SUPPORTING ENTREPRENEURS

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

April 2018

harder + co community research

ACCION

Opportunity Fund working capital for working people

Acknowledgments

We would like to thank the many organizations and individuals who contributed to the development of this report. First and foremost, we want to thank the hundreds of small business owners across the country who took time out of their busy schedules to participate in this study, share their stories with us, and provide us with their insights about the impact of small business lending. We could not have completed this study without their willingness to share their stories.

We also extend our sincere gratitude to the funders of this study for their generous support. Lead funding for the study was provided by the W.K. Kellogg Foundation and JPMorgan Chase Foundation, with additional support from S&P Global.

We want to extend our thanks to the individuals within Accion and Opportunity Fund who worked closely with us to design and implement this study. They are committed to creating opportunities for underserved small business owners often left out of traditional lending markets. We are also grateful for their contributions as thought partners. Their insights were instrumental in helping the Harder+Company Community Research evaluation team over the course of this study.

Opportunity Fund and Accion would also like to thank the following individuals for their contributions to this research:

Laura Cummings
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About Accion in the U.S., Opportunity Fund and Harder+Company Community Research

A nationwide network of lenders with deep community roots, Accion creates economic opportunity by partnering with small business owners to provide access to the capital and the business support they need to create and grow healthy enterprises and contribute to thriving local economies. Since 1991, Accion has provided more than 60,000 loans totaling over $500 million to small businesses across the country. Accion provides business advising and training services – both in person and through online educational resources – to tens of thousands of entrepreneurs each year. For more information on Accion small business loans in the United States, please visit us.accion.org.

Opportunity Fund believes that small amounts of money and financial advice can help people make permanent and lasting change in their own lives, driving economic mobility and building stronger communities. Our strategy combines loans for small business owners and investments in community infrastructure, so that hard work and perseverance mean a shot at getting ahead, not just struggling to get by. Founded in California in 1994, Opportunity Fund is deepening our presence statewide and expanding small business lending nationwide. Last year, Opportunity Fund invested $65 million in the dreams of more than 2,200 small business owners. The vast majority of businesses we fund are minority-owned (88%), of which 36% are owned by women. Loans provided have been repaid at a 95% rate and 'Opportunity Funded' businesses have a 94% survival rate. Learn more at opportunityfund.org.

Harder+Company Community Research works with public- and social-sector organizations across the United States to learn about their impact and sharpen their strategies to advance social change. Since 1986, our data-driven, culturally-responsive approach has helped hundreds of organizations contribute to positive social impact for vulnerable communities. Learn more at https://harderco.com/.

Photos throughout the report are of actual Accion and Opportunity Fund clients, but may not depict borrowers that participated in the study.

Cover photo: Laura's Bridal Boutique, Tucson, AZ

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

Contents

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.

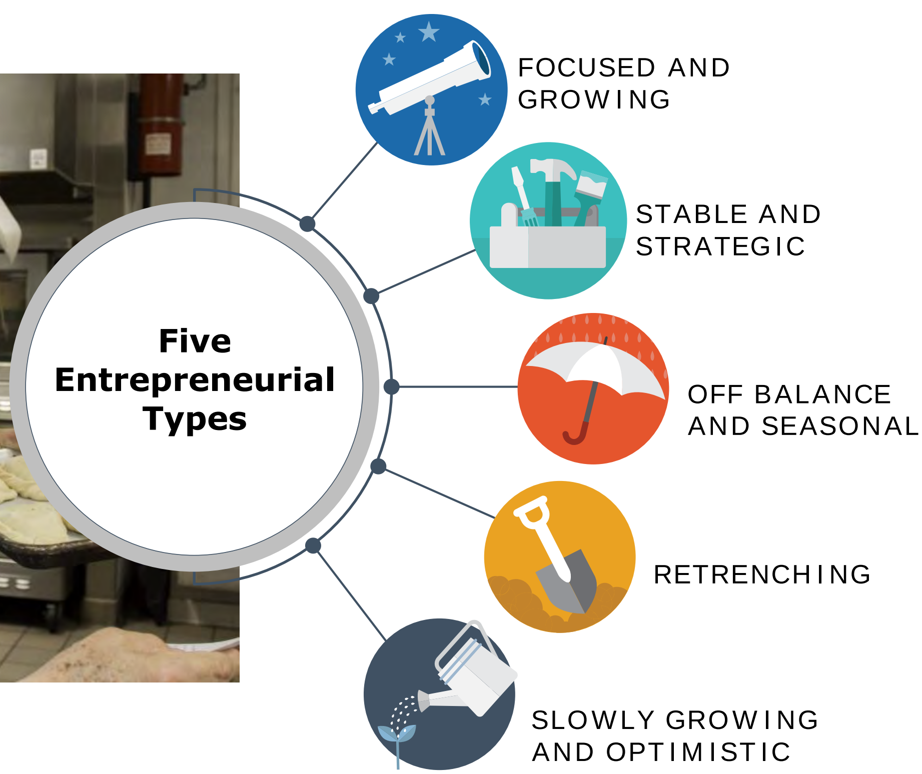
Accion and Opportunity Fund met the needs of these business owners at just the right time—many of them had tried other lenders to no avail. Business owners continue to see the effects of their loan several years after the capital was spent.

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

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.

World Empanadas, Burbank, CA



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.

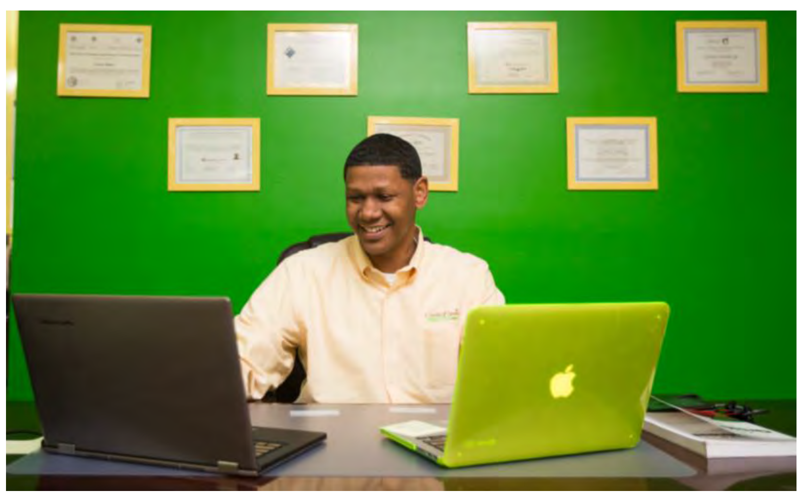
Conclusions and Implications

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

Belli's, Chicago, IL

Background

About Accion and Opportunity Fund

Accion and Opportunity Fund, two of the nation's leading mission-based nonprofit small business lenders, provide access to capital for small business owners across the United States. Like other Community Development Financial Institutions (CDFIs), Accion and Opportunity Fund offer credit and financial services to the entrepreneurs often left behind by conventional lending markets — especially women and ethnic minorities.[2] These business owners often do not qualify for traditional small business loans, lacking collateral, financial documentation, or strong credit history.[3] Traditional banks are more likely to lend to entrepreneurs with already multiple borrowing opportunities, and their small business loans are a poor match for micro and small businesses with limited capital needs.

In this section

- About Accion and Opportunity Fund
- Study Overview
- Research Methods

Accion and Opportunity Fund aim to fill this gap by lending to those rich in potential but not opportunity. Such mission-based small business lending is a growing national phenomenon, yet data on its impact is limited, generally including quantitative metrics such as rates of business survival, job creation and retention, changes in revenues, and loan repayment. Less is known about the subtler impact of these loans on households, family life, economic mobility, and community development. And yet, Accion and Opportunity Fund often hear business owners speak of the impact of their loans in these terms. Understanding that success cannot be measured simply by looking at distinct growth-focused indicators, Accion and Opportunity Fund sought to further understand the broader impact of their lending by focusing on how small business owners define their own success, and the role their lending plays in helping entrepreneurs achieve their goals.

