

SOURCES OF PUBLIC FUNDING

The evolution of microenterprise programs has witnessed a significant increase in the number and diversity of funding sources which includes foundations, corporations and state and federal governments. Although private foundations, principally the Ford and Charles Stewart Mott foundations, played key roles in supporting the initial growth of the field, today governments are shouldering more of the funding responsibility. Since 1990, a wide array of federal programs have invested over \$300 million to advance microentrepreneurship (Source: Else, 1999). These sources are outlined in the matrix on the following pages. While state-level funding is too diverse to capture in such a format, it is increasingly important to many programs.

INTRODUCTION

The U.S. Department of Health and Human Services, through several of its agencies, was one of the first federal funders of microenterprise programs. As early as 1987, its Demonstration Partnership Program (DPP) provided two-year grants largely to community action agencies to "...stimulate eligible entities to develop new approaches to provide for greater self-sufficiency for the poor..." (Source: DPP, 1991). Other programs, such as the Job Opportunities for Low-Income Individuals (JOLI) project were designed to create new employment and business opportunities for low-income individuals, and although it did not explicitly target microenterprise, many JOLI grantees focused on microenterprise development.

Introduced and passed in 1991, the Small Business Administration Microloan Demonstration Program was the first legislation specifically targeting funding to microenterprise programs. The program makes a combination of grants and loans to nonprofit agencies for technical assistance and loans to entrepreneurs. Since its inception, the SBA has made 254 such awards totaling over \$100 million. In 1997, the program received permanent status as the SBA Microloan Program and is one of the largest federal sources of financial support for the field.

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More recently, the U.S. Department of the Treasury introduced the Community Development Financial Institutions (CDFI) Fund that awards grants, loans, equity investments, deposits and share capital to nonprofit credit unions, development banks, venture capital funds and loan funds.

As the chart on the following pages indicate, federal funding opportunities exist among numerous U.S. government departments including Agriculture (for rural enterprise development), Labor (offering self-employment as an option for the unemployed) and Housing and Urban Development (focusing on low- and moderate-income people). The latter is the source of the substantial Community Development Block Grant (CDBG) monies which are given to state and municipal governments for local distribution.

Program funding from most of these sources is divided into support for technical assistance and loan funds.

Technical assistance includes a wide variety of training and business planning assistance. Loan funds provide small loans (generally up to \$25,000) directly to entrepreneurs. The SBA Microloan Program refers to these institutions as “intermediaries” since they receive funds (as loans) and “on-lend” them to entrepreneurs.

Requirements for CDFI Certification

To be eligible for CDFI funding, an organization must demonstrate that:

- ◆ its primary purpose is to promote community development;
- ◆ it is a financing entity that also provides development services in conjunction with financing;
- ◆ it serves an eligible target market and is accountable to that market; and
- ◆ it is not controlled by any government entity.

(Source: Doyle, 2000)

PATCHING GRANTS FROM MULTIPLE SOURCES

The microenterprise field often describes many of its entrepreneurs as income “patchers” — those who depend both on self-employment income and full- or part-time jobs to earn a living. In the United States, the microenterprise programs themselves can be similarly characterized as they rely on a wide array of funding sources to maintain operations and to expand services to meet their customers’ needs.

A typical program will seek core funding from relatively reliable, multi-year, federal and/or state funds which it supplements with one-time funding from government agencies, foundations, banks, churches and businesses. The Association for Enterprise Opportunity (AEO) estimates that microenterprise programs patch together funding from six to eight different sources. According to the *1999 Directory of U.S. Microenterprise Programs*, “73 percent of programs rate diversifying and broadening their funding base as a very high priority” (Source: Aspen Institute, 1999). Patching will continue to be the predominant method of program funding for the foreseeable future.

Increasingly, to leverage additional dollars and staff, programs are partnering with more traditional economic development organizations as well as agencies not usually involved in community development. For example, Volunteers In Service To America (VISTA) volunteers have become a popular way to provide staff for program operations. Working partnerships with commercial banks take a variety of forms; in some

cases multiple banks create a pool for microenterprise lending; in others, banks extend lines of credit to microenterprise programs to lend to their clients. If banks actually make loans directly to microentrepreneurs, the program may assume part of the risk by providing loan guarantees.

