percent decrease. Many other programs were not so fortunate. A second, more serious threat occurred when tax revenues fell even further, and the legislature, during the regular session (Spring 2002), was unable to raise sufficient new revenues to balance the budget. Resulting line-item vetoes by Governor Mike Johanns cut microenterprise funding to its pre-2000 level of $250,000, and last minute efforts to save the increase failed. This vulnerability to state revenue streams is an important lesson in NMPF's growth, and has resulted in more sophisticated state policy analysis and strategies. The coalition with NEON and the Center for Rural Affairs led to a spirited defense and a more rigorous and persistent commitment to restoring this funding to its earlier level.

The use of aggregate data deserves elaboration. Data collection is typically used for program self-examination and stakeholder reporting. However, when the stakeholder is state government, data collection and presentation becomes a policy tool. NMPF makes sure that the NMPF-prepared Annual Report to the Legislature (required under LB 327) (available at http://crd.neded.org/microentarp01.pdf) gets maximum exposure. The regular and on-going education effort keeps the program in front of policy makers and reminds them that this effort enjoys a growing constituency that warrants continued and permanent support. In addition, the Fund-prepared report is traditionally accompanied by a transmittal letter from the governor which adds an official imprimatur to NMPF's role in this public-private partnership.

Charts 1 and 2 illustrate NMPF's progress in expanding state-level funding and reducing dependence on national funders. Highlights from these two charts include:

- Total programs' aggregate operating budgets increased by 168 percent from 1997 ($450,000) to 2001 ($1,207,000) (Chart 1).
- The state and local share of support for aggregate operating budgets increased by 365 percent during the same period ($200,000 to $930,000) (Chart 1).
- By 2001 (Chart 2), the Nebraska funding mix had grown to over 75 percent state and local.

CHART 1: Nebraska All Programs' Operating Budgets:
Changes in State & Local Support Levels ($)

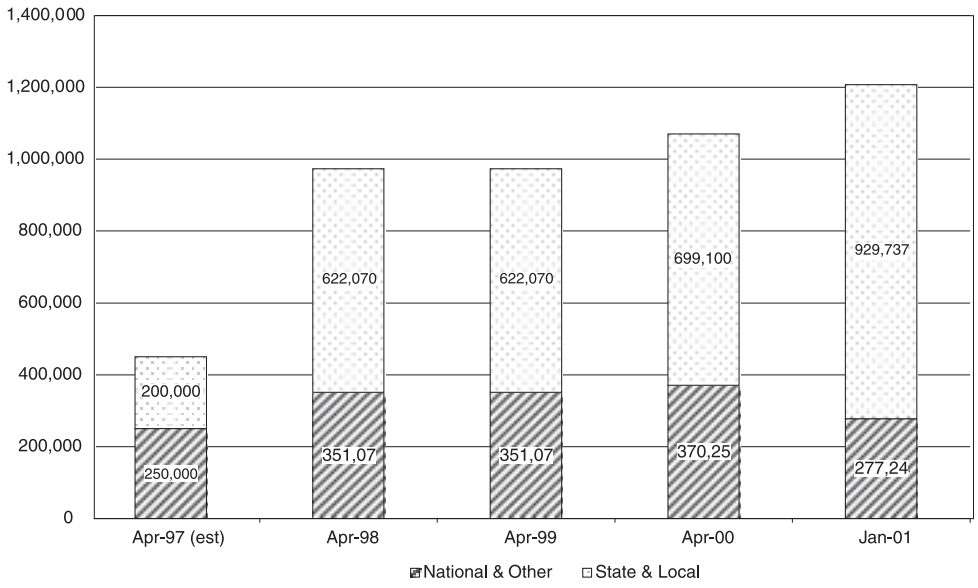
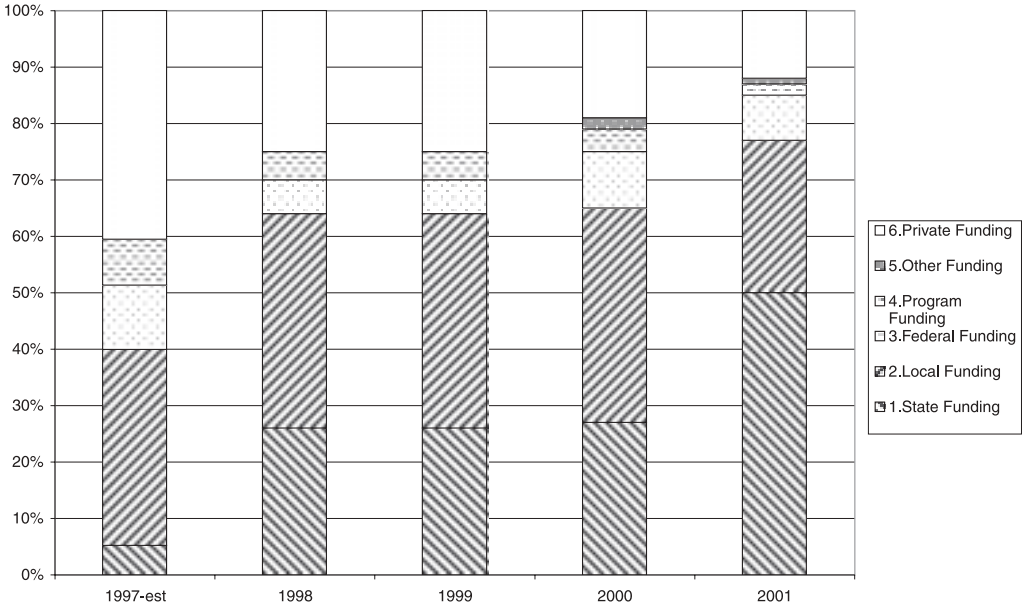


