

California Microenterprise Financial Intermediary Project:

Research Phase

April 2003

FINAL REPORT

SUBMITTED BY: The National Economic Development and Law Center
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THE RESEARCH PHASE OF THE CALIFORNIA MICROENTERPRISE FINANCIAL INTERMEDIARY PROJECT
WAS MADE POSSIBLE THROUGH THE SUPPORT OF

THE NATIONAL FUND FOR ENTERPRISE DEVELOPMENT

AND

WELLS FARGO FOUNDATION

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SPECIAL THANKS TO:

MEMBERS OF THE STEERING COMMITTEE

FOR GUIDANCE AND FEEDBACK ON THE RESEARCH PROCESS AND FINDINGS

AND

THE MANY ORGANIZATIONS THAT DEVOTED STAFF TIME TO PARTICIPATE IN INTERVIEWS

TABLE OF CONTENTS

INTRODUCTION.....	1
PROJECT BACKGROUND.....	1
REPORT LAYOUT.....	2
METHODOLOGY	3
SURVEY RESULTS: NEEDS OF THE MICROENTERPRISE FIELD.....	6
FUNDING NEEDS	6
PUBLIC AWARENESS NEEDS.....	10
TECHNICAL ASSISTANCE NEEDS	14
DATA NEEDS	16
SURVEY PERSPECTIVES: THREATS AND OPPORTUNITIES	18
THREATS TO THE MICROENTERPRISE FIELD.....	18
OPPORTUNITIES FOR THE MICROENTERPRISE FIELD	19
ISSUES RELATING TO THE ESTABLISHMENT OF A STATEWIDE MICROENTERPRISE FINANCIAL INTERMEDIARY.....	21
INTRODUCTION	21
BENEFITS	22
DRAWBACKS	22
SMI SERVICE NEEDS	23
CONCLUSIONS AND RECOMMENDATIONS	26
UNIFYING THEMES: OVERALL NEEDS.....	26
STATEWIDE MICROENTERPRISE FUNDING INTERMEDIARY	29
APPENDICES.....	31
I. PROJECT PARTNERS.....	31
II. SURVEY INSTRUMENT	33
III. SURVEY RESULTS TABLES.....	41

Introduction

Project Background

The California Association for Microenterprise Opportunity (CAMEO) initiated this research project to determine the needs of the California microenterprise field, including the funding environment, data collection requirements and possible need for a State Microenterprise Intermediary¹ for the state of California. In addition to determining whether such an intermediary would help practitioners, funders and policymakers in the microenterprise field, CAMEO also wanted to know the structure or form this intermediary should take and the types of services it should provide.

In the fall of 2002, CAMEO contracted with the National Economic Development and Law Center (NEDLC) to conduct a survey of microenterprise practitioners, policymakers, and funders. In October of that year, CAMEO convened a Steering Committee of microenterprise stakeholders for this research, including a wide variety of local and national supporters of microenterprise development. CAMEO, NEDLC and the Steering Committee created and tested survey instruments focusing on four areas of the microenterprise field: needs and demands; strengths, weaknesses, opportunities and threats; capacity; and future plans.

Based on its contacts and suggestions from the Steering Committee, CAMEO arranged interviews with 22 microenterprise practitioners, 6 policymakers, and 10 funders (38 respondents in total). These interviews were conducted in January and February of 2003. The culmination of this research is this report, to be presented to the Steering Committee, outlining the needs of the California microenterprise field and the possible roles and forms a funding intermediary could take on in order to meet some of those needs.

¹ A **State Microenterprise Intermediary**, or SMI, is ‘a statewide strategy or institutional framework designed to attract new state-level funding to distribute to microenterprise practitioners.’ (Corporation for Enterprise Development. *Effective State Policy and Practice* Volume 1, No 2 “Securing State-Level Funding: The Role of State Microenterprise Intermediary Strategies”. Washington, DC.)

Report Layout

This report begins by describing the methodology used for the survey. The main body of the report is dedicated to a needs assessment of the microenterprise field covering funding, public awareness, technical assistance, and data, as well as threats and opportunities for the microenterprise field, as described by survey respondents. The following section discusses the survey's implications for the formation of a financial intermediary. Finally, we present conclusions and recommendations based on this research.

Methodology

Microenterprises are businesses with five or fewer employees. Usually started with less than \$35,000, these very small businesses are actually the greatest job generator during all business cycles. Many of them start as home-based businesses and part-time employment that contribute to total family income.

Microenterprise development is a process of providing services such as training and consulting to new, prospective and experienced small business owners. Microloan funds help entrepreneurs with startup or expansion, and are needed because traditional financing systems are often difficult to access for microbusinesses. Microenterprise development reduces the learning curve for new business entrepreneurs and increases the chances of success for their businesses. These services are usually provided by a community-based nonprofit or agency and are funded through partnerships with government agencies, foundations, private industry and individuals.

For this study, we surveyed 22 microenterprise practitioners, 10 funders, and 6 policymakers (38 total respondents). Practitioners included a range of sizes, types and ages of organizations, from both rural and urban areas. About half of the microenterprise programs interviewed had fewer than five employees on staff, while the other half were larger programs. A quarter served rural populations, and about a fifth were relatively new programs, started within the past five years. The programs were based in diverse parts of California, ranging from Eureka to San Diego.

Microenterprise practitioners were defined as non-profit organizations currently running microenterprise development programs. The funders surveyed included representatives from banks and private foundations that have funded microenterprise programs. The policymakers included representatives of local and state entities that govern microenterprise practice and funding. All surveys were conducted by telephone, although participants received copies of the survey instrument and were asked to review it before the survey interview.

