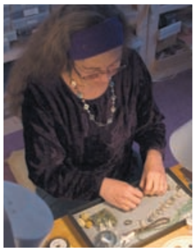
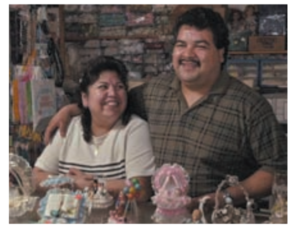
FIELD Funder Guide


Issue 12 | June 2008

Saving for Microenterprise Development

In the international arena, the term "microcredit" has long ceded primacy to "microfinance" as the field has recognized that low-income people need more than loans to spur their businesses and strengthen their household's economic position. "Microfinance" captures that understanding and best describes services that combine credit and savings, as well as access to other financial products such as insurance and health policies. The U.S. field also has recognized this same reality, and practitioners have eagerly embraced savings-led strategies as critical for many of their clients. The most well-known of these strategies centers on Individual Development Accounts (IDAs), matched savings accounts that allow aspiring entrepreneurs to save for business purposes. Across the country, there are more than 73,000 IDAs owned by low-income Americans pursuing dreams of home ownership, education and business opportunity. To date, more than 31,000 asset purchases have been made from these accounts, including 5,200 small business investments.[1] This Funder Guide summarizes why IDAs work for microentrepreneurs, and what has been learned about the accomplishments and challenges of IDA programs. It also suggests ways funders can help improve and expand the use of this strategy.

Why IDAs for microenterprise?

As noted in Funder Guide Issue 10: *Microenterprise as Asset Builders*, financial security requires both income and assets. And the two are intertwined. Mark Schreiner and Michael Sherraden in *Can the Poor Save?: Saving and Asset Building in Individual Development Accounts*, explain that today's "information-age labor markets require higher levels of human capital," which means more investment in education is required to ensure that people continue "developing their human capital across the life course." Financial assets provide an opportunity to do this. Further, as industrial employment declines, people's well-being will depend on generating income through asset-holding as well as employment.[2] Microenterprise development offers an avenue to both: a self-generated form of employment and an asset with long-term and, hopefully, growing value for the owner and the household.

Individual Development Accounts offer a savings-led strategy to generate capital for business investment, which then can produce more capital to support the household's other asset goals. And while microloans have been the "glamour" product in the media, more small businesses are launched with owners' savings than with debt. For low-income households, accumulating those savings can be a serious challenge, however. The IDA provides a structured path to securing savings and a financial incentive for staying on the path. Programs match clients' savings at rates that range from double to four times the dollars saved in a defined period of time, thereby accelerating the pace at which savings can be accumulated and helping convert a relatively small amount of savings into a large asset "that might be enough to transform a life-course."[3]

Participation in IDA programs also demands participation in financial education, which demystifies the process of asset development, teaches goal setting and the value of consistency, and motivates adherence to the program. Microenterprise development programs have long recognized how important it is for aspiring entrepreneurs to understand the relationship between personal financial planning and business planning. Thus, personal finance topics often are included in the business readiness courses programs offer. IDA participants often must attend both personal financial literacy and business planning training, reinforcing the behaviors and skills that will lead to success.

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[1] See CFED Web site, accessed 13 June 2008; available from http://capwiz.com/idanetwork/issues/alert/?alertid=11035661&type=CU; Internet.
[2] Mark Schreiner and Michael Sherraden, *Can the Poor Save?: Saving and Asset Building in Individual Development Accounts* (New Brunswick and London: Transaction Publishers, 2007), vii.
[3] Schreiner and Sherraden, 81.

Finally, the amounts of matched savings that individuals can accumulate through IDAs, although objectively small, can provide significant value to an emerging microbusiness. Under the American Dream Demonstration, which was the first large-scale demonstration of the IDA methodology, the average business assets of pre-existing business owners were $10,000 (median $2,000), and 64 percent had business assets worth less than $5,000.[4] With businesses this small, or with emerging businesses, a potential infusion of $3,000 to $6,000 is very large, indeed. (Microenterprise programs offer different match rates and caps on the total that they will match leading to differences in the potential total that can be accumulated.)

What have been the results of microenterprise-focused IDAs?

As indicated above, 5,200 small business investments have been made through matched withdrawals from funds in IDA accounts. The individuals who have made these purchases can generally be described as "disadvantaged members of the 'working poor'."[5] Microenterprise programs interviewed for this guide report that they are more likely to be women and, depending on geography, people of color. In some sites, the majority of IDA account holders are aspiring entrepreneurs engaged in business planning and other start-up activities. Participants save while completing their financial education and business planning courses, and withdraw savings to match the strategy outlined in their business plans. The American Dream Demonstration found, similarly, "that of participants who had made a matched withdrawal for small business, 55 percent were apparently start-ups," and of those still waiting to make a withdrawal for a business purpose, "70 percent were apparently planning start-ups."[6]