[2] 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
[3] CDFI Coalition (n.d.), *What are CDFIs.* http://www.cdfi.org/about-cdfis/what-are-cdfis/

Study Purpose and Goals

Accion and Opportunity Fund partnered with Harder+Company Community Research to develop and conduct the *Longitudinal Impact Study of Accion and Opportunity Fund Small Business Lending in the U.S.* —a first-of-its-kind national longitudinal examination of the impact of small business loans on business owners and their households, their businesses, and their communities. The study captured the business and personal experiences of 350 entrepreneurs across the country for up to three years post-loan. This study built upon existing quantitative research, with an enhanced focus on qualitative measures, such as how business owners define success and how access to capital supports their entrepreneurial goals, financial health, and quality of life. Launched by Accion and Opportunity Fund and conducted by Harder+Company Community Research, the study was made possible through lead funding from the W.K. Kellogg Foundation and the JPMorgan Chase Foundation, with additional support from S&P Global.

This study used a longitudinal, mixed-methods approach to create a comprehensive, national dataset[4] addressing three key questions:

- To what extent do borrowers move toward greater financial security — both real and perceived — after receiving a business loan?
- To what extent is small business lending associated with catalyzing positive change for individual borrowers, their businesses, and their communities?[5]
- To what extent do a borrower's personal relationships and community engagement change after receipt of a business loan?

This multi-year effort harvests fresh insights into the long-term consequences of mission-based lending in the small business ecosystem. Its results reveal opportunities to strengthen the benefits of mission-based lending, suggests ways lenders may better meet the needs of entrepreneurs, and informs policymakers and industry thought leaders about the efficacy of small and micro loans both regionally and nationally.

Microfinance Market Overview

- The small business sector is growing rapidly. In 2010, there were more than 28 million small businesses in the United States, which marked a 49% increase since 1982. [*]
- Although roughly 80% of small businesses survive the first year of operation, only half survive five years or more.[**]
- From 2013 to 2014, microloan portfolios grew nationwide, with more people helped by microenterprise programs with bigger operating budgets. [†]
- Most microenterprise clients in the U.S. are women, people of color, and/or individuals with incomes at or below the median income established for their location by U.S. Department of Housing and Urban Development (HUD). [†]
- CDFI-supported microbusinesses support an average of 2.9 jobs each, with about half paying $10 per hour or more — well above the average national minimum wage of $7.25. Many also offer skill development and training.[††]

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[*] Small Business Administration – Office of Advocacy, United States Small Business (2012). https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf

[**] Business Employment Dynamics, Bureau of Labor Statistics (2016).

[†] FIELD. (2015). *U.S. Microenterprise Census Highlights, 2014.* Aspen Institute. http://fieldus.org/Publications/CensusHighlightsFY2014.pdf

[††] Klein, Joyce. (2014). "Not Just Jobs: The Good Jobs of Microbusiness." Aspen Institute, https://www.aspeninstitute.org/blog-posts/not-just-jobs-the-

[4] Participants were selected within the geographical regions that Accion and Opportunity Fund serve.
[5] The team refined the study design over time and did not fully explore community-level impact.

The study examined six key domains (Exhibit 1). The original intent of the study was to examine the impact of each of these domains on individual business owners, their businesses, and their communities. Early on, it became clear that the three-year study period was best suited to measure medium-term impacts, with a particular focus on changes experienced by entrepreneurs and their businesses. Community-level impacts, such as neighborhood revitalization, take longer to occur and therefore are not fully explored in the study.

Exhibit 1. Evaluation Domains

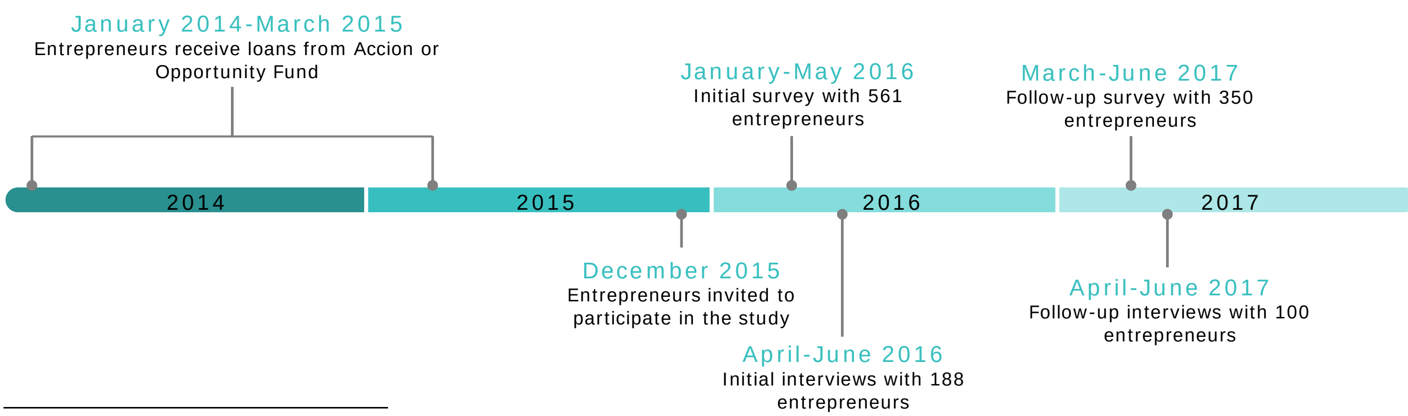
Domain	Explanation
1. Business Growth and Viability	Exploring the ways in which lending services enabled borrowers to sustain or expand their businesses.
2. Mission Achievement	Examining the extent to which lending services enabled borrowers to realize their personal and business goals.
3. Financial Health	Establishing the ways in which lending services improved borrowers' financial security, ability to address financial obstacles, and capacity to prepare for long-term opportunities.
4. Financial Practices	Identifying the ways in which borrowers changed their financial practices after receiving a loan.
5. Relationships and Networks	Evaluating whether and how extensively borrowers' relationships and personal networks changed as an apparent consequence of financing.
6. Quality of Life	Determining the ways in which lending services affected borrowers' perceived well being, sense of control over daily schedule, and work-life balance.

Research Methods

Surveys and in-depth phone interviews tracked small business owners for more than a year. Small business owners who received a loan between January 2014 and March 2015 and were in loan repayment as of December 2015 were eligible to participate, ensuring a meaningful amount of time had passed following loan receipt to observe change.[6]

The study used a combination of closed-ended survey questions and open-ended interviews to explore each domain. The first round of data collection in early 2016 engaged 561 entrepreneurs across the country via survey; 188 of those also participated in in-depth interviews (Exhibit 2).

Exhibit 2. Impact Study Timeline



[6] Throughout this report, small business owners who participated in the study are interchangeably referred to as both "borrowers" and "entrepreneurs".

A year later, the research team successfully reconnected with 372 of these entrepreneurs (a 66.3% response rate) and completed a follow-up survey with 350 of them.[7] The research team also conducted follow-up in-depth interviews with 100 entrepreneurs to learn how they and their businesses were faring one year later. The Appendix provides further detail about the study methodology, sampling, and response rates.

One unique aspect of this study was the opportunity to follow entrepreneurs over time to observe how their experiences changed. The following chapter highlights key trends observed across the study sample.

