oppaga
OFFICE OF PROGRAM POLICY ANALYSIS
& GOVERNMENT ACCOUNTABILITY

December 2006 **Report No. 06-77**

Legislature Should Consider Lessons Learned If It Wishes to Create a New Microenterprise Development Program

at a glance

Microenterprise development programs typically provide loans, technical assistance, and business skills training to very small businesses. Florida has previously operated two microenterprise development programs, one administered by Enterprise Florida, Inc., and the second administered by the Department of Community Affairs' Office of Urban Opportunity. However, neither of these programs is currently in operation.

If the Legislature wishes to establish a new state-supported microenterprise development program, it should consider lessons learned from Florida's and other states' prior experiences. It would be important to

- **establish clear program goals and ensure that the program's design matches its mission;**
- **clearly specify how state funds, interest earnings, and loan repayments could be used by microloan providers; and**
- **establish performance measures and objectives, and performance reporting requirements.**

Scope

At the Legislature's request, OPPAGA examined microenterprise development programs in Florida and other states. Section 288.9618, *Florida Statutes,* defines microenterprises as extremely small businesses that enable low and moderate income individuals to achieve self-sufficiency through self-employment.

Background

Microenterprises are businesses that require $35,000 or less in start-up capital, do not have access to the traditional commercial banking sector, and have five or fewer employees. These small businesses can strongly contribute to economic growth and job creation in disadvantaged communities.

Several states, including Florida, have attempted to support such businesses through microenterprise development programs. These programs typically provide some combination of microloans, technical assistance, and business skills training for low-to-moderate income small-business owners. [1]

Nonprofit organizations serve as the primary source of support for microenterprise development in Florida. These nonprofit organizations typically provide business owners with microloans, training, and technical assistance. They often receive funding support from the federal and local governments, and the private sector. For example, Florida has 22 community development financial institutions (CDFIs) that provide microloans to low-income people living in communities lacking adequate access to affordable financial products and services. [2] CDFIs may receive funding from various sources including the U.S. Department of the Treasury. From 1996 to 2005, the U.S. Department of the Treasury has awarded approximately $45.2 million to CDFIs in Florida.

Some nonprofit organizations also offer microloans funded by the U.S. Small Business Administration's Microloan Program. The federal Microloan Program provides small loans to start-up or expanding small businesses. Under this program, the Small Business Administration makes funds available to nonprofit

---

[1] A microloan is a loan of $35,000 or less made to a microenterprise.

[2] A Community Development Financial Institution is a local organization whose primary mission is community development and the development of programs and strategies to meet the needs of low-income communities. CDFIs make loans to entities unable to get approved by traditional banking institutions. CDFIs provide comprehensive credit, investment, banking and development services.

community-based lenders which, in turn, make loans to borrowers in amounts up to $35,000. The Small Business Administration reported it provided 1,170 microloans totaling $6.9 million to Florida businesses during the period from federal Fiscal Year 2001 to 2006.

Questions and Answers

What programs has Florida previously implemented to support microenterprise development?

The state has previously offered two microloan programs that were intended to support microenterprise development. Enterprise Florida, Inc., administered the MicroEnterprise Florida Program and the Department of Community Affairs' Office of Urban Opportunity administered the Front Porch Florida Microloan Program. However, neither of the programs is currently in operation. [3]

MicroEnterprise Florida. In 1997, the Legislature authorized the Governor's Office of Tourism, Trade, and Economic Development (OTTED) to contract with a nonprofit or governmental organization to foster microenterprise development in Florida. [4] The Legislature appropriated $1 million to OTTED to support this endeavor in Fiscal Year 1997-98. OTTED subsequently entered into a contract with Enterprise Florida, Inc., to develop and administer a microloan program. EFI, in turn, outsourced the program's administration to a consulting firm. The program, known as MicroEnterprise Florida, provided competitive grants to 17 community-based nonprofit organizations located throughout the state. [5]

Under the program, the nonprofit organizations provided technical assistance and loans to low and moderate income individuals to help them achieve self-sufficiency through self-employment. Loan amounts ranged from $500 to $10,000. Loan repayments were made to the microloan providers so they could be used to capitalize additional loans. MicroEnterprise Florida reported that it assisted 216 microenterprise start-ups and 16 expanding businesses in Fiscal Year 1998-99. However, Enterprise Florida, Inc., representatives reported that approximately 70% of businesses assisted by the program failed. The Legislature did not fund the program after Fiscal Year 1997-98.

