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Innovations in Microbusiness

Enhancing the Financial Security of Low-Income Entrepreneurs
Policy and funding implications for promising emerging practices

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ABOUT THIS REPORT

CFED spent the past year in partnership with several microbusiness development organizations that are pioneering innovative approaches to delivering education, services and products to financially vulnerable entrepreneurs. We documented emerging programs and identified barriers and opportunities that the individual organizations faced in growing these new approaches. We convened our partners to learn from each other about new models of practice, including the implementation of procedures that significantly changed an organization's relationship with its staff and with its clients. Finally, we convened and consulted with leading practitioners, researchers, advocates and funders in the microbusiness field, bringing them together with our partners to identify scale strategies for growing innovative programming from single organization practices to field-wide standards.

This report offers an overview of the emerging models of practice, including lessons learned from our partners and similar efforts by other organizations. We offer analysis of the scalability of these practices and their capacity to reach many more financially vulnerable entrepreneurs with the products and services they need most. We recommend actions that practitioners, funders and policymakers can take to support the growth of these models of practice. Finally, we identify areas of practice where more innovation is needed to ensure that low- and moderate-income (LMI) microbusiness owners have access to the resources that effectively contribute to improvements in financial security.

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INTRODUCTION

As the Great Recession fades, its effects on microbusiness owners are lingering. Unemployment remains high and more workers are turning to self-employment and entrepreneurship to make ends meet. Business owners who lost wealth during the recession have less of a cushion to help them through slow periods. Consumer credit and small business lending both remain constrained, particularly for LMI microbusiness owners. Still-weak consumer demand undermines these businesses' ability to thrive. In short, whether entrepreneurship is the result of following a dream or simply the best option in a difficult labor market, microbusiness owners face stubborn financial challenges. At the same time, many resources that the most financially vulnerable entrepreneurs have counted on in the past are no longer readily available, as both states and the federal government have cut budgets for training and technical assistance

Despite these challenges, the microbusiness development industry is increasingly embracing innovative new approaches designed to help financially vulnerable entrepreneurs succeed and improve their financial security. Clients' needs have changed significantly in the years since the microbusiness field first developed in the United States, and perhaps more significantly, organizations are developing deeper and more precise understandings of what those needs are. Moreover, technological advances are enabling organizations to develop more effective—larger-scale or less expensive—solutions to age-old entrepreneurial challenges.

FOUR NEW MODELS, EMERGING LESSONS AND IMPLICATIONS FOR SCALE

To better understand how these changes could lead to greater financial security and opportunity for many more entrepreneurs, CFED partnered with microbusiness development organizations that have developed innovative programs and strategies to serve additional clients, improve their products and services, or address clients' unmet needs. A summary of our partners and their efforts is in the table below:

Organization	Problem	Solution	Goal	Innovative Strategy
California Association for Micro Enterprise Opportunity	Many members have small loan volume and limited capacity to increase production	Help members make more loans by assisting them to move to automated underwriting	Increase number of business owners receiving microloans	Aggregate lenders to decrease cost of loan management
Kiva Zip and DC Women's Business Center	Many microbusinesses cannot qualify for traditional microloans	Make small loans to disadvantaged entrepreneurs	Create access to capital by building local networks of borrowers and lenders	Crowdfunding for microloans with support from community organizations
ECDC Enterprise Development Group	Clients have several tax assistance needs beyond tax preparation	Combine free tax preparation and tax conflict resolution	Be a one-stop shop for self-employed taxpayers	Leverage multiple IRS programs and pro bono partnerships
Accion Texas	Some borrowers consistently have trouble managing timely loan payments	Help borrowers make on-time payments and reduce fees for late and NSF fees	Increase borrowers' financial stability and portfolio health	Apply behavioral economics insights to borrower relationships

The following pages provide additional details about each organization's efforts, including the challenges they have faced and opportunities for growth.

> By banding together to purchase certain services, individual firms in the same industry can achieve economies of scale that bring down their costs and unlock growth potential. It is especially high-potential for microlenders (rather than organizations that deliver primarily TA and training) because every dollar saved in operating costs can be directly reinvested to make new loans to new clients.

Aggregating microbusiness organizations to collectively use growth-oriented services

The California Association for Micro Enterprise Opportunity (CAMEO), a state-level member association for microbusiness-serving organizations, sees significant unmet demand for credit by California microbusiness owners. Inability to access credit prevents some from growing and contributes to financial instability and even firm failure for others. Although the state has more than 100 microlenders, many are quite small and make a few loans per year, leaving many microbusiness owners with nowhere to turn. To address this problem, CAMEO implemented a pilot program to help members significantly increase loan volume.