This final report builds upon the preliminary findings released in January 2017, which explored responses from entrepreneurs who participated in an initial survey between 9 and 24 months post loan. This report examines how entrepreneurs' experiences changed after another year. This chapter covers study methodology. The second chapter summarizes the overall effects of mission-based lending on entrepreneurs across the nation. The third chapter describes five types of entrepreneurs — a set of typologies that help explain how different types of business owners' experiences change over time. The final chapter summarizes study insights and offers further considerations for the community economic development field.

[7] Of those 372 reached, 22 businesses had closed and were not included in the full analysis. Page 17 includes an overview of closed businesses.

Zycle Fix, South El Monte, CA

Key Findings about the Impact of Small and Micro Loans

Microloans resulted in a variety of benefits to business owners, even up to three years later. In 2017, this study's [preliminary findings] painted a broad picture of small business owners one to two years post-loan. The follow-up survey and interviews explored changes entrepreneurs had experienced over an additional year. The findings, presented here, reveal a clearer picture of how microloans affected entrepreneurs and their businesses over time across all six evaluation domains.

This study provided evidence that Accion and Opportunity Fund entrepreneurs are thriving two to three years after receiving a loan. By the end of the study, 94.1% of entrepreneurs in the sample were still in business, most (61.4%) for five years or more.[8] Nationwide, only half of small businesses survive for five years, according to the latest Bureau of Labor Statistics data.[9] (Information about the small group of businesses that did close during the study is summarized on page 17.)

Entrepreneurs continue to see impact of mission-based lending years after receiving the capital

In the initial survey, most entrepreneurs said their loan played a role in both their business and personal success, helping them start, maintain, and grow their businesses — a belief that persisted through the second round of data collection.

In this section

- Entrepreneurs continue to see impact of mission based lending years after receiving the capital
- Access to capital fueled business growth
- Entrepreneurs find financial security gradually
- Ongoing support from Accion and Opportunity Fund is vital to entrepreneurs' success
- Drilling down: Business Closures

A Note on Statistical Significance:

Statistical significance is noted throughout the report on key survey items with an *. Statistical significance denotes where the changes from the initial survey to the follow-survey were not due to chance.

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[8] Results are based on a sample of 372 borrowers who responded to the follow-up survey. Of those, 22 borrowers (6.3%) reported their businesses had closed at the end of the study. An additional 23 borrowers had closed businesses at the time of the initial survey.
[9] Bureau of Labor Statistics (2016). Business employment dynamics.

Other responses help parse out whether these benefits accrued from the influx of capital alone, or whether they stem, at least in part, from the guidance small business owners received from Accion or Opportunity Fund. In fact, entrepreneurs said access to capital enhanced their confidence about achieving their goals and allowed them to make tangible business improvements, such as staff expansion or new equipment purchases. But they said the financial and business advice they received helped them make improvements in their business practices, such as how they track their business finances or strategize to achieve goals. Both capital and advising services were valued, albeit for different reasons.

Many entrepreneurs appreciate the confidence and peace of mind their loan provided. In follow-up interviews, many said they felt validated by the loan, interpreting it as an indication of their potential and a sign that someone believed in them. Others said the loan provided an opportunity to expand their businesses, which gave them a renewed sense of purpose and increased personal satisfaction. "I feel better," one entrepreneur said. "[The business] gives me something to do, give[s] me something to worry about. It gives me something to complain about; it builds your life, and it's a good thing."

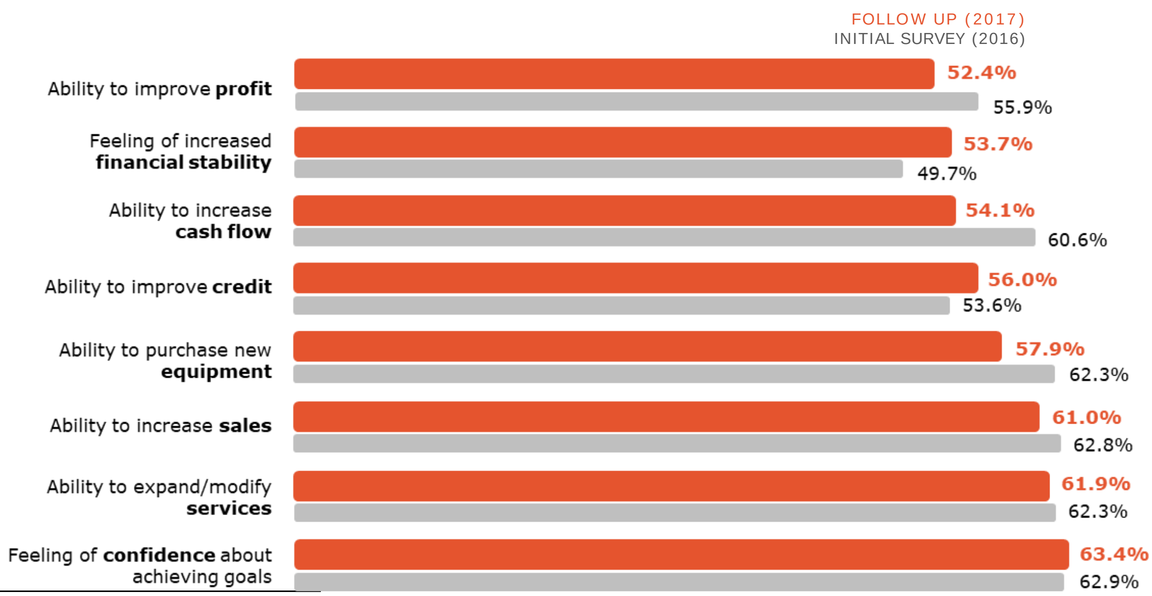
Entrepreneurs said their loan helped them meet personal goals: improved credit and greater confidence in their ability to achieve goals (Exhibit 3). This perception remained stable from the initial survey through the follow-up survey. This theme was common in interviews, as entrepreneurs talked about being able to save a little money and reducing their stress level knowing that their business was financially stable. Loans also helped entrepreneurs reach their business goals. Loans helped business owners acquire new equipment, expand or modify products and services, increase sales, and improve cash flow (Exhibit 3). Entrepreneurs reported roughly the same level of perceived benefit in the final survey as they had at the beginning of the study.

Preliminary findings (2017)

- Business owners define success in a variety of ways - some care more about stability than growth.
- Business owners said their loans helped them better manage cash flow and increased their sense of financial stability and self-reliance.
- Entrepreneurs report having greater control over their time and a more satisfying work-life balance as a result of their loan.
- Even with increased flexibility, business owners work long hours, and often more than one job.
- Entrepreneurs hire locally and support the local economy by purchasing inventory and equipment from other local businesses.
- While business owners are optimistic about achieving their personal and business goals, most are not prepared for financial emergencies.

Exhibit 3. The lasting impact of lending services on **entrepreneurs'** personal and business goals

In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of positive impact.[10]



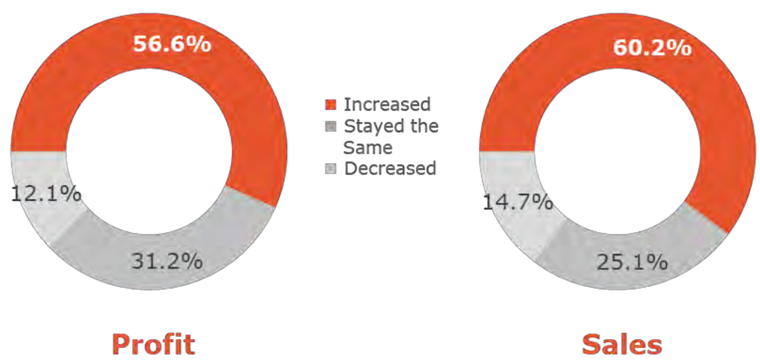
[10] Survey respondents rated items on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of entrepreneurs who ranked the loan impact as a 4 or 5. Changes from the initial study to the follow-up were not statistically significant, based on paired-samples t-test for difference in mean scores.

