

Findings from the Scale Academy

Innovating to Scale

How do microenterprise development organizations scale up their microlending and business development services? It is not by doing more of the same. Rather, it is accomplished by innovations large and small — changing core processes, offering new products and services, forging new partnerships, and modeling practices that have proven successful for others. Here is a list that can encourage other practitioners to innovate:

Implementing a credit-scoring model to assess loan applicants

ACCION USA drew on 15 years of its own historical data to create a model that helps to predict the risk of default in current loan applicants and to price loans on the basis of risk. The model incorporates the organization's assessment of an array of factors, including previous performance on other loan and payment obligations and current liabilities, among others. In addition, it has set very clear, basic loan requirements that are listed on the organization's website so that applicants can also "pre-screen" themselves before completing an online loan application, calling the office or approaching a loan officer. This innovation contributes to scale by enabling the organization to more efficiently assess the likelihood of loan approval at an early stage, and communicate likely loan amounts and terms so that applicants can decide whether they want to take the next steps.

Outsourcing loan underwriting and servicing

Four Scale Academy members [ACCION New Mexico•Arizona•Colorado, ACCION Chicago, ACE (Access to Capital for Entrepreneurs), and Opportunity Fund] use ACCION Texas-Louisiana's Microloan Management Services to implement parts of their loan underwriting. The system can prequalify loan applications using an automated scoring model, and can also be used to underwrite loans, produce closing documents, and provide tools for portfolio management and reporting to credit bureaus. Outsourcing some or all of these activities allows loan officers to focus more on marketing and sales, increasing the number of loan applicants. See <http://www.acciontexas.org/what-mms-does.html> for more. Opportunity Fund and ACCION Chicago also outsource loan servicing to partner banks as a second means of increasing efficiency.

Creating incentives for loan officer performance

ACCION New Mexico•Arizona•Colorado incentivizes its loan officers for quality loans. Each loan officers' pay, in part, depends on his ability to achieve specified lending targets on a monthly basis and maintain good performing loans over time. The system, coupled with training, has created a culture within the lending staff that focuses on sales *and* on maintaining client relationships. It also sets clear minimum performance expectations for loan officers. ACCION New Mexico continues to evaluate, and tweak, the system as it learns more about what supports good performance. For more, see *The Organizational Foundations of Sustainability*, <http://www.fieldus.org/Publications/FieldForum23.pdf>.

Partnering with loan brokers

ACCION USA has developed partnerships with commercial loan brokers who refer some of their small business loan clients as loan applicants to the organization for a fee. AUSA has screened, recruited and built a network of brokers who charge fair fees and offer good customer service. In 2008 and 2009, referrals from loan brokers accounted for one-third of ACCION USA's approved Internet loans. In the organization's experience, commercial loan brokers have tended to move fast, be nimble (easily trained on new requirements), accept risk-based pricing, have their own online presence (to serve customers regionally or nationally), and be embedded in their local business communities. Because this strategy depends on maintaining strong relationships with the brokers, ACCION USA is also developing a new MIS platform that can assist its loan officers to manage these relationships efficiently.

Using a sector lens to find and finance businesses

Opportunity Fund has increased loan volume by researching and targeting sectors that appear to be under-financed and have clear, and relatively focused, market channels. Its first successful sector-based product focused on family-based day-care providers who needed financing to make improvements to their space and equipment in order to meet regulatory requirements. The clear market channel for this product was the agency that regulated the providers. New sectors being tapped include truck drivers needing upgrades to meet new environmental standards and mobile food vendors. Again, in both cases, there was both demand and a clear channel to the market: there are a limited number of firms that install the required truck filters, and only two vendors sell the trucks used by food vendors to ply their trade. ACCION USA created a similar loan product for truckers needing to meet new environmental regulations announced by the Port Authority of New York and New Jersey. In this case, the Port Authority itself is the market channel. Other Scale Academy members have sector-focused initiatives that have broader market channels. In these cases, the sector lens enables them to offer specially-designed products and services and focus their marketing efforts. As examples, ACE (Access to Capital for Entrepreneurs), offers "green" loans, and ACEnet offers an array of business development services to entrepreneurs in the specialty foods and home goods/craft sectors.

