



SUPPORTING ENTREPRENEURS

A Longitudinal Impact Study of Accion and
Opportunity Fund Small Business Lending in the U.S.

April 2018

A Letter from Accion & Opportunity Fund

Dear Partners, Friends and Supporters:

In 2015, Accion and Opportunity Fund, two of the nation's leading mission-based small business lenders, set out to conduct a first-of-its-kind study to understand the holistic value of our lending and advising services. Building on the data we had available to us at that time, including internal loan performance data and outcome data through the Aspen Institute's EntrepreneurTracker initiative, we sought to bring greater depth and rigor to our understanding of the many ways in which access to capital and support can catalyze opportunity for entrepreneurs, their families and their communities. We also hoped to illuminate the distinct challenges and opportunities our clients face in their journey to pursue their entrepreneurial dreams and build economic security. This knowledge will be instrumental in enabling us to build and refine customer-centric products and services that are tailored to their diverse needs.

The participants in this study reflect Accion and Opportunity Fund's small business loan clients, who embody broad demographic, geographic and occupational diversity within the small business landscape. They also represent the large population of entrepreneurs who face barriers to accessing traditional business financing – including start-up businesses and businesses led by low- and moderate-income, minority, and women entrepreneurs; located in economically disadvantaged communities; whose owners have limited or damaged credit histories; and those seeking small amounts of capital. Accordingly, we hope that the study's findings will inform not only our own work, but also the work of mission-based lenders across the country.

In early 2017, we were privileged to share the preliminary findings of this multi-year study with practitioners across the small business ecosystem and learn how they anticipated the findings would affect their work. We hope that the final results will stimulate further exploration – about the crucial role that our industry plays in catalyzing positive change for individuals and communities, as well as the areas where our clients continue to struggle and the opportunities we can leverage to serve them better. Our reflections on the study's implications for our work moving forward, and how the findings will support our scale strategies, are included at the conclusion of this report. We look forward to continuing a dialogue with our peers and supporters to translate these insights into action.

We would like to thank Harder + Company Community Research, our third-party research partner, for their expertise and commitment to the design and implementation of this mixed-methods, longitudinal study. We'd also like to share our gratitude to the study's lead funders, the W.K. Kellogg Foundation and the JPMorgan Chase Foundation, for their investments to inform and advance our field. Many thanks as well to S+P Global for their additional funding support. Accion and Opportunity Fund share a deep appreciation for these and other partners who make up our field of dedicated practitioners committed to economic opportunity for small business owners, families, and communities across the United States.

Sincerely,



Gina Harman
CEO, U.S. Network, Accion



Luz Urrutia
CEO, Opportunity Fund



Allegiance Employee Perks, San Diego, CA

Executive Summary

For more than 25 years, Accion and Opportunity Fund have offered business capital and advice to the small businesses often left behind by conventional lenders —women, ethnic minorities, and entrepreneurs with limited income, little or no collateral, or imperfect credit. This type of mission-based, small-dollar lending has grown in recent decades with the recognition of the strong repayment profile of these small business owners and the realization that small business lending acts as an economic development engine.¹ Mission-based lenders like Accion and Opportunity Fund do more than lend money; they often work with entrepreneurs to strengthen their businesses and help them succeed through business advising, financial education, and other services.

To date, measuring the success of this type of lending has generally focused on gathering such quantitative data as loan repayment rates, business survival rates, and job creation rates. While important, such results do not tell us about the social impact of these loans on household and family life, poverty alleviation, or community development.

The *Longitudinal Impact Study of Accion and Opportunity Fund Small Business Lending in the U.S.* is a first-of-its-kind national, longitudinal, qualitative examination of these outcomes. It reports on a nationwide cohort of 350 Accion and Opportunity Fund borrowers who were followed for as long as three years post loan in order to understand the impact of small business lending services on their businesses, their personal financial security, and their overall quality of life. The study examined how business owners define success and how access to capital supports their goals. Findings from this study not only identify opportunities for lenders to better meet the needs of entrepreneurs, they also provide evidence to other lenders, policymakers, and small business supports about the ability of

Turning Insight Into Action

Accion and Opportunity Fund are committed to utilizing these study findings to strengthen their programs and support the field moving forward. In the last chapter of this report, Accion and Opportunity Fund lay out a plan for leveraging these findings. See page 54.