The business start-up rate among IDA savers has been impressive. A recently published evaluation by Abt Associates of the Assets for Independence Program (the largest federally funded program supporting IDAs[7]) found that by the end of the third year after account opening (which was in 2001), the percentage of participants who were business owners rose from 15.8 percent to 24.1 percent of all participants. The evaluators noted that "this net rise of 8.3 percentage points represented a proportional increase of 53 percent" in the number of business owners.[8] The evaluators also compared these results to a matched comparison group of AFI-eligible nonparticipants from the 2001 panel of the Survey of Income and Program Participation (SIPP), conducted by the Census Bureau, and found that "participants were 84 percent more likely to own businesses at the end of the third year than were nonparticipants."[9] Staff from the Jefferson Economic Development Institute (JEDI) notes that while IDAs work well for those in start-up mode, they also work for others with very small capital needs, and those struggling with business and money management issues: "The IDA is an opportunity for someone to transform their financial situation."[10]

IDA microentrepreneurs have used their savings for small and large purposes. Under the American Dream Demonstration, the average matched withdrawal for business was about $245. Those participants were reported to make "modest investments in modest assets" for small, often part-time businesses in such industries as child care, janitorial services, food service and landscaping. Schreiner and Sherraden comment that "IDAs do not pretend to catapult poor people instantly to the middle class; rather, they offer a hand up to the first – and often the highest – rung of a ladder."[11] The AFI evaluation found that across all types of IDA participants (saving for home ownership, education or business ownership), cumulative deposits over a three-year period averaged $935, and cumulative matched withdrawals averaged $377.[12] The reality is that saving for long periods is very challenging for low-income individuals, and emergency needs arise for many that require unmatched withdrawals.

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[4] Schreiner and Sherraden, 103.

[5] Schreiner and Sherraden, 81.

[6] Schreiner and Sherraden, 94,

[7] The Department of Health and Human Services manages the Assets for Independence Program (AFI), which through Fiscal Year 2007, had awarded upwards of 500 grants to 302 nonprofit and governmental agencies to implement IDA programs. Grant amounts have ranged from $4,000 to $1million for five-year project periods.

[8] Gregory Mills and others, *Assets for Independence Act Evaluation Impact Study: Final Report*, Contract # 233-02-0088. Prepared for the Administration for Children and Families, U.S. Department of Health and Human Services (Cambridge: Abt Associates, February 22, 2008), 25; available from http://www.acf.hhs.gov/programs/ocs/afi/AFI_Final_Impact_Report.pdf; Internet.

[9] Mills and others, vii.

[10] Nancy Swift, JEDI, telephone interview by Karlo B. Marcelo, 22 April 2008.

[11] Schreiner and Sherraden, 124, 154.

[12] Mills and others, 19-21.

On the other hand, microenterprise programs report a range in the size of asset purchases. Because entrepreneurs can withdraw multiple times (although generally they must save for six months before making a withdrawal), some choose to spend the resources for things as small as marketing materials and business cards, while others select larger, more durable pieces of technology, tools and infrastructure improvements.[13] And, some programs report higher rates of matched withdrawals by more clients. Mercy Corps Northwest, for example, reports a 75 percent rate of program completion, measured by the achievement of these milestones: saving $1,000 or close to it; completing an 18-hour business planning course; writing a business plan and cash-flow and profit-and-loss projections; and creating a personal budget. Examples of matched withdrawals made by participants appear in the box below.

Sample Asset Purchases by Mercy Corps Northwest Clients

Description	Participant Contribution	Matching Funds 3:1	Total
Artist/woodworker			
Door and gate for studio	$147.00	$ 441.00	$ 588.00
Monitor, keyboard, mouse, usb2 cord	$312.20	$ 936.60	$1,248.80
Camera, tile, vacuum, tools	$440.80	$1,322.40	$1,763.20
Total	$900.00	$2,700.00	$3,600.00
Day care/preschool			
Door and installation for easy child access	$900.00	$2,700.00	$3,600.00
Total	$900.00	$2,700.00	$3,600.00
Stoneworks/kitchen installations			
Glide rail saw	$900.00	$2,700.00	$3,600.00
Total	$900.00	$2,700.00	$3,600.00

In addition, clients experience other long-term benefits after participating in IDA programs. The Opportunity Fund, formerly Lenders for Community Development, surveyed its clients and found substantial increases in the percentage of respondents who had savings accounts (from 53 percent to 80 percent) and checking accounts (from 91 percent to 98 percent) after graduation. In addition, 77 percent of respondents said that they are saving regularly each month, and among those who reported the amount saved, the annual average is $3,074, estimated to be 10 percent of household income. This is in contrast to the annual personal savings rate for all Americans, which fell to -0.5 percent in 2005. In addition, almost three-quarters reported using a budget to guide their spending; 80 percent were setting financial goals, and 54 percent had a financial plan for retirement.[14] These types of broader, asset-development results are echoed by other practitioners based on observations of their clients.

What are the challenges programs face?