Credit-building products and services

Justine PETERSEN has expanded its financial services to include several special products and services designed for individuals needing to build or improve their credit. These include: credit-builder loans (loans of \$150 repaid at \$15 monthly for 12 months and carrying a \$30 flat fee); secured credit cards \$200 and above, sometimes offered in combination with an unsecured loan; one-on-one financial coaching services; and monthly financial education classes using the FDIC Money Smart curriculum. Over 1,500 people participated in these services in 2009. ACCION New Mexico•Arizona•Colorado offers a \$200 loan product to specific entrepreneurs to help them begin a credit relationship with the organization. The organization also offers monthly workshops on financial well-being. ACCION USA offers small loans to clients without a credit score and webinars that feature its “business survival strategies” curriculum. It also has a financial education section on its website that offers tips, podcasts, workshop calendar and a directory of other training providers. In 2009, there were 66,000 page views of this content. Opportunity Fund offers credit-builder loans in the \$1,000 to \$2,000 range, with some extended to \$5,000 depending on the industry. See *Dollars for Dreams: Scaling Microlending in the United States*, <http://www.fieldus.org/Publications/DollarsForDreams.pdf>, 36-40.

New risk management tools

As lending organizations scale, they require more sophisticated tools to monitor their portfolio performance and help borrowers struggling with loan repayments to stay (or get back) on track. ACCION USA and Opportunity Fund develop “vintage charts” that graphically illustrate the performance of the loan portfolio by the year in which the loans were made and the months at which write-offs occur. The tool helps the organizations to anticipate future performance and deploy collection efforts at points of maximum impact. (See *Dollars for Dreams: Scaling Microlending in the United States*, <http://www.fieldus.org/Publications/DollarsForDreams.pdf>.)

Opportunity Fund also sends text messages to its borrowers to support its billing and collections effort, and has instituted a high touch “call night” to reach out to borrowers with problematic loans. ACCION New Mexico•Arizona•Colorado has trained its collections and lending staff in a motivational interviewing technique that enables them to work proactively and positively with clients facing payment challenges. The technique focuses on helping the client problem-solve to develop a workable plan for loan repayment. (See PowerPoint presentation, *Managing Delinquency in Microenterprise Portfolios*, presented at the Opportunity Finance Network 2010 conference, http://www.opportunityfinance.net/knowledge/conference_resource_center/10/sessions.aspx, archived under November 4 sessions.)

New capitalization strategies

ACCION New Mexico•Arizona•Colorado formed a limited liability company to reduce the impact of outstanding debt on its balance sheet. An EQ2 investment from one bank partner makes up the capital of the LLC, in which ACCION New Mexico has a controlling interest. When the financial statements are consolidated, these funds are booked as contributions from the LLC, growing the

organization's net assets and allowing it to leverage more debt financing as needed. In addition, during the year, ACCION New Mexico can borrow funds from the LLC, if needed, for lending. The structure is innovative in that banks that invest can satisfy the lending, investment or innovation CRA test. It also provides a second option for supporters to contribute to ACCION New Mexico, as in addition to any debt financing provided to the organization, banks can make EQ2 investments into the LLC. (See *The Organizational Foundations of Sustainability*, FIELD Forum No. 23, <http://www.fieldus.org/Publications/FieldForum23.pdf>, and the webinar “Innovative Capitalization Strategies: What is Scalable?,” <http://www.fieldus.org/Webinars/TopicCapital.html>.)

Opportunity Fund and ACCION USA participate in Kiva, the peer-to-peer lending platform that allows users to lend to individual microentrepreneurs they select from profiles posted on the website. The loan capital is structured as a recoverable grant that is repaid as principal is repaid by borrowers. The agreements are such that the microenterprise lenders can pass losses along — Kiva lenders assume the risk — which is helpful because it allows Opportunity Fund and AUSA to access loan capital without having to provide for accompanying reserves. See the above-referenced webinar for more on this strategy.

Membership programs that generate entrepreneur engagement and revenues

Given the high cost of acquiring a client, it is important to retain those you have. This is especially the case for microenterprise development organizations that can provide added value services to their clients to accelerate their success and increase their contribution to the local economy. Mountain BizWorks' membership program has transformed training graduates and loan recipients into longer-term clients and has generated revenue for the organization through member dues. MBW's membership program offers a package of services that has included: access to marketing opportunities, three hours of professional services, and three of in-house business coaching, class discounts, and office services. Clients pay \$120 a year for these services, and MBW has found that, given the range of actual use, the program more than breaks even. Knowing, however, that the current model has limits due to staff size and office capacity, the organization is testing models where the entrepreneurs take leadership. MBW is now promoting “alliances” targeted by sector or demographics. The women's alliance — designed as time-limited opportunity for women entrepreneurs — is now in its third cycle. MBW provides the venue and some support but the alliance's agenda is driven by the entrepreneurs.

Coaching services as a door to new markets

Mountain BizWorks has two coaching programs. Its program for recent business plan training course graduates, GO or “Growth through Objectives”, helps them translate their ideas, and new learning, into action. Its second program, EDGE, targets growth-oriented businesses — a new market that MBW wants to reach as it seeks to contribute to the creation of a more diversified economy for western North Carolina. These growth-oriented businesses receive an assessment and a set of individualized coaching hours that are tailored to their specific operational issues. It is hoped that some of these new clients will also become borrowers. See the recorded webinar, Supporting Microenterprises that Create Jobs, <http://www.fieldus.org/Webinars/TopicJobs.html>.

