Microenterprise exists in every community in the United States. From downtown shops and restaurants to machine shops or construction businesses, microenterprise is there, providing an income for millions of families and creating greatly needed jobs in urban and rural communities. For many entrepreneurs, the idea is good, and the market exists, but capital is out of reach. Microenterprise loan funds can be established to help small businesses get started.

What is a microenterprise?

According to the Association for Enterprise Opportunity (AEO)—the national trade association for microenterprise development organizations—a microenterprise is a business that has five or fewer employees and requires $35,000 or less in start-up capital. AEO estimates that more than 20 million microenterprises are operating in the United States and that microenterprise employment represents 16.6% of all private (non-farm) employment in the country.

What is a microenterprise loan fund program?

Microenterprise loan fund programs target assistance for small businesses and startups that are typically not bankable. When the business startup has no other options, these programs provide “gap” financing, which means the funds are provided only when other financing sources are not available, to avoid competition with traditional banking institutions. Funds can be used for just about any purpose: machinery or equipment, building acquisition, new construction, remodeling, inventory, and/or working capital.

What are the mechanics of a microenterprise loan fund program?

Microenterprise loan programs are publicly managed programs that are usually managed by a city, county, or nonprofit. The entity can apply for a grant to “seed” the loan fund from several possible sources, the two most common being the Ohio Department of Housing and Community Partnerships (OHCP) Community Development Block Grant Program and the United States Department of Agriculture (USDA) Rural Business Enterprise Programs. Funds can also be available through existing revolving loan fund programs, financial institutions, or other public or private sources such as foundations.

The initial grant is loaned out and revolves as principal, and interest payments are received back into the fund by the borrowers. As the loan fund grows, additional grants may be requested in order to maintain adequate balance available to lend out. Once the loan fund reaches a certain level, it becomes sustainable and does not need any new infusion of funds.
Loan funds can cover up to 100% of a project. This is different from traditional programs that usually fund only up to 50%. In other words, other than a nominal application fee of usually between $25–$100, no cash is required from the borrower. Some form of new or existing collateral is required as loan security. Borrowers must also demonstrate the capability to cash-flow the business while repaying the debt. For OHCP Grant Programs, the primary requirement is that the borrower be income-eligible. Income eligibility varies by county, with criteria available on the OHCP web site at development.ohio.gov. Loans are usually capped at no more than $20,000. Programs allow applicants to borrow money at or below market interest rates for reasonable terms, usually between 1–7 years depending on what the loan is for.

What are the typical loan approval criteria?

**Minimum Requirements**
- Meets low-to-moderate income requirements
- Creation of one or more jobs
- Adequate collateral as loan security
- Demonstrates capability to implement project while repaying loan

**Application Requirements**
- Project cost estimates
- Business plan or description of project (Free help is available for borrowers from many sources including University Small Business Development Centers.)
- Credit history of borrower
- Personal financial statement
- Meeting with volunteer consultant to develop cash flow projections

**Applying for a Grant to Start a Loan Fund**
Nonprofit community development organizations, or a city, county, or village, can make application for grant funds to seed a program through either the OHCP or the USDA Rural Development Program. Although other sources are available, these two governmental agencies have set aside significant monies to support microenterprise loan funds. Other sources can be private, including banks that have to meet certain Community Reinvestment requirements through the Federal Reserve.

For an application to be successful, it helps if the nonprofit has a history of administering grant funds. The entity will also need to develop a revolving loan fund plan that defines how the loan will be managed and administered. A manager or administrative staff person may already be in place who has the organizational skill sets needed. The plan will also need to identify a loan committee that will vote to make the ultimate decision on which loans get funded and which do not. The committee should represent a broad cross-section of area interests to oversee the loan fund and make loan decisions. Committees are comprised of representatives from public and private institutions, including banks but also including nonprofit organizations that represent low-to-moderate income individuals.

**Components of a Revolving Loan Fund Program**
- Purpose of program
- Geographic area served
- Committee composition
- Loan review criteria and approval process
- Financing policies (size, rate, term, fees)

**Sample Committee Composition**
- Two members appointed by the city
- Two members appointed by the county commissioners
- Economic development and/or chamber representative
- One accountant or CPA
- Two from the private sector lending community
- Three representing the low-to-moderate income population

**Sustaining a Microenterprise Loan Program**
Loan fund programs can falter if no dollars are invested back into the program for administration, including loan servicing and marketing. Typically, up to 10% of the income from the principal and interest payments going back into the loan fund can be used for administration of the program. Initially this amount is very small, but as the loan fund grows
in size, the amount can be substantial and can even generate enough revenue to fund a loan fund manager position.

Funding to support the program can also be captured through application fees. A typical fee is $25–$100 per application. Although a small amount, it can help pay for supplies and marketing. In addition, late or delinquent fees can be assessed if payments fall behind or if an attorney needs to contact the borrower.

**Ensuring a Successful Microenterprise Loan Fund Program**

The ultimate success of a revolving loan fund hinges on management and marketing. Every successful fund has an effective manager who oversees the fund, and a committee made up of dedicated community stakeholders that want it to be successful.

**Managing a Loan Fund Program**

For the program to be successful, it must be properly administered. Recruit a loan fund manager who is well organized, can meet deadlines, and has basic bookkeeping and/or accounting skills. Keeping the books, reporting back to the grantor on the progress of the program, and managing the client base will require that the person who is assigned to this responsibility be at least part-time until the program is self-sustaining. Composition of the committee is also important to ensure the success of the program. Engaged and informed committee members can help market the program and ensure that it is well conceived and has integrity.

**Marketing a Loan Fund Program**

It is important to market the loan fund program to the public. Program flyers that summarize the program can be developed, handed out, mailed, and/or posted on a web site. Borrower testimonials and publicity at loan closings are also very effective ways to market the program. It is also important for the person who is managing the program to meet with and educate people who work in the financial services industry about the program. These people—including bankers, CPAs, and financial planners—are in frequent contact with potential clients and make the most frequent referrals.

**Summary**

Local governments and community development entities in many places are seeking ways to assist and encourage entrepreneurship and microenterprise development. Microenterprise development is also referred to as “economic gardening,” or “growing your own jobs.” Encouraging the development of microenterprises by providing for microlending programs and other assistance creates jobs, innovation, and is seen as an important catalyst for the future economic growth and prosperity of an area.

**Sources of Further Reading and Assistance**

Microenterprise Organization of Ohio (www.microenterpriseohio.org). Formed to provide assistance to microenterprise practitioners and to support organizations.

Ohio Department of Development, Housing and Community Partnerships (www.odod.state.oh.us/CDD/OHCP/edp.1.htm). Grant funds available through the Microenterprise Business Development Program.

USDA, Rural Enterprise Development (www.rurdev.usda.gov). Provides grant and loan funding opportunities for organizations, businesses and individuals in rural communities.

---

**EMPOWERMENT THROUGH EDUCATION**

Visit Ohio State University Extension’s web site “Ohioline” at: http://ohioline.osu.edu

Ohio State University Extension embraces human diversity and is committed to ensuring that all research and related educational programs are available to clientele on a nondiscriminatory basis without regard to race, color, religion, sex, age, national origin, sexual orientation, gender identity or expression, disability, or veteran status. This statement is in accordance with United States Civil Rights Laws and the USDA.

Keith L. Smith, Ph.D., Associate Vice President for Agricultural Administration and Director, Ohio State University Extension

TDD No. 800-589-8292 (Ohio only) or 614-292-1868

Copyright © 2010, The Ohio State University