Reevaluating and reforming how city resources are provided to small businesses not only makes government work better, but these approaches also create a customer service culture that recognizes small businesses as valuable community assets.

Providing Small Businesses with Access to Capital Through Microlending and Crowdsourcing

One of the most critical ways that city leaders can support small businesses is by providing connections to various funding opportunities. Particularly in this time of economic recovery when traditional loan and grant programs may be harder to find, cities can step in to help small businesses access alternative funding streams.

Non-traditional sources like microlending, peer lending circles, and crowdfunding are gaining popularity among the peer network cities.

Microloans are typically around $50,000 or less and are often offered through smaller, non-traditional financial institutions such as non-profit organizations. These types of loans can help fill financing gaps for business owners who may not have the credit histories to qualify them for more traditional lending options.

Chicago: Chicago Microlending Institute (CMI)

Microloans are critical to the success and growth of many small, “mom-and-pop” businesses. These funds are used to build inventory, pay for unexpected expenses, seed growth and expansion, or hire new staff. In Chicago, there were too few microlenders and the available capital fell far short of the need. Larger financial institutions find it too costly to make loans smaller than $50K — it becomes even more challenging for loans below $10K.

The city of Chicago partnered with Accion Chicago to establish the Chicago Microlending Institute (CMI), with the goal of establishing new microlenders to increase access to capital for small businesses. The city provided seed capital of $1M in 2012 for loans to small businesses, while Citibank and the Searle Funds at the Chicago Community Trust stepped in to support operating costs.

Leveraging Accion’s microlending expertise, CMI provided training, start-up capital, and best practice consulting to non-profit organizations committed to excellence in microlending. Two community organizations were trained in the first round - Chicago Neighborhood Initiatives (CNI) and the Women’s Business Development Center (WBDC) - successfully increasing Chicago’s microlending capacity and infrastructure, reaching underserved communities.

Through CMI, Accion conducted a year-long training program for the two new lenders, providing them with technical assistance, mentoring, and support. The original $1M in city funding provided for 126 loans, which created 240 new jobs and maintained 289 more. Those jobs have an estimated payroll of $8.7 million (based on minimum wage), and total business revenues resulting from loans made through CMI totaled $21.9 million. CMI loan beneficiaries were 77% minority, 57% female, and 61% low-to-moderate income individuals.

CMI plays a critical role in Chicago’s Neighborhood Small Business Strategy by establishing strong relationships with community organizations that connect with prospective borrowers in diverse communities. By working through these partners who understand the specific needs in their communities, the city can better support the growth of small businesses. The city has recently announced a second round of funding to further these efforts and continue to expand access to capital for entrepreneurs across Chicago.
With the creation of the Chicago Microlending Institute (CMI), the city of Chicago is helping businesses thrive and also creating new jobs. CMI, a partnership between the city and Accion Chicago, delivers training, mentoring, and seed capital to selected non-profit microlenders who are now assisting small business borrowers from Chicago’s diverse neighborhoods.

In Philadelphia, a peer lending circle model is used to provide capital to small business owners who cannot qualify for other small business loan programs. The entrepreneurs who receive the microloans meet on a regular basis for networking and business training. The city’s program provides owners with the critical opportunity to build credit, and therefore qualify for mainstream financing options in the future.

Philadelphia: Providing Access to Credit through Peer Lending

Philadelphia has a robust market of micro-lenders that have helped thousands of Philadelphia small businesses start, expand and thrive. Two such micro-lenders, Entrepreneur Works (www.myentrepreneurworks.org) and FINANTA (www.finanta.org) have been successful in implementing peer lending programs, making loans to new borrowers who do not yet qualify for small business loan programs. Peer lending is a “step-up” loan program, modeled off of microcredit programs which have been popular for many years now in developing countries throughout the world, including the Grameen Bank in Bangladesh.

The peer lending model brings group of individuals together to provide capital in a group setting, while also delivering business education to build entrepreneurial and managerial skills. Borrowers can start by borrowing anywhere between $500 - $3,500 and work their way up in incrementally larger loans. The maximum peer loan at Entrepreneur Works is $5,000, while FINANTA will go up to $15,000. Borrowers must make loan payments on time to be eligible to move up to a larger loan. Peer lending is not only a form of accessing credit; it is also a mechanism for building a better credit record. All loans through the peer lending program are reported to two of the three credit bureaus.

Peer groups are comprised of 4 to 15 entrepreneurs that meet monthly to receive business training, set goals and network. Most peer groups are organized based on the origin of its members, language spoken, and/or geographic location. There are no credit checks or collateral requirements, but loan approval requires unanimous support from the rest of the peer group members.