STATE AND LOCAL FUNDING FOR MICROENTERPRISE DEVELOPMENT

Public support at the state and local levels for microenterprise development generally comes from two sources: 1) block grants from the federal government; and 2) general fund revenues appropriated by state legislatures. An important source of the former are Community Development Block Grant funds from HUD which local organizations traditionally use for neighborhood revitalization. However, regulations were revised in the mid 1990s, making microenterprise development an eligible activity for CDBG funds. CDBG funds are generally available through two channels: 1) city and county governments which award grants to local entities; 2) state governments which oversee distribution of CDBG monies in rural areas. Pass-through funds can also originate with regional organizations, such as the Appalachian Regional Commission (ARC) which makes grants in thirteen states. These are generally administered through state departments of community development.

The *1999 Directory of U.S. Microenterprise Programs* lists eight state agencies that support microenterprise programs (there may be more as this list is not exhaustive). Kansas and Maryland report federal Community Development Block Grant as their source of funding; Montana uses “earned income,” and the remaining five — Minnesota, Nebraska, New York, Oregon and Virginia — draw on state general funds.

Some states now allow Temporary Assistance for Needy Families (TANF) monies to be used in support of microenterprise development for welfare recipients. States have new flexibility to eliminate asset and income rules that had been one of the most significant challenges to self-employment for these clients. However, welfare reform replaced these old barriers with new ones such as the time limits of TANF benefits and a strong emphasis on job placement, both of which mitigate against the slow process of learning about and starting a business.

While numerous states have allocated monies from their general treasury for revolving loan funds, funding for technical assistance is less common. In 1978, Vermont allocated the original \$400,000 capitalization for the Job Start lending program and has subsequently provided several grants to a statewide Community Action Agency network for technical assistance.

SOURCES OF FEDERAL MICROENTERPRISE FUNDING

Funding Program	Contact	Goal	Eligible Entities	Funding Available	Type *
Community Development Block Grants (CDBG)	Housing & Urban Development (HUD) (through City and State Development Agencies) (202-708-1322) www.hud.gov/hudprog.html	To revitalize neighborhoods in low/moderate income areas	Entitlement Communities and rural towns through state development agencies	FY '99, \$4.75 billion Award amounts vary significantly by jurisdiction	L & TA
Community Development Financial Institutions (CDFI) Fund	Treasury Department 601 13th St. NW Suite 200 South Washington, DC 20005 (202-622-8662) www.treas.gov/cdfi www.cdfi.org	To revitalize economies and develop communities through investments in CDFIs. (CDFI certification is available through the Treasury Dept.)	CDFIs (private banks, community credit unions, CDCs, loan funds, etc.)	FY '00, \$70 million Range: \$120,000 to \$3 million Average: \$1 million 100% match required	L & TA
Discretionary Grants Program, Office of Community Service	Health & Human Services Admin. for Children & Families (HHS/ACF) 370 L'Enfant Prom. SW Washington, DC 20447 (202-401-5295) www.acf.dhhs.gov	To provide employment & business development opportunity for low-income people	Community Development Corporations (CDC) (broadly defined)	FY '00, 43 grant awards Max: \$500,000	TA
Economic Adjustment Program	Economic Development Administration Room H7315 Herbert Hoover Building Washington, DC 20230 (202-482-2659) www.doc.gov/eda	To develop and implement strategies to improve economically distressed areas, including HUD designated EC/EZ	States, cities, counties, political subdivisions, nonprofit orgs. representing Econ. Dev. Districts, Indian tribes	FY '00, \$35 million Planning Funds \$30-100,000 Implementation Funds \$1-2 million	L & TA
Intermediary Relending Program	USDA/Rural Development 14th Street & Independence Ave SW, Room 2245 Washington, DC 20250-1521 (202-720-1400/ 202-690-4100) www.rurdev.usda.gov	To support business facilities & community dev't. projects in rural areas (pop. < 25,000) that do not have access to commercial credit	Nonprofit corporations, public agencies, and Indian Tribes	FY '99, \$33 million Max: \$4 million in low interest loans to intermediaries Av: \$600,000 Range: \$300,000- \$750,000	L
Job Opportunities for Low Income Individuals (JOLI)	See HHS / ACF (202-401-5242, -5324) www.acf.dhhs.gov/programs/ocs	To create new business opportunities for welfare recipients and families with incomes below 100% of the poverty level	Nonprofit organizations including CDCs	FY '00, \$5.5 million Max: \$500,000	TA
Office of Refugee Resettlement	See HHS / ACF ORR/Division of Community Resettlement (202-205-3589) www.acf.dhhs.gov	To establish microloan programs to assist refugees to become self-sufficient	Public and private nonprofits	FY '00, \$2.2 million Max: \$160,000 Range: \$100,000-160,000	L & TA