Front Porch Microloan Program. The state also supported microenteprise development through the Front Porch Microloan Program which was administered by the Department of Community Affairs' Office of Urban Opportunity from Fiscal Year 2002-03 to Fiscal Year 2005-06. [6] This program was intended to help build the capacity of community-based non-profit organizations so that they could provide microloans, training, and technical assistance for low-to-moderate income residents. The Department of Community Affairs outsourced program administration to a consulting firm that provided competitive grants to non-profit financial organizations. The non-profit organizations, in turn, were responsible for making loans to businesses and servicing these loans.

The consulting firm that managed the Front Porch Microloan Program reported that it awarded 15 grants to non-profit financial organizations during the period from Fiscal Year 2002-03 to Fiscal Year 2004-05. These funds were used to make loans totaling $551,000 to 58 small businesses. The loan amounts ranged from $1,000 to $35,432. The consulting firm also reported that the microloans resulted in the creation of 115 jobs and that 41 of the 58 loans (71%) were either paid in full or recipients were current in their repayments as of June 2006.

The Department of Community Affairs ended the Front Porch Microloan Program in Fiscal Year 2005-06. The program's funding was redirected to competitive grants that Front Porch communities could use to fund and operate projects consistent with their individual priorities. According to department managers, this was done to give Front Porch communities the flexibility to provide services other than microloans.

How do other states support microenterprise development?

Several other states have established programs intended to support microenterprise development. These states use two approaches in providing support: providing funding directly to microloan providers, and contracting with non-governmental organizations to administer microenterprise development programs.

Several states directly administer and provide funding to microloan providers. Several states directly administer programs that provide funding support to microloan providers. For example, the Virginia Enterprise Initiative provides competitive grants to community-based nonprofit organizations. The

[3] During the period from 1980 to 1998, Florida also operated a Community Development Corporation Support and Assistance Program administered by the Department of Community Affairs that provided funding that some community development corporations used to make microloans to small businesses.

[4] Chapter 97-278, *Laws of Florida*, s. 43.

[5] Non-profit corporations receiving grants were required to obtain matching funds.

[6] The Legislature placed the Office of Urban Opportunity in the Department of Community Affairs in 2005. Prior to that, the office was located within the Executive Office of the Governor.

organizations use these grants to fund services to small businesses, including training, one-on-one technical assistance, microloans, and follow-up or post-loan technical assistance. The state grants can also be used to help cover the nonprofit organizations' administrative costs, and these organizations must provide a match for state funds. Since 1995, the Virginia Enterprise Initiative has provided approximately $7 million to nonprofit organizations for microenterprise development activities.

Similarly, Montana operates a MicroBusiness Finance Program that provides interest-only loans to local nonprofit MicroBusiness Development Corporations to capitalize their revolving loan programs. These organizations provide microloans, training, and technical assistance to small businesses. The MicroBusiness Development Corporations make quarterly interest payments to the state to cover its administrative costs. The Montana Department of Commerce reports that since 1991, a total of 879 loans have been made and 1,062 jobs created through this program.

Several states contract with non-governmental organizations to administer microenterprise development programs. Similar to Florida's previous microloan programs, several states contract with non-governmental organizations to administer their microenterprise development programs. For example, Nebraska's Department of Economic Development contracts with a non-profit organization, the Nebraska Microenterprise Partnership Fund, to provide funding to local microenterprise development programs. The local programs provide loans, training, and technical assistance to small businesses. The Nebraska program reports that since 1998, it has provided approximately $17 million in loans that contributed to the creation or retention of 15,565 jobs.

What lessons can be learned from Florida and other states' experiences in implementing microenterprise development programs?

Florida and other states' experiences have provided several lessons concerning the design and implementation of microenterprise development programs. Specifically, it would be important to

- clearly specify program purposes and goals;
- clearly specify how state funds can be used to support microenterprise development; and
- require the administering entity to establish accountability measures and regularly report on its results.

Program purpose and goals need to be clearly specified. A key step in establishing an effective state-supported microenterprise support program would be to establish clear program goals, which would require choosing from among several potential program designs. Nationwide, microenterprise development programs have been designed to achieve different objectives. For example, MicroEnterprise Florida was intended to help individuals transition from welfare to work while programs in Virginia and Nebraska programs were intended to help economically disadvantaged individuals become more financially self-sufficient. However, Montana's program focused on aiding very small businesses and did not emphasize providing assistance to economically disadvantaged individuals.

