Journal of Jewish Communal Service, Vol. 82, No. 3, Summer 2007

Microenterprise Programs and Their Impact on JVS and the Community

By Richard D. Rotberg
Assistant Executive Director, Chicago Jewish Vocational Service

Chicago Jewish Vocational Service (CJVS) established a microlending program in 2001, which has had a much greater impact on the agency, board, and community than was originally expected. It led to the development of new agency programs, a much higher level of board involvement, and more than 150 full- and part-time jobs in the businesses that received loans through the program.

With the recent awarding of a Nobel Peace Prize to Dr. Muhammad Yunus of the Bangladesh Grameen Bank, microlending as a means to end poverty has achieved worldwide attention and increased prominence. The concept of microlending has grown dramatically in the United States during the past 15 years. An estimated 600 to 650 organizations now provide microlending expertise nationally according to the Association for Enterprise Opportunity. Microlending programs promote self-sufficiency, economic development, and job creation, all matters of vital importance to Jewish vocational service agencies.

Chicago Jewish Vocational Service (CJVS) established a microlending program in 2001. After five years of program experience we have come to understand that a microlending program can have a much greater impact on the agency and board than originally expected. Microlending programs lead to services that may be new to an agency and, at first glance, may not appear to fit that agency's mission. Staff and board must consider and decide whether to pursue these new program directions.

This article describes the organizational changes required by a microlending program and then covers the positives and negatives that an agency should consider prior to its development. The article also presents the many changes that took place during the development of the program and how the program itself brought an increased level of board involvement, as well as an increased visibility and "cachet" to the agency's image.

The Chicago JVS program began with a \$5 million endowment from a Chicago philanthropist. Our microenterprise program concept was one of many program ideas that the Jewish Federation staff reviewed with the philanthropist on behalf of its Centennial Endowment campaign. His father had received a small loan from the Jewish Federation many years earlier that saved his business, and the philanthropist saw the microlending program concept as a way to "pay back" and put others on their feet. An agreement to fund the program was reached on April 3, 2001, and a general announcement was made in the local Jewish newspaper in the May 2001 issue. CJVS then was under immediate pressure to create the policies, organization, staff, and operations required by a program that was totally new to the agency. It responded with a multi-stage developmental plan.

MULTI-STAGE PLAN OF DEVELOPMENT

In an effort to learn the basics of microenterprise programming, a staff member first studied microlending programs of other JVS agencies, analyzing each one's successes and failures, and then reviewed programs operating under the auspices of the Office of Refugee Resettlement, identifying their best practices. Early on we understood that, to be successful, a microlending program must be operated as a business venture, not as a social program. Additionally, we heard this message constantly from our board, bankers whom we interviewed, and those involved in operating successful microlending programs. For professional human service workers to operate a program as a business rather than as a social program requires a paradigm shift that, even when recognized intellectually, may still be difficult to achieve. This single insight is credited for much of our later success.

Development of Policies, Standards, and Program Structure

Our program was structured around strict board oversight. The CJVS board convened a special ad hoc committee with the sole task of recruiting an Oversight Committee. The Oversight Committee meets with staff periodically to develop program guidelines and policies, particularly those dealing with a range of matters that could be problematic. Examples include whether staff members or their families would be eligible for loans; the policy pertaining to collections; whether certain businesses should be excluded from eligibility; and whether to work with individuals of poor moral character (it was decided, for example, that individuals in arrears on child care payments would not be eligible for a loan). Staff are responsible to the Oversight Committee, which in turn reports to the agency board. A second committee, the Loan Approval Committee (LAC), was developed by staff and consists of volunteer business people, bankers, lawyers, accountants, professors of business, and entrepreneurs. *This committee has the sole authority to approve loans.*

Whereas the Oversight Committee serves the board and keeps watch on the staff, the Loan Approval Committee serves the staff. In addition to approving loans (which was the only function foreseen by staff), the LAC members decided to take on the responsibility of evaluating applicant businesses directly. They have gone out on their own to look at actual sites, traffic flow, and the neighborhood business climate and then brought this information back to committee meetings and discussed their findings. LAC members became interested in mentoring loan applicants and made suggestions to improve our business-plan format. They counseled would-be entrepreneurs and helped them decide whether pursuing their plans would be in their best interest.