CHART 2: Nebraska All Programs' Operating Budgets:
Changes in State & Local Support Levels (%)



These results are dramatic and represent important testament to the capacity of statewide intermediaries to contribute to scale-up by identifying significant new funding sources.[3]

b. Other state-level funders: As indicated above, one corollary to this hypothesis is that state-level funders in Nebraska, may be influenced by each other, and when a major funder, like the state legislature, endorses a new economic development approach, other state-level funders take note and consider funding this activity. This "snowball" effect may be truer at the state level than the federal level for a couple of reasons. First, a state intermediary has, by definition, positioned itself as the one-and-only statewide grantee for re-granting (or re-lending) to microenterprise practitioners. Once state-level funders have decided to support microenterprise and want their funding to be spread statewide, the statewide intermediary, by dint of its monopoly position, is the only game in town.

Secondly, state-level funders typically do not have the staff or budget to make elaborate independent grant making decisions. They rely instead on a kind of character-based decision that relies on the decisions and due diligence of other funders that they respect.

NMPF has, in fact, experienced some of this fundraising snowballing during the last two years when two statewide banks were bought out by national banking chains (US Bank and Wells Fargo). Both banks sought out NMPF, and it was clear from negotiations that they were influenced by two things — NMPF's CDFI status and the fact that other state-level funders had already placed their seal of approval on NMPF's activities. This snowballing creates a feedback loop which can also reassure and reinforce funders in their original decisions as they consider other causes they might support.

In NMPF's experience this snowballing is not automatic; it clearly takes time to develop, *and* it is certainly not divorced from performance. In the cases cited above, it is also clear that NMPF's status as a CDFI was critical.

3 Year 2002 will look very much like year 2001. Year 2003 may register NMPF's first re-granting decline because of recent state revenue shortfalls (see above).