The cost of lending is a significant barrier to growth and scale for small organizations, so CAMEO is helping its members reduce costs while simultaneously achieving greater mission impact. Leadership noted that many of its small members were relying on manual underwriting, resulting in excessive staff time spent on loan applications, including applications that were ultimately denied. So, CAMEO aggregated the underwriting activity of a pilot group of small members, enabling them to jointly buy into an automated underwriting platform, Accion Texas's Microloan Management System (MMS), which the organizations could not afford individually. For more on CAMEO's experience, see CFED's From the Field brief, *"More Microlenders, More Credit: Leveraging an Online Loan Platform so Small Lenders Can Reach More Underserved Entrepreneurs."*

CAMEO has identified small microlenders' limited ability to meet more of the demand for microloans as a challenge for California microlenders, but this is also a nationwide trend. While there are at least 13 million financially vulnerable microbusiness owners across the nation, in 2011, only 24,708 microloans were reported to MicroTracker, the leading source of data on the U.S. microbusiness development industry.[1] Microlenders see tremendous demand for access to affordable loans smaller than what mainstream banks and credit unions provide to small businesses. They are, however, only able to meet a fraction of that demand because the relatively high fixed per-loan costs of origination drive up the cost of servicing and managing a portfolio. That is, the total cost to manage a two-million dollar portfolio with a median loan size of $10,000 is greater than the cost to manage a two-million dollar portfolio with a median loan size of $50,000. Costs are also higher relative to the mainstream small business lending industry because microlenders are committed to enabling lending to underserved clients by using alternative underwriting methods and maintaining affordable interest rates.

In addition to CAMEO, several leading microbusiness associations and intermediaries are seeking to aggregate microlenders to access growth-oriented services. The Washington State Microenterprise Association (WSMA) is piloting a similar initiative focused on new loan funds in the state. Credit Builder's Alliance is aggregating data from microlenders across the country to achieve the volume needed to report repayment data to the consumer credit bureaus. The Association for Enterprise Opportunity (AEO) is piloting an aggregation approach to help its lender members use a collections service to maintain the health of their portfolios when some loans fail. Furthermore, CAMEO sees opportunities for aggregation strategies to help technical assistance (TA) providers expand into lending.

Aggregation of microbusiness organizations may be an appealing scale strategy for other microbusiness organizations. By banding together to purchase certain services, individual firms in the same industry can achieve economies of scale that bring down their costs and unlock growth potential. It has especially high potential for microlenders (rather than organizations that deliver primarily TA and training) because every dollar saved in operating costs can be directly reinvested to make new loans to new clients.

CAMEO encountered a number of barriers in getting its program up and running, several of which may be impediments to the growth of aggregation models in general:

1. **Consistent and full implementation of the new services or procedures across all participants in the aggregated group is necessary to achieve efficiencies and growth.** For some of CAMEO's pilot participants, moving away from character-based underwriting, however more efficient automatic underwriting can be,

1 "U.S. Microenterprise Census Highlights," (Washington, DC: FIELD at the Aspen Institute, 2011), http://fieldus.org/Stories/DataHighllights.html.

represented an uncomfortable loss of control. Each organization dealt with this slightly differently, and many did not fully implement the MMS system from start to finish. As a result, CAMEO did not see the level of growth expected in the first months of the program and later invested significant time and resources in nudging participants toward full use of the automated underwriting platform. Working with each organization's leadership was not enough—it took active engagement from staff at all levels.

2. **Aggregation strategies require customized products, but there are relatively few products and few organizations with necessary expertise.** MMS is one of the only underwriting and loan management platforms specifically built for making very small loans to businesses, and it is the only such platform that focuses on serving nonprofit organizations. CAMEO's program required Accion Texas, which owns and licenses MMS, to make extensive changes in the software to enable multiple lenders to access the system under a single license. Similarly, the credit bureaus are not structured to enable lenders to share applicants' personal data with third parties. There was no single organization with the expertise necessary to craft appropriate, feasible procedures for TransUnion, with which MMS works, as well as CAMEO and the pilot members to follow.

Other organizations seeking to apply aggregation strategies to help groups of practitioners serve more microbusinesses should consider from the outset how to address and overcome the barriers that CAMEO has confronted. They may benefit from advance consideration of what legal or financial resources might be necessary throughout the process, how to identify partners who are willing and able to make the operational and organizational changes necessary to implement an aggregation strategy, and planning for engagement with staff at all levels of each organization, and invest significant resources in training from the beginning.

Leveraging LMI entrepreneurs' social and community networks through crowdfunding

Although most small businesses launch with their owners' savings and financial support from family and friends, LMI entrepreneurs have fewer social connections with enough money help. When microbusinesses experience hard times, family and friends are often an informal source of borrowing, but again one that LMI entrepreneurs have less access to. Kiva Zip, a new initiative of the global microlender Kiva, believes that solving this problem at scale will take more than growth of the microlending industry and requires greater investment and involvement in from individuals and organizations in business owners' communities. They have built an online platform to connect stakeholders and extend loans by pooling crowd-sourced contributions from individuals in an entrepreneur's local community as well as her extended social network.