The design of a microenterprise support program should match its mission. A microenterprise development program that seeks to emphasize revitalizing distressed areas would focus its efforts on giving loans and providing technical assistance services to small businesses that locate in such areas. Accordingly, the program would need capitalization funds for loans or loan guarantees and should partner with local financial institutions and community development organizations. In contrast, a program established to help low income persons achieve financial self-sufficiency would focus on providing entrepreneurship training and support services to low income persons and should partner with local organizations that can provide needs-based services. Training and long-term technical assistance are important in ensuring that microloan recipients develop the skills necessary to manage a business.

Allowable uses of state funds need to be specified. It also would be important to clearly specify how state funding could be used by the program. For example, the Legislature would need to determine whether

- microloan providers could use state funds only to provide loans and technical assistance and training or whether the funds also could be used to help pay the providers' administrative expenses;
- loan repayments and interest earnings could be used by microloan providers to capitalize additional loans; and
- the program's administrating entity, if not a state agency, would be required to abide by state purchasing and other governmental spending policies or function as a public-private partnership that is exempted from some or all of these requirements.

Florida's former programs and some other states' programs were designed to allow microloan providers to retain a portion of grant funds to offset their administrative costs. For example, Virginia and Nebraska allow grant recipients to use a portion of state funds to help cover their administrative or management costs. Further, Florida's former programs and Nebraska allow microloan providers to retain loan repayments and interest earnings for use in capitalizing additional loans.

Accountability provisions should be specified. Further, it would be important for the Legislature and the administering agency to establish clear accountability provisions and performance targets for the program. The program would need to establish performance measures, clear performance objectives, and report both performance and financial information to the Legislature and the administering agency.

Concerns have been raised regarding the performance accountability requirements for one of Florida's prior microloan programs. OTTED managers asserted that a weakness in the former MicroEnterprise Florida Program was that it lacked adequate performance measures and reporting requirements. While MicroEnterprise Florida provided monthly report summaries to Enterprise Florida, Inc., this information was limited and included only the amount of funding awarded to lending organizations and a description of the organizations' progress in providing loans and technical assistance. The reported information did not include data on loan repayments or the status of the businesses receiving the loans. Further, program administrators did not continue to monitor loans or businesses beyond its one year in operation. As a result, OTTED and the Legislature lacked information on whether the program was making adequate progress toward meeting its goals.

In contrast, Florida's other program and other states established stronger performance accountability requirements. For example, the Front Porch Florida Microloan Program's contracted administrator provided annual reports to the Department of Community Affairs that contained information on the status of loans and the businesses that received them. Similarly, Nebraska has required its Microenterprise Partnership Fund to provide an annual report to the Nebraska Legislature that provides information on the number and value of microloans awarded, the number of jobs created by loan recipients, and the number of microenterprise owners receiving training. Montana required its MicroBusiness Finance Program to provide quarterly performance information on the number of loans approved, the total dollar amount of loans made and the number and percentage of loans repaid and written-off.

In summary, we believe the Legislature should take the steps described below if it wishes to establish a new state-supported microenterprise development program.

- Clearly specify the program's purpose and goals and ensure that its design matches its mission.
- Specify the state-level entity to administer the program. For example, the program could be assigned to OTTED, Enterprise Florida, Inc., or a state agency such as the Department of Community Affairs. We did not identify major advantages that would result from assigning this responsibility to one of the above entities. Each has some familiarity with microloan initiatives and has experience working with some of the local organizations that would likely be selected as microloan providers.
- Decide whether the state entity should directly enter into agreements with existing nonprofit organizations, such as community development financial institutions, or contract with a third-party that would enter into such agreements on behalf of the state. The nonprofit organizations would provide microloans, training, and technical assistance to microenterprises.
- Specify how state funding, interest earnings, and loan repayments could be used by nonprofit organizations.
- Specify whether the entity administering the program, if not a state agency, should be required to abide by state purchasing and other spending policies or function as a public-private partnership that is exempted from some or all of these restrictions.
- Require the administering entity to establish performance measures and objectives. The program should routinely report both performance and financial information to the administering entity and the Legislature.

OPPAGA supports the Florida Legislature by providing evaluative research and objective analyses to promote government accountability and the efficient and effective use of public resources. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021 or 800/531-2477), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475). Cover photo by Mark Foley.

Florida Monitor: www.oppaga.state.fl.us

Project supervised by Tom Roth (850/488-1024)

Project conducted by Marcus D. Mauldin (850/487-9236), Angela Baker (850/487-9274), and Kelley Seeger (850/487-9214)

Gary R. VanLandingham, OPPAGA Director