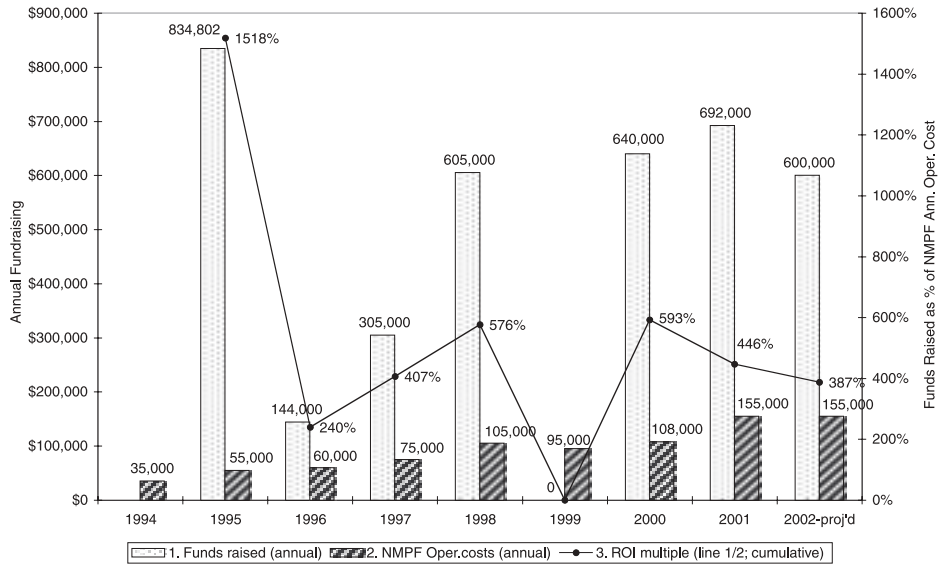
c. **More reliable funding streams:** This corollary is difficult to prove even given five years of funding experience. Recent experiences with the legislature (Spring 2002) show how damaging a persistent state revenue short fall can be to a relatively new program. And yet, the steady climb in state- and local-level funding sources shown in Chart 1 shows five years of reliable growth. In addition, not shown in Chart 1 is the steady, but important, growth in NMPF's loan pool. In the spring of 2002, it was just over $1.02 million ($620,000 in equity; $400,000 EQ2 at 2 percent), and this provides regular interest flow which provides a 20.5 percent sustainability ratio.

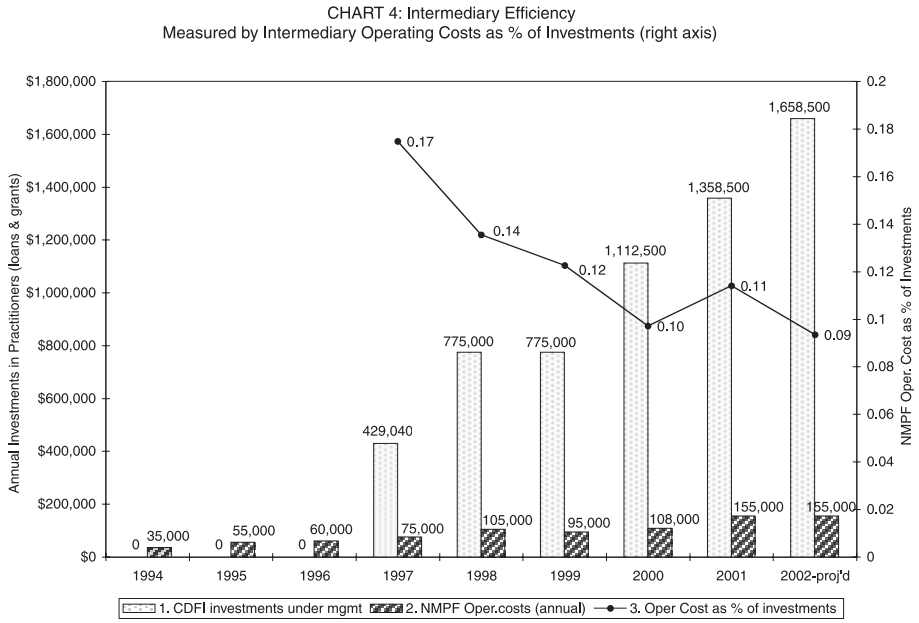
d. **New federal funding:** Although it was not part of the original "new investor" hypothesis, it is worth noting that a new generation of federal laws and bills supporting microenterprise has explicitly recognized wholesale-level "intermediaries" as a separate class of grantees. This means that state intermediaries can apply for funding without competing with their own grantees. At first, there was only one federal program, the CDFI Fund, which recognized this category. But then, the PRIME Act recognized this distinction and NMPF, as well as other state microenterprise associations and intermediaries, were funded under the PRIME intermediary track. Interestingly, the Senate version of the 2002 "farm bill" includes a whole new rural microenterprise program which, like PRIME on which it was modeled, recognizes intermediaries as a separate track from practitioners.

In a related development, NMPF was challenged indirectly to justify the creation of a new institutional layer in a field which already suffered from a lack of financial sustainability. To NMPF, the response is obvious: while it is certainly true that NMPF adds new costs to the overall Nebraska delivery system, it is also true that all of the funding raised by NMPF over the last five years and redistributed to practitioners would have otherwise been unavailable. The graph in Chart 3 documents the annual return on investment of NMPF fundraising. Measured by the amount of funds raised divided by NMPF's operating expenses, in every year but one (1999), NMPF raised funds significantly in excess of its operational costs. Over eight years, the return on investment averaged over 500 percent.