The goals of the survey were largely qualitative; CAMEO aimed to capture in-depth information from constituents about their perception of the microenterprise field's needs and opportunities, not merely a tally of how many people currently would support a financial intermediary. For this reason, the survey featured a relatively small

number of interviews and an emphasis on open-ended questions. Respondents were encouraged to add comment on the closed-ended questions. These additional comments and thoughts highlight respondent's perceptions of the issues raised in this report, and are used to help explain the reasons behind participants' responses. Some particularly poignant thoughts are included as quotations at the end of sections.

The survey was divided into four sections: needs and demands; strengths, weaknesses, opportunities, and threats; capacity; and future plans. Please see the appendices for complete copies of the survey instruments. While most of the questions were asked of all three groups (practitioners, funders, and policymakers) in the same way, some questions had to be modified slightly based on their specific roles.

For example, in the section on data collection, practitioners were asked: ***"How is data gathered in your program?"*** while funders and policymakers were asked: ***"How do you think data on microenterprise clients and programs should be gathered?"*** As funders and policymakers receive and use the data gathered by practitioners, it did not make sense to ask all participants the same question in this case.

For the same reasons, some other questions were asked only of practitioners. For example, practitioners were asked: ***"In your experience, what percentage of funders actually require data collection?"*** Other cases where the same question was not asked of all participants are explained as necessary in the needs assessment section of this report.

The survey included some closed-ended questions with standardized answers, as well as a number of open-ended questions, some of which were followed by standardized answers. We combined the techniques in some cases because we wanted to give participants the opportunity to state open-ended answers in addition to responding to other answer options. In these cases, participants received only the question beforehand, and not the standardized answer choices. They were asked to give their response first, and then to agree or disagree with possible answers that were verbally listed by the interviewer.

For example, in the section on the field's needs and demands, participants were asked: ***"What do you think the microenterprise field should do to increase the level of public awareness and support?"*** After recording participants' initial response, interviewers asked them to answer yes or no to items in a list of possible ways the field

could increase public awareness and support. These questions encouraged a range of answers outside those listed, to a much greater extent than in cases where participants were given checkboxes and a blank for “other” responses.

As all interviews were conducted “live” by phone (rather than via mail or the internet), interviewers were able to ensure that participants answered all questions completely. There were, however, cases where participants felt they did not have sufficient experience, either in the field or in their own programs, to be able to answer a question. In these situations, interviewers recorded “don’t know” or left the answer blank. Additionally, when respondents raised a question about their qualifications to answer survey questions, participants in all three groups were told that they could answer questions based on their individual experience with particular programs, rather than needing to give a global analysis of the field. As such, individual responses should not be assumed to represent the entire field.

Survey Results: Needs of the California Microenterprise Development Field

Introduction

In analyzing the results of our survey, we found that respondents had varying types of needs, interests and concerns, but that a number of important trends did emerge. This section will lay out the survey findings, in four distinct areas of practitioner, funder and/or policymaker-identified needs that surfaced from the interviews: funding; public awareness; technical assistance; and data. Also included are two sections capturing respondents' thoughts about external threats to microenterprise and opportunities for the field to grow and expand.

The survey results are organized by the four Survey Topics mentioned previously, followed by Findings (conclusions), which are in turn supported by Facts (statistics and percentages from survey results).

I. Funding Needs

This survey explored the ways in which all three constituent groups perceived the funding “climate” for microenterprise, which resulted in two major findings. First, access to funding is paramount, despite solid knowledge among practitioners of a wide variety of funding sources. Second, funder undereducation about other types of financial resources for microenterprise may hinder their efforts to form strategic alliances and fill gaps in the field.

▪ Access to Funding is Primary Need for Microenterprise Programs

In many instances, the survey results uncovered that practitioners placed funding at the top of their priority list. One might assume that this means *more* funding is necessary. However, we discovered some complexity to this idea, namely that the funding dilemma also involved *access* to existing funding. Most stakeholders in the field, including practitioners, have solid general knowledge about various types of funding sources available (one notable exception to this is funder lack of information about funding sources, which will be addressed later). However, practitioners perceived many funding sources as having low levels of accessibility.

Funding is highest priority for practitioners. *91% of microenterprise practitioners stated that funding assistance could strengthen or improve microenterprise in California.* Funders and policymakers chose funding less frequently, but not insignificantly. 70% of funders thought funding would strengthen or improve the field; 66% of policymakers agreed. When it came to choosing the single most important element that could strengthen or improve the field, the practitioners diverged from the other two groups. 41% of practitioners chose funding as their top priority to strengthen or improve the microenterprise field, while policymakers' and funders' top choices did not include funding.

Practitioners are generally aware of most funding sources. Respondents were asked to rate their knowledge of a wide range of funding sources. *Approximately 50% of all respondents and 70% of practitioners were aware of most funding sources.* Among practitioners, funding sources that were most well known included SBA Microloan (82%) and CDBG funds (95%). Practitioners were less likely to know about USDA funds for rural microenterprise (36%), employee giving (50%), CalWORKs funds for microenterprise (59%), and WIB funds for microenterprise (59%).

Despite broad knowledge, practitioners' access to funding is low. *Microenterprise practitioners most often stated that their programs were "poor" at obtaining funding to meet local demand for services.* This stands in stark contrast to the high levels of knowledge about funding sources that most practitioners displayed. When asked about the microenterprise field as a whole (i.e., state and national intermediaries and advocates, as distinct from individual programs), most practitioners also stated that the field was "poor" at providing access to funding opportunities.²

On the other hand, funders generally said that individual programs performed the function of obtaining funding "fairly well." Similarly, funders and policymakers

² In response to a question from the Advisory Committee about the characteristics of the accessibility issue, NEDLC asked a number of practitioners this follow-up question: "What are some factors that affect funding accessibility for your program?" Newer programs identified issues including: lack of contacts with officers in private and government funding institutions; lack of a track record and inability to differentiate their program from others; and lack of staff time and skill to prepare government grant applications. More mature organizations with existing funding networks identified issues including: lack of staff time to prepare grants, as well as the challenges inherent in leveraging public dollars to combine with other funding sources.

most frequently responded that the microenterprise field as a whole performed this function “fairly well.” These differing perspectives point to a potential need for education within the field; namely that funders and policymakers perceive that access to funding is passable, while practitioners are having a difficult time getting funding.

