Microenterprise Finance

- Approach mushroomed in past 15 years with foundation and federal government support
- Serves start-up and small businesses with one (self-employment) to five employees
- Service model combines training and technical assistance with lending
- Targets groups historically denied access to credit and TA: low-income, minorities & women
- Provides small loans: usually $500 -$10,000, but may be as high as $25,000
- Staff intensive programs due to small transactions and more intensive entrepreneurial assistance
- Broader goals than traditional ED programs: poverty alleviation and human development
- Three service models: peer group, individual, training

Peer Group Lending Model

- Adapted from successful experience in developing countries: Grameen Bank, ACCION International
- Borrowers operate in a group context with credit decisions and collections made by the peer group
  - Peer group also serves support and problem solving role
  - Loans are staged with short repayment periods and "graduation" to larger loans as earlier loans are repaid
  - Peer group guarantees the loans of all members.
  - New loans are not extended until the group repays all prior loans
- Mechanism to serve small, start-up businesses that lack collateral and need very small amounts of capital
- Can lower costs, reduce losses and expand access for inexperienced entrepreneurs
- Adds complexity, group process may deter some owners, longer period to gain sizable loan

Individual Lending Model

- Provides TA and credit to individual entrepreneurs
- Loan approval through "traditional" process
- Primary emphasis on credit with less extensive training and basic skill development
- Provides larger loan amounts ($5,000 - $25,000) with longer terms (1-5 years)
- Serves both start-up and existing businesses
- Simpler model, easier to scale-up, services tailored in business needs
- More staff intensive, larger capital needs and lacks support mechanism of peer groups

Training-Led Model

- Focuses on business knowledge and skills as key factor for business success rather than credit
- Business plan development as focal point for training
- Credit is an optional, not defining element, of the program
  - Entrepreneur can seek credit, defer start- up or not establish business
- Builds foundation in business skills & capacity; no staff and capital needs for lending
- Can add costs for intensive training and lacks credit incentive to attract & motivate entrepreneurs
- Adapt and combine models to meet local needs & goals
  - Institute for Social and Economic Development (ISED) combine training programs with helping entrepreneurs access existing private financing
  - Portable Practical Education Program (PPEP) - organizes associations among existing firms to deliver technical assistance and financing through these association

Program Characteristics & Performance

- 560 Programs in 2002: 2/3 provide training, 2/3 supply credit largely via individual lending programs
- Average program: 175 clients and 41 loans per year
- Loans average $6,700; Portfolios average $341,000
- Clients are largely women(64%) & low-income(58%)
- Training-led programs serve pre-start-ups with a high share of women and low-income entrepreneurs
- Credit-led programs serve start-ups and existing businesses; half of clients are women & low-income owners
- Median loan losses in 2000: 5% for training and 3% for credit-led programs
- High operating costs: $3,500/ loan; $379,000 per program
- Cost-recovery rates average 14%--programs are not self-sufficient and require sustained grant funding

Program Outcomes

- Studies report mixed outcomes:
  - Some show positive impacts with income gains lifting a large share of participants out of poverty
  - Others show modest job impacts and income gains
  - Most effective program have job impacts on the scale of small RLFS: about 100 per year
  - Businesses are largely self-employment often supplementing labor market income
- Taub vs. Servon: What is the ED potential of MEPs?

MEP Design & Operating Challenges

- Defining target markets and service area to generate sufficient demand and address underserved groups
- Choosing the appropriate model and services
  - Trends toward individual lending model and expanded services that assist clients overtime
- Reaching and involving historically isolated groups
  - Special outreach via “enterprise agents”, partnerships, and social, community, and business networks
- Managing the lending and servicing process
  - Formal lending policies and processes
  - Standards and evaluation tools that fit start-up, informal and low-income entrepreneurs
- Delivering diverse training & TA services
  - Address range of client and specialized business needs; evolve over time as entrepreneurs develop
- Securing adequate and sustained operating funds
  - Expanding income, raising core grants & diversified sources

Best Practices

- Aspen Institute FIELD Project (www.fieldus.org)
- Training
  - Pre-training assessment of participant's readiness to start a business
  - Focus training on business plan development
  - Strong emphasis on financial skills and structured real-world assignment
  - Specialized short modules to develop skills, address industry issues and more flexibility
- Technical Assistance
  - Extended technical assistance after training to help clients establish business and succeed with regular contact over a one to two-year period
  - Coaching and guidance in assessing appropriate assistance
  - Growth-oriented services to help firms access expanded markets.
  - Specialized industry knowledge and relationships and investment in new capacity are critical to help firms gain new markets.