Certainly the cost effectiveness of intermediaries needs to be addressed as more states and regions become interested in the approach. Another indicator of intermediary efficiency is shown in Chart 4. This graph line shows the total funds under management[4] as a percentage of NMPF operating costs. As the chart shows this line has been trending down to an increasingly more efficient ratio (from 17% in 1997 to 9% projected for 2002).

CHART 3: Intermediary Return on Investment
Measured by Funds Raised as % of Intermediary Operating Costs (right axis)





2. Program expansion

As a funder, a statewide intermediary like NMPF is in a position to shape requests for proposals and the terms of practitioners' grant agreements so that they incorporate donors' intentions as well as NMPF's own analysis.

a. Redirecting awards to facilitate achieving scale: Elimination of the individual grant ceiling which, in the original law, had been set at $25,000 per program, made it possible for NMPF to institute larger performance-based awards. NMPF went from maximum awards of $25,000 (1999) to $50,000 (2000) to $100,000 plus (2001). The new process must be sensitive, thoroughly defensible and completely transparent, since it increases the grant differential and the competitiveness of the award distribution process.

When turning to actual measurements over this period, the picture is encouraging — more for some measurements than others.

- While direct annual loan originations went down during the four-year period in 1998 (83 loans) to 2001 (71 loans) (described below), when loan participations (which grew significantly in the latter years) are included, the 2001 figure would become 89 — a 70 percent increase.
- The outstanding loan portfolio (dollars) has more than doubled during this same period, from $743,000 (1998) to $1,589,000 (2001) or $2,192,540 if loan participations are included — a 195 percent increase.
- Similarly, the number of outstanding loans has steadily increased during the period, from 158 in 1998 to 251 in 2001.
- Training and technical assistance measurements also increased. The number of new trainees entering a program for the first time in the previous year increased from 287 (1988) to 1,133 (2001) — a 295 percent increase.
- The total number of trainees receiving service during the year (regardless of when they entered the program) increased from 1,019 (1998) to 2,973 (2001) — a 192 percent increase.

4 This includes NMPF's loan product which is an interest-only, five-year renewable note made to microlenders needing additional lending capital. NMPF's loans must be matched one-to-one.

While these measurements provide important information, they do not inform us, for example, of qualitative changes in lending or training services received by the customers. After discussions with grantees, they identified a number of changes in service levels which were *not* captured by NMPF's data collection system. Four of these are discussed below:

- Training: (1) Through training program linkages, over half of all trainees have access to other grantees' training, allowing trainees to transition from one type of training (provided by one grantee training program) to another (provided by a second training program). This movement up the "training ladder" is not reflected in the training measurements.
- (2) Roughly one-fifth of trainees now have access to GROW-Nebraska's assistance in preparing for large trade shows held in national metropolitan centers for the gift and craft industries. This enhancement does not show up in measurements.
- Lending: (3) All lenders noted that the increase in the average size of loans meant that more, larger loans were being made in the latter years of the four-year period. The average for new loan originations increased by 60 percent over the four years (from $3,877 in 1998 to $6,220 in 2001). These larger loans require more pre-loan lending services in the form of more thorough due diligence and attention to problem loans.
- (4) The more important point made by rural grantee-lenders was that there had been a shift in staff time from direct loans to loan participations or packaging which was not being reported. Microlender staff was assuming more pre-loan technical assistance, while the loan itself would be made by a lender outside NMPF's system. This would result in no measurement being recorded.

In an attempt to quantify this phenomenon, the Fund sent questionnaires to all microlenders, and found that in the last fiscal year (July 2000 to June 2001), there was staff participation in an additional 27 loans. Partnership Fund staff interviewed each microlender and determined that 17 resulted in "bona fide, but unmeasured" loans made by a non-system lender (commercial or local RLF) for $603,000 (average size $35,500). For the remaining 10 loans, there was insufficient evidence to conclude that the technical assistance had resulted in a non-system loan.