Most practitioners planning to increase focus on microenterprise, while funders have mixed plans. *54% of practitioners (or 12 organizations) stated that they intended to increase their focus on microenterprise.* Most were increasing service levels because of increased client demand. Others were increasing because of internal structural changes, and one organization was increasing its focus because it had found a promising revenue-generating activity (curriculum development). Funders, on the other hand, were evenly split: out of a total of ten funders who responded, five intended to increase their focus on microenterprise and five intended to continue their current level of activity around microenterprise. Foundations’ reasons for increasing focus on microenterprise included changes in local demographics or the economy that increased the need for microenterprise

“[Our bank] is looking...to have a microloan business development person in some of our branches. We have a community banking division that does loans of \$1 million or less, but we’ve been hearing the smaller business loan is a need out there. Quite honestly, it’s an area that we can make some money at.”
– Funder

services. Several financial institutions were planning to increase activities relating to microenterprise because they saw a business opportunity in expansion of lending to microentrepreneurs. No funders were planning to decrease their emphasis on microenterprise. Clearly, if practitioners are planning to increase their programs based on client need, they will need better access to funding to support that expansion.

▪ **Funders’ Effectiveness Hindered by Low Awareness About Other Funding Sources.**

Many funders in our survey did not have broad knowledge about other types of funding streams. This implicates funders’ abilities to strategize with other funders to grow the field in scale by combining various smaller funding sources. Additionally, when funders have a “big picture” analysis of funding for microenterprise, they are better able to fill funding gaps in the field. Additionally, funders could be more active

in public policy advocacy if they were more aware about the funding climate as a whole for microenterprise.

Many potential microenterprise funding sources not known to funders. *In almost every instance, funders were consistently undereducated about funding sources in comparison to practitioners.* The most extreme examples included:

- 70% of funders were not aware of the SBA PRIME Program;
- 50% of funders were not aware of the SBA Microloan Program;
- 50% of funders were not aware of SBA Women’s Business Centers;
- 80% of funders were not aware of USDA funds for rural microenterprise;
- 80% of funders were not aware of HUD JOLI funds;
- 70% were not aware of CalWORKs funds; and
- 60% were not aware of WIB funds.

Startlingly, only 60% of funders were aware of CDBG funds, the fund that over 90% of practitioners knew about. Also, 40% of funders were not aware of client use fees as a potential source of income.

Funders generally perceive higher levels of funding accessibility than policymakers and practitioners. Funders, practitioners and policymakers all tended to give the highest accessibility rating (“consistently available, e.g. multi-year funding”) to the SBA Microloan Program and CDBG grants. Funders and practitioners gave a similarly high rating to funding received from program and client use fees, while policymakers gave it a lower rating. However, funders perceived local foundations, donations to microenterprise organizations and contracts with corporations or government entities as accessible, while policymakers and practitioners perceived the same funding sources as less accessible. Funders’ general lack of education about the microenterprise funding environment, described above, may lead to this difference in perception; in this case, funders clearly believe funding is more accessible than practitioners have found it to be.

Public policy advocacy is needed for funding. *High percentages of respondents agreed that public policy advocacy was needed to strengthen or improve the microenterprise field,* frequently commenting that public policy advocacy should aim

towards better government funding of microenterprise. 73% of practitioners and 60% of funders stated that policy advocacy was needed. 67% of policymakers themselves agreed, indicating that they would welcome advocacy from microenterprise advocates.

Summary of Funding Needs

- Microenterprise practitioners state that funding is not very accessible, despite their widespread knowledge about funding sources. This points to the conclusion that the creation of *more* funding is not necessarily the only issue for the field, but also that practitioners face significant barriers in accessing existing funding streams.
- Funders' less-than-ideal levels of knowledge about microenterprise funding streams hinder their abilities to plan and strategize for funding microenterprise in the state of California.
- Public policy advocacy is a needed component of a statewide funding strategy to sustain current programs.

II. Public Awareness Needs

In this survey, we asked a number of questions relating to public awareness of microenterprise, in order to explore the perceived levels of public awareness and the connections between public awareness and institutional support for the microenterprise field. We found that many survey respondents thought that public awareness and support for microenterprise was relatively low. Additionally, the survey responses uncovered three trends of possible solutions for increasing public awareness:

- 1) “making the case” for microenterprise through better data collection;
- 2) disseminating a consistent message through media outlets statewide; and
- 3) diversification of partner organizations.

Most respondents think awareness of microenterprise is low. *Two-thirds (68%) of those interviewed stated that the general public was “somewhat aware” of microenterprise development, while 21% thought that the public was “not aware at all” about microenterprise. No respondents stated that the public was “very aware.”*

In an open-ended question, we asked respondents to talk about why public awareness was at the level they had stated:

- Several respondents felt that microenterprise organizations have largely failed at getting media attention.
 - A significant number of respondents claimed that the media itself is to blame, and that the media is generally not interested in reporting on stories about low-income people.
 - A few respondents stated that microenterprise had not successfully “made the case” for why it is an important part of a local economy. One policymaker respondent remarked,

“The media has a tendency to present glamour stories, about businesses that go from the garage to the mega-company...the day-by-day struggle to create enterprises that supplement income is not interesting to the media.”
– Practitioner