Yet, above all, the great benefit provided by the LAC is the wealth of business expertise and training its members provide to our professional staff. Even though the program director has an MBA and was an entrepreneur in the for-profit sector for many years, no one has all the knowledge needed to truly understand micro businesses, which are especially diverse. We have made loans to recyclers, print shop owners, custom tailors, custom bicycle builders, small construction companies, candy makers, candle makers, auto body repair shops, yoga studios, photographers—both wedding and fine art, a religious radio show producer, a lawyer, and even a physician.

Staffing, Operations, and Program Development

In our traditional service programs, counselors are familiar with ambiguities and delays when working with people. The goal is to "stay with the client," which really means having patience while clients try out different ideas, explore their own conflicts, and often slowly come to terms with them. Good career counseling programs require staff members who are reflective, patient, and focused on the inner world of the client. These are good qualities for counseling units, but not for business-based programs.

The role of staff in our microlending program is a complex one. They are charged with program promotion, recruiting loan applicants and helping them develop sound and successful business plans and cash flow projections, and evaluating applicant credit ratings. Our microlending staff has a much different skill set and is much more involved than counselors in marketing programs, networking at community events, speaking to groups, salesmanship, working the numbers in business plans, and, perhaps most important, meeting deadlines. They work hard at making contacts. Their work with loan applicants could be viewed as intrusive, as they cross boundaries that our counseling staff meticulously observe. They check credit ratings and are not shy about asking applicants tough questions about their financial situation. They ask about equity and how much (not "whether") money the loan applicant is putting up.

Structuring the Banking Operation

A major decision we had to make early in the development of our program was whether to manage loans in-house or to partner with a financial institution that had the necessary knowledge and experience to make and manage the loans. We chose initially to partner with a small credit union, and in retrospect, this was a good decision. Although we eventually decided to take the loan management in-house, the first critical years of program development were made much easier by having a professional banking partner. As we learned, gained experience, and grew our capacity to analyze a business plan, we eventually decided that we could also manage the fiscal operations without outside help. This decision made it possible to cut administrative expenses significantly.

Banks charge interest and administrative costs, yet one of the conditions of the original endowment was that no interest would be charged to Jewish loan applicants. To meet this requirement, our program set up a somewhat complicated arrangement with the credit union that managed the loans for us. The agency paid the interest on loans to the credit union on behalf of the loan applicant as long as he or she paid back the loan on a timely basis (loan terms are up to a $15,000 loan with a 3-year payback and no interest for loans in good standing). The interest plus service charges at the time we began the program was 10%. The agency set up a "CD" that anchored and guaranteed the loans and paid 2.5%. Therefore, the net interest cost of the loan to the program was 7.5%, which became quite expensive as the number of loans increased. The eventual decision to bring loan making in-house was thus a good one. In addition, it may be difficult to partner with commercial lending institutions of any kind because there is too little profit for them to have much interest in microlending.

Recruitment, Screening, and Case Preparation

Shortly after creating an infrastructure for the program, staff began recruiting and evaluating loan applicants. Through this process they began their banking and credit education. Business plans (when applicants had them) were generally not presentable to our very expert volunteer Loan Approval Committee (LAC). Many clients did not have nor did they understand the value of cash flow projections. Staff had to learn not only to evaluate credit reports but also how to make a professional presentation of the client's case to the LAC. Initially, LAC members often complained about the omission of key issues in the business plan. They never hesitated to teach staff a thing or two about what to look for, what to ask applicants about, or what business-related information had to be developed. Some of this information can be very esoteric and includes business licenses, codes referring to the storage of tools, the cost of truck operations, storage capacities, the intricacies of insurance for various businesses, and so on. All this training and teaching went on in a very business-like fashion, and staff became quite expert at developing case presentations. We learned a lot from the impassioned debates among the LAC members, as when the accountants on the committee argued with the entrepreneur's forecasts, the businesspeople saw things quite differently from the lawyers, or the professors started to argue about the applicant's business strategy. Meetings of the LAC are often entertaining, and some put the reality TV shows to shame.

Other Service Directions

With the basic loan program up and running, important lessons were learned that led to other service directions and interactions with the community that were not always foreseen or expected.