If these FY 2001 loan participations or packaging were added to measurements and compared to the growth from 1998, the results would be (far right column):

Measurement	Jun 98	Jun 01	Jun 01 (w/participations)	*
Loans on books (#)	158	252	269	70%
Loans on books ($)	$742,932	$1,589,540	$2,192,540	195%
Loans originated in FY (#)	83	72	89	7%
Loans originated in FY ($)	$321,782	$447,809	$1,050,809	226%
Loans originated in FY (avg. $)	$3,877	$6,220	$11,807	204%

** Change from Jun 98 to Jun 01 (w/participations)*

NMPF staff is still pondering the appropriate ways to improve measurements so as to capture real contributions made by practitioners, and looks forward to sharing its questions with the MicroTest network.

b. Inviting high performing programs as trainers: Two practitioners from highly regarded programs were invited to Nebraska to train and speak about their programs at NEON annual conferences:

Marisa Barrera of ACCION-New Mexico (November 2000) and Kevin Smith of Community Ventures Corporation (November 2001). Both trainers did an outstanding job and were extremely well received. Ms. Barrera's presentation sparked important discussions about relationship with rural bankers, and contributed to the current MIRS programs (described below). After Mr. Smith's presentation, several program practitioners have talked about adopting new product offerings. More recently, NMPF arranged to have Vicki Gillette of InterChange (Raleigh) train all grantees in long-term business planning for their organizations.

Of all the FIELD-identified obstacles to achieving scale summarized … the failure of practitioners to see scale as part of their organizational mandates may be the most troublesome.

While it is difficult to measure the impact of such visits on achieving scale, these trainings help set standards and expectations, and are a unique role which a state intermediary can perform. Of all the FIELD-identified obstacles to achieving scale summarized (see table above), the failure of practitioners to see scale as part of their organizational mandates may be the most troublesome. Nearly all Nebraska programs come from a social service or advocacy background and are accustomed to low self-sufficiency and "demo project" expectations. Setting high performance and scale expectations by exposing practitioners-grantees to excellent programs and requiring multi-year business plans, NMPF believes, is an important tool in changing that outlook. In a recent meeting with Partnership Fund staff, some program practitioners voiced a conscious decision to adopt a business development approach over their former social service approach.

c. **MicroTest adoption**: Plans are well underway to adjust NMPF data collection so that it is compliant with MicroTest definitions and criteria.

3. Delivery Coordination

This strategy builds from the fact that NMPF, as a statewide intermediary, is in a position to identify unique statewide support roles and can stimulate appropriately coordinated responses. In fact, unique statewide competencies emerged during the two-year Achieving Scale study period, but were in different areas from those expected.

a. **IDAs:** NMPF's original plan used development of a statewide IDA system as one area where it, as a statewide entity, could help the field move forward. In fact, there has been little movement in this area. NMPF has taken its cues from the fact that no practitioner has made this a serious priority, and NMPF decided there was no point in pushing a project for which there was no practitioner initiative or commitment. However, one grantee is considering making IDA a priority in the 2003 legislative session. NMPF is prepared to support this effort and offer appropriate statewide intermediary roles that might be identified.

b. **Hotline-MIRS:** By contrast, practitioner conversations have gone on for over three years about the need for practitioners to make proactive referrals among themselves and, then, between themselves and commercial lenders. Staff interviewed three individuals about referral methodology, including Marisa Barrera and Kevin Smith when they were on-site performing training to grantees (described above).

In addition, conversations with bankers, NMPF board and advisors led to launching the Microenterprise Information Referral System (MIRS) project to push forward on this initiative. At this point, a working group made up of practitioners is exploring how they can better participate

and work together in explicit, agreed-upon ways that go beyond simple referrals. Two key programs, GROW and REAP, through earlier NMPF support, have developed direct, one-on-one linkage between GROW's technical-assistance–only approach and REAP's lending capacity. Other programs may be able to tie into or build upon this experience. Right now MIRS represents an effort by all microenterprise programs to present a unified public posture as to how they jointly serve the state's microbusinesses.

After grantees have finished their conversation on a methodology for proactive referrals, the next step will be to see how MIRS can fit with commercial lenders. Right now, the consensus is that direct referrals from banks to microlenders is impractical for a number of reasons, but all agree that most commercial lenders in the state know little to nothing about the microlenders, and the MIRS approach can provide a vehicle for beginning a conversation with lenders, so that in the future they refer declined business owners to microprograms for assistance.