“Microenterprise is competing with the strong mythology of economic development that focuses on bringing in huge business to create hundreds of jobs, while microenterprise creates more jobs collectively.”
 - Respondents believed that the microenterprise field needed to send a consistent message about its work. In a related question, respondents were asked how well the microenterprise field performed at disseminating a consistent message to media, policymakers and the general public. Practitioners and funders most often gave the field a rating of “poorly,” while policymakers thought the field did this “fairly well.”
 - Respondents in all three groups agreed that the public opinion “marketplace” does not make space for microenterprise, and that microenterprise just isn’t “on people’s radar screens.” One policymaker noted that most people “have come to expect Walgreen’s, rather than a family-owned pharmacy.” Additionally, people generally don’t think about finding employment with a microenterprise.
 - Some took issue with the term “microenterprise,” and noted that it doesn’t convey much to the average person, particularly when compared to the term “small business.”
- “The public is generally aware of microenterprise, except for the term itself.”*
– Funder

Start with “making the case” for microenterprise. In response to a question about ways to increase public awareness, *survey participants in all three categories answered with the idea that the microenterprise field must get better at “making the case” about the impact of the field’s work.* The response on this issue was high – of 38 individuals surveyed, 15 open-ended responses to this question included this “making the case” perspective. Some remarked that better information should be disseminated about the numbers of jobs and sales created by microenterprise, income levels raised, and the multiplier effects on families. Additionally, several respondents noted that microenterprise needed to position itself in the community as a vital part of the local economy.

“If the economy were an ocean...the big businesses are the whales and the dolphins, and microenterprise represents the plankton. You can lose the whale and lose the dolphins, but if you lose the plankton, you lose it all. Microenterprise is a condition for big businesses to exist. For example, the Intel engineer needs a pizza when she’s working late – a microentrepreneur needs to be there to provide it.” – Practitioner

Data collection needed to “make the case”. *87% of respondents agreed that collection of aggregate program success data would increase the level of public awareness and support.* The survey results indicated a clear connection between increasing public awareness and increasing data collection by microenterprise practitioners.

Media and public relations campaign needed statewide. *87% of respondents agreed that “consistent messaging” would increase the levels of public awareness and support. 76% of respondents agreed that a statewide public relations campaign would also improve public awareness.* Almost half of respondents’ open-ended answers focused on using the media more to make people aware of microenterprise practice. Some remarked that media should be used on the local level, and that television could be an effective medium for reaching potential clients. In a related question about what is needed to strengthen or improve the microenterprise field, 82% of practitioners, 70% of funders and 50% of policymakers stated that “marketing” was needed.

One practitioner suggested that microenterprise organizations need to have different and distinct messages for various minority communities that are culturally appropriate and accessible. Two respondents (one funder and one policymaker) called attention to the divide between informal or “underground” entrepreneurs and the

“above-ground” microenterprise field, and advised that practitioners continue to find ways to bridge that gap.

Diversification of partner organizations is needed. *Practitioners, funders and policymakers all generally agreed that microenterprise organizations should continue to form collaboratives with other types of agencies and organizations, in order to increase public awareness and support.* Suggestions for potential partners included larger corporations, banks, government officials, economic development agencies, small business, and funders.

“Microenterprise needs to be distinguished from small business and viewed as part of a continuum of economic development, a stepping stone to regular small business development... Given shrinking resources, microenterprise must be a vehicle for economic development or a learning tool for self-sufficiency.” – Practitioner

Other solutions for increasing public awareness are varied. A high percentage of respondents (87%) agreed that more advocacy with policymakers would increase the levels of public awareness and support. Less popular, but not by much, were the following ideas: conferences, convenings and regional events (76%) and best practices development (76%). However, because these two latter methods usually involve those who are already involved in the microenterprise field, they may not be the best avenues towards disseminating a broader message to the general public.

“I think there are a lot of people out there who don’t even think of themselves as microentrepreneurs, who might be able to access some of these programs.” – Policymaker

Summary of Public Awareness Needs

- Public awareness of microenterprise is generally perceived as being low.
- Many respondents focused on the need for the microenterprise development field to better “make the case” about its positive impacts, and acknowledged the need for better data collection to do so.
- Many respondents agreed that using media, creating a consistent message, increasing advocacy with policymakers, and doing a statewide public relations campaign would increase public awareness and support of microenterprise.
- Partnering with other organizations was also rated as important for increasing public awareness and support.

III. Technical Assistance (TA) Needs

Best practices development & data/statistics are highest priority need for funders and policymakers. When asked to choose the most important activity that could strengthen and improve the microenterprise field, both funders and policymakers chose best practices development, followed by data and statistics. As noted earlier, practitioners did not choose these as their highest priorities; rather, they chose funding and public policy as the elements most needed to strengthen or improve the field.

Evaluation tools needed. *Policymakers and practitioners most often stated that the microenterprise development field performed “poorly” at providing evaluation tools.* Funders, however, stated most often that the field performed “fairly well” in this capacity. This difference may stem from the fact that the funders often choose whether or not programs are evaluated; they are the ones funding evaluations. Clearly, policymakers are not seeing the evaluations they need to promote microenterprise, and practitioners do not have the tools to perform general evaluations. There is a need for technical assistance in this area.

Microenterprise practitioners face staff needs. While practitioners stated that they performed “fairly well” at hiring, training and retaining professional staff, funders and policymakers graded practitioners as “poor” at this function. 67% of policymakers and

64% of practitioners said that staff technical assistance (TA) would help the field grow or improve, although most funders did not believe that staff TA was needed to strengthen the field. Although all three constituent groups believed that the field was doing “fairly well” at encouraging leadership development, there is clearly a need to train and retain staff now in order to ensure that the field will continue to have strong leaders in the future. Leadership development for experienced practitioners is useful, but only if people remain in the field long enough to get that experience.

Programs effective at training clients, but “poor” at providing access to capital.

While they noted that there is wide variation between programs, respondents in all three groups gave microenterprise programs high ratings (“fairly well” or “well”) on providing effective training and technical assistance to clients and providing an effective range of services to meet client needs. Practitioners rated themselves “poor” at providing access to financing and financial services to clients. This may point to a relationship between practitioners’ difficulty in accessing program funds and their ability to access loan funds.

Microenterprise field is promoting networking well, but improvement is still needed in this area.

