

FACT SHEET SERIES

SOURCES OF PUBLIC FUNDING FOR MICROENTERPRISE DEVELOPMENT IN THE UNITED STATES

The evolution of the microenterprise development industry has witnessed significant changes in the nature and diversity of available funding sources, which includes foundations, corporations and state and federal governments. Private foundations, principally the Ford and Charles Stewart Mott foundations, played key roles in supporting the initial growth of the field. Today, however, microenterprise organizations rely on a diverse mixture of funding sources, including government programs, corporate investments, and loans and grants from financial institutions. Throughout the 1990's, a wide variety of federal government programs were created to invest public dollars towards advancing microentrepreneurship. Unfortunately, some of these programs are now under constant threat of elimination and require high levels of grassroots advocacy to maintain.

Federal and state funding sources for microenterprise development are outlined in the following pages.

MAJOR SOURCES OF FEDERAL FUNDING

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. Today, a wide variety of federal programs are either exclusively dedicated to, or have successfully integrated, microenterprise development as an economic development strategy.

The Microenterprise Fact Sheet Series is produced by the Association for Enterprise Opportunity (AEO). AEO is the national trade and membership association for the microenterprise development industry. AEO would like to recognize the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD), at the Aspen Institute, for their contributions to this project.

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SBA Microloan Program

Introduced and passed in 1991, the Small Business Administration (SBA) Microloan Demonstration Program was the first legislation to specifically target funding for microenterprise programs. The program makes a combination of grants and loans to nonprofit agencies for technical assistance and loans to entrepreneurs. In 1997, the program received permanent status as the SBA Microloan Program and became one of the largest federal sources of financial support for the field. Since inception in 1992, SBA Microloan Intermediary organizations have made over 21,362 microloans totaling more than \$254,161,000, and provided countless hours of pre-and post-loan technical assistance to borrowers.

Despite its success in providing access to credit for thousands of low-and moderate-income entrepreneurs, the Microloan Program has experienced an overall decline in federal funding of nearly 45% since 2000. In FY 2005, the SBA cited this decrease in funding as the main reason for their decision to discontinue the Non-Lending Technical Assistance Provider (NTAP) component of the Microloan Program, which funded fourteen organizations that connected low- and moderate-income entrepreneurs with private sector business financing. AEO opposed this decision, arguing that the elimination of the NTAP component is out of line with the intent of the Microloan Program's authorizing legislation, which explicitly lists NTAP activities as a primary purpose of the overall Microloan Program.

The Bush Administration also proposed the elimination of the Microloan Program in Fiscal Years (FY) 2005 and FY 2006, arguing that other SBA programs are ready to meet the needs of low- and moderate-income microentrepreneurs. The Association for Enterprise Opportunity (AEO) and advocates for microenterprise are strongly opposed to the elimination, making the case that the population served by the Microloan Program lacks the business experience, credit scores, and collateral to benefit from any other SBA loan program. To date, AEO's advocacy has led to a continuation of the Microloan Program through FY 2005 and FY 2006.

SBA PRIME Program

In order for microentrepreneurs to succeed in today's complex economy, they often need training and technical assistance in areas such as financial management, bookkeeping, marketing, and customer service. In 1998, the microenterprise industry came together in a unified effort to create a federal program that would meet these needs. The result was the creation of the SBA Program for Investments in Microentrepreneurs (PRIME). Passed into public law in 1999, and fully funded in FY 2001, PRIME provides grants to community-based microenterprise development organizations to offer training and technical assistance to low- and very low- income entrepreneurs, regardless of whether or not they seek loan capital. Unlike any other technical assistance program at SBA, PRIME requires that over 50% of a grantee's clients be very-low income individuals.

In addition, the PRIME Program also provides limited grant funding for capacity building among community-based microenterprise development organizations. Unfortunately, there has never been support in the Bush Administration for PRIME—they have proposed PRIME for elimination from FY 2002-FY 2006. Despite its targeting of very-low income individuals, the Administration feels that PRIME is duplicative of other technical assistance programs at SBA. In addition, in FY 2004, applications for PRIME grants were restricted to organizations residing or operating in one of 15 states and the District of Columbia.

AEO, and the microenterprise industry at-large, have successfully advocated for the restoration of PRIME funding for the past four years and hope to continue this success into the future.

SBA Women's Business Centers

The Women's Business Centers (WBC) of the Office of Women's Business Ownership provide training and technical assistance to women who are starting or expanding their businesses. SBA Women's Business Centers were first funded in FY 1989, and the number of centers and women served has steadily increased ever since. In 2004 alone, WBCs across the country trained and counseled over 106,000 women in core business areas such as marketing, bookkeeping and financing. While other SBA programs benefiting microentrepreneurs have experienced decreased support and funding over the past few years, SBA Women's Business Centers have received level funding at \$12.5 million since FY 2003.

