Reframing “Impact”: Understanding the Value of Small Business Lending

September 27, 2017

Agenda

- Review of findings
- Group exercise
- Report-out from group
- Q&A
- Final remarks
National Small Business Lending Impact Study

Based on the work of:

ACCION

Opportunity Fund

Lead funding by:

W.K. Kellogg Foundation

JPMorgan Chase & Co.

Research by:

harder + co

community research

Three critical questions addressed by the study

- To what extent do borrowers move toward **greater financial security** (both real and perceived) after receiving a microloan?

- To what extent is microlending associated with **catalyzing positive change** for individual borrowers, their businesses, and their communities?

- To what extent do a borrower’s **personal relationships and engagement with their community** change after receipt of a microloan?
Research categorized into six key areas of interest

- Business Growth & Viability
- Achieving Success
- Financial Health
- Financial Practices
- Relationships & Networks
- Quality of Life

Study Timeline

- **2015**
  - Design Phase

- **2016**
  - January – June
  - First Round Data Collection

- **2017**
  - January
  - Preliminary Findings Report Released
  - February – June
  - Second Round Data Collection

- **2018**
  - Early 2018
  - Final Report Released

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Findings cover broad geographic and demographic dimensions

Entrepreneur characteristics reflect national microlending recipients

GENDER IDENTITY
- Male: 52%
- Female: 48% (Includes 6% with a transgender experience)

ETHNICITY
- Latino or Hispanic: 35%
- Non-Hispanic White: 35%
- Black, Afro-Caribbean or African American: 19%
- Multiracial: 5%

INCOME LEVEL
- Upper: 18%
- Middle: 24%
- Moderate: 20%
- Low Income: 39%

33% ARE REPEAT BORROWERS

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Cluster Analysis

Examines how borrowers “cluster” together based on specific outcomes.

Clusters developed using key variables/measures.

- Business sales and profit
- Personal/household savings
- Other jobs
- Take-home salary (ability and change)
- Finance trends
- Personal and business savings tools
- Business tracking tools
- Debt comfort
- Financial security

Overview of Clusters

- Incremental Change: 16.6%
- Focused & Growing: 43.6%
- Retrenching: 18.5%
- Small & Struggling: 9.3%
- Strategic Side Hustle: 12.0%
Focused & Growing
(n=113)

- Strongest sales, profit and financial security
- Strong at start and end of study
- Business is sole source of revenue/take-home salary
- Attribute success to microloan
- Use capital strategically

"We've been able to purchase another location; [the loan also] helped us to build our business credit...it was just a stepping stone for us to be able to continue to grow financially and to get more stable as a business."

Strategic Side Hustle
(n=31)

- Incremental, safe growth
- Use loan for equipment, office space and marketing
- All have a job outside of business though bring home salary from this business
- Modest goals related to growth
- Optimism for the future

"I have another job...[that job give us] a sure place where to live [and] extra money, it isn't much, but it is an extra money that I can use for other things not related to the business. So, it has an amazing impact, even if it's more tiring, and, of course, more working hours as well. But it is a very positive benefit."
Small & Struggling
(n=24)

- Decreased business sales and profit
- Lowest sense of financial stability
- Half bring home a salary from this business
- Majority have another job
- Low debt, but high discomfort
- Loan used for payroll or cash flow
- No true financial plan

"It's just been a real struggle. Since opening my second location, there have been a number of other locations in the mall that have closed. I just don’t think the traffic in the mall has been what that location expressed...My sales seemed to have bottomed out."

Retrenching
(n=48)

- Personal sacrifices to grow/maintain business
- Rely on outside sources of income
- Slight increases in business sales and profit
- Lower sense of financial stability
- Less likely to have paid employees
- Sense of optimism for the future

"[The loan] gave us a little more wiggle room to be able to concentrate more on the actual business instead of just paying off everything that we owed at the time, it gave us a good break."
Incremental Change (n=43)

- Business is sole source of take-home salary
- Small increases in sales and revenue
- Some instability in covering expenses and planning for financial emergencies.
- Not always struggling but not growing much
- Sense of optimism in terms of future increase in sales and profit, ability to hire, take home pay and personal savings

"Our challenge is not having enough money to spend. The second [challenge] is time. We both are pretty busy right now, but with this new hire--we are delegating more stuff. We are a little bit more free to start developing the new project."

Group Exercise: Questions

- Where are the entrepreneurs in your cluster thriving? Where are they struggling?
- Can you think of a small business owner from your work who fits this profile?
- Pick one challenge this cluster is facing.
  - What factors might explain why they are struggling in this area?
  - Has your CDFI been addressing this challenge or considering a solution?
  - How should the CDFI industry respond to this challenge moving forward?
Before You Go

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