Respondents across all 3 groups (funders, practitioners and policymakers) said that the microenterprise field performs “fairly well” or “well” at promoting networking and resource exchange among practitioners (in the survey, the “microenterprise field” was defined as state and national advocates who work on behalf of practitioners). Policymakers gave the field especially high marks in this area. Interestingly, when asked about the types of assistance that could strengthen or improve the field, 83% of policymakers thought a peer network was needed, and 59% of practitioners agreed. Only 40% of funders thought a peer network was an important need.

Microenterprise field gets positive marks in capacity-building, practitioner training and advocacy.

Respondents in all three groups most often stated that the microenterprise development field was performing “fairly well” at building capacity of emerging and established programs, providing practitioner training and advocating on a state or national level.

Summary of Technical Assistance Needs

- Technical assistance is most needed in best practices development, data/statistics, and evaluation.
- While current leadership development is good, improvement in staff training, recruitment, and retention is vital to ensure the field continues to have strong leaders in the future.
- Practitioners report difficulty helping clients access financing for businesses.
- Programs excel at working with clients, and the field excels at capacity building, training and advocacy.

IV. Data Needs

Respondents support Uniform Data Collection System. *80% of funders believed that a Uniform Data Collection System (UDCS) would make applications for funding more convincing and statewide and/or program strategic planning more effective. 59% of practitioners said a UDCS would make their time spent on data collection and reporting more effective. Only 24% of all participants (which included no funders) agreed with the statement that a UDCS would *unnecessarily* increase costs; this indicates that funders may be willing to work with the field to develop the system. However, most respondents believed a UDCS would cause problems with existing data collection efforts, and many worried that the variation in programs and funding sources' goals might make the creation of a single, coherent system impossible.*

Almost all respondents in all constituent groups believed a UDCS would make it easier to demonstrate the effectiveness of microenterprise in California: **90% of funders, 83% of policymakers and 82% of practitioners agreed that a UDCS would help “make the case” for microenterprise.** Given the low level of public awareness of

microenterprise, using data to help make this case would significantly strengthen the field's ability to raise private and government funds.

*“It's going to cost to get people trained, but I think it would be worth it.”
- Funder*

Funders and policymakers want more data, evaluations & best practices.

Respondents within each constituent group differed widely in their perceptions of the microenterprise field's current handling of data and statistics. **However, when asked what would strengthen and improve the field, funders and policymakers overwhelmingly believed that it needed to put more emphasis on best practice research and evaluation.** Many rated best practices or data/statistics as the most important area to focus on for strengthening the field in California. Practitioners considered these types of research to be less important, placing a higher priority on funding and public policy advocacy.

Practitioners are collecting data, but funders and policymakers want more computer use.

All the practitioners in this survey said they collected data on more than basic measures of output. Two-thirds of practitioners also responded that 76%-100% of funders required data collection. Although 18% still gathered and tabulated some data entirely by hand, most practitioners either used written forms and entered data into a computer later, recorded the data directly into a computer, or used some combination of these methods. 67% of policymakers and 70% of funders would prefer practitioners to record data directly into a computer. The main obstacle to practitioners utilizing computers may be a lack of software: 77% of practitioners indicated that more or better software, much more than hardware or staff training, would help them collect and report data more efficiently. Over half the practitioners said that less than 15% of staff time is spent on data collection and reporting.

Summary of Data Needs

- More data are needed for evaluation.
- Lack of quality software was identified as a practitioner need.
- A uniform data collection system is seen universally as a positive step for the California microenterprise field, as long as it has wide stakeholder buy-in, particularly commitment by funders. It would also feed in to more effectively evaluating the field, thereby increasing public awareness and support.
- At most organizations, less than 15% of staff time is spent on data collecting and reporting. Given the need to “make the case” for microenterprise, this commitment may need to be increased.

Survey Perspectives: Threats & Opportunities for the Microenterprise Development Field

This section reviews survey participants responses when they were asked to identify external threats to the microenterprise field and current opportunities for the field to grow or expand. Many of these threats and opportunities are clearly complementary to survey participants' earlier responses about funding accessibility and public awareness of microenterprise. Some of the threats listed are unique perspectives on other trends that the field might want to investigate.

I. Threats to the Microenterprise Development Field

Funding Issues Threaten Microenterprise:

- 92% of respondents stated that decreased funding was an external threat to microenterprise;
- 84% identified the economic downturn as a threat;
- 71% saw the current political environment as a threat;
- Respondents in all three groups (practitioners, funders and policymakers) consistently volunteered that government budget cuts are a threat to microenterprise activity and funding;
- Several respondents identified the recent banking trend towards consolidation as a threat, which can limit access to capital for microenterprise clients.

Low Public Awareness Threatens Microenterprise:

- Respondents identified a perception that microenterprise isn't as effective as other capital access or workforce programs for moving people out of poverty;
- Respondents identified a negative bias against microenterprise clients as "people who can't run a business;"
- Respondents identified a lack of connection between the microenterprise field and the economic development field, which points to the

"I see people in the funding world less interested in microenterprise than they were ten years ago. There are just things that cycle in and out, and there are major foundations that have pulled away from funding microenterprise...[it has] to do with not seeing really measurable outcomes and not a lot of true successes." - Funder

data discussed earlier related to diversification of partners as a strategy for increasing public awareness and support.

Other Issues Can Threaten Microenterprise:

- Proliferation of corporate “mega-malls” limit access to rental space for microentrepreneurs or offer space only at high prices;
- Immigration and Naturalization Service (INS) attacks on immigrant communities with vibrant microenterprises are impacting their ability to survive.

II. Opportunities for the Microenterprise Field

Survey respondents were also asked to volunteer ideas about opportunities for the microenterprise field to grow in California. A number of these responses support the needs identified earlier relating to public awareness and funding accessibility.