Finally, MIRS may be a way to develop a better approach to the growing area of microloan participation and packaging. Microlenders are coordinating their efforts more and more. MIRS provides a forum for them to continue this conversation formally and with an eye toward statewide standards of referral and coordination.

NMPF believes that this effort fits into its achieving scale objectives from the standpoint that MIRS promotes rationalizing currently "balkanized" microlending markets into a more coherent system. MIRS should result in improved efficiencies that can translate into improved product-delivery and greater scale.

c. **VISTA coordination:** NMPF has worked with NEON and AEO to explore the use of a coordinated statewide approach to the use of VISTA volunteers to staff selected microenterprise programs. This work is in the early stages, but as in MIRS, NMPF, as a statewide intermediary institution, is in a position to catalyze efforts that ultimately lead to improved scale.

d. **Federal Block Grant coordination:** Another example of the role that intermediaries, like NMPF, can play is in facilitating understanding of federal block grant opportunities. While NMPF has no dramatic success story to relate, it does know that, without a well oiled communication-sharing culture, program practitioners are likely to keep the information they learn about various block grants to themselves. Recently, NEON and NMPF worked together to disseminate important information about Nebraska Department of Labor opportunities using the Workforce Investment Act (WIA) for microenterprise opportunities. This particular example may not bear fruit, but NMPF believes that the "communication culture" it is promoting has a much better chance to score on these block grant opportunities than programs operating alone.

Organizational implications of statewide scale

The first major staffing realignment since NMPF began took place over the last two years. In an unrelated development, NMPF also decided to revamp its fiscal capacity and adjust its relationship with parent organization, the Nebraska Community Foundation (NCF), during this time period.

Before this re-staffing, NMPF's budget had stayed fairly level during the three years leading up to 2001 at near $100,000 per year. Beginning in FY 2001, it jumped to $195,000 in direct response to many of the increased intermediary activities described in this paper. These included an increase in staffing from 1.5 FTE to 2.5, an expansion in office space, staff training, and an upgrade of computer equipment and software. Much of this is the result of increased activities described in this paper. This expansion was accompanied by

an increase in revenue which came from two one-time awards, a doubling of NMPF's legislatively determined 10 percent administrative fee for managing the state's microenterprise program, and a multi-year PRIME program award which is dependent on the federal appropriations process.

Next steps

- NMPF board, advisors, and staff will conduct strategic planning as an organization this spring (2002) to take stock of the last few years' development and plan for the future directions.
- Staff will be preparing a new five-year business plan based on the last three years' experiences, and consider asking for a second award from the CDFI Fund.
- The grant approval process needs to be further refined to focus funding on high performing programs.
- Staff will consider inaugurating a "special grant" program to support initiatives that increase lending scale, for example, extra incentives to programs that partner to bring self-employment trainees to micro loans.
- Staff will upgrade data collection both for educational and marketing purposes, including incorporation of MicroTest criteria.
- NMPF — and the broader statewide intermediary field — needs to develop tools that allow it to measure an intermediary's performance. Charts 3 and 4 (discussed earlier) are NMPF's attempt to come up with measurable tools.
- Staff will focus on the MIRS project to facilitate current grantees and NEON members, creating a centrally marketed effort.
- NMPF will be open to extending its intermediary role to include other statewide products like IDAs, but will take its cues from practitioners who are prepared to take on the front-line leadership.

LESSONS LEARNED

New Funders: Raising funds at the state level is a sound, long-term strategy. State government can be a logical long-term partner in this process. As described above and in accompanying Charts 1 and 2, bringing new, long-term funding to the field is probably the most important NMPF success.

One state-level fund raising success can lead to another, and it is important to map out and understand how state-level funders are connected and when each should be approached within the overall context.

Also, state-level funders have come to understand that microenterprise is a long-term investment strategy — not a one-shot tactic to "seed" loan funds. This is extremely important for providing the long-term subsidy needed to support scaled-up microenterprise development.

Raising and, importantly, retaining state-level funding is different from private foundation or federal fundraising. It is both more relationship-based and information-based than national-level funding. Local- and state-level funders are geographically closer and have independent sources for assessing microenterprise impacts. Retention of these funders requires a commitment to evaluation and performance as well as regular and meaningful involvement of stakeholders.

State revenue shortfalls "trump" non-partisanship: Careful to avoid party politics, NMPF was able to transition from a Democratic governor to a Republican governor — even to double appropriations in the middle of the process. But the recent shortfall in state government revenues (Fall 2001 through 2002)

requires more than careful non-partisanship; it requires strategically placed legislative champions who are educated about microenterprise over several years.