Distance services

WESST piloted WESST.tv to reach entrepreneurs across the state with videos and recorded webinars presenting content on a wide variety of business development themes. It is now developing a second, more flexible platform for its content. With a special grant, the organization is also creating a studio for high-quality recording and broadcasting in a dedicated 50-seat auditorium-style classroom. ACEnet has developed a webinar program for specialty foods entrepreneurs, posted short videos that serve as teasers for more in-depth content and piloted social media strategies to create communities of practice around its targeted sectors. MicroMentor uses an online platform to match mentors with entrepreneurs wherever they are across the United States, and is now enabling other organizations to leverage its platform to improve the quality, scope, and scale of mentoring and advising services to their own clients. See *Focused on Growth: Scaling Business Development Services in the United States*, <http://www.fieldus.org/Publications/FocusedonGrowth.pdf>, 23-25.

Innovative payment options

Mountain BizWorks offers its lower-income, Latino clients the opportunity to “pay as you go” while participating in long-term training. The organization then uses the clients’ performance in terms of “on-time” payment as an indicator of creditworthiness, and this track record informs the organization’s response to their loan applications.

Increasing brand recognition

Justine PETERSEN, ACE, WESST and Mountain BizWorks have all rebranded to increase their visibility among entrepreneurs and potential supporters. Justine PETERSEN (which adopted the tagline *Building Assets, Changing Lives* to capture its multidimensional program) launched its initiative in response to capital constraints that were expected to inhibit the institution’s growth in microlending. Its rebranding — and the strong communications strategy that accompanied it — were designed to increase its visibility and “brand recognition” across its target market, and win financial support to fuel its loan funds. The effort has brought new board members and funders, more capital and more borrowers. For more see *Capital Structure – Getting it Right to Increase Sustainability*, <http://www.fieldus.org/Publications/FieldForum20.pdf>. ACE created a statewide “platform” for green lending (pooling their efforts with several partners located in other parts of the state and using a common website as the first point of entry for loan applicants) to increase its geographic marketplace and to attract new borrowers. When it opened its new incubator, WESST adopted the tagline “*the place to start and grow your business*” to signal that the organization was expanding its target market beyond traditional microentrepreneurs. Mountain BizWorks changed its name (from Mountain Microenterprise Fund), its look, and its tagline — to *training, financing, opportunity* — to communicate that it offered more than microloans, and was, in fact, a more broad-based entrepreneurial development organization for the western North Carolina region.

Social media as a marketing tool

Scale Academy members are increasingly using social media tools to connect with large numbers of supporters and clients. Justine PETERSEN uses Facebook to promote classes and events, and has 2,300 friends. It posts videos of clients telling their stories on YouTube to demonstrate the type of transformative changes that can take place among those accessing their services. Opportunity Fund uses Twitter to communicate to its 1,000 followers to get people connected to the organization. It uses Facebook, YouTube and a blog to keep those individuals connected and move them from following to engaging in conversation with the organization. ACCION USA has 4,000 Twitter followers and uses the same tools described above, along with Foursquare, which identifies where AUSA events are occurring. ACCION Chicago uses Socioboard to keep people connected to the organization and each other. Similarly ACEnet uses nings to create customized local communities on specific themes. WESST uses Meetup.com to connect business owners to each other and help them advance their web marketing.

Cause marketing

ACCION USA developed a partnership with Sam Adams (the Boston brewing company) to target microentrepreneurs in the food and beverage industry. The effort, which includes a co-branded marketing campaign, *Brewing the American Dream*, and “speed coaching” events, has generated both good public relations and new clients for the microlender.

Enhancing customer service

How can customer service contribute to scale? ACCION USA thinks it is a means to converting more contacts into clients. Having heard from many clients about their frustrations with such things as the interactive voice recognition system, the pace of response to loan applications, and a lack of clarity regarding the loan process and decision criteria, the organization has re-engineered its approach to engaging with clients from first interaction to last. Using a customer service expert to help staff assess and improve performance, the organization is now focusing on: providing more and clearer information on the front end of the loan process, educating the applicant on their credit reports and offering clearer expectations of the loan amounts for which the applicant is likely to be approved. AUSA is also centralizing intake and strengthening the team responsible for this part of the process, working to improve its Internet application process (in part by adding a chat function to help those who have questions), strengthening its resources for credit education and maintaining a customer complaint/resolution log. All staff has had the opportunity to think through the customer service implications of their positions and change their approaches accordingly. Other Scale Academy members agree with this emphasis and have taken some similar steps to assessing and fine-tuning their customer services approaches. ACCION New Mexico•Arizona•Colorado has added a help desk. Others, seeing the important role that the receptionist plays in customer service and in gatekeeping, have worked to elevate that position in terms of skills, training and valuation. Opportunity Fund has implemented a phone system that can “find” staff rather than require clients to have to track them down at multiple locations.

