

IDA and Microenterprise Development: Integration That Works

Introduction

Microenterprise development organizations were early pioneers in the IDA field because they share the goal of IDA providers: establishing financial self-sufficiency through asset-development. Only in recent years, however, have microenterprise programs begun to explore intentional integration of IDAs into their service model. Previously, the most common relationship was to treat the other program as an add-on—a less ambitious task.

Integrating IDA and microenterprise development programs, however, can increase the effectiveness and efficiency of both approaches to poverty reduction. Integration can occur at many points and with many different products, but is most commonly implemented to:

- Improve chances of success for the accountholder/entrepreneur who may access a larger capital pool.
- Increase the effectiveness of both the IDA and microenterprise programs.
- Reduce costs for one or both initiatives.

Only when benefits are likely for participants *and* program operations should program managers seriously consider integration, however. Following are strategies that several AFI Projects have undertaken to integrate their IDA and microenterprise activities early on. The Southern Good Faith Fund [<http://www.southerngoodfaithfund.org/about/index.html>] focuses on meshing staff and services while maintaining clear responsibilities for each staff. The New Hampshire Community Loan Fund [<http://www.nhclf.org/>] emphasizes pre-enrollment performance and use of peers to intensify participant learning.

Southern Good Faith Fund

The Southern Good Faith Fund runs one of the nation's longest-standing microenterprise development organizations. In 1999, they added an AFI-funded IDA program, Asset Builders, and now coordinate all entrepreneurial education and technical assistance activity through the Arkansas Business Development Center.

Their impetus for integrating programs was to insure realistic expectations. “People were starting in the IDA program with unrealistic expectations: ‘I’m going to make \$100,000 in the first year and not work as hard as I am now’,” says Ramona McKinney, Director of Asset Builders. With the integrated approach, participants know what to expect and how much work it would take to be successful.

“We believe implementation of the microenterprise training for IDA savers and the in-depth look at the business plans have resulted in better developed businesses that will last,” she says.

Their new strategies included:

- **Structured referral procedures among the two programs.** The Business Development Center and Asset Builders agreed to send clients to each other: to the business center if they need immediate business training and to Asset Builders if they were ready to begin saving for their business, according to the individual’s needs.
- **Coordinated counseling.** Staff from both agencies share information on clients to ensure a holistic approach to financial counseling associated with IDA savings and business technical assistance.
- **An expanded training menu.** Ongoing training was developed to cover more than core entrepreneurial skills. Specialized sequences include six weeks for the home-based business training and eight weeks for child care business training, as well as 12 weeks for FastTrac¹ training. Topical workshops cover concepts participants have the most difficulty grasping, such as, pricing; creating financial statements (including income statements, cash flow and balance sheets); meeting lenders (from the borrower’s perspective); budgeting; and day-to-day small business management.

IDA participants are required to take both a general economic literacy course (five sessions) and one of the entrepreneurial skills classes.

- **A business action plan.** Together, the programs came up with a more organized approach for clients to use in planning for removal or mitigation of any barriers to the development of a business. The plan includes a process for clients to clarify their goals, a checklist of actions necessary to reach the goals, an assessment of the client’s current situation, and a plan for achieving goals, including training and obtaining capital for the business.
- **Credit counseling partner.** To increase the focus on improving credit, the programs distribute applications to clients and schedule appointments for meeting with the credit counseling partner.
- **Loan incentives.** The underwriting process for business development center loans of \$500 to \$5,000 from a new fund takes IDA savings patterns into consideration.
- **New policies and procedures.** Two of the most effective new policies have been to incorporate the business plan approval into the process for IDA withdrawals and to allow flexible, multiple IDA withdrawals. Previously, business plans were not presented until the

¹ FasTrac is a course aimed at helping budding entrepreneurs to evaluate their business concept and develop a business plan. The Ewing and Marion Kaufmann Foundation supported development of the curriculum, now widely used around the country.



time of the withdrawal request. Now they may be discussed as they develop: revisions are not uncommon.

Southern Good Faith Fund has implemented most of these planned strategies. They see success in several areas. IDA savers are choosing the training combination that best suits their needs from a better tailored and self-directed training menu, follow up workshops, and the process for developing a business action plan. Additionally, Asset Builders and Arkansas Business Development Center staff members meet weekly to formally approve or deny business plans for IDA withdrawals based on in-depth reviews and discussions of the plan among the staff.