¹ Swack, M., Hangen, E., and Northrup, J. (2014). *CDFIs stepping into the breach: an impact evaluation-summary report*. <https://www.cdfifund.gov/Documents/CDFIs%20Stepping%20into%20the%20Breach%20Impact%20Evaluation%20Report.pdf>

micro- and small-business lending to transform lives.

Key Findings

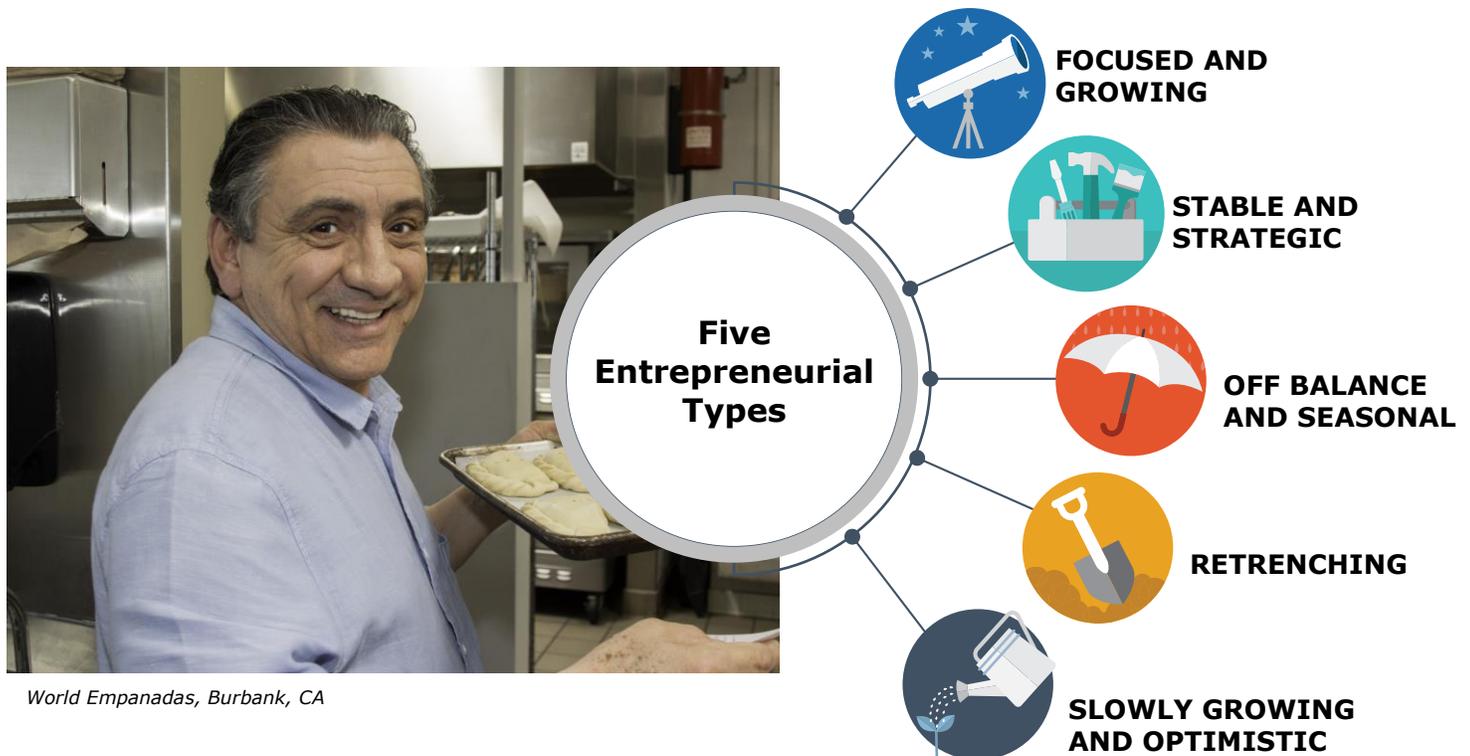
Entrepreneurs continue to see the positive impact of Accion and Opportunity Fund capital years after receiving a loan. Regardless of their loan size (the majority of loans were under \$10,000), most entrepreneurs are thriving and continue to attribute a positive impact on their business and their personal lives to Accion and Opportunity Fund. Business owners said their loan helped them meet personal goals such as improved credit and an increased sense of legitimacy as “real businesses,” as well as increasing their confidence to achieve their goals. Accion and Opportunity Fund capital also helped business owners acquire new equipment, expand or modify products and services, increase sales, and improve cash flow. And, most report greater control of their time and a more favorable work-life balance because of their loan.