CFED's engagement with Kiva Zip grew out of a partnership with the Washington, DC, Women's Business Center (DC WBC), a Kiva Zip "trustee." Trustees are community-based third parties (groups or individuals) who vouch for an entrepreneur's ability to repay a loan and give the entrepreneur access to create a profile on the Kiva Zip website. Microbusiness owners who put together successful funding pitches receive microloans of up to $20,000 at a zero-percent interest rate which is repayable over five years. For more on Kiva Zip and DC WBC's implementation of this model, see CFED's From the Field brief, *"Crowdfunding for Microbusinesses: Delivering Debt Capital to Underserved Entrepreneurs."*

Training and TA providers like DC WBC can benefit from partnership with Kiva Zip because it enables them to deliver a valuable new service to their clients—support in securing affordable loans—without the capital or financing expertise needed to become a microlender. These organizations offer critical resources to entrepreneurs that need help starting, addressing business challenges, and improving business financial skills, but successful clients often transition to relationships with microlenders. Working with Kiva Zip can help TA organizations retain clients while positioning their businesses for growth.

Kiva Zip benefits from partnering with microbusiness TA organizations through access to potential clients and lenders. TA organizations may also be better positioned to ensure that borrowers they sponsor are prepared for loan repayment and have

Kiva Zip reports that its lenders appear to have a higher risk-tolerance than most institutional microlenders, indicating that this model may be well-positioned to expand access to capital to struggling microbusinesses that are currently unable to secure financing.

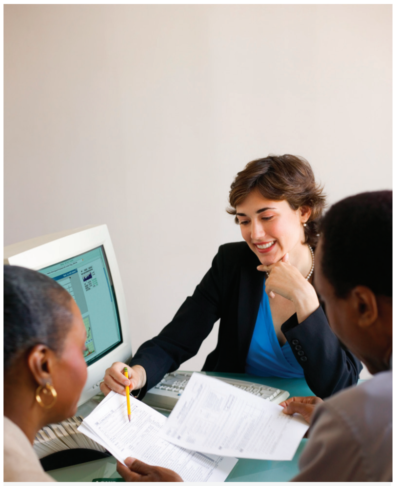
trusted advisors to help them avoid repayment troubles. Dozens of crowdfunding platforms that have launched in the United States in the past several years, but Kiva Zip is unique in targeting LMI microbusiness owners. One aspect that distinguishes Kiva Zip from rewards-based crowdfunding platforms such as Kickstarter and equity crowdfunding such as CircleUp is that lenders will never make a return; they can withdraw their funds once a loan is paid back, but are encouraged to reinvest it into a new loan, building the sustainability of the platform as a whole.

1. **Building robust networks of lenders in individual local areas is a resource-intensive process that requires strong partners in each community.** Kiva Zip's model is distinct from other crowdfunding platforms not only in its target borrowers but also in its reliance on local partnerships. The organization seeks to create networks that engage a business owner's neighbors and potential clients in the loan funding process. They seek to enhance each borrower's social capital as well as delivering debt capital. There is no one-size-fits-all approach to engaging community stakeholders and ensuring that prospective borrowers and lenders alike know about and are eager to use the Kiva Zip platform, and each trustee develops its own outreach campaign. Results have varied across different communities, depending in part on the strength and capacity of local trustees.

2. **The riskier nature of Kiva Zip loans may make it difficult to attract and retain enough borrowers to achieve sustainability.** Although Kiva Zip is very transparent about the level of risk involved and its repayment rate (currently about 85 percent), an individual lender cannot assume that any given loan has an 85% chance of success. The trustee system is designed to help lenders feel confident that a borrower is ready for the loan and able to repay it, but some trustees have high default rates and others have near-perfect repayment rates among their sponsored entrepreneurs. Kiva Zip addresses this by monitoring trustees' track records and requiring them to demonstrate success in their first few endorsements before they can sponsor additional businesses. However, mission-oriented crowdfunding may struggle to maintain a large enough base of lenders to achieve a sustainable platform, especially as it competes with equity and rewards-based crowdfunding.