While IDA programs produce positive results for many entrepreneurs, they are challenging for microenterprise organizations. Perhaps most significantly, the need to raise matching funds for savers presents a considerable and continuing hurdle. JEDI, for example, has a waiting list of clients who want to join the program but cannot until matching funds are raised.

Secondly, IDA programs are complex to administer. Managers must: find bank partners willing to hold the individual IDA accounts; determine how best to recruit and screen clients to identify those with good prospects for success; manage match dollars that often come with time limits to serve the greatest number possible; implement complex tracking systems to monitor savings flows and matches; and implement financial literacy programs that offer just the right amount of education for adult learners. While practice has improved over time, becoming more streamlined and efficient, organizations new to the strategy still face a considerable learning curve.

[13] Douglas Cooper, Mercy Corps Northwest, telephone interview by Tamra Thetford, 18 April 2008.

[14] Silicon Valley Community Foundation and Lenders for Community Development, *Family Savings and Building Hope: 2007 Report on Graduates of the Assets for All Alliance* (Mountain View, CA: Silicon Valley Community Foundation), 10; available from http://www.siliconvalleycf.org/docs/assetsforall.pdf; Internet. Please note that respondents included individuals saving for all types of allowed asset uses. Eight percent saved for business purposes.

What funders can do

Invest in IDA programs. More low-income entrepreneurs could benefit from savings-led approaches to business development if more match dollars were available. Small and large funders can make valuable contributions here, as every $2,000 to $4,000 can support another aspiring entrepreneur. Microenterprise organizations participating in the Assets for Independence program must raise a 100 percent match from private sources.

Invest in capacity building that helps microenterprise programs incorporate IDA programming and other asset-development services into their package of services. Not only new entrants to asset building need this assistance. The IDA and asset-building field is evolving rapidly in the face of the growing need for financial literacy, credit building and savings strategies for struggling low-income Americans. Practitioners need to exchange experience and track innovation in practice. A consortium of funders in the Bay Area is supporting a model initiative in this regard. (See box below.)

Support policy initiatives that lead to an expansion of federal support for IDAs. The Savings for Working Families Act (S. 871/HR 1514) provides matching resources and financial education for up to 900,000 IDA accounts. Despite garnering considerable bipartisan support, the legislation has passed the Senate twice but has not yet made it to conference with the House. This initiative could catapult IDAs from a demonstration effort to a much more mainstream tool for helping entrepreneurs and other low-income people save, acquire assets and build a better future.

Funders Create Asset Support Center for San Francisco Bay Area

Ten funders from the Bay Area established the Asset Support Center in 2007 to support nonprofit, public and private sector leaders, and local foundations in efforts to expand asset-building opportunities for low- and moderate-income households. The funders are: the California Endowment, Evelyn and Walter Haas Jr. Fund, Friedman Family Foundation, Levi Strauss Foundation, San Francisco Foundation, Silicon Valley Community Foundation, United Way of the Bay Area, Walter and Elise Hass Fund, Walter S. Johnson Foundation, and the Y&H Soda Foundation. The center is a two-year initiative, managed by the consulting firm Asset Building Strategies and supported by EARN (the Earned Assets Resource Network), a premiere IDA service provider and asset policy advocate. In its first year of activity, through June 2008, the Center provided pro bono technical assistance; convened practitioners, funders, public agencies and financial institutions to share promising practices; created a searchable, on-line database of strategies used in four Bay Area counties (www.assetpolicy.org/asc); and began to build a base of support for public policy reform. In the coming year, it will expand these activities across all nine Bay Area counties as it focuses on supporting organizations with asset-building services along a continuum that includes creating access to mainstream services, savings and investment opportunities, and preservation strategies.

The Center has incorporated a focus on IDAs as part of this continuum. Its database documents at least 12 programs in four counties that offer IDAs for business development. And its partner, EARN, works with a number of these organizations to deliver IDAs. In addition, because the Center has the capacity to provide expert consultants (up to 10 hours of pro bono support), it enables others to consider IDAs, or improve their services. In its first year, the San Antonio CDC in Oakland has taken advantage of this service, tapping EARN to help explore the feasibility of starting an IDA program, as well as looking at other asset-building tools that might align with its current program.

For more information

Microenterprise development organizations that contributed to this guide include: Community Financial Resource Center (http://www.cfrc.net/), Jefferson Economic Development Institute (http://www.e-jedi.org/index.html), Mercy Corps Northwest (https://www.mercycorpsnw.org/), and Washington CASH (http://www.washingtoncash.org/). See FIELD Funder Guide Issue 10, *Microenterprise Programs as Asset Builders*, June 2007, for a broader look at the roles microenterprise organizations play to help low-income families improve their financial footing, acquire assets and build wealth: http://fieldus.org/Publications/FunderGuide10.pdf.

FIELD Funder Guides are produced by the Aspen Institute's FIELD program, dedicated to promoting best practice and policy for microenterprise development in the United States. Series funding is provided by the Charles Stewart Mott Foundation.

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