CDFI Fund

In 1994, the U.S. Department of the Treasury introduced the Community Development Financial Institutions (CDFI) Fund to award grants, loans, equity investments, deposits and share capital to nonprofit credit unions, development banks, venture capital funds and loan funds. Total CDFI Fund investments since program establishment exceed \$727 million. After a decline in CDFI awards to microloan funds (MLF) in recent years, FY 2004 brought a renewed focus on microenterprise for the CDFI Fund, with MLFs receiving roughly 15% of all CDFI Fund Financial Assistance awards.

In the Administration's FY 2006 budget proposal, the CDFI Fund was included as part of the "Strengthening America's Communities Initiative." The Initiative proposes to consolidate 18 community and economic development programs, and faces major opposition from community groups, and local and state governments. Whether or not the Initiative gains traction, it is a clear indicator of the direction in which the Administration would like to go in terms of funding community and economic development—including programs like the CDFI Fund.

Other Federal Programs

As the chart on the following pages indicate, federal funding opportunities exist across numerous 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, namely through the Community Development Block Grant (CDBG) program) to name a few. Program funding from most of these sources is divided into support for technical assistance, operational costs, and loan funds.

In addition to funding cuts to microenterprise specific programs such as SBA Microloan and PRIME, overall appropriations for broader community and economic development have also experienced a general decline over the past several years. Tightening budget constraints, coupled with a host of eligible activities under many federal programs (i.e. affordable housing, infrastructure development, etc.) has made obtaining federal funding increasingly challenging for many microenterprise organizations.

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)

CDFI Fund... SBA Microloan Program...

