

## **Microenterprise Loan Fund**

### ***Description***

This business lending technique is targeted to the smallest ventures (microenterprises), requiring very modest amounts of capital (say, from \$500 up to \$5,000). Generally, the usual sources of business finance will not deal with such small-scale business loans, principally because the administrative costs are no less and sometimes more than for larger loans and thus reduce the net return to the lender. Therefore, CEDOs in their concern for this significant business sector, especially in rural and small town settings but also in inner-city neighbourhoods, will address the financing gap by instituting their own loan fund program for these businesses. Such programs may not begin with enough capital (and technical support) to do direct lending and so, initially, may simply qualify, refer, and guarantee loans to be made by a collaborating conventional bank or credit union. (See [Loan Guarantee Program](#).)

Microenterprise lending began as a technique used in lesser developed nations (starting in Bangladesh with the Grameen Bank), where tiny businesses are the mode of survival for many impoverished citizens and where the cost of credit to them (usually through individual money-lenders) is extraordinarily high, often with interest rates at several hundred percent. In these circumstances, groups of micro-loan borrowers were assembled for mutual support, for collecting their loan payments, and for cross-guaranteeing each other's loans. This so-called peer lending technique was first adapted for the Canadian setting by the Calmeadow Foundation in 1985 and used in First Nation communities and later in other communities. The concept has been adopted and adapted by other organizations including CEDOs. However, not all microenterprise lending is done in the peer group style. For the rural context, where borrowers are widely distanced, individual lending is the only practical approach; and even in more populated settings the peer group technique is not necessarily used.

Lending to micro-ventures requires a support system of technical preparation and counsel all along the way. It is simply not enough to offer credit to microentrepreneurs without recognizing that almost every one of them will need technical assistance before, during, and after the loan process. (See [Self-Employment Training and Support Services](#) and [Entrepreneurial Self-Assessment](#).) And technical assistance in this context includes much psychological guidance and support as the entrepreneur explores a new identity and way of working.

### ***Benefits***

This lending program is key to strengthening what is a foundation stone for the economy of a small community—the very small businesses that residents pursue as their livelihood (often only one part of it). The credit itself is otherwise virtually unavailable, and the support system that should accompany it helps to assure that the benefits of the credit are long-term. A microenterprise program of some kind is almost essential in the smaller communities to fulfil a meaningful commitment by the CEDO to job creation.

### ***Major challenges***

There are three high obstacles to starting and maintaining a successful loan program. The first is obviously the capital needed for lending. The second is the careful construction of a support system to accompany the credit. And the third is finding and keeping staff who know how to do a job that combines skilful assessment of business prospects as well as sophisticated and understanding human relations approach to technical support.

### ***Some practical steps***

1. As with any financing program, the CEDO needs initially to specify rather precisely what sorts of ventures and entrepreneurs it is targeting.
2. These choices may determine the sources of capital that will be accessible. At any rate, the CEDO must then begin the process of assembling the capital, or at least systematically assessing the likelihood that sufficient capital will be available.
3. The loan program should be conceived in the same terms as a social enterprise/nonprofit enterprise. That is, it may not be expected to turn a surplus, but it must be structured so as to budget for needed subsidies to make it sustainable. In short, the loan fund ought to have the same stringent business plan and search for appropriate leadership that must mark any CEDO business venture.
4. As a project of the CEDO, an evaluation plan should be instituted to deal with the nonfinancial as well as financial outcomes of the program.

### ***Resource organizations & contacts***

- The trade association for all those concerned with microenterprise is the Association for Enterprise Opportunity, 70 East Lake Street – Suite 620, Chicago, IL 60601 – Tel. 312-357-0177. Their annual conferences are the scene for all sorts of workshops.
- Calmeadow Foundation is at 95 Wellington Street West, Toronto, ON M5J 2N17 – tel. 416-362-9670.
- The Charles Stewart Mott Foundation has very substantial resources devoted to its program in microenterprise: FIELD (Fund for Innovation, Effectiveness, Learning and

Dissemination), 1200 Mott Foundation Building, Flint, MI 48502 – tel. 810-238-5651; toll free for publications: 800-645-1766.

***Publications***

- Relevant to a community development loan fund approach as well as microenterprise is a large compendium of materials prepared by Diane Meyerhoff, “Starting a Micro-Business Program: Background Materials and Planning Kit,” published in 1998-99 by the Center for Community Futures (P.O. Box 5309, Berkeley, CA 94705 – order from their website: cencomfut.com). Their program assessment materials are particularly good.
- A very useful analysis of program assessment is Salome Raheim et al., “Evaluating Microenterprise Programs: Issues and Lessons Learned,” *Journal of Developmental Entrepreneurship* (1996) 1,2: 87-103.
- **\*Case Study:** “Microenterprise Lending 101.” For microloan funds to prosper, they have to perfect (not just create) alternative systems and procedures of lending, capitalization, and evaluation. One of several articles on the microenterprise approach have been published in *Making Waves* over the past couple of years.
- *Rural Enterprise Loan Fund Guidelines*, produced by WRED, (519-273-5017) is focussed on their loan guarantee arrangement but can be used more broadly for direct loan fund programs.