Establishing an Iowa Microenterprise Foundation

Mark A. Edelman
Iowa State University, medelman@iastate.edu

Ronald S. Prescott
Iowa State University, rprescot@iastate.edu

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Establishing an Iowa Microenterprise Foundation

Abstract
An Iowa group was formed to offer funding and advice to small business entrepreneurs with a focus on local food enterprises.

Keywords
Economics, Farmer profitability enterprise budgets

Disciplines
Entrepreneurial and Small Business Operations | Finance and Financial Management | Human Geography
Establishing an Iowa Microenterprise Foundation

Q Can an Iowa Microenterprise Foundation focused on providing capital and technical assistance to a wide range of small entrepreneurs across Iowa offer effective access to capital financing for local food system entrepreneurs?

A Iowa Microloan can and has developed relationships that culminate in loans and technical assistance to local food entrepreneurs who do not have access to conventional credit.

Background

During the summer of 2006, the Leopold Center sponsored a seminar for nearly 100 agricultural and rural leaders presented by two vice-presidents of ShoreBank affiliates. A steering committee was formed by the Leopold Center and ISU’s Community Vitality Center (CVC). In 2007, members of the steering committee visited Northern Initiatives which serves the Upper Peninsula of Michigan. Information was collected from the Nebraska REAP Program administrator and Minnesota West Central Initiative Foundation. Entrepreneurial technical assistance networks were interviewed and lenders were surveyed by CVC and Iowa Bankers Association to identify gaps in Iowa’s entrepreneurial development system. The surveys and interviews confirmed that small entrepreneurs often had difficulty accessing small loans of less than $50,000 and working with technical assistance networks.

Approach and methods

Existing development and financial entities were invited to expand their operations to fill the identified service gaps, but each preferred to maintain focus on existing missions. A new umbrella entity was envisioned that would collaborate with all existing and emerging statewide, regional and local entities that possess resources, expertise, and capacity for assisting small entrepreneurs with access to capital, training and technical assistance. In order to effectively marshal resources at the state and federal levels, rural and metro microenterprise interests made a strategic decision to join forces rather than compete for scarce resources. To avoid competition with conventional lenders such as banks and credit unions and to gain their referrals, the new entity agreed to accept only loan applicants who provided evidence of a credit denial and to charge interest rates above the prime lending rate of conventional lenders. The approach provided an opportunity for portfolio diversification, and relied on other networks to provide enterprise-specific technical assistance and coaching.

In organizing the new entity, efforts were made to identify existing rural and metro small business networks with lending and entrepreneurial development expertise. Leopold Center regional food interests are represented on the foundation board along with other network representatives.
Results and discussion
The first year was focused on implementing the business plan for this new entity. Leaders organized an entity that could provide access to federal and private sector funds reserved for microenterprise loans and technical assistance. Program requirements included some focus on low-income and underserved communities. Articles of Incorporation and by-laws were drafted for Iowa use. Leaders representing statewide entrepreneurial support and lending networks were identified to serve on the board to direct this new entity.

On March 3, 2008, the Iowa Foundation for Microenterprise and Community Vitality (IFMCV) was organized as an Iowa nonprofit corporation. A $500,000 grant was received from Northwest Area Foundation and Community Foundation of Greater Des Moines. CVC committed $50,000 per year contingent on federal appropriations. A loan administrator with 27 years of entrepreneurial lending experience was hired. The entity was designated as a statewide intermediary for the Small Business Administration (SBA) Microloan Program and a $750,000 SBA revolving microloan fund was approved. A website (www.iowamicroloan.org) was created to offer statewide access to the Iowa MicroLoan program and applications. Loan policies and procedures were established and a Loan Review Committee began to review applications.

The second year of the project focused on reviewing microloan applications and developing a technical assistance network with existing and emerging entrepreneurial support networks. The first loan was approved on February 26, 2009. Approximately 60 applications were reviewed during 2009, from which 21 loans were approved, and 18 loans were closed. At the end of 2009, there were no delinquencies or defaults and the Iowa Microloan coaching network emerged to include two partner organizations and six affiliate organizations with executed agreements or memorandums of understanding.