Microenterprise Should Take Advantage of Underutilized Funding Resources:

- Expand access to government contracts for small business;
- Create greater incentives to large corporations and banks to lend/grant beyond the requirements of the Community Reinvestment Act (CRA);
- Use nontraditional sources of government funding, such as education funding for programs that teach entrepreneurship in schools, or partnering with other programs to apply for Employment and Training Panel (ETP) funds;
- Partner with organizations not usually affiliated with microenterprise, including community colleges or labor.

“The microenterprise field could do itself a lot of good by targeting policies that keep people ineligible for capital.”
– Practitioner

Public Awareness Opportunities:

- Microenterprise should partner more with economic development agencies;
- Develop microenterprise organizations as a friend and resource to small business;
- Establish better referral linkages with banks.

“There has to be a way to show return on investment, to moving out of being seen as a social program, and into being seen as an economic development program instead.” – Practitioner

Other Economic Areas Can Provide Opportunities for Microenterprise

Development:

- Develop new microenterprise sectors appropriate to local markets. Respondents mentioned a variety of potential markets, including the medical field, artisans of small wood products, business services, home-based businesses in rural areas, small farmers, ag-tourism, bookkeeping, Southeast Asian artisans, and information technology;
- Help microenterprise clients utilize the Internet for marketing their businesses;
- Create community franchises that can meet service gaps and create asset ownership over time for clients;
- Work with intermediaries to pool resources for child care providers to establish health insurance, training, etc.;
- Focus on immigrant and limited-English clients;
- High unemployment is fertile ground for microenterprise entrepreneurship;
- Analyze local economy for potential consumer demand for various types of microenterprise.

“In the Asian communities, there is a high level of entrepreneurship...A lot of the traditional, salaried job market is not available because of language barriers and racism, so they turn to entrepreneurship. What happens is that a lot of these entrepreneurs never make it beyond the microenterprise level...they don’t get up into the next level of marketing, like franchising. There’s an opportunity there to bring microenterprise up to the next level.”
- Practitioner

Issues Relating to Establishment of a Statewide Microenterprise Financial Intermediary

Introduction

One of the primary reasons for conducting this survey was to explore issues, concerns and ideas related to the potential future establishment of a statewide financial intermediary for microenterprise, more generally known as a Statewide Microenterprise Intermediary, or SMI. This section outlines the identified benefits, drawbacks, and issues to consider if an SMI is created.

As stated earlier, the Corporation for Enterprise Development (CFED) defines a Statewide Microenterprise Intermediary (SMI) as “a statewide strategy or institutional framework designed to attract new state-level funding to distribute to microenterprise practitioners.”³ An SMI is distinct from a Statewide Microenterprise Association (SMA), which is “a statewide coalition, network, or association of local microenterprise providers and other supporters working together to advance microenterprise-friendly policy and to provide opportunities for networking, training, and technical assistance to microenterprise service providers.” Currently, CAMEO works as an SMA for the state of California.

Survey respondents were asked for their thoughts about the possible benefits, drawbacks, potential services and organizational structure related to the establishment of an SMI in California. Interviewers explained the differences between an SMI and an SMA. Respondents were asked this open-ended question: “What benefits and drawbacks would you expect from a statewide funding intermediary?” Respondents were then asked to name some services they would like to see the SMI offer, and they were also asked to choose from a list of preferred services. The final question in this section asked respondents to choose the type of organizational structure that would best suit an SMI.

In the discussion section that follows here, percentages related to the open-ended questions on benefits/drawbacks and SMI services are calculated based on the number of times a similar response was raised voluntarily by respondents, divided by the total number of respondents. Percentages related to the priority services and

³ Corporation for Enterprise Development. *Effective State Policy and Practice* Volume 1, No 2 “Securing State-Level Funding: The Role of State Microenterprise Intermediary Strategies”. Washington, DC.

organizational structure are calculated based on the number of respondents choosing a particular answer from a preset list of options, divided by the total number of respondents. That is to say, the percentages for the open-ended questions appear much lower than in the answer-option sections, but that is due partially to the fact that the open-ended percentages are capturing frequency of similar voluntary answers, rather than frequency of choosing standardized answer options.

I. Benefits to Establishing an SMI

Increased Funding. *34% of open-ended survey responses indicated that an SMI would benefit the microenterprise field in California because it would increase overall funding for microenterprise.* Respondents in all three groups – practitioners, policymakers and funders – agreed that this was a benefit of creating an SMI, though many had questions and concerns about potential sources of funding and competition with existing organizations (which are described later on in this section).

Increased Capacity. 13% of open-ended responses stated that an SMI could assist microenterprise practitioners by freeing up more of their time to provide services to clients. One practitioner stated, “An SMI increases the capacity of organizations across the board. Everybody gives up a bit to make sure that everybody’s still there.”

Increased Efficiency. *A small number of responses – but significantly, across all three constituent groups – stated that an SMI would increase efficiency, and streamline the funding process by serving as a “clearinghouse” for funding.* For example, one funder gave an example of the SMI being able to ask a bank to fund programs around the entire state in a single grant, rather than having fifty organizations pursue funding from that bank.

II. Drawbacks to Establishing an SMI

SMI’s Capacity to Attract New Funding. *This issue was raised by 13% of respondents (in response to an open-ended question), each of whom expressed concern about the SMI’s ability to raise new funds, rather than reshuffling existing funding.* A number of additional responses indicated that representatives from all three groups (policymaker,

funder and practitioner) were concerned about where the funding would come from, especially in this tight funding time.

“...I think there is a phenomenal importance of microenterprise in the state of California. This is a good time to be considering this [SMI] but a very challenging time to access resources.”
– Practitioner

Competition for Funding. Related to the issue of attracting new funding, four responses indicated a concern that the SMI might siphon off funding currently going to some of the larger microenterprise organizations. Five practitioner responses (13%) reflected a concern that, by working at the state level, the SMI might compete with or take away funding from local programs.