Since 2011, the Philadelphia Department of Commerce has supported peer lending programs offered by Entrepreneur Works and FINANTA. As of 2013, the city’s partner organizations have made more than 308 microloans across 15 groups for a total upwards of $1.4 million dollars. Philadelphia is proud to be the first municipality in the nation to use federally designated community development block grants (CDBG) to support peer-lending for small businesses.
“The Philadelphia Department of Commerce provides a range of programs to support small businesses to start, stay and grow in Philadelphia. Recognizing that access to capital is a critical need for small businesses to be successful, the city provides financial support to organizations such as FINANTA and Entrepreneur Works to provide micro-loans to the small business community. We are especially proud that these two agencies have adopted a unique prototype that has garnered national attention as a successful and replicable model.”

— Philadelphia Mayor Michael A. Nutter

Kiva, a popular microlending organization, partners with cities to connect local entrepreneurs with capital. The city of Los Angeles created the Kiva City Los Angeles program to connect small businesses with capital through this innovative approach.

**Los Angeles: Kiva City Los Angeles**

According to Kiva, in Los Angeles, there are 325,000 small businesses employing over 2 million people, making the city the nation’s largest small business community. Created in partnership with Kiva, the Los Angeles Mayor’s Office of Small Business, Visa, and the Valley Economic Development Center (VEDC) in June 2012, Kiva City Los Angeles is a program aimed at helping entrepreneurs and small business owners obtain microloans to start or expand their businesses. The goal of the program is to provide safe and affordable loan funds to businesses that do not fall in the traditional bank and CDFI borrower criteria.

Founded in 2005, Kiva allows people to loan small amounts of money to entrepreneurs and small businesses all over the world through the Internet. The Kiva City program was created to bring microloans to major American cities, bridging the lending gap and facilitating economic growth to businesses in need. As part of the program, businesses can obtain loans from either “field” partners, like VEDC, or “trustee” partners. Field partners fund loans to borrowers, after which the business profile is posted on the Kiva website. Once Kiva’s network of online lenders fund the loans, Kiva buys the loan from the field partner. This creates liquidity, allowing the field partner to re-lend. The Los Angeles region has 13 trustee partners who vouch for, endorse and review the finances of small businesses. These trustee organizations or individuals give entrepreneurs backing, which increases the chances of their sponsored businesses obtaining loans. On average, loans range from $5,000 to $10,000.

Los Angeles has been one of the most successful cities in the Kiva City program due to its strong network of field and trustee partners. The program has already facilitated over $550,000 worth of loans to 86 borrowers. This has been done with the help of 13 partners and over 10,000 lenders that fund loans in the Los Angeles area.
“Thank you everyone that lent to our cause and believes in our business. This one was a real nail biter. I was dreading the idea of other ways to raise money for our van. You have all come through at a time in our business that we could really use an upgraded van. On behalf of my entire family, thank you. Muchisimas gracias!”
— Julio, owner of The Drain Guys and Kiva Zip borrower from Los Angeles

New crowdfunding platforms, such as Kickstarter and Indiegogo, enable entrepreneurs to raise seed money through informal networks. This grassroots-style of raising capital enables all individuals – not just certified lending institutions – to support a start-up business idea by making direct donations online. These crowdfunding websites feature a wide variety of business ventures, with everything from book pitches to movie ideas to local bakery concepts. While the world of crowdfunding is designed to be a free-for-all, allowing individuals to support the ventures they think are the most interesting or valuable, the city of Chicago has experimented with ways to help steer potential crowdfunders to the city’s local business through the SEED Chicago program.

**Chicago: SEED Chicago**

Small businesses are increasingly looking to non-traditional means of raising capital. Many have flirted with peer lending or crowd-sourcing of funds. To test and build out this new source of capital for small business, World Business Chicago (WBC) launched a partnership with Kickstarter for Chicago small business. WBC works with the city of Chicago to support its business retention, attraction and expansion efforts.

Seed Chicago is Chicago’s official curated Kickstarter page for small business. To date, Seed Chicago has featured three “rounds” of Kickstarter campaigns and two types of projects — small businesses like food trucks and neighborhood florists, and community development organizations seeking funds to revitalize neighborhoods, create new jobs, and promote education.

The inaugural set of Seed Chicago projects completed their Kickstarter campaigns in May 2013, raising over $50,000 from nearly 900 contributors. The second set of projects completed their campaigns in August 2013, raising $104,000 from 1,300 backers. MillerCoors contributed an additional match of $50,000 (up to $5,000 per project) for successfully funded projects in the second round.

There were several lessons from the pilot that have been incorporated into the future template for Seed Chicago campaigns in Chicago. These include:

- Businesses and organizations seeking less than $15K are more likely to meet their funding targets
- Community development organizations find it easier to reach their target in a Kickstarter campaign
- Businesses should look to multiple sources for funds, rather than solely rely on a Kickstarter campaign

Accion Chicago, which offers microloans for Chicago businesses, stepped up to take over the program and will partner with the city of Chicago’s Small Business Center to promote the program to city entrepreneurs, residents, and neighborhood chambers of commerce.

Following the pilot, WBC created a set of project templates and best practices which are available for companies and organizations considering crowdfunding campaigns. These materials can be found at [www.worldbusinesschicago.com/seed-chicago](http://www.worldbusinesschicago.com/seed-chicago).