To date, Iowa MicroLoan has provided microloans and technical assistance to four small business value-added agriculture enterprises. This represents 14 percent of the total loans approved. Three involve local food-related businesses and one is a farm-based manufacturer and distributor of a novel retail food product (corn cob syrup). One client proposed a food storage and processing facility. Other enterprises included a vegetable grower and a lawn care business.

Conclusions
The IFMCV has demonstrated a model that can serve as a complementary backstop to conventional lenders. It increases entrepreneurial access to capital for emerging regional food systems entrepreneurs.

The odds of longer term sustainability for a microfinance intermediary are enhanced if it is able to achieve a 50 percent low-income level in clients and cultivate a diver-
sified portfolio across many different industries. IFMCV has achieved these dual objectives.

There likely will be several additional opportunities for IFMCV to develop sustainable affiliate relationships as additional regional food networks emerge from ad hoc networks to more formalized supply chains of legal entities, marketing channels, and higher performing enterprises.

**Impact of results**

Due to successful outcomes in 2009, IFMCV is in a position to attract additional capital and technical assistance grants, and spur creation of additional collaborative programs.

- IFMCV was approved by SBA for $248,000 in grant funding for technical assistance to microloan clients and pre-application training programs in 2010. As a result, IFMCV will allocate approximately $60,000 for entrepreneurial training workshops to partner and affiliate networks, such as the Northeast Iowa Farm and Food Coalition.

- IFMCV has submitted an application to USDA for the Rural Microentrepreneur Assistance Program (RMAP) approved in the 2008 Farm Bill. RMAP is similar to the SBA MicroLoan program, but eligible applicants are restricted to small businesses and startups located outside of metro-centers and their contiguous urbanized areas. The RMAP program provides loans up to $50,000 for small businesses with 10 or fewer employees. This application would not have been possible without a successful first year of operation. A local match of $100,000 was received from two Iowa groups interested in the vitality of agriculture and rural communities.

- When fully subscribed, IFMCV can access up to $3.5 million from the SBA Microloan Program and up to $2.5 million from the USDA RMAP program at a cost of funds below 2 percent by providing a 5 to 15 percent match for loan loss reserve. Both programs offer an annual technical assistance grant based on the outstanding loan balances in the respective revolving loan portfolios for the previous year.

- The Iowa General Assembly created a temporary, eight-month $5 million loan program to assist small businesses to modernize or expand during a time of tighter credit and recession. This program opportunity would not have been offered to IFMCV without 2009’s successful performance. The Iowa Department of Economic Development (IDED) was encouraged by the General Assembly to collaborate with the Iowa SBDC to assure that business plans are well thought-out and to contract with IFMCV to review loan applications and provide recommendations to IDED based on the strength of the application and client credit history. This loan program will provide loans up to $50,000 for eligible small businesses with less than 35 employees at interest rates of 3.9 percent, and interest rates of 2 percent if at least one-third of the loan request is co-financed by a local lender. This contract will provide additional fee revenue for IFMCV and may provide an opportunity to access future state matching funds. In addition, local food system entrepreneurs have access to a new favorable credit program.
Education and outreach

The primary means of education and outreach is through the project websites: www.iowamicroloan.org and the Iowa Small Business Loan program www.isbloan.org. The literature suggests that entrepreneurs choose to access information when time is available, which may be in the middle of the night or on weekends, and this approach offers client-driven learning and application access at all times. Brochures and presentations are provided at events such as the annual statewide “Entrefest” small business entrepreneurship conference, as well as for any regional or local group that expresses an interest in the microloan program.

The early versions of the model have been presented and discussed in two meetings of national trade organizations, including the National Business Incubation Association and the National Community Reinvestment Coalition. Presentations also were given at the 2008 and 2009 Marketing and Food Systems Initiative workshops.

Leveraged funds

During the project, CVC matched the annual Leopold funding with $50,000 of USDA funding to support project coordinator Ron Prescott’s salary. Prescott was instrumental in drafting and implementing the IFMCV business plan and developing the IFMCV technical assistance and coaching program. CVC also provided $50,000 in annual direct support to IFMCV.

For more information, contact:
Mark Edelman,
183 Heady Hall,
Iowa State University
Ames, Iowa 50011;
(515) 294-6144,
e-mail:
medelman@iastate.edu