Democracy and Access to Statewide Process. Five practitioners indicated concern that, if an SMI is created, it should include mechanisms for fair distribution of funds and equal access to decision-making processes. One of these practitioners was concerned that an SMI does not have the same accountability to local practitioners that a membership organization does. Additionally, two respondents (one of whom was a funder) were concerned that funders might decide to only work with the SMI, to the exclusion of other programs.

Added Bureaucracy. 16% of respondents were concerned that the SMI might turn out to be another layer of bureaucracy, necessary to navigate in order to receive funds. Additionally, two respondents cautioned that the creation of an SMI is also the creation of another entity that will need money to support its own overhead, which points to the importance of determining if an SMI is needed.

III. SMI Service Needs

After inquiring about benefits and drawbacks related to creating an SMI in California, we asked survey respondents what types of services they would like to see offered by an SMI. Respondents stated overwhelmingly that the SMI should increase access to funding resources, collect data, provide technical assistance and advocate on behalf of the field.

An SMI should provide services that increase access to funding. In relation to the previous findings that practitioners need better access to funding resources, it was not surprising that high percentages of respondents in all three categories agreed that the SMI should increase access to funding by attracting new funding, as well as creating a conduit for funding through re-grant and other programs. The following data are drawn from answers to survey questions with preset answer choices.

There was virtually universal consensus that the SMI should attract both program funds and microloan funds. **100% of funders and policymakers agreed that**

*“I think there’s a great necessity for a central clearinghouse to disseminate information to practitioners throughout the state.”
– Practitioner*

an SMI should focus on attracting more federal and state program funding for California microenterprise programs. 95% of practitioners agreed with this function. With regard to microloan funds, responses differed slightly. Although responses were extremely high, microloan funding is perceived as less of a priority

than program funding. 90% of funders agreed that the SMI should attract more microloan funds, and 82% of practitioners and 83% of policymakers agreed.

Additionally, there was significant agreement on the SMI serving as a re-grant intermediary or fiscal sponsor. When asked what they thought of an SMI administering microenterprise grant programs for government agencies, foundations, or private funders, 83% of policymakers thought that was a service the SMI should provide. 73% of practitioners and 60% of funders supported it, as well. Answers were similar when respondents were asked what they thought of the SMI acting as fiscal sponsor for emerging programs and coalitions formed to benefit microenterprise development. Again, 83% of policymakers supported this role for an SMI, while 68% of practitioners and 50% of funders thought it was a needed function for an SMI.

Widespread agreement on statewide data collection by SMI. *Extremely high percentages of respondents in all three constituent groups – 90% of funders, 86% of practitioners, and 83% of policymakers -- agreed that collecting and disseminating microenterprise program data was an important need that an SMI could fill.*

“...the microenterprise field is ready for another shot in the arm...if there was some attempt made to really communicate the benefits of microenterprise, the field could really benefit from it.” – Funder

Primary suggested services for an SMI included TA and advocacy. We asked an open-ended question where respondents could tell us the services that they thought the SMI should provide. Survey respondents agreed that technical assistance was needed. 20% of respondents volunteered that an SMI could provide technical assistance in areas that included strategic planning and organizational financial planning. 13% of respondents – from all three constituent groups – indicated that the field would benefit from best practice development by the SMI. Two respondents stated that the SMI could fill a need as a researcher on local economies and identifying opportunities for microenterprise.

Advocacy was also identified as a needed function. 18% of respondents indicated that public policy advocacy was an important need that could be fulfilled by an SMI. One policymaker suggested that the intermediary should advocate to expand the base of economic development funds, and two practitioners suggested that advocacy with banks was needed, as well.

Finally, some respondents indicated that statewide standards could be addressed by an SMI. Although our survey does not fully address the feasibility and necessity of statewide standards for microenterprise, it is interesting to note that three individuals (2 practitioners and 1 funder) felt that the SMI could work towards the establishment of statewide performance standards. In a related question, policymakers, practitioners, and funders all tended to say that the microenterprise field addressed the issue of standards and accreditation “poorly.” Opinions in each constituent group varied widely as to whether standards and accreditation would help the field or not.

Widespread agreement on internal structure of SMI. When asked about their preferred structure for an SMI, respondents generally preferred either a non-profit or an SMA, and often didn’t have a preference between the two. The SMA had marginally more support, although some respondents cautioned that the SMA and SMI should establish some “arm’s length” safeguards when appropriate, to prevent conflicts of interest when distributing funding.

Conclusion & Recommendations

If nothing else, the results of this survey have highlighted the fact that the microenterprise development field is incredibly complex and multifaceted, and that different parts of the field have sometimes widely differing needs and priorities. For example, when asked about the single most important element needed to strengthen or improve the microenterprise field, practitioners ranked funding and public policy advocacy as the highest priorities for the field, while funders and policymakers identified best practices and data/statistics as most important. Even within the groups, the most popular choice among practitioners received less than 40% of votes, and no more than 2 funders or policymakers agreed on a single choice. These outcomes point to a diversity of viewpoints and stakeholders in the field, which should be taken into account when moving forward on statewide issues or deciding on statewide priorities.

While we interviewed a wide variety of individuals involved in the microenterprise field from a myriad of perspectives, the survey results did bring forth a number of themes. The following recommendations are divided into two sections: general needs, and considerations related to the establishment of an SMI. Each of the recommendations is followed by several potential strategies. These strategies may be prioritized and implemented according to the goals and capacity of the field's supporters.

Unifying Themes:

Overall Needs of the California Microenterprise Development Field

1. RECOMMENDATION: Improve Access to Funding

- Use a State Microenterprise Intermediary to attract and disseminate program and loan funding in a way that is very accessible to practitioners. The survey results indicate that even though many funding sources exist, and practitioners know about most of them, a significant proportion of these funding sources are out of reach to many organizations in the field. The SMI could focus its resources on several key funding sources that are especially inaccessible to practitioners, and advocate to increase wider access to those funds. Additionally, the SMI -- with

practitioner input -- can advocate for public funding guidelines would make help make grants correspond to what practitioners actually need.

- Use an SMI to help funders create strategic partnerships to allow practitioners access to larger and more comprehensive grants. The survey found that many funders lack knowledge of other funding sources, which means their grant decisions are not being made in the wider context of the microenterprise field. Funders with limited knowledge about what is already available to practitioners makes grantmaking less effective, because practitioners must apply for large numbers of small grants, which may or may not fit together effectively to fund programs. Funder education could be accompanied by funder partnerships and a statewide funder strategy that would help private and public funding efforts fill more gaps, and better serve clients because it is more comprehensive and relevant.

- Use an SMI to work with policymakers to maintain and restructure government funding sources. While it is important to ensure that funds do not disappear due to budget cuts, there are a number of funding sources currently available that could be made easier for microenterprise practitioners to access. Working closely with policymakers could help to achieve both goals.

2. RECOMMENDATION: “Make the Case” for Microenterprise

“Making the case” for microenterprise was a need identified by many survey respondents, in relation to increasing public awareness and support, and consequently funding and legislative support. All of the recommendations below are foundational to increasing access to funding and public policy support for microenterprise.

- Work with funders and practitioners to create a uniform data collection system (UDCS). Better data collection is universally recognized as an essential need, and a uniform data collection system is seen as a potentially positive option. It could both reduce the number of different types of data practitioners must collect and allow existing data to be aggregated across the state. Buy-in from all three stakeholder groups is essential to the success of such a system; funders must agree on some standard ways of measuring outcomes and basic measures they all require.

Practitioners will need to collect some additional data based on the goals of their programs and requirements of funders, but a core set of information can be standardized.

- Create and disseminate flexible database software for microenterprise practitioners. It should be as easy to work with as possible, allowing people with minimal computer skills to learn it quickly. This software should be combined with the uniform data collection system. The core set of data should be automatically part of the system. It should also be easy to add in other data required by the programs' goals and funders, either by making the program especially simple to use or providing organizations with database consultants.
- Fund microenterprise evaluations and "best practice" studies. Public awareness about microenterprise is generally low, and there is a consensus that microenterprise needs to better "make the case" for its impact on local communities. Evaluations should be aimed at a statewide audience, and should emphasize case studies and neighborhood impact as well as the impact on entrepreneurs.
- Develop and disseminate a statewide public relations campaign as a way to increase public awareness and support. The public relations campaign should be individually tailored for local communities and populations, and should use media outlets as a primary vehicle.

3. RECOMMENDATION: Provide Technical Assistance

- Coordinate funding and data gathering for evaluations of the field. See the previous two recommendations for more on both of these issues.
- Work with practitioners to recruit, train and retain staff. While the field currently has strong leaders, lack of staff development and high turnover can cause problems with retaining clients (as their contacts in organizations leave or do not have the training to keep them focused) and developing future leaders. Survey practitioners to determine what types of assistance in staff development are most needed.

Issues Related to Establishment of State Microenterprise Intermediary (SMI)

Many respondents reacted positively to the idea of an SMI, primarily because an SMI has the potential to meet the important need for funding and because it would increase efficiency and capacity of service providers. However, in pursuing a plan to establish an SMI, it is clear from the survey interviews that the following issues and concerns must be addressed and communicated to all stakeholders:

1. RECOMMENDATION: Identify Transitional Costs

In setting up an SMI, an analysis of transitional costs must be done. If there are significant costs involved in developing and maintaining an SMI, some stakeholders

“The real challenge is to eliminate any form of subsidy for the industry, to find a way for the industry to subsidize itself.”

– Funder

will be reluctant to participate. If there are minimal costs, then the field will be more likely to support the SMI. Additionally, an analysis must be done to determine whether the SMI can target new funding sources, not only for practitioners and the rest of the field, but also for the SMI’s own overhead.

2. RECOMMENDATION: Ensure Practitioner Accessibility to Financial Resources and SMI Process

As this report has indicated, California microenterprise practitioners have difficulty accessing existing funding sources. If an SMI is established in California, it should have a system that facilitates better access to funding for practitioners. In order to increase access to funding credibly and effectively on a statewide basis, the SMI should operate under policies that ensure equity and fairness among various constituencies (urban/rural; large/small), foster accountability to the field, and give practitioners a decisionmaking role in state-level issues.

3. RECOMMENDATION: Varied Program Services Should be Considered for SMI

Above all, survey responses echoed in various capacities that the SMI should support the field, and not compete with the field. As enumerated in previous sections, the survey found that the field needs the following services that could be performed by an SMI (in addition to increasing access to funding): creation of a Uniform Data Collection System; distribution of better data collection software to practitioners; a statewide education campaign that can be tailored to local audiences; staff development for staff that will need to replace leaders in the field in the coming years; development of evaluations and funding for evaluations; and public policy advocacy.

4. RECOMMENDATION: Address Issues Related to Structure of the SMI

The survey results helped to formulate some broad criteria for the SMI's internal structure: it should be closely connected to a state SMA, and it should be a nonprofit (rather than a government agency or a foundation). Within that framework, here are some considerations to address:

- Should the SMI be an entirely new organization, or should it be housed within an existing organization? If housed within an existing organization, thought must be given to the type of governing body that an SMI requires, and how that complements or conflicts with the existing governance of the host organization;
- What is the process for distribution of funds to other organizations? The process should be transparent to avoid favoritism, and policies should be established to prevent any potential conflicts of interest by SMI decisionmakers who may also be competing for funding.
- What are the staffing needs for the organization? How will new funding be found to pay for their time?
- Can the SMI reach out to all microenterprise organizations in the state, to involve them in the SMI? What kinds of structures need to be put into place to ensure fairness, equity, accountability, transparency and practitioner decision-making in statewide action?