Access to capital fueled business growth

Loans helped businesses grow by providing needed capital to expand and modify services, move or add locations, and hire new employees.

Many entrepreneurs saw increased sales and profits. Survey respondents reported increases in sales and profit as businesses became established, an overall indicator of growth. More than half of business owners reported rising profit (56.6%) and sales (60.2%) in the final survey. Fewer than 15% of business owners reported a decrease in these indicators (Exhibit 4).

Exhibit 4. Most entrepreneurs reported profits and sales increases in the six months preceding the final survey



In interviews, business owners said their loan directly affected sales and profits. For some, a loan allowed the purchase of critical supplies or equipment. "[The loan] allowed us to grow and to provide a better service," one business owner reported. "And somehow, that helped us to see something different."

Some business owners used their loan to increase business visibility, leading to more customers and increasing sales. One entrepreneur reported that the loan helped with exposure. In fact, increased marketing led to more clients, more business, and improved sustainability. A handful of entrepreneurs said the training and advising offered by Accion or Opportunity Fund assisted with their marketing and publicity efforts. An entrepreneur who attended an Accion class said it helped her business get media attention. "That was really interesting and helped me to be able to put together press releases to send out to the media to get myself a little bit of coverage."

Entrepreneurs added employees and improved worker benefits. The number of paid employees increased during the study. Nearly 40% of respondents (38.3%) added employees during the study period — a total of 334.75 new FTEs. Just over 40% (43.1%) of businesses in the study had no paid employees (other than the owner) through the study period. A small number of business owners (18.6%) reported fewer employees at the end of the study, some of which may be due to the seasonal nature of some businesses.

In follow-up interviews, business owners said that hiring new workers enabled them to expand business capacity. One entrepreneurs said, "Once we got in the new staff, that opened up the whole possibility to us of adding more services into the facility." Another said adding new staff meant he now has "more time to take care of our clients, new clients." While the study did not delve into the community-wide outcomes of small business lending, businesses in this study are creating jobs

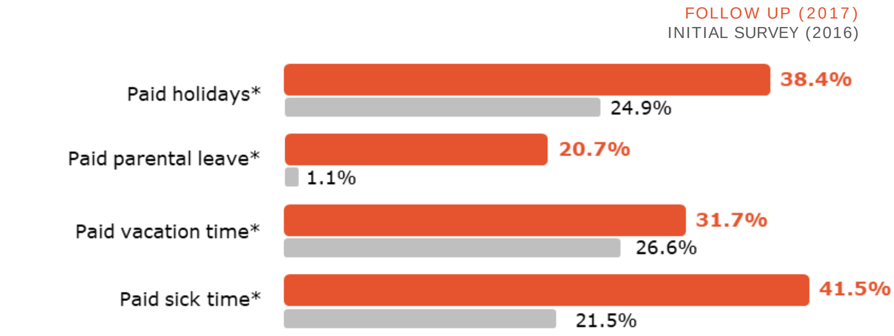
"As a result of the loan, I was able to buy more inventory, which in turn gave me more revenue from different revenue streams, which then meant my cash flow was healthier, which then allowed me to bring on employees. **It's a trickling** effect."

in their community, helping to strengthen their local economies.

The number of business owners who offered no employee benefits during the study period fell by more than half, from 48% at the beginning of the study, to 22% by the study end.[11] Among those who offered at least one benefit at the beginning of the study, 54.3% had added at least one more a year later. Benefits ranged from sick time and paid holidays to professional development (Exhibit 5 and 6).

Exhibit 5. Business owners increased paid employee benefits

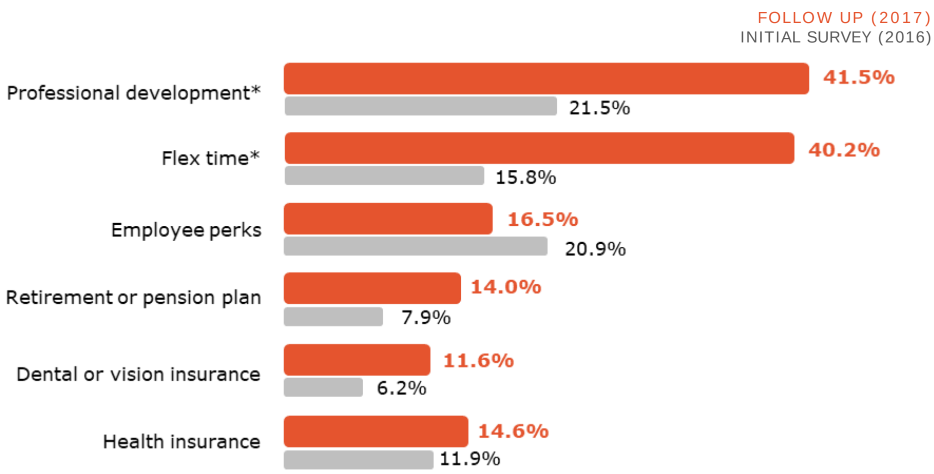
Percent of business owners that offer paid benefits.



*Change from initial to follow up is statistically significant at p<.05

Exhibit 6. Business owners increased non-monetary employee benefits

Percent of business owners that offer non-monetary benefits.



*Change from initial to follow up is statistically significant at p<.05

Accion- and Opportunity Fund-supported business owners clearly prioritize the well-being of their employees—the biggest increase in types of benefits were paid parental leave, paid sick time, professional development opportunities, and flex time.

[11] The change from initial to follow up survey is statistically significant at p<.05.

Microloans may help entrepreneurs avoid high-cost credit. By offering business owners increased financial stability through the provision of a loan, Accion and Opportunity Fund help them avoid borrowing money from family and friends, relying on high-interest credit card debt, or falling prey to predatory lenders. Many entrepreneurs said they would seek financing from Accion and Opportunity Fund again - a very common occurrence once an initial loan is paid in full.

One consequence of this increased financial stability among Accion and Opportunity Fund entrepreneurs may be increased access to credit cards: the proportion of entrepreneurs who reported having a business credit card rose during the study period from 58.2% to 65.2%,[12] perhaps an indicator that expanding success brought expanding credit access. In interviews, many entrepreneurs mentioned they have received no-interest credit card offers; however, few had used the cards. This could signal that lending services from Accion and Opportunity Fund help entrepreneurs avoid more expensive credit and that entrepreneurs are not taking on unnecessary debt.

In fact, it does not appear common for entrepreneurs to seek funding outside of Accion or Opportunity Fund. In the follow-up survey, slightly more than a quarter of entrepreneurs (26.3%) reported applying for additional financing—not including credit cards—beyond Accion or Opportunity Fund. When entrepreneurs did seek funding elsewhere, they went to a bank, credit union, or online lender.[13]