Accion and Opportunity Fund met the needs of these business owners at just the right time—many of them had tried other lenders to no avail. Business owners continue to see the effects of their loan several years after the capital was spent.

Access to capital fueled business growth. Loans, business advice, and networking opportunities made businesses stronger. More than half of the business owners in this study saw increased profits, nearly 40% added employees, and many of those with workers increased employee benefits. In fact, the 350 business owners in this study added a total of 334.75 Full Time Equivalents (FTEs) between 2016 and 2017.

Entrepreneurs are diverse in terms of how they define success, their business acumen, and the support they need to be successful. Analysis of the study’s longitudinal data led to the identification of five distinct types of business owners, each with unique challenges and particular needs. Understanding the different trajectories of each borrower cluster can help small and micro lenders provide targeted support to these entrepreneurs.

Businesses added more than 330 full time equivalents (FTEs) in one year.





FOCUSED AND GROWING

Started strong and stayed strong

Focused and Growing entrepreneurs make up the largest group in this study at 44%. They are full-time entrepreneurs who started strong and used their small business loan to expand their businesses, often hiring employees to allow them to focus on the strategic aspects of business development. At the end of this study, all of these business owners supported themselves full-time through their businesses and many had increased their personal savings.

This group of entrepreneurs is characterized by their businesses' strong starts and their consistency on that path. They are also focused on sustainable business growth as their main goal, which sets them apart from other groups that prioritize stability or maintenance.

The unique challenge presented to this group is carving a path forward based on their individual plans for growth and expansion. These businesses have a strong foundation on which to base their plans for future growth.



STABLE AND STRATEGIC

Supported by outside income

Stable and Strategic entrepreneurs make up 12% of study participants. This group is characterized by the fact that they have other sources of income besides their businesses and by their focus on careful planning. Sometimes an entrepreneur finds a way to generate income from a hobby or passion. Others might find that an outside job is necessary support during certain seasons or as a business develops. These business owners all reported improvements in their quality of life over the course of our study and are focused on developing financial plans to achieve their goals.

These entrepreneurs are often satisfied with the progress their businesses are making and comfortable with juggling multiple sources of income. They prioritize careful day-to-day planning and financial stability.



OFF BALANCE AND SEASONAL

Weathering the storm of cyclical business

This small group of entrepreneurs—they make up only 9% of the study—has had a more challenging road. Many have been stymied by unexpected financial emergencies that left them stressed and uncertain about the future of their businesses. Many earn most of their revenue in just a few months of the year. Receiving a loan helped them at first, but unexpected events or seasonal downturns revealed gaps in their planning and preparation.

These business owners experience unique challenges around their cash flow fluctuation, which results in competing priorities between daily needs and long-term plans for the next cycle of slow business.



RETRENCHING

Working hard to establish their business

Retrenching entrepreneurs, who make up 19% of the sample, have businesses that are breaking even but not yet profitable. They used their loans to become more efficient and stronger competitors, and their businesses are performing well. They do not take home a salary from their business, relying on other sources of income or personal savings. Earnings are reinvested back into their businesses.

This group of business owners is particularly optimistic about the future of their personal financial stability, indicating they feel in control of their financial future and feel little stress about financial obligations like loans. Nevertheless, they do not always identify clear paths to achieve their financial goals.



SLOWLY GROWING AND OPTIMISTIC

Working to strengthen their businesses in niche markets

The Slowly Growing group, who make up 17% of the study, tend to offer highly specialized products or services. Their businesses are financially unstable. Although often unique and innovative, such businesses can suffer from unpredictable sales and a narrow client base. While these entrepreneurs are buoyed by their successes, many feel stuck and find their loans to be an additional source of stress. This group is less likely to have a retirement account or other personal savings and investments.

Entrepreneurs in the Slowly Growing cluster lack strong financial tracking practices. Though they feel confident in the future of their business, very few had a business plan, and those who did, often put it aside to respond to short-term or seasonal changes.

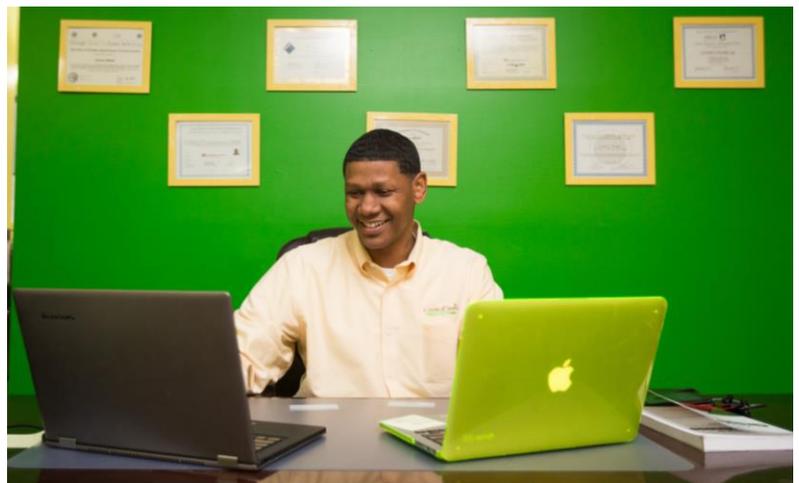
Conclusions and Implications

This study further broadens the field of knowledge about the impact of small and micro loans in the United States. We learned that Accion and Opportunity Fund have had a positive impact on business indicators such as cash flow, employee hiring, equipment purchases, and business owners' personal and household well-being. Business owners expressed tremendous gratitude that someone "took a chance" on them, which boosted their self-confidence about achieving goals and provided them with a sense of legitimacy, and a feeling that their business was worthwhile. It is our hope that these findings support practice improvement among Community Development Financial Institutions (CDFIs) who share the goal of supporting businesses who are unable to access traditional financing.

CDFIs are uniquely positioned to support low-wealth individuals and communities, helping them participate in the formal economy. For many entrepreneurs, Accion or Opportunity Fund was the only lender offering affordable, appropriate credit options. This places CDFIs in a unique position to support new and existing entrepreneurs. These institutions can pave the way for women, people of color, and immigrants working to improve their financial security and financial mobility.

More data collection is needed. While this study represents a significant examination of longer-term impacts of mission-based small business lending, there is still more that needs to be understood. For example, in this study we focused on borrowers' self-reported changes, and didn't delve into, for instance, the exact amount profits or sales may have risen or fallen.

In addition, one ambitious goal of this study at its outset was to investigate how small and micro loans affect business owners' communities by exploring how their networks changed over time, looking at the generational implications of entrepreneurship (i.e., how entrepreneurs' children relate to entrepreneurship), and assessing how business owners contribute to wider community development. However, such metrics are difficult to track in a study of this length and scope, and more research is needed to examine how access to capital for small businesses is linked to community-wide development indicators such as job creation and poverty alleviation over decades.



Stroke of Genius, Chicago, IL