- Microenterprise programming is very exciting for board members. Business is something they understand well and are deeply invested in, and many volunteered to work for the program. They serve as LAC members or as mentors who are willing to spend their time working with our loan applicants. Some work with clients who did not need loans but wanted assistance in better organizing their new business ventures. In this way, a new role for volunteer mentors developed that was challenging, attractive, and exciting for retired business executives. *We suddenly had an effective mentoring program without any effort in recruitment, training, or marketing!*
- Promotion of the microlending program required effective outreach and marketing to attract potential loan applicants. We created educational seminars that each attracted 100 to 120 entrepreneurs and potential loan applicants and featured many of the most successful entrepreneurs in Chicago's Jewish community. Additionally, the association of these high-profile individuals with the program, as well as the newsworthiness of their names as seminar leaders, brought great attention to the agency and added prestige to its image. All volunteered to speak at our seminars without a fee. Most were prominent enough in the Chicago business community that their presentations attracted press attention, providing marketing at a low cost. They told similar stories of hard work, attention to detail, listening to the marketplace, and putting their business concerns before almost anything else. They wanted to tell their stories and were gracious enough to spend considerable time after their presentations to answer questions and even stay to talk with participants long after the program ended. *We suddenly had an effective marketing campaign with only minimal expense!*
- The response to our seminars led to our understanding that for many entrepreneurs business education and training were as important, if not more important, than a loan. In one example, staff began working with an applicant who felt that his business required an infusion of capital. As a professional (in this case an expert in computer security) he was skilled in his profession, but not in marketing his own business. In this particular case, a loan would not have helped him. What he really needed was guidance. We assigned a skilled volunteer businessman to assist him. Mentoring turned his business around, and in the space of one year he went from near bankruptcy to $3 million in sales. *We suddenly knew we had to offer business education and training through new programs.*

Business Training Programs

In response to the requests of loan applicants, we offered two new educational programs:

1. **The Tool-Kit Series.** These management classes provide knowledge-based and skill-oriented training that focuses on specific topics, such as trademark and copyright information, tax tips, and de-

signing Web sites that bring attention to targeted audiences. Local experts teach the seminars.

2. **The Jewish Women's Entrepreneurial Training:** This program was sponsored by a grant from the Jewish Women's Foundation of Chicago. The grant enabled the agency to purchase the Core Four® business planning curriculum, which provides short-term training for people who are unfamiliar with the basic tasks of planning and operating a small business. The grant covered the cost of training four staff members who became qualified to lead classes. Core Four® focuses on the following:
   - Success planning: whether the entrepreneur is ready to start a business and has the necessary energy, time, and cash to commit to starting and managing his or her own enterprise
   - Market planning: how the business will fit into the community and serve it and how to best promote its advantages to customers
   - Cash flow: how to evaluate potential sales and how to manage business expenses
   - Operations: permits, licensing, and various business regulations and compliance

Core Four® was initially marketed to Jewish women who were considering starting or expanding a micro business, although it is now being marketed to men as well. Forty-one women attended the first session, and the survey of client satisfaction indicated that the classes were very well received. Subsequent classes have also been successful.

Once staff was trained to teach this curriculum, our microlending program increased its capacity to offer classes in the basics of business education. Additionally, this reduced our overhead cost, as we no longer had to hire outside instructors, which in turn increased our ability to provide more training programs and charge higher fees for the training.

Banking and Loan Management

Providing business training for entrepreneurs was not the only new direction driven by microlending. As the agency developed the lending program itself, we learned much about the actual mechanics of making a loan, tracking payments, and making collections when necessary.

It takes very little loan failure to bring down a program, a fact we learned during our initial exploration of other microlending programs. One banker told us that he had to ensure a loss rate of no more than 2% to maintain success. That means, to be successful, you have to be right 98% of the time, a high standard. Taking the loan-making process in-house was made easier with a specialized software program called "Down Home Loan Manager"®. We made the switch to the in-house operation in October 2006.