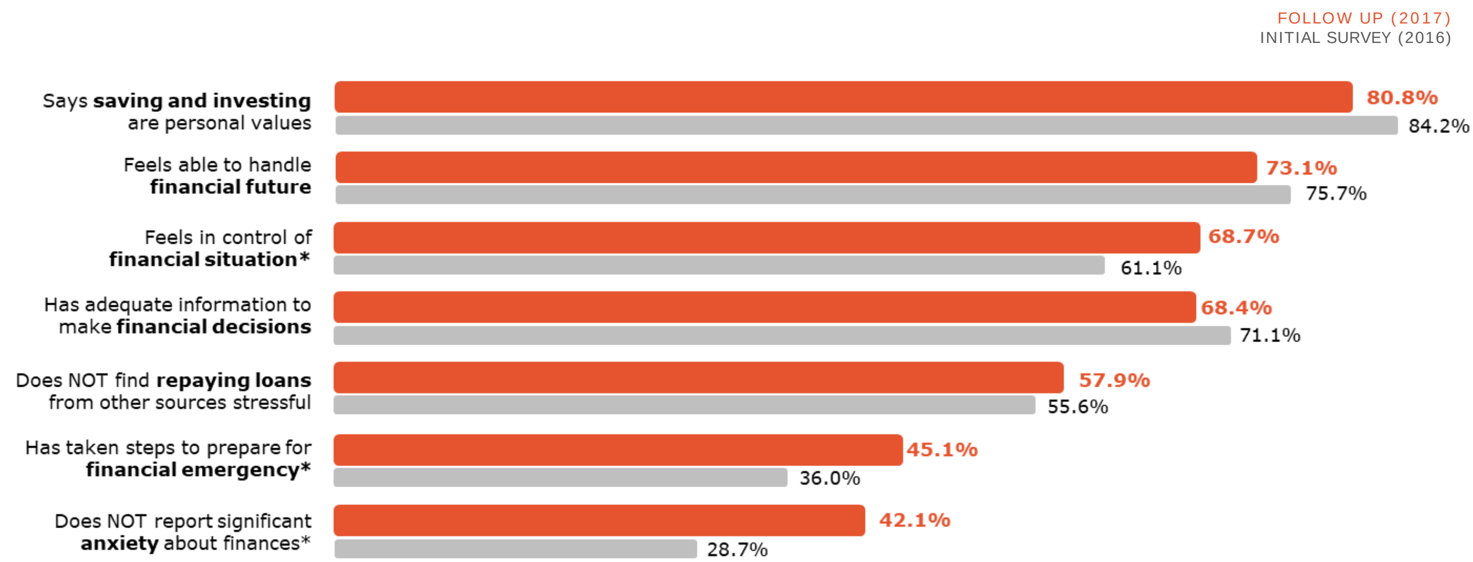
Apple Blossom Accents, Espanola, NM

[12] The change from initial to follow up survey is statistically significant at $p<.05$.
[13] Of those 91 business owners that applied for additional financing, 47.3% applied with a bank or credit union and 37.4% applied with an online lender.

Entrepreneurs find financial security gradually

The immediate focus of many entrepreneurs was financial stability as opposed to fast growth, the 2016 preliminary survey showed. That emphasis was even stronger in the final survey, with more entrepreneurs agreeing with statements acknowledging a need for increased financial stability (Exhibit 7). The preliminary findings emphasized that many entrepreneurs were underprepared for a financial emergency. One year later, entrepreneurs were significantly more likely to report that they took steps to prepare for a financial emergency. They also said they were less worried about finances and felt more in control of their financial situation. A portion of business owners have yet to reach financial stability: more than half of entrepreneurs did not report preparing for a financial emergency, and they continue to worry about their finances.

Exhibit 7. Entrepreneurs felt an increased sense of financial stability across a variety of **indicators by the study's end**[14]

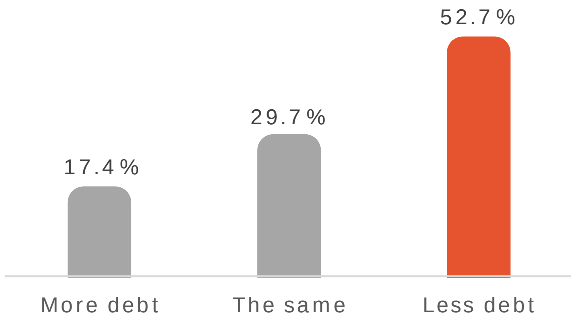


*Change from initial to follow up is statistically significant at p<.05

Business owners were comfortable with their level of business debt by the follow-up survey. While most business owners (72.7%) reported they were somewhat or very comfortable with their level of debt, more than a quarter (27.2%) were somewhat or very uncomfortable. Most business owners (69.7%) reported having less than $25,000 in business debt at the end of the study. And while most of those (80.1%) said they were comfortable with that amount, others found even a little bit of debt stressful. Of those who reported business debt at the end of the study, 17.4% reported being in more debt than they were a year ago (Exhibit 8). Regardless of the amount of business debt, most business owners reported little difficulty paying their business loans (60.9%), although a small percentage (7.4%) said it was extremely difficult.

[14] Survey respondents rated items on a scale of 1 (not at all true) to 5 (very true). Values shown in this exhibit represent the combined percent of entrepreneurs who ranked each statement as a 4 or 5. Changes from the initial study to follow-up were measured using paired-samples t-test for difference in mean scores.

Exhibit 8. Half of entrepreneurs had less business debt at the end of the study (n=299)



Entrepreneurs track expenses carefully but do not always plan for unexpected costs. Business owners were slightly more likely to track their finances after receiving services from Opportunity Fund and Accion, indicating they were moving away from informal tracking practices, such as noting expenses in a notebook or checkbook, and instead adopting financial software or other tools.[15] Follow-up interviews showed that although most entrepreneurs track their business expenses and income very closely on a daily basis, few were equipped to use that information to project costs or plan for financial downturns.

Entrepreneurs report flexible schedules and better quality of life. During the follow-up survey, 42.0% of entrepreneurs reported dedicating 40-59 hours per week to their business; 26.0% reported working more than 60 hours per week. Nearly a quarter of entrepreneurs (28.9%) also had a job outside of their business. The proportion of respondents working more than 40 hours per week or having an outside job did not change appreciably between the initial and follow-up survey.

However, business owners said during the follow-up interviews that their schedules were increasingly flexible. Many said this flexibility allowed them more time to focus on marketing and increasing sales rather than just dealing with the day-to-day operations. Others said that they used this increased flexibility to attend their children's' sports events, go on a vacation, or take a quick break from work. Often, gaining this kind of flexibility was an important reason people started businesses. Many business owners said their loan improved their quality of life. As a food truck owner in New York said, "[receiving the loan] has changed my lifestyle. I go on family vacations. I have savings. That kind of stuff. ... Yes, life is better."

"I'm able to choose when I have some time off, before, I just had to work no matter **what."**

Cal Augusta, Chicago, IL

[15] The change from initial to follow up survey is statistically significant at p<.05.

Accion **and Opportunity Fund's support has been vital for** entrepreneur success

The preliminary report highlighted business owners' overwhelmingly positive feedback about working with Accion and Opportunity Fund. A year later, most continued to feel positive about their experiences. Many pointed to the transparent and easy loan process. "The process was quick," one business owner said. "It was so streamlined, it was easy." Many commented on the support they received from their loan officer. "She made it extremely easy for me," another business owner said. "I'm just so grateful to her. That I can call her and, even if she's busy, she gets back to me, returning my phone calls — I can't tell you about a better relationship."

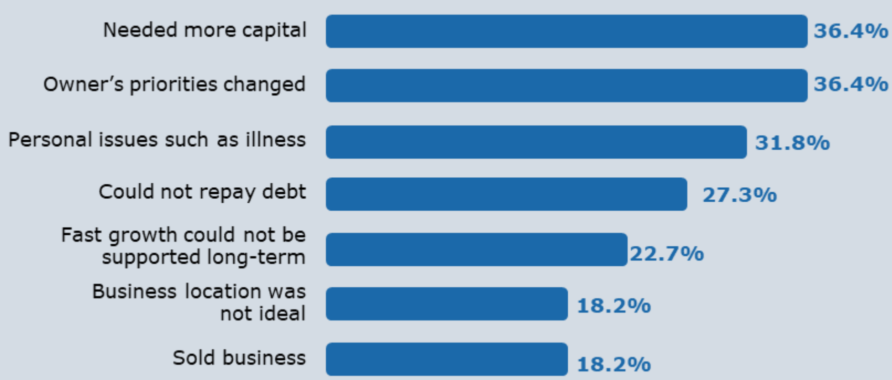
"**E**ver since we got that loan **...** we started to have cash flow. So, we grew economically and personally and the business settled down more."