3. **Crowdfunding does not fit neatly within established policy frameworks for microbusiness support or small business lending.** Kiva Zip has several trustees that are Small Business Administration (SBA) regulated service providers, including SCORE counselors, Women's Business Centers and Small Business Development Centers. SBA regulations provide limited and ambiguous guidance that could be interpreted as either prohibitive of or encouraging to practitioners' ability to vouch for borrowers in a trustee-like interaction. An additional policy issue relates to funding: crowdfunding platforms targeting underserved populations will need subsidies to survive. Grant funding from SBA or the Community Development Financial Institutions (CDFI) Fund, however, generally supports institutional lenders and training and TA providers. Although Kiva Zip is currently supported through private grants, for the model to proliferate and reach substantial numbers of LMI entrepreneurs, dependable and sustainable sources of long-term funding are necessary.

Microbusiness training and TA organizations, as well as other community groups, that consider using a crowdfunding platform to help microbusinesses access capital should first assess their resources, understand the added value that this would provide to clients (or community members) and identify potential partners who can spread the word, become funders and identify entrepreneurs who are strong candidates for crowdfunding success. Microbusiness organizations should determine their clients' readiness for loan financing, what parts of the crowdfunding process clients may need assistance with and how they can develop the capacity to effectively provide that assistance.



Microbusiness owners at all income levels report that taxes are a major challenge; they struggle with keeping detailed financial records, filing taxes correctly and on time, and navigating the tax system. Financially vulnerable entrepreneurs often need help understanding their tax filing responsibilities, completing their returns and resolving tax issues that threaten their businesses and their families' financial security.

Delivering comprehensive, affordable tax assistance services to the self-employed

Microbusiness owners at all income levels report that taxes are a major challenge; they struggle with keeping detailed financial records, filing taxes correctly and on time, and navigating the tax system. Financially vulnerable entrepreneurs often need help understanding their tax filing responsibilities, completing their returns and resolving tax issues that threaten their businesses' viability and their families' financial security. ECDC Enterprise Development Group (EDG), a Virginia-based microbusiness development organization, offers its self-employed clients not only traditional training and lending services, but also a range of tax-related services, including education, training, free tax preparation and conflict resolution. They have assembled this suite of services in response to seeing clients struggle with tax issues.

EDG engages in proactive education and outreach to prepare its self-employed clients for their tax filing responsibilities. During tax season, EDG offers free tax preparation to eligible self-employed clients through the Volunteer Income Tax Assistance (VITA) Program. The organization also helps people, including the self-employed, who have run into tax problems, by providing pro bono representation in disputes with the IRS through a Low Income Taxpayer Clinic (LITC). They have developed comprehensive tax assistance services, far beyond what most microbusiness development organizations provide to clients, through patching together different IRS grants. EDG limits its tax assistance to the self-employed (rather than all microbusiness clients) not only due to the scope of these grants but also because it is feasible to maintain expertise in self-employment tax law but not partnership and corporate tax law. For more on EDG's tax services, see CFED's From the Field Brief, *"Constructing a Complete Continuum of Tax Assistance for Microbusinesses."*

EDG is one of a small community of organizations providing tax assistance to LMI self-employed people, but its services are by far the most comprehensive. Tax-based approaches are critical to achieving scale in the microbusiness industry due to their extensive reach: nearly every adult in the US files taxes. CFED, the National Community Tax Coalition and 16 VITA sites across the country partnered with the IRS in the Schedule C Pilot, beginning in 2010. The pilot authorizes participating sites to serve more self-employed clients by easing restrictive eligibility requirements. Additionally, Brooklyn Cooperative Federal Credit Union has developed a sliding scale model that enables it to deliver tax preparation to self-employed members at below-market prices.

Despite these organizations' efforts to serve the self-employed, scaling up tax assistance as a common service within the microbusiness industry is a challenge due to cost and policy limitations. EDG has had to address several barriers that are relevant to the field as a whole:

1. **Providing tax preparation and conflict resolution assistance is time-intensive and expensive.** Preparing taxes requires staff or volunteers to be certified by the IRS. They must maintain general knowledge of the individual tax code and stay current on complex rules for Schedule C (the tax form for reporting self-employment earnings), quarterly tax filing and other self-employment--specific issues. Providing dispute resolution services requires an even greater level of expertise and is often undertaken by certified public accountants and attorneys. EDG staff must spend significant time recruiting and building relationships with pro bono partners who can handle complex disputes. The IRS supports VITA programs and LITCs, but grantees must raise matching funds as well as abide by strict rules related to fees. VITA does not allow grantees to charge clients at all and limits grantees from soliciting donations from clients. LITC allows grantees to charge up to $25 to cover administrative costs. Sliding scale fees free an organization to serve a wider range of clients, but it may not be possible to break even and maintain affordability without grant subsidies.

2. **The IRS's siloed approach to grant-making and its restrictive policies hamper the effectiveness of service providers.** When clients are ineligible for VITA, volunteers must typically turn them away. On top of these restrictions, LITC grantees may be approved to represent clients in dispute resolution in one year but limited to outreach and education the next; inconsistency in approved activities makes it difficult to sustain and grow programs. Moreover, VITA and LITC are administered by different offices within the IRS that do not coordinate grant-making. As a result, there

are missed opportunities to leverage resources in organizations that have strong capacity to serve financially vulnerable self-employed people and to invest more in the communities with greatest need.

Tax assistance organizations interested in expanding their services for microbusiness owners should first develop a sustainability strategy that accounts for the range of services that can reasonably be provided by staff, what resources will needed to develop partnerships with legal and accounting experts and whether it is preferable to operate within or outside of the VITA and LITC grant programs. Microbusiness organizations seeking to expand the tax assistance resources available to their clients should also consider these issues and explore partnerships with the tax preparation field.

15%

of borrowers miss their payment due dates each month.

Applying behavioral economics and behaviorally-informed design to the microbusiness sector

Microloans can only help LMI entrepreneurs enhance their financial security if the borrowers are able to successfully manage loan repayments. Otherwise, fees and impaired credit may overshadow the initial benefits of receiving the loan. At the same time, microlenders' financial sustainability depends on strong repayment rates from its clients. This is a challenge for Accion Texas, the largest nonprofit business microlender in the United States, which sees an average of 15% of borrowers miss their payment due dates each month. Accion Texas sought to improve borrowers' on-time repayment rates in order to both increase the health of its portfolio and improve clients' finances.

In partnership with the Behavioral Economics Technical Assistance (BETA) Project, a joint effort of CFED and ideas42 supported by Citi Foundation, Accion Texas initiated a behavioral diagnosis to understand what was causing late repayments and address those specific problems in a borrower-friendly way. With consultation and assistance from the BETA Project Team, Accion Texas redesigned its monthly invoices and initiated text message and email reminders to their borrowers about upcoming payments. The team tested their diagnosis through a randomized controlled trial to ensure that the results were reliable. They found that clients in the riskiest assessment tier saw the greatest improvement when the reminders were introduced. By approaching the problem from the consumer perspective, Accion Texas was able to better understand its clients' needs and deliver an enhanced level of service to borrowers. For more on Accion's behavioral interventions, see CFED's From the Field brief, *"Using Insights From Behavioral Economics to Improve Microlender and Borrower Outcomes,"* and check out the *BETA Project website.*

Although behavioral economics and behaviorally informed design are sweeping through the social services and asset-building sectors, Accion appears to be among the first microbusiness development organizations to apply a behavioral lens to its programming. However, many applications of behavioral economics in the nonprofit world are relevant to microbusiness clients, as they relate to savings and financial capability. It may be easier to expand the use of behavioral insights within the field by focusing on these areas and adapting lessons learned with financially vulnerable consumers to financially vulnerable microbusiness owners.

Behavioral economics has great potential to help microlending clients achieve greater financial security through simple-to-administer, cost-effective changes to lenders' processes and products, but the approach faces significant barriers to scale:

1. **For behavioral interventions to become a standard tool in the microbusiness industry, organizations need resources that translate behavioral theory and research into actionable information.** There is no centralized resource bank that organizations can use to undertake behavioral diagnoses without assistance from experts. Organizations that lack resources to hire third-party experts need out-of-the-box solutions that assist them in applying behavioral insights to their programming.

2. **Limited staff capacity, data collection and client volume limit organizations' ability to implement interventions effectively.** Accion Texas is the largest nonprofit microbusiness lender, and it makes about 1,000 loans per year with a staff of 100. The majority of microloan funds are much smaller, and technical assistance providers smaller still. These lean

operations pose challenges to implementation of interventions that organizations want to undertake, as staff juggle multiple roles. Additionally, even Accion Texas, which built the industry's best-known loan management software, struggled with the data collection necessary to evaluate the interventions; organizations with fewer processes to ensure that data collection is frequent and robust may not be able to accurately assess interventions. Finally, small client bases mean that samples in randomized controlled trials will likely be too small to yield statistically significant results. Without the ability to properly implement or evaluate the impact of behavioral interventions, microbusiness organizations will likely hesitate to invest in this approach, despite the great potential benefits to clients.

Microbusiness organizations that wish to apply behavioral insights and behavioral design principals to their own products, services and operations should be clear about what specific client problem they are attempting to address and examine many potential reasons in order to select those that likely contribute the most. They should assess the level of resources they have to devote to this work and determine whether a formal experiment is feasible, and whether behavioral efforts in other fields have addressed similar situations in ways that might be applicable and easily replicated.

REACHING TOWARD SCALE: KEY TRENDS SUPPORT THE GROWTH OF INNOVATIVE PRACTICES

In the second phase of this project, CFED convened the partners and other leaders in the microbusiness field to identify pathways forward that proactively address the barriers to scale described above. Together, the group identified three key trends that can support the growth of the innovations that we documented: new capacities for product development targeting underserved entrepreneurs, new partnership strategies to deliver enhanced services to more clients, and use of platforms to achieve efficiency and scale.

PRODUCT

Practitioners in the nonprofit and for-profit arenas are designing new products that are geared to the needs of underserved entrepreneurs. New technologies, particularly software services that deliver sophisticated data analysis capabilities even to relatively small firms and organizations, are a driving force for this trend. Such services support scale as they make it easy for microbusiness organizations to serve more clients and reach different populations. Helping entrepreneurs achieve financial security and success requires multifaceted approaches that address various challenges, and no single product can on its own be a silver bullet solution. However, microbusiness organizations are increasingly developing products that address specific financial stability issues in new ways.

Lenders, in particular, are designing products to meet the needs of borrowers who have until now lacked access to capital even from nonprofits. Data analysis is making it possible to more accurately predict repayment for high-risk borrowers and lower the cost of lending. New business models are emerging that underwrite based on novel criteria. In the nonprofit sector, Accion Texas is refining its risk analysis tools to be able to offer $5,000 and less Promise Loans to microbusiness owners who do not qualify for other Accion products. In the for-profit sector, firms like Kabbage are leveraging new data analysis capabilities to offer microbusinesses small amounts of capital with nearly immediate loan decisioning. This trend in new product development may be particularly important to supporting the most financially vulnerable yet viable microbusiness owners—expanding the reach of the industry in a way that furthers the goals of mission-oriented organizations and provides more types and sources of microbusiness financial products and services.

Technology is also leading to improvements in the quality and cost of services that help microbusiness manage their finances. Payments innovators such as Square and Intuit's GoPayment have dramatically lowered the cost for businesses to accept card-based payments, often enabling microbusinesses to take cards for the first time, expanding their client base. This offers opportunities for microbusiness owners to more easily understand their cash flow, which is a widespread challenge. Payments tools, however, do not necessarily facilitate

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1,000

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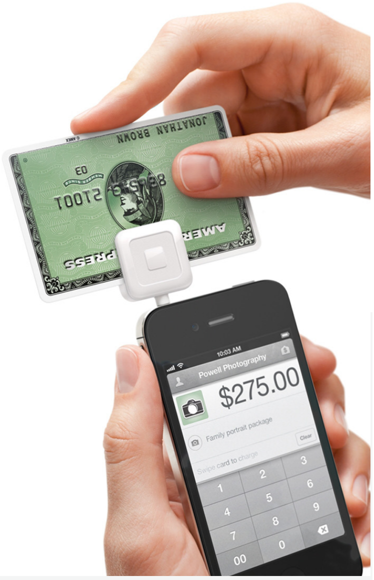

Technology is also leading to improvements in the quality and cost of services that help micro-business manage their finances. Payments innovators such as Square and Intuit's GoPayment have dramatically lowered the cost for businesses to accept card-based payments, often enabling microbusinesses to take cards for the first time, expanding their client base.

easier management of finances to address cash flow problems.

In fact, there are several areas where new product development may be needed to address financially vulnerable microbusiness owners' challenges. Both research and our consultations with leaders in the microbusiness development field indicate that LMI entrepreneurs have unmet needs related to financial management, savings and insurance products. Savings was an area of particular interest among the experts with whom we spoke and CFED had hoped to include among our partners at least one organization piloting an innovative business-focused savings product, but we found few practitioners actively developing new savings-oriented initiatives. Leaders cited several factors contributing to the gap between their interest in savings innovations and their activities, including limited understanding of what types of savings products LMI microbusiness owners need and want, lack experience developing products other than loans, and lack of longer-term funding commitments needed to develop, test, pilot and launch such products.

PARTNERSHIP

Given that microbusiness development is a niche field that is seeking but has not yet achieved scale, there are few organizations or firms with the size and scope to "do it all." It is common for organizations sharing a geographic footprint to establish strong referral partnerships to ensure that their clients have access to high-quality products and services at every level. This is evident among the groups CFED collaborated with on this project. EDG is a classic example of how microbusiness development nonprofits use networks of partners; they receive clients for their self-employment tax services through referrals from other organizations, and make referrals to trusted and often pro bono partners when it is unable to assist a client with a particular problem. CAMEO also represents a common strategy for expanding access and adding value through partnerships; as an intermediary, CAMEO connects California organizations to leverage their respective strengths.