* L = Loan Program Funding, TA = Technical Assistance Funding

(Chart continues on page 5)

The above chart summarizes the sources of funding currently available to intermediary agencies. Since funding levels are always changing, it is suggested that sources be confirmed with the granting agency. Please Note: This chart originally appeared in the Journal of Developmental Entrepreneurship, Vol. 2, No. 2, Fall/Winter 1997.

SOURCES OF FEDERAL MICROENTERPRISE FUNDING (CON T)

Funding Program	Contact	Goal	Eligible Entities	Funding Available	Type *
Program for Investment in Microentrepreneurs (PRIME)	SBA Office of Program Development 409 Third St. SW Washington, DC 20316 (202-205-6485) www.sba.gov	To strengthen the capacity of microenterprise programs to offer training and technical assistance to low-income people, enabling them to start or expand businesses. Half of the funding must benefit individuals below 150% of poverty guideline	Local, nonprofit development orgs.	NEW PROGRAM '01, \$15 million (amount requested from Congress) 50% match required	TA
Resident Opportunity & Self-Sufficiency (ROSS) Program	HUD Super NOFA Information Center (1-800-483-8929) www.hud.gov/pih/pih.html	To provide grants to public housing residents for economic self-sufficiency projects	Public Housing Agencies, resident councils/orgs., other nonprofits	FY '00, \$6 million Max:\$100,000. 25% match required (cash or in-kind)	L & TA
Rural Business Enterprise Grants (RBEG)	See USDA/Rural Development	To develop small businesses in rural areas (population < 50,000)	Public bodies, nonprofit organizations, Indian Tribes	FY '00, \$38 million Range \$15,000-\$500,000 Average \$130,000	L & TA
Rural Business Opportunity Grants	See USDA/Rural Development	To improve economic conditions in rural areas (population < 10,000)	Nonprofit corporations, public bodies	Max: \$1.5 million	TA
Rural Community Development Initiative (RCDI)	USDA/Rural Housing Services, Stop 0787, 1400 Independence Ave., SW, Washington, DC 20250 (202- 720-1498) www.rurdev.usda.gov/rhs/rcdi/index.htm	To develop capacity of nonprofits to improve housing, community facilities, community economic development projects in rural areas	Private, nonprofit community-based housing and community development organizations, low-income rural communities	FY '01, \$6 million Max: \$1 million Range: \$50,000- \$1 million 100% matching funds required	TA
SBA MicroLoan Program	See SBA, Office of Program Development	To support low-income, women, minority entrepreneurs, small businesses in areas of economic downturn	Private, nonprofit intermediaries with at least one year of experience assisting microenterprises	FY '00, \$30 million for loans to intermediaries, \$23 million in TA grants 15-25% match required	L & TA
SBA Office of Women's Business Ownership	SBA, Office of Women's Business Ownership 409 Third St., SW, 5th Floor Washington, DC 20416 (202-205-6673) www.onlinewbc.org	To provide funding for "Women's Business Centers"	Nonprofit agencies with experience training women entrepreneurs	FY '99, \$8 million Rigorous match requirements Max: \$150,000	TA

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CHART REFERENCES

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FOR FURTHER INFORMATION

The Association for Enterprise Opportunity (AEO) is the national professional association of organizations committed to microenterprise development. It holds an annual forum for members, serves as a nexus of communication about the field and advocates at the federal level on behalf of its members. Its Web site contains additional information about microenterprise and links to many other resource organizations.