FY 2005 FEDERAL FUNDING SOURCES CHART

Funding Program	Contact	Goal	Eligible Entities	Funding Available	Type *
SBA Microloan Program	Office of Program Development; Small Business Administration 1100 Vermont Ave. NW, Washington, DC 20005; SBA - Main Number (202) 606-4000	To provide very small loans to start-up, newly established, or growing small business concerns.	Private, nonprofit, intermediaries with at least one year of experience assisting microenterprise.	FY 2005 \$15 million for lending capital, \$14 million for Technical Assistance grants	L & TA
Program for Investment in Microentrepreneurs (PRIME)	SBA; Office of Administration; Office of Procurement & Grants Mgmt; 409 3rd Street S.W., Suite 5000; Washington, DC 20416; (202) 205-7080; www.sba.gov/financing/sbapartner/prime.html	To strengthen the capacity of microenterprise programs to offer training and technical assistance to low- and very-low income entrepreneurs, enabling them to start or expand businesses. Half of the funding must benefit individuals below 150% of poverty guideline.	1) A microenterprise development organization or program; 2) an intermediary which has experience in delivering technical assistance to disadvantaged entrepreneurs; 3) a microenterprise development organization or program that is accountable to the local community; 4) an Indian tribe acting on its own; 5) applications only accepted from states with a three year average poverty rate of 13% or more.	FY 2005 \$5 million	TA
SBA Women's Business Centers	SBA, Office for Women's Business Ownership; 409 Third St., SW, 5th FL, Washington, DC 20416; 1-800-U-ASK-SBA or (202) 205-6673; www.onlinewbc.gov	To provide financial counseling and other management and technical assistance services to women.	Nonprofit agencies with experience training women entrepreneurs.	FY 2005 \$12.5 million	T & TA
Community Development Financial Institutions (CDFI) Fund	Treasury Department; 601 13th St. NW; Suite 200 South; Washington, DC 20005; (202) 622-8662 www.cdfifund.gov and www.cdfi.org	To revitalize economies and develop communities through investments in CDFIs. (CDFI certification is available through the Treasury Dept.).	Certified non-profit CDFIs (private banks, loan funds, community credit unions, CDCs, etc.).	FY 2005 \$55,077,000; 100% match required	L & TA
Community Development Block Grants (CDBG)	Housing & Urban Development (HUD) (through City and State Development Agencies); Main Office, 451 7th St. SW, Washington, DC 20410 (202) 708-1112; www.hud.gov/offices/cpd/communitydevelopment/programs/index.cfm	To develop viable communities by providing decent housing and a suitable living environment, and by expanding economic opportunities for persons of low and moderate-income.	Entitlement Communities, States, Indian Communities, Cities, Colonias.	FY 2005 \$4,709,000,000	L & TA
Economic Adjustment Program, and Technical Assistance-Local Technical Assistance Programs	Economic Development Administration; 14th & Constitution; Washington, DC 20230; (202) 482-2309; www.eda.gov/InvestmentsGrants/Pgmguide.xml	To assist economically distressed state and local interests design and implement strategies to bring about change in the economy, focusing on strategic planning, project implementation and revolving loan funds, and help fill the knowledge and information gaps preventing making optimal decisions on local economic development issues.	An Indian tribe or consortium of political subdivisions; and Economic Development District, a city or other political subdivision of a state; an institution of higher education; a public or private nonprofit organization or association.	FY 2005 Economic Adjustment Assistance: \$44,780,000; FY 2005 Technical Assistance-Local Technical Assistance: \$8,320,000	L & TA
Intermediary Relending Program	USDA, Rural Business-Cooperative Svc.; 1400 Independence Ave., SW; Room 5050, South Bldg; Washington, DC 20250; (202) 720-1400; www.rurdev.usda.gov/rbs/busp/irp.htm	To finance business facilities and community development projects in rural areas by making loans to intermediaries.	Non-profit corporations, public agencies, Indian groups, or cooperatives with legal authority to manage loans, and having a record of successfully assisting rural business. At least 51% of owners or members of both intermediaries and ultimate recipients must be US citizens or admitted for permanent residency.	FY 2005 \$33.9 million	L
Job Opportunities for Low Income Individuals (JOLI)	1-800-281-9519; Office of Community Services; 370 L'Enfant Promenade, S.W.; Washington, DC 20447; www.acf.hhs.gov/programs/ocs/ocsfs2004.htm#JOLI	To create new employment and business opportunities for TANF recipients, and other low-income individuals.	Nonprofit organizations including CDCs.	FY 2005 \$4,481,000	TA
Office of Refugee Resettlement	Administration for Children & Families; Office of Refugee Resettlement; 370 L'Enfant Promenade, SW, 6th FL/East; Washington, DC 20447; (202) 401-9250; www.acf.dhhs.gov/programs/orr/	For social service discretionary funds for refugee microenterprise development projects.	Public and private non-profit organizations and agencies of State governments that are responsible for refugee programs.	FY 2005 \$484.4 million total ORR Funding Appropriation	L & TA
Resident Opportunity & Self-Sufficiency (ROSS) Program	Department of Public and Indian Housing; HUD SuperNOFA Information Center (1-800-483-8929) pih_ross_grants@hud.gov; www.hud.gov/offices/pih/programs/ph/ross/index.cfm	To link public housing residents with supportive services, resident empowerment activities, and assistance in becoming economically self-sufficient.	1) Public Housing Agencies; 2) Tribes/tribally designated housing entities (TDHEs); 3) Intermediary Resident Organizations; 4) Nonprofits operating as associations or networks.	FY 2005 \$58.1 million	L & TA
Rural Business Enterprise Grants (RBEG)	USDA Rural Development, Room 5045-S Mail Stop 3201 1400 Independence Avenue SW Washington, DC 20250-3201 (202) 690-4730 www.rurdev.usda.gov/rbs/busp/rbeg.htm	To finance and facilitate development of small emerging private business enterprises located in rural or small town areas.	Public bodies, private nonprofit corporations and Federally-recognized Indian Tribal groups.	FY 2005 \$39,829,898	L & TA
Rural Business Opportunity Grants (RBOG)	USDA Rural Development, Room 5045-S Mail Stop 3201 1400 Independence Avenue SW Washington, DC 20250-3201 (202) 690-4730 www.rurdev.usda.gov/rbs/busp/rbog.htm	To promote sustainable economic development in rural communities with exceptional needs. Includes making grants for economic planning, technical assistance, or training for entrepreneurs in rural settings.	A public body, nonprofit corporation, Indian tribe, or cooperative with members that are primarily rural residents.	FY 2005 \$3,032,048	TA

*Type Code L = Lending T = Training TA = Technical Assistance

FY 2005 FEDERAL FUNDING SOURCES CHART (continued)