Lessons Learned

Despite the successes, Southern Good Faith Fund suggests some cautionary lessons about the integration of microenterprise development and IDAs:

- 1) In some instances it may make more sense to keep products or services program-specific. Do not integrate programs when it creates a more cumbersome or complicated product or the process does not create a benefit for the client or organization.
- 2) Different funders with varying requirements may make product or process integration difficult. Originally, SGFF and the BDC planned to integrate intake forms. The attempt to incorporate to the different data requirements of the IDA program and the business center funders resulted in an overly cumbersome form, however, so this strategy was abandoned.
- 3) A critical first step is cross training and facilitating team processes. This was the case for members of the IDA program (Asset Builders), the loan program, and staff of the business development program (Arkansas Business Development Center). Training increased understanding of each program and staff ownership of the integrated program that resulted.
- 4) Clients want help with business plans, financial issues, business management, and personal finances but only when *they* are ready. While these topics are included in the FastTrac, child care, and home-based business training, clients often are not ready to focus on them until later.
- 5) There is a demand for loans in the \$500 to \$5,000 range. Clients are willing to do some extra work to get them, given the limited options they have for accessing capital; however, they want product features to be relatively simple.

New Hampshire Community Loan Fund

Another AFI Project, New Hampshire Community Loan Fund (NHCLF), has found additional innovative ways to integrate IDAs and its business development services. NHCLF is a private, nonprofit, statewide community development financial institution with more than 20 years of



experience with affordable housing, community facilities, and economic opportunity initiatives. In 2003, NHCLF received funding from the Corporation for Enterprise Development (CFED) to integrate IDA and microenterprise activities. The strategies they developed included requiring specific pre-enrollment benchmarks and use of peers in participant training and support. “We want IDA savers saving for business to be serious about what they are saving for,” explains Sharon Drake, executive director, NHCLF. Strategies included the following:

- **Requiring a Short-Term Business Plan.** NHCLF requires a prospective account holder saving for business capitalization to show the beginnings of a “well thought out” plan or a three-month business plan prior to IDA program enrollment. The requirement means that applicants are more likely to have passed some fundamental decision points. This allows them, and staff, to focus more effectively on a realistic business goal in a realistic time frame.
- **Peer Lending and Peer Counseling.** NHCLF business IDA applicants must also join a Microcredit New Hampshire group before enrolling in the IDA program. Microcredit New Hampshire is a peer-lending program that also promotes and supports ongoing education for members. The groups provide mutual support to their members, business training, guest speakers on special topics, and opportunities to access loans of less than \$10,000. Each loan application also goes through a peer review process during which the business plan, including all financials, is examined by the individual’s group. If a group member has been saving in an IDA, the value of the IDA is factored into the financial health of the proposed or existing business.
- **Using a “Step Up” Loan Option.** Joint IDA-microenterprise participants may qualify for step-up loans based on the ability to repay the first step and savings regularity. For example, Step 1 might be a loan of \$500 to \$2,500; if paid back successfully, the participant might “step up” to a larger loan of up to \$5,000.
- **Revised Policies and Procedures.** Like the Southern Good Faith Fund, NHCLF found it also needed to revise its policies and procedures. Examples included making the language in the staff and saver manuals consistent, thus eliminating previous areas of confusion. Now, the integrated approach to IDAs and business development is codified in a manner understandable to NHCLF staff, Microcredit New Hampshire staff, and IDA savers.

Other Strategies to Integrate IDAs and Microenterprise

Following are additional ways programs have integrated aspects of IDAs and microenterprise development.



1. Provision of free business technical assistance for individuals who have completed savings in their IDAs.
2. Access to IDA funds linked to completion of at least 10 hours of business counseling and a business plan following the completion of 16 hours of economic literacy training.
3. Qualification for a microloan based on completion of financial education and six months of deposits in an IDA.
4. A loan review process that features more favorable consideration of the account holder's financial situation when there is stability demonstrated by IDA participation.
5. Enhancement of microcredit loan terms, such as interest rates, based on IDA participation, such as regular saving for a minimum of six months in the IDA.
6. Pre-qualification of IDA savers for a microloan up to the saved amount.
7. Interest reduction on microloans for account holders based on the amount saved in the IDA.
8. Joint marketing of IDA and microloan products to potential program participants.

All these examples illustrate ways in which the increased financial knowledge gained by IDA participants through program training and their savings amounts and patterns translate into an increase in microenterprise loan fund access and into more favorable loan terms for the participants.