Making Loans: The Process

Recruiting potential loan applicants is the first of many steps in the loan-making process. One must then determine the applicant's business acumen, reliability, stability, and credit rating; the nature of the business; the actual business and marketing plan; projection of cash flow; the plan's "bankability"; and the willingness and ability of applicants to put up some of their own assets to ensure that they are really part of the process. In the screening process, staff visit business sites, work with the applicants on their business plan, and check credit and other background information. They then prepare a business analysis presentation that is made to Loan Approval Committee (LAC) members, who must decide whether to approve the loan applications. At the LAC meetings, debate on the merits of each business presented is lively and spirited and educational for staff.

Once the loan is approved, the agency issues a check to the loan applicant, and staff discuss with him or her the expectation for repayment. Staff members monitor payments closely, frequently making calls to remind applicants of their payment obligations. One advantage of partnering with banks or credit unions is that they can report loan repayment status to credit tracking companies, such as Experian, TransUnion, and Equifax. This is important because applicants knew that late payment would adversely affect their credit rating. Similarly, as our loan applicants paid their loans, we were able to report this positive information and help build their credit ratings. However, without our banking affiliation, we did not have the volume of loans required to report to the credit companies. This is a problem faced by virtually all microlending programs and is just now being addressed by the industry.

Program Development

Another attribute of microlending programs is that they have the capacity to attract funding. Our original endowment of $5 million drew attention simply because of its size. Shortly after the program began, staff wrote and received a grant from a local foundation to develop business seminars and fund some additional loans. The grant from the Jewish Women's Foundation has already been described, and another large endowment to provide funds for additional loans is in the offing.

The program then received a grant from the Office of Refugee Resettlement to provide small business loans for refugees. Grants in support of the program have also come from community banks. Having been involved in grant writing for several years, I have found it far easier to attract funding for microlending programs than for many other worthy social services. This is because microlending fits the American dream of being one's own boss and being self-sufficient.

IMPACT ON THE COMMUNITY

Microlending is in concert with Maimonides' philosophy of tzedakah: if you give a man a fish he has a meal but if you teach him how to fish he has a livelihood. This is a powerful argument, and funding sources listen. Even better are the outcomes that prove the arguments. For example, in the four years that CJVS has been making loans, more than *74 full-time and 85 part-time jobs have been developed* within the small (and in most cases growing) businesses we supported. It is not a bad track record to develop more than 150 full- and part-time jobs when doing so was not even part of your plan. Many additional job listings came to the agency from the supported companies, which have provided opportunities for other CJVS clients.

In many instances, small loans have made a large difference to our applicants. Perhaps the most gratifying example has been the business development and success of our first loan applicant, a single parent with a small personal chef business who applied for a loan to purchase some equipment for her commercial kitchen. She was not "bankable" as her business was very small and only supported one part-time staff person and her. She paid back her first loan, as well as a second one. Today this woman is not only "bankable" but she has also increased her annual volume dramatically, with 12 full-time and 19 part-time employees in a business with an *annual million dollar gross.*

ISSUES TO CONSIDER

There are downsides to a microlending program. This is not Bangladesh, and a $50 loan at a reasonable interest rate will not help anyone open a new business or pull him or her out of poverty. Administrative overhead and staff costs are high for the number of loans made. And the loans cannot be small if they are to accomplish anything. Administration may expect board criticism for high operational costs versus the number and size of loans made. Therefore, board members must be educated about the "other work" that the program can and does accomplish, including mentoring, business education, and business technical support, which are sometimes as helpful as cash to an inexperienced entrepreneur.

Each day it seems that a new issue emerges for which we have no set management procedure or policy. When program staff "thinks business" the tendency is to move quickly. But agency executives tend to consider past policy and governance and filter information through the viewfinder of the nonprofit sector. There are times when a clash is inevitable. Consider the following example.

Very recently our microlending staff came up with a promotional idea for the businesses we have supported. The concept is an e-mail newsletter to be sent to our many publics, showcasing businesses we made loans to and want to promote. Along with the story of the business and the entrepreneur who developed it, staff wanted to include coupons for a 10% discount on services and products provided by the businesses to which we made loans. Have we reached an ethical boundary? Should we appear to be endorsing products or services because we have helped launch an enterprise? Does this constitute a liability for the agency? All these questions require further study.

Would I encourage Jewish communal agencies to consider microlending as a viable program option? My answer is yes, of course. Would I encourage deep and careful consideration in making this move? Same answer. I hope this article will be helpful in your understanding and planning for a microlending program.