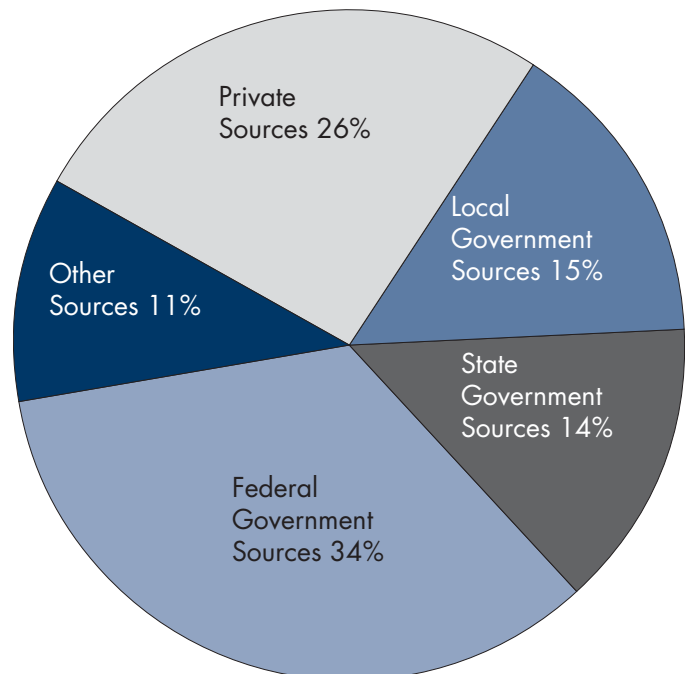
Funding Program	Contact	Goal	Eligible Entities	Funding Available	Type *
Rural Community Development Initiative (RCDI)	USDA Rural Development, Room 5014-S Mail Stop 0701 1400 Independence Avenue SW Washington, DC 20250-0701 (202) 690-1533 www.rurdev.usda.gov/rhs/rcdi	To provide a program of technical assistance to recipients to develop or increase their capacity to undertake projects in the areas of housing, community facilities, and community and economic development in rural areas.	Private or public organization, including tribal, that has experience working with eligible recipients; nonprofit organizations, low-income communities, and tribes located in rural areas.	FY 2005 \$6 million; 100% match required	TA
IDAs for Refugees	Office of Refugee Resettlement, Administration for Children and Families 370 L'Enfant Promenade, SW 6th Floor /East Washington, DC 20447 www.acf.hhs.gov/programs/orr/programs/individual.htm	To promote the participation of refugees in the financial institutions of this country; and To assist refugees in purchasing assets to promote their economic self-sufficiency.	Public and Private, Non-profit Agencies.	FY 2005 \$1.5 million;	IDA
Community Economic Development Program	Administration for Children & Families; Office of Community Services; 370 L'Enfant Promenade, SW; Washington, DC 20447; (202) 401-3446 http://acf.hhs.gov/programs/ocs/ida/index.html	The development economic self-sufficiency for low-income people and distressed communities.	Private, non-profit CDC.	FY 2005 \$16 Million	L & TA
Assets for Independence - Individual Development Accounts (IDAs)	US Dept of Health & Human Services; ACF; Office of Community Services; www.acf.hhs.gov/programs/ocs/ida/index.html	To find out if, and how, IDAs can best be used as a tool to help lower income working families accumulate assets; and to what extent such accumulation of assets will help stabilize and improve families and the community in which the families live.	One or more not-for-profit organizations, a State, local or Tribal government agency applying jointly with a nonprofit organization, or a CDFI or Low Income Credit Union.	FY 2005 \$24.9 million; anticipate 50-60 awards; \$327,273 per project per year for a 5 year project.	IDA
Workforce Investment Act- Several Programs	U.S. Dept of Labor 202-693-3045; www.doleta.gov/usworkforce/	WIA created a comprehensive, customer-focused workforce investment system and reformed federal job training programs. Offering microenterprise training and support is consistent with WIA's mandate to honor customer's career choices.	Monies are channeled to local workforce investment boards.	No separate funding is set aside for entrepreneurship training, although it is an allowable activity under WIA	T
Community Service Block Grants	U.S. Dept of Health and Human Services, Office of Community Services; http://www.acf.hhs.gov/programs/ocs/csbg/index.htm	The CSBG program provides States and Federal and State-recognized Indian Tribes with funds to provide a range of services to address the needs of low income individuals to ameliorate the causes and conditions of poverty.	Community Action Agencies (CAA's), Native American Tribes and Tribal organizations, States.	FY 2005 \$732 million	T&TA

*Type Code L = Lending T = Training TA = Technical Assistance

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, 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 federal and/or state funds, local government agencies, foundations, banks, churches and businesses (see adjacent pie chart¹). More recently, several for-profit corporations, such as Hewlett-Packard and COVAD Communications, have made large contributions in cash, products, and services to microenterprise programs and microentrepreneurs. Several programs have also incorporated “social enterprise” or “earned income” components into their fund development strategies to boost self-sufficiency and decrease their reliance



1 AEO, 2005 Directory of Microenterprise Programs.

on outside sources of income. AEO estimates that microenterprise programs typically patch together funding from six to eight different sources. With the uncertainty of future government funding and year-to-year fluctuations in corporate and foundation giving, patching will most likely continue as the predominant method of program funding for the foreseeable future.