NMPF, as a statewide intermediary, becomes an important spokesperson for microenterprise development, and as a pooler of public and private state-level funding, it has credibility that would be difficult for practitioner programs or consortia to attain.

Program expansion: As an intermediary funder of practitioner organizations, conveying the importance of achieving scale to practitioner organizations is a long-term strategy that involves not only funding incentives, but also setting and forging practitioner expectations through grantee meetings, and opportunities to learn about nationally recognized, high performing programs. Recognizing a greater statewide purpose (social and business development) has been welcomed by practitioners and helps them plan beyond their own program focus.

Both training and lending measurements improved significantly during the period. Training/technical-assistance–delivery increased 192 percent from 1998 to 2001. The numbers of outstanding microloans (including participations) increased 70 percent (from 158 to 269); and outstanding loan volume increased from $742,932 to $2.2 million — a 195 percent increase.

Of all the training/technical assistance and loan measurements, the number of annual direct loan originations was the hardest to budge. It declined from 83 in 1998 to 72 in 2001, even though all other loan measurements increased (dollar volume and participations).

Delivery coordination: An intermediary can play a number of "non-financial" intermediary roles to enhance efficiencies among practitioners, but the choice of these roles must be chosen carefully. For a minimalist statewide intermediary, like NMPF, it is important to keep in step with practitioner leadership, and include practitioners in the early stages of all statewide planning efforts. NEON's role is critical in this process as a customer and as a marketing sounding-board, and its buy-in can be critical to implementation, and enhance fundraising opportunities.

Finally, NMPF, wearing its "funder cap," can bring together specialized groups of practitioners (e.g., rural microlenders) to identify and solve specific inefficiencies that, but for NMPF's role, would not necessarily be addressed by practitioners alone.

On-going challenges

New Funders: Given NMPF's decision to position itself for state government partnering, both the formation and maintenance of NMPF require aggressive non-partisan marketing and solid performance results.

Even if fully non-partisan, state legislatures will easily dump a program one year after funding it and enthusiastically supporting it. A successful statewide intermediary program must immediately begin to think about how it will defend its funding next year and demonstrate regular presence and constant vigilance.

Program Expansion: In Nebraska, the social service and advocacy origins of microenterprise practitioners have reduced the organizational commitment to achieving scale and the practical understanding of the need for earned income.

Over the course of NMPF's history, some practitioners have dropped out, new specialized start-ups have emerged; some programs have grown, some stagnated; and some programs have actively cooperated with each other. One of the scale-up challenges is trying to understand the dynamic of this practitioner configu-

ration and how NMPF should shape it: How many programs will there be five years from now? Is program merger an effective strategy NMPF should consider?

Delivery coordination: Non-financial intermediary functions must be chosen carefully with a number of check points to reconsider the wisdom of the choice. NMPF must work with grantees at each step of the process without neglecting its fiduciary responsibility to investors, or sacrificing its own vision of what's best for Nebraska microbusinesses.

Broader lesson

Microenterprise development in the United States consists of large amounts of training and technical assistance. This is the least financially sustainable aspect of microenterprise development, and NMPF believes sizable sources of permanent support will be needed for the foreseeable future.

Achieving scale requires both new, long-term funding sources and improving effectiveness and scale. The development of state-level funding sources is an important way not only to help finance scale, but also introduce a set of funders who have both a natural commitment to the local community, as well as an interest in achieving scale. NMPF, as a developed statewide intermediary, presents an important model for bringing these important new forces to the field.

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FIELD forum #13 – Marketing Strategies for Scale-Up: FIELD's Grantees Share Their Experiences. This publication, written in Spring 2002, examines the market research and marketing strategies used by eight organizations trying to achieve breakthroughs in outreach, delivery methods, financing and institutional alliances. This forum is in pdf format for easy downloading.

FIELD forum #5 – Achieving Scale. Written at the outset of the Scale Learning Assessment, this publication describes the eight participating organizations, the strategies they intended to employ and why increasing scale matters. This publication also is available in pdf format.

A report on a gathering in 2000 of the eight Scale grantees, where participants shared insights and observations about the various market research and marketing techniques they were exploring under their FIELD grants.

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