Although partnerships have long been a strategy used to add value for clients without needing to take on the onerous work of developing entirely new organizational competencies, new approaches to partnership are emerging that can support the replication of innovative models of practice. For example, TA-focused organizations, which have developed partnerships with local microlenders to help their clients access capital, can now build partnerships with national organizations like Kiva Zip or OnDeck Capital (a for-profit online loan platform that makes microloans between $5,000 and $250,000). Additionally, CAMEO's work demonstrates that when microbusiness organizations act cooperatively, they can achieve more. In this instance, pilot members in aggregate have greater purchasing power; acting together has positioned each individual organization for greater growth.

Partnerships are supporting and enabling innovation but can also be strained by these new developments. Competition among microbusiness organizations that have or are currently working together is increasing. As national microlenders continue to grow, some community loan funds have expressed concern that they will be crowded out. As more for-profit firms enter the microbusiness services space, lenders and TA providers alike have struggled to achieve growth while staying close to their missions. Uncomfortable as heightening competition within the industry can be at times, it provides new incentives to ensure that organizations are meeting clients' needs and is driving all participants to serve new markets.

PLATFORM

Platforms enable organizations to grow efficiently by offering well-developed systems that the organizations can easily apply to their own products and services. To reach scale, automation is critical, and it is clear that platforms such as Kiva Zip and MMS are playing increasingly important roles in the growth of the microbusiness industry. Platforms are not exclusively lending-oriented, and TA providers are increasingly using distribution platforms such as Khan Academy and other internet-based educational channels to deliver training to more microbusiness owners and to make training more accessible and convenient. In many cases, scale-oriented platforms are built for microbusiness owners rather than organizations. These include financial management tools such as QuickBooks and Xero, which help microbusiness owners more easily manage cash flow and invoicing. It is important to note, however, that many financially vulnerable microbusiness owners cannot afford these services or do not have the technological resources needed to make full use of them. Finally, as one industry expert CFED consulted reminded us, platforms do not have to be technology-based; the tax system, for example, is a platform that entrepreneurs can use to access resources such as refundable tax credits and build a record of earnings that boost future Social Security benefits.

Although many microbusiness organizations are embracing new platforms to increase efficiency and pursue growth, this scale strategy has challenges of its own that currently limit its potential. First, this industry was developed with customization as a core value. Microlenders saw opportunities to help underserved businesses access capital by developing unconventional underwriting criteria that incorporated character assessments—an extreme form of customizing products for each client. Several of CFED's partners and advisors to this project described difficulty in guiding all of an organization's staff and leadership to fully adopt, trust and rely upon new platforms. One described partial implementation—organizations using some platform features and ignoring others—as causing confusion and inefficiency. Second, developing and maintaining platforms is costly work, and few microbusiness organizations have the capacity. The larger organizations, such as Accion Texas, that have in-house capacity to build and manage platforms still generally require subsidies to do so, and small organizations also often require financial assistance to offset the cost of buying access to and implementing the platforms.

SUPPORTING SCALE: RECOMMENDATIONS FOR FUNDERS AND POLICYMAKERS

Microbusiness organizations such as Accion Texas, CAMEO, EDG, Kiva Zip and the DC WBC have major opportunities to increase the use of their new products and services, grow their client bases and more effectively assist their clients' efforts to achieve financial security. Acting individually, these innovators seem likely to leverage trends in product development, partnerships and platforms to achieve significant growth. This is unlikely, however, to move the industry as a whole from reaching hundreds of thousands of financially vulnerable microbusiness owners to reaching millions. Achieving industry-wide scale depends on support from funders and policymakers to ensure the sustainability of new practices. CFED developed the recommendations below after numerous interviews with leadership of each partner organization, peer learning events and a convening of microbusiness field leaders. Their insights, feedback and creative approaches to barriers to scale inform our recommendations for funders and policymakers.

Funders seeking to support scale-up of these models and other approaches to enhancing entrepreneurs' financial security should consider:

PRODUCT

- Supporting market research could lead to greater innovation in microbusiness-focused savings and other products that support financial stability and capability. Practitioners interested in financial product innovation beyond credit identified limited understanding of what types of savings products LMI microbusiness owners need and want as a barrier to progress.
- Microbusiness organizations need capacity-building support to implement behavioral interventions or undertake behaviorally-informed approaches to product and program development. This would enable many organizations which otherwise lack the expertise or resources to benefit from behavioral insights. This strategy has the potential to improve organizational operations, enhance relationships with clients and directly contribute to improved client outcomes.

PARTNERSHIP

- Encouraging relationships between funded organizations can be a valuable strategy, but investing in the capacity and sustainability of organically formed partnerships may be a more powerful approach. Partnerships can contribute directly to economies of scale, as exemplified by crowdfunding and aggregation models. However, successful partnerships require deep levels of trust and

Platforms are not exclusively lending-oriented, and TA providers are increasingly using distribution platforms such as Khan Academy and other internet-based educational channels to deliver training to more microbusiness owners and to make training more accessible and convenient.

commitment that may be difficult to achieve without total buy-in from each organization.