Increasingly, to leverage additional dollars and staff, programs are increasing partnerships with traditional economic development organizations, corporations, and banks. Working partnerships with commercial banks have taken a variety of forms: banks create pools for microenterprise lending, extended lines of credit to microenterprise programs to re-lend to their clients, and even act as the primary source of contact and preliminary underwriter for potential clients. In some cases, banks actually make loans directly to microentrepreneurs and the microenterprise program assumes part of the risk by providing loan guarantees. In all, the microenterprise development industry has embarked on some truly incredible innovations in its search for funding, and entrepreneurs have benefited immensely from the results.

REGIONAL, STATE & LOCAL FUNDING SOURCES

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 is the Community Development Block Grant program 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 (i.e. “entitlement communities”) which award grants to local entities, 2) state governments (i.e. “non-entitlement communities” or “balance of State CDBG”) which oversee distribution of CDBG monies in rural areas.

The decision to utilize CDBG funds for microenterprise in entitlement cities and counties is often quite political, with city councils and/or county commissions influencing the decision-making. In non-entitlement areas, the use of CDBG funds for microenterprise is also quite political, but influenced more by the Governor’s office. In Fiscal Year 2003 alone, roughly \$26 million in CDBG funding was allocated for microenterprise in entitlement and non-entitlement communities.

Regional-level Funding

Pass-through funds can also originate with regional organizations, such as the Appalachian Regional Commission (ARC), a federal-state partnership that works with the people of Appalachia² to create opportunities for self-sustaining economic development and improved quality of life.³ ARC makes grants to microenterprise organizations in the Appalachian region through its Entrepreneurship Initiative and Business Development Revolving Loan Fund Grants. Most ARC grants originate at the state level, with the State ARC Program Manager being the point of contact for interested organizations.

² The Appalachian region includes all of West Virginia and parts of 12 other states: Alabama, Georgia, Kentucky, Maryland, Mississippi, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia.

³ ARC Website: <http://www.arc.gov>

State-level Funding

Several states have opted to provide funding for microenterprise from flexible general fund revenues. In some states, funding is earmarked for the capitalization of microenterprise loan funds and, in others, funding has been used for operational costs. According to CFED, 25 states allocate funding for microenterprise development.

Temporary Assistance for Needy Families

Welfare reform, known as Temporary Assistance for Needy Families (TANF), passed in 1996 and has allowed states new flexibility to eliminate asset and income rules that had been one of the most significant challenges to self-employment for these clients. However, new barriers were put in place, such as time limits on TANF benefits and a strong emphasis on job placement, both of which mitigate against the slow process of learning about and starting a business. Some states now allow TANF monies to be used in support of microenterprise development for welfare recipients.

**STATE FUNDING SOURCES CHART
(as of Summer 2005)**

State	State General Funds	State/Local Administered Funding Streams	State Tax Credits or Deductions	TANF Funds	CDBG Funds	Welfare to Work	Workforce Investment Act Funds
AL				•			
CA					•		
CO	•				•		
GA	•			•	•		•
ID	•			•	•		•
IA		•					
KS					•		
LA			•	•			
ME				•	•		
MD	•			•			•
MA	•				•		•
MN	•				•	•	•
MI				•			
MS					•		
MO					•		•
NE	•						
NH			•		•		
NY	•						
NC	•						
OR	•				•		•
PA	•						
VT	•				•		
VA	•			•	•	•	•
WA					•		
WI		•					

CONCLUSION

The future of public funding for microenterprise is not as robust as it was in the 90's but, despite several setbacks, it remains the primary source of funding for the majority of microenterprise organizations. According to AEO, on average microenterprise organizations exhibit a healthy mix of funding sources. Combined with a continued emphasis on grassroots advocacy, funding diversification has ultimately led to greater stability and self-sufficiency.

FEDERAL FUNDING SOURCES CHART REFERENCES

- CFED Funding Sources Chart. http://www.cfed.org/imageManager/_documents/2006_Budget.xls
 - P.L. 108-447, FY 2005 Consolidated Appropriations Bill, available online at <http://thomas.loc.gov/home/approp/app05.html>.
 - United States Department of Agriculture Rural Business Cooperative Service website: <http://www.rurdev.usda.gov/rbs/busp/bprogs.htm>.
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U.S. Small Business Administration. SBA Microloan Program Nationwide Loan Report, August 1992 – September 2004.

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 website contains additional information about microenterprise and links to many other resource organizations: www.microenterpriseworks.org.