Leveraging volunteers

Volunteers have always been a part of nonprofit business models. But Scale Academy members have found innovative ways to leverage professional talent for scale. Volunteers are at the heart of MicroMentor's service delivery model. All mentors are volunteers who use MicroMentor's site to connect with entrepreneurs whose needs match up to the mentors' skills and interests. MicroMentor's system allows potential mentors and mentee to advertise their skills and needs, respectively, and to easily connect with each other. MicroMentor's processes are designed to support the matched pair in their first interactions if necessary, and to monitor the progress and satisfaction of the parties throughout their engagement with each other.

ACCION USA and ACCION Chicago have both created structures that attract and leverage young professionals interested in microfinance and willing to use their skills (in marketing, consulting and fundraising, among others) to extend the capacities of the microenterprise organization. ACCION USA has a New York-based "Microfinance Council" and a part-time volunteer coordinator, who uses volunteer management software to help match volunteer expertise with specific organizational needs. The organization has saved thousands in translation fees (volunteers created Spanish-language content for its online loan application) and in market research costs. ACCION Chicago has an "Associate Board" and taps into it to expand its footprint, leveraging associates to communicate to their networks about ACCION and build supporters for the institution. ACCION USA and Opportunity Fund have also deployed volunteers to support fundraising.

ACCION New Mexico•Arizona•Colorado presents another variation on the use of volunteers. The organization has integrated a formal intern program into its lending operations. Interns work as client service interns helping loan officers package and prepare loan applications. Business development interns scout for new loan opportunities as well as focus on brand-building and relationship development. The organization also taps business and community leaders, former and current clients, to serve as mentors.

All these microenterprise organizations are shifting their strategies from a traditional "we control" approach to using "free-agents" to provide services and distribute their message more broadly. Peer-to-peer movements like those embodied in MicroMentor (and in others like Kiva, Kickstarter, and the Taproot Foundation) shift the nonprofit's role from being the central actor delivering services to clients to more of a "marketplace maker" or "facilitator" helping to broker direct relationships between volunteer actors and beneficiaries. This potentially can have powerful effects on scale and impact. And, organizations that have engaged volunteers substantially in their communications and fundraising have achieved a broader distribution of their message and engagement from people who feel some ownership over the work.

Creating and leveraging platforms

This text has made several references to the use of platforms by Scale Academy members. Platforms are tools growing in importance in the nonprofit industry as vehicles for the collaborative solution of problems. According to Satish Nambisan in the Stanford Social Innovation Review, many of these

platforms “build and distribute solution templates...[that] capture the core elements of a solution, but can be easily customized to fit different contexts. They also help partners coordinate their efforts.”¹ Three Scale Academy members have built their own platforms with the goal of generating industry-wide solutions to specific problems. MicroMentor’s mentoring platform (www.micromentor.org) is the longest-lived and most developed of these. In operation since 2001, the MicroMentor platform has developed as both a vehicle for peer-to-peer support and as a tool for microenterprise development organizations. MDOs can create a group page, organize discussion groups, and catalyze interactions between their clients and skilled volunteers, including mentoring matches and quick answers to business questions. MicroMentor has 76 group pages now, many created by MDOs. MicroMentor reports more than 2,600 matches made in the last two years.

ACE’s green loan “platform” (www.georgiagreenloans.org) enables the organization and its partners — Albany Community Together, Inc., and Small Business Assistance Corporation (SBAC) of Savannah — to jointly market the availability of green loans and accept loan applications from interested businesses. The program also allows the partners to leverage technical assistance resources together and learn from each other’s experience. WESST first created WESST TV (www.wesst.tv/) as a platform to place video content for entrepreneurs and develop channels for collaborating MDOs to place their own content and direct clients. Because of the limitations of the technology platform on which WESST.tv was based, the organization is now transitioning distance-learning content to its own site and a second, which it hopes to develop with partners.

Scale Academy members also see the value of using other industry platforms. As discussed earlier, four are now using ACCION Texas-Louisiana’s Microloan Management Services to support their underwriting process. Four are using MicroMentor to leverage their mentoring efforts. In all of these ways, Academy members are recognizing the value of collaborative approaches and new technologies to leverage their impact and collectively increase the scale of the industry.

⁶ Satish Nambisan, “Platforms for Collaboration,” *Stanford Social Innovation Review*, Summer 2009: 48.



Credits

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For more resources on Scale, published by FIELD and others, please see the resource list at: <http://fieldus.org/Projects/direction3.html>

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