- Practitioners repeatedly expressed a desire for central coordination of partnership efforts to reduce the amount of time spent on administration and provide a neutral party to navigate through controversial issues or conflicts. This could be achieved by providing support for organizations experienced in implementing one of the models documented here to serve as intermediaries or to develop and disseminate resources for partners pursuing the same approach.

PLATFORM

- Organizations pursuing longer-term strategies to achieve sustainability need flexible, multiyear funding. These organizations need benchmarks to guide and assess progress, which may best be developed by third parties, including funders themselves. Several of the platforms described in this report are intended to become self-sustaining over time, but many organizations lack the resources to invest up front in such strategies without additional support.

Policymakers seeking to facilitate scale-up of practices that enhance the financial security of LMI microbusiness owners should consider:

PRODUCT

- Microbusiness organizations need capacity-building support related to financial capability, and policymakers should support more integrated approaches to the financial success of LMI entrepreneurs. Grantees of the CDFI Fund and SBA Microloan Program, primary sources of federal funding for microbusiness development, generally focus on a limited range of the elements that can enhance financial capability—such as creating the business plan, reading profit and loss statements, and borrowing—in part because these programs heavily emphasize credit. Microbusiness owners need additional services related to savings, effective cash flow management, forecasting revenues and expenses, insurance and succession planning.

- Microbusiness organizations would also benefit from capacity-building support related to behaviorally informed program and product design. An initiative similar to the CDFI Fund's Scaling Up Microfinance, which provides outreach to and resources for business microlenders seeking growth, could spread awareness of behavioral economics applications to this industry and ensure that organizations are able to effectively use behavioral insights and processes to improve their operations and clients' outcomes.

PARTNERSHIP

- Practitioners frequently cited a need for assistance with developing and maintaining high-quality technology infrastructures that facilitate scale. MMS is one of the most successful and transformative examples of the impact that such systems can have. Policymakers should consider establishing a shared technology infrastructure fund through which microbusiness organizations—especially non-lenders, which tend to have lower self-sufficiency rates—can cooperatively invest in technologies that enable new levels of scale. Sharing resources through participation in a government initiative would leverage resources including time, talent and funds, and facilitate the growth of efficient and scalable practices like automated underwriting.

PLATFORM

- Several SBA grantees expressed concern about whether serving as trustees for Kiva Zip could be a violation of SBA's rules governing what service providers can do to help clients get financing. Policymakers should provide clarification to grantees about the permissibility of connecting clients to affordable, crowdfunded capital, including serving in roles such as Kiva Zip trustees.

- The tax system is in itself a key platform for delivering support to financially vulnerable microbusiness owners, but its capacity to be a scale platform is stymied by inflexibility and lack of coordination. Policymakers should allow and promote blended funding across various programs serving LMI microbusiness owners, particularly VITA and LITC, to leverage organizations' capacity to assist clients with a wider range of tax issues, from education and training to preparation and conflict resolution. Coordinating grant-making across programs and enabling grantees to blend funds is not, however, sufficient to achieving sustainability for tax assistance service providers. Policymakers should also permit grantees to pilot fee-for-service or pay-what-you-can models to support more complex returns and increase program sustainability. Finally, if the pending evaluation of the IRS Schedule C VITA Initiative shows successful results, the expanded guidelines for serving self-employed taxpayers should be made available to all VITA sites in order to grow the reach and impact of these services.

CONCLUSION

Throughout the microbusiness industry, organizations should focus on financial security issues so that clients can more effectively use business ownership as a tool for building wealth and moving up the economic ladder. Enhancing clients' financial security can mean many things: helping microbusiness owners more effectively manage cash flow; facilitating savings to guard against downturns and emergencies; providing access to affordable loans; ensuring that microloans help business owners build good credit; helping businesses avoid financial pitfalls such as tax filing errors; and enabling them to keep money in the business by connecting them to more affordable products and services. Where successful programming is already in place, achieving greater efficiency in order to facilitate sustainability and growth is a critical next step for individual organizations and for the field as a whole.

There are indications that the innovations pioneered by the organizations CFED partnered with for this project are already being replicated and reaching more financially vulnerable entrepreneurs. CAMEO is preparing to seek a second cohort of member organizations to move to automated underwriting, and Kiva Zip is continuously adding trustees and lenders. The IRS took some steps to expand the scope of VITA grantees' ability to serve the self-employed in tax year 2013. While we are not aware of other microbusiness organizations actively applying behavioral insights right now, several applications to the BETA Project came from the microbusiness field, indicating increasing awareness and interest. With support from funders and policymakers, the field can take full advantage of tools and trends that support growth of new programming to reach new levels of scale as an industry.

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