Entrepreneurs said they appreciated that Accion and Opportunity Fund would work with them again should they face new challenges. "There were some situations where I needed a couple more days, and they were very flexible," one business owner said. "It isn't like today is the due date, and it is today. You can reach an agreement with them."

Drilling down: Business closures

Twenty-two owners closed their business during the same time period of the study. These businesses closed after receiving loans from Opportunity Fund or Accion and most of those closed businesses shared they closed because they needed more capital (Exhibit 9).

Exhibit 9. Reasons Businesses Closed (n=22)[16]



There were no apparent trends among the type of business, location, age or other identifying factor. Business types included construction, educational services, food services, health care, manufacturing, retail, transportation, and wholesale trade.

Half (50.0%) of business owners, however, said more capital would have saved their businesses. Yet more than a third (36.3%) said access to capital had no bearing on their decision to close, noting external factors that funding couldn't touch.

[16] Borrowers were able to select multiple reasons for closing their business; percentages add up to more than 100.

Ashione Gallery, New York, NY

Five Entrepreneurial Types

Analytic Approach

Entrepreneurs vary in terms of the types of businesses they run, the reason they obtain loans, and the amount of capital they need. Yet any overall analysis of the effects of lending necessarily obscures the smaller currents that move one entrepreneur in one direction, and another somewhere else.

To dig deeper into what really changed for entrepreneurs over time, and why these changes occurred, the research team employed a data analytic technique called *cluster analysis* to distinguish several different types of entrepreneurs based on their responses in the follow-up survey conducted in 2017 – two to three years after receiving a loan. Cluster analysis uses a set of multivariate analytic techniques to identify underlying groups within datasets based on a defined set of variables. In this case, groups were identified by the following key variables:

1. Change in sales and profit during the past six months
2. Change in personal/household savings during the past six months
3. Employment outside of business
4. Ability to draw a salary from the business in the past six months
5. Business financial stability (i.e., sufficient revenue to cover expenses and withstand a financial emergency)
6. Personal and business financial services used such as business savings account, credit card, insurance, retirement account
7. Business tracking tools used
8. Comfort with current level of business debt
9. Personal financial security, such as financial stress and ability to plan

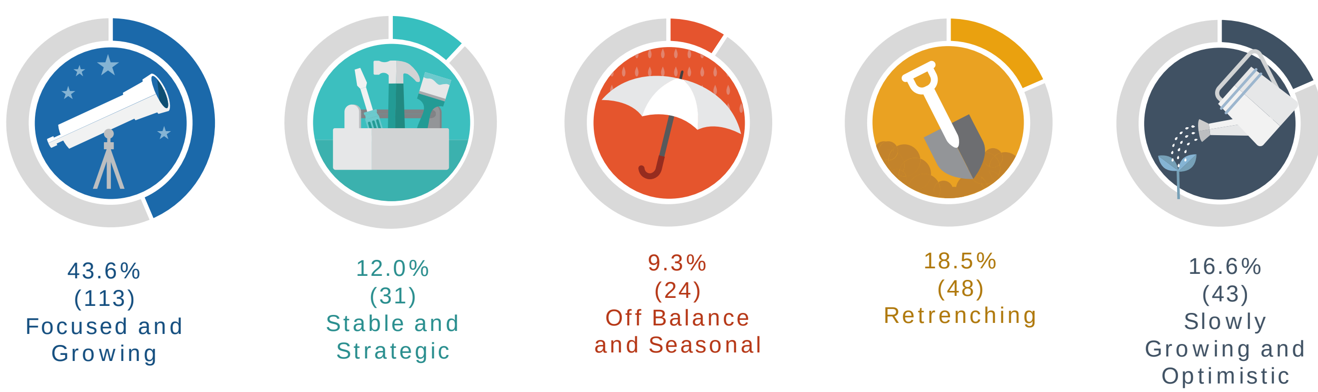
Only businesses that were open at the time of the follow-up survey and that responded to all cluster analysis questions were included in this data analysis (n=259).[17]

Five distinct "clusters" or groups of entrepreneurs emerged from the analysis. The groups differ from one another in terms of why they started their businesses, what their goals are, and what they achieved during the study. Quantitative measures from the borrower survey, as well as additional detail from borrower interviews, created the basis for each cluster profile in this report.

Each profile explores how the entrepreneurs in the cluster changed over time, and provides specific insights into the distinct successes and challenges experienced by each group.

As distinct as these clusters are in many characteristics, they do not differ substantially in terms of industry sector, business revenue size, or along demographic lines including age, sex, and ethnicity or average loan size. That is, there is roughly equal diversity of such characteristics in each of the clusters.[18]

Exhibit 10. Breakdown of all entrepreneurs by cluster (n=259)



The following sections explain what makes each cluster unique. Each section provides an overview of cluster characteristics, what the impact of their loan has been, how entrepreneurs in each cluster are planning their future, and the implications of these findings. First, we look at the largest of the clusters, Focused and Growing, then move on to Stable and Strategic, Off Balance and Seasonal, Retrenching, and last to Slowly Growing and Optimistic.

[17] See the Data Appendix for additional detail about the cluster analysis techniques.
[18] Additional data about these clusters is presented in the Data Appendix.

FOCUSED AND GROWING

Started strong and stayed strong

Overview

The largest of the clusters, the Focused and Growing group is made up of 113 entrepreneurs dedicated to expanding their businesses.[19] These business owners have experienced recent financial success and are poised to continue this trajectory. This group has the largest percent of business owners reporting increases in sales and profit, as well as a rise in personal take-home pay during the study period. In fact, they started strong and remained strong, reporting growth at the beginning of the study and going on to continue expanding their businesses because of their loans. Members of this cluster are generally full-time entrepreneurs. By the end of the study, none of the business owners in this cluster held a second job.

Entrepreneurs started the study on a growth trajectory

Several trends set this cluster apart.

Focused and Growing businesses saw early success. The majority of entrepreneurs in this cluster (73.2%) experienced growing sales at the time of the preliminary survey, and a similar number (71.7%) saw growth in profits during the same period. An entrepreneur with a carpentry shop in Colorado said that he went to Accion after suffering a difficult year and saw gains within a year of his loan. "[The loan] helped us to be able to pay off some of our vendors and our accounts," he said. "It helped tremendously on our cash flow." During his first interview — a year after he received his loan — the carpentry shop owner said he saw sales well on their way to doubling the previous year's. "[It's May and] we've had $250,000 in sales ... last year our entire production was $360,000," he said. "We had a tough year, so we're really ramping up, and it feels really good."

The vast majority of entrepreneurs in this cluster (90.8%) drew a salary from their business at the start of the study; only a small number (12.5%) relied on a second job. By the end of the study, none had another job. [20]

Business owners in this cluster were goal- and growth-driven since the launch of their business. As the name of the cluster indicates, Focused and Growing business owners saw themselves on a growth trajectory even before applying for their first loan. Many of those interviewed cited goals for business expansion and saw their loans as opportunities to help accelerate that growth. An entrepreneur with a video production company in New York illustrated this trend. The owner sought a loan "[to] purchase high-end cinematography equipment. [But] the main goal was to get into more significant professional production work." For those with brick-and-mortar businesses, growth meant moving to a larger location, hiring more employees, or adding locations. A fitness studio owner in

"[My goal is] to expand it a little bit more and be able to have a space double ... the one I have now."

[19] Thirty-two of the 113 borrowers in this cluster also participated in in-depth interviews.
[20] The change from initial to follow up survey is statistically significant at p<.05.

Florida explained it this way: "[My goal is] to expand it a little bit more and be able to have a space double … the one I have now." For solely owned and operated businesses, such as consulting practices, growth goals included attracting larger projects and bigger and more stable clients. Many hoped to add employees. An Illinois-based accountant exemplified this trend. "2016 [was] about growth; it [was] about establishing my brand for my business, [and] getting prepared to hire people. Long term, 2017 and 2018, I want to increase my revenue stream at least by 100%. And I am trying to bring in more people to work for me as well as a partner for my business."

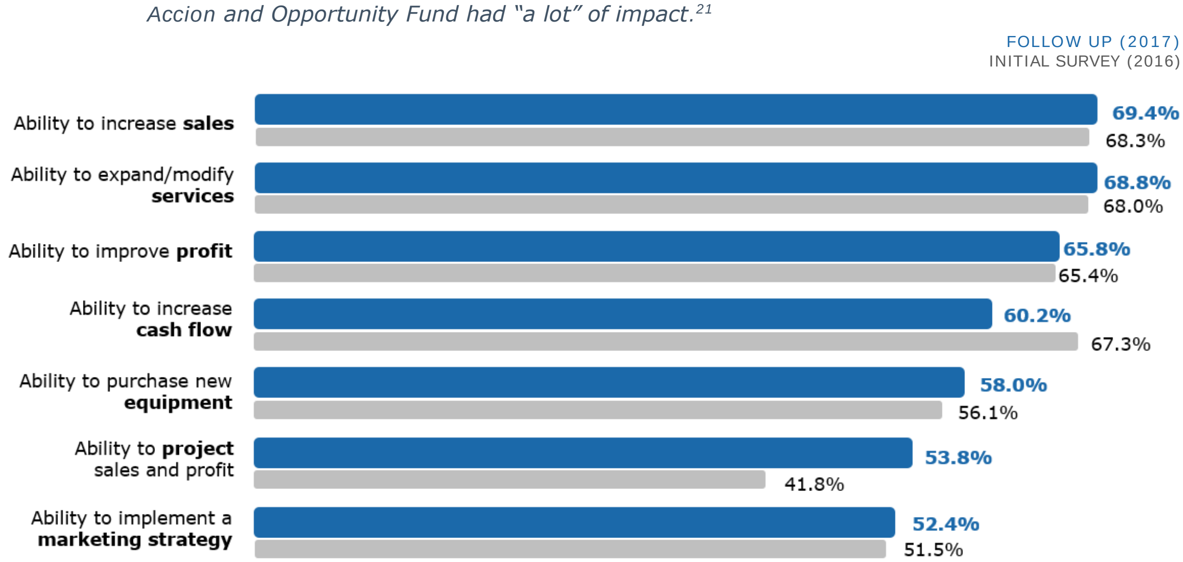
Microloans had a long-lasting positive influence on these entrepreneurs and their businesses

Entrepreneurs in this cluster sought loans for two principal reasons: to expand their businesses (41.1%) or continue them (46.4%) by maintaining inventory or paying general and administrative expenses. Loans obtained from Accion or Opportunity Fund helped entrepreneurs and their businesses in key ways. Entrepreneurs said that loans helped them feel more confident that they could achieve their goals. Loans contributed to a sense of financial stability and made entrepreneurs feel surer of their ability to improve their credit. Business owners said that their loan significantly improved their ability to expand or modify services, increase sales, increase overall business profit, and improve cash flow (Exhibit 11). For some items, the impact of the loan increased from the initial survey to the follow-up one a year later. For example, at the start of the study, 41.8% of business owners said their loan had a lot of impact on their ability to project sales and profit; in the follow-up survey, 53.8% said the same—nearly a 30% increase.

"I've definitely grown and I feel a lot more confident now. [I am] much more confident in my skills and in my ability to **work with clients."**

Exhibit 11. Lending services had a strong and lasting impact on these entrepreneurs and their businesses

In the categories listed below, the percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of impact.[21]



[21] Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. To see all 18 items, see the Data Appendix. Changes from the initial survey to the follow-up were not statistically significant based on paired-samples t-test of the difference in mean scores.

A clothing boutique owner in New York expressed this increased sense of impact at the time of the follow-up survey. "As a result of the loan, I was able to buy more inventory, which in turn gave me more revenue from different revenue streams, which then meant my cash flow was healthier, which then allowed me to bring on employees. It's a trickling effect." Several interviewees noted this effect, some attributing the improvement not only to the increase in capital, but also to the advice and networking opportunities made available through Accion and Opportunity Fund.

Loans had the most impact on business owners who leveraged their capital. Interviewees in this cluster fell into three categories when it came to loan benefits. About a third said they saw little or no meaningful impact from the loan. Another third used the loan for discrete, necessary expenses and saw moderate impact. The remaining third leveraged their loan for larger impact.

Little or no impact

Some entrepreneurs would have been fine without a loan. About a third of entrepreneurs said that the loan on its own was not the reason for their success. This was especially true of those entrepreneurs who were approved for less capital than they applied for, and thus were unable to accomplish the goals they originally set out to achieve. Most said that they could have built their businesses without the loan by looking for other ways to support growth. Two entrepreneurs felt that getting a loan was a mistake; their businesses were not ready for the influx of capital and they were unprepared for the responsibility of paying it back.

Moderate impact

Some entrepreneurs used their loan for one-time purchases. Business owners who used their loan for one-time expenses reported only moderate overall impact. For example, some borrowers used loans to repair equipment, to bring equipment into regulatory compliance, or to purchase additional inventory. Although the loan made a big difference at a specific moment for them, business owners did not attribute their long-term success to it.

Significant impact

Some business owners leveraged their loans for larger impact. For a portion of entrepreneurs, the loan played a pivotal role in launching or expanding their businesses. Often, the loan came at just the right time. Without it, these business owners said they might have missed an opportunity (to buy a new business, for example). These entrepreneurs also leveraged their capital for the maximum impact. One entrepreneur used his loan to create a marketing campaign that led to a three-fold sales increase.

Entrepreneurs in this cluster improved financial record keeping. At the end of the study, entrepreneurs in this cluster had significantly improved their financial tracking practices. They attributed this directly to their involvement with Accion and Opportunity Fund. At the beginning of the study, 30.6% of entrepreneurs said they had changed their business finance tracking at least somewhat because of Accion or Opportunity Fund loans or financial advising. By the study's end, this increased by a third to 40.7%.[22] Most entrepreneurs (75.2%) had adopted moderate or advanced business financial tracking practices by the study conclusion, meaning they used accountants, software, or other formal means of tracking cash flow. This was an increase from 65.5% in the initial survey.[23] Before her loan, one entrepreneur said, her business tracked expenses in a notebook. "We wrote everything in books. And now, yes, it is different because there is more income and movement, and little by little, we're learning how to manage things better." About a quarter of business owners continued to track finances informally, using a notebook or a checkbook. Those who use informal tracking said it worked best for them. Some have very small businesses that don't warrant complex

[22] The change from initial to follow up survey is statistically significant at p<.05.
[23] The change from initial to follow up survey is statistically significant at p<.05.

tracking, and others don't feel comfortable enough using technology.

Several interviewees said the loan application process itself inspired a new focus on financial details, including financial tracking practices, organized record-keeping, and overall financial management. In her second interview, a graphic designer in New Mexico noted the incremental improvements she had made. "I'm tracking [my business finances] weekly at least. I keep track of how much profit I'm making and how much I'm about to put away."

"**I keep control [of** business finances]. I have a system, software, and invoicing where I mark the income from every truck so **I can see all the income and expenses** of the company."

Businesses in this cluster continue on a growth-and-stability trajectory

Business owners in this cluster continue to hire employees, focus on growth projections, and work toward increased financial stability.

These borrowers are job creators. By the end of the study, two thirds of the business owners in this group (67.3%) had employees, an increase from about half (52.2%). This group was more likely to have employees than business owners in other clusters, and they were more likely to hire additional employees from start to the end of the study. The average number of full-time equivalents (FTEs), excluding the business owner, increased from 2.1 at the time of the initial survey to 3.4 during the follow-up survey — an average increase of 1.3 FTEs per business.[24] In fact, businesses in this cluster alone added 166.75 FTEs during the study, which accounts for 49.8% of the FTEs added across all entrepreneurs in the study. [25] Interviewees said they hired employees so they could focus on the strategic aspects of their businesses and, eventually, work fewer hours themselves. In some instances, business owners hired temporary employees to meet peak-time demand. A custom clothing maker in New Mexico was in this group. "I have seasonal, temporary employees when I do sign the big contracts," she said. The rest of the year, she needs far fewer workers. While the study did not delve into the community-wide outcomes of small business lending, businesses in this cluster are creating jobs in their community, helping to strengthen their local economy.

FOCUSED AND GROWING ENTREPRENEURS ADDED 166.75 FULL TIME EQUIVALENTS (FTE) DURING THE STUDY

Businesses experienced increased financial stability. Three out of four business owners (77.0%) in this cluster saw increases in sales and profit from the time they received their loan through the end of the study. Correspondingly, these entrepreneurs demonstrated the highest levels of financial stability (Exhibit 12) among the clusters. Many made changes that led to a greater sense of control over both their current [26] and future finances.[27] These business owners developed financial plans, separated business and personal finances, and invested more in savings. Most said business revenue was sufficient to cover expenses and adequate

[24] For the purposes of this analysis, we treated all reported part-time employees as 0.5 FTE and all reported full-time employees as 1.0 FTE, although hours range from employer to employer and not all part-time employees are exactly at 0.5 FTE status. The change from initial to follow up survey is statistically significant at $p<.05$.

[25] "Net FTEs added" refers to the total of all new FTEs minus those lost.

[26] The change from initial to follow up survey is statistically significant at $p<.05$.

[27] The change from initial to follow up survey is statistically significant at $p<.05$.

to withstand emergencies. To address emergencies, most said they had personal and business savings, or could use credit. A small group of interviewees said they would return to Accion or Opportunity Fund for help in an emergency. Nearly all (92.9%) said that they are somewhat or very comfortable with the amount of debt they carry; with many saying they carried little or no balance on cards or lines of credit.

Exhibit 12. Entrepreneurs felt more financially stable by the **study's** end

Category	% that reported "most of the time" or "always"
Monthly revenue is sufficient to cover operating costs	98.3%
Able to meet business debt and other obligations on time	98.2%
Able to pursue growth opportunities for business	83.1%
Able to predict monthly take-home pay	82.3%
Able to withstand negative events	79.5%
Cash reserves sufficient to withstand financial emergency	67.9%

Entrepreneurs also reported increases in their personal and household savings. By the study's conclusion, 53.1% noted an increase in personal or household savings, compared to 43.1% reporting such an increase in the preliminary survey.[28]

As noted earlier, Focused and Growing is the only cluster in which all business owners drew a salary from their businesses, and most (90.8%) had been doing so before the start of the study.[29] By the study's end, more than half saw their take-home pay increase. Although the extent of the increase isn't known, some interviewees said it allowed them put more money into household savings, feel more at ease with day-to-day expenses, and take family vacations for the first time in years.

"I would like to open up a new store in a different market. I wouldn't be opposed to having investors come in and grow it in a very large-scale way."

Business owners plan to continue growing their business.

Business owners in this cluster continue to focus on expanding their businesses. Most projected increased sales (86.9%), rising profit (85.0%), greater personal and household savings (74.1%), and a rise in take-home pay (74.1%). A smaller number of business — less than half — anticipated hiring more employees, either full- or part time. Generally, those who expected rising sales, profit, and savings at the beginning of the study went on to report increases in these areas in the follow-up survey, showing their predicting and planning ability.

Growth and stability bring personal benefits to entrepreneurs in this cluster. The New York-based food truck owner is planning to expand to different locations and adopt new cuisines. At the time of his second interview, he was in the process of buying another food truck. Increasing profits allowed him to hire more employees, freeing him to focus on his growth strategy. Like many other entrepreneurs who have experienced growth over the last few years, he noted that improved business also meant improved life quality. "I go on family vacations and have savings," he said.

[28] The change from initial to follow up survey is statistically significant at $p<.05$.
[29] The change from initial to follow up survey is statistically significant at $p<.05$.

The general success of Focused and Growing business owners suggests that although their loans served as an accelerant for their growth, other factors also played a role. Entrepreneurs in this cluster may benefit from support that can catalyze business growth in ways that manage and minimize risk. For example, while this group of entrepreneurs can generally handle instability in sales and revenue, and some feel they could handle a financial emergency, not all possess sufficient business savings or financial plans to manage larger scale financial challenges.

The Focused and Growing cluster is characterized by a strong beginning and continued trajectory toward growth. Business owners in this cluster differ from other groups in their solid foundations and feelings of confidence, which they are more likely to attribute to Accion or Opportunity Fund than other groups. Business owners in this group face the unique challenge of defining their goals for success and finding a path toward meeting those goals through safe, smart financial and business decisions.

STABLE AND STRATEGIC

Supported by outside income

Overview

Similar to businesses in the Focused and Growing cluster, business owners in this group are generally doing well. Most experienced increases in revenue, take-home pay, and household savings in the six months prior to the end of the study. What makes this cluster unique is that all 31 entrepreneurs[30] have another source of income outside their business. Some have formal "second jobs," while others maintain other ventures as hobbies, second businesses, or informal "gigs." Business owners in this cluster are careful planners focused on strategic and careful growth.

Stable and Strategic business owners have additional income sources

At the start of the study, most of these entrepreneurs (80.6%) held a job outside of their business. By the study's completion, all had another job.[31] For some in this cluster, the "other" job is the primary source of income. Others have successful small businesses as their primary source of income, and maintain outside freelance or part-time work for additional financial security. In fact, there is an important distinction to be made within this cluster: some of its members are serial entrepreneurs and intend to always have multiple income sources. Others would rather focus solely on their business and hold outside jobs out of necessity.

Some business owners are serial entrepreneurs. Take the case of a roadside motel owner in New Mexico. He and his wife already operated a network engineering consultancy firm when they decided to add a business. "About five years ago, my wife and I decided that we'd come back to New Mexico and rebuild the motel," which has been in his family for decades. They used an Accion loan to pay for work on the motel. And it became a great success. "In March of 2015, our income [from the motel] was $14,000. Our income at the same time this year [2016] was $27,000. … We are very profitable. We're now looking at building new businesses, which is fun because we have enough cash flow to do that."

A New York-based music producer said he also acts on the side and intends to continue. A women's empowerment life coach in Boston also works regularly as an interpreter. "I get a pretty good amount of money from that," she said.

SERIAL ENTREPRENEURS SEEK TO HAVE MULTIPLE BUSINESSES AT ONCE

[30] Nine of the 31 borrowers in this clusters participated in in-depth interviews.
[31] The change from initial to follow up survey is statistically significant at p<.05.

Some hold second jobs out of necessity. One New Mexico entrepreneur in this group works two accounting jobs in addition to running a small Chinese medicine and acupuncture practice, which she bought with the support of her microloan. As her acupuncture client base has grown, she's decreased her accounting hours. "I was doing accounting four days a week," she said. "Now I shifted to where I do acupuncture five days a week and accounting maybe 12 hours a week instead of more like 30." The owner of a speech therapy clinic in Southern California said she plans to leave a part-time job as her clinic expands.

"I also still work a part-time job. But, I'm looking at eventually leaving that job."

Some keep their outside jobs because their businesses are seasonal. Others hang onto jobs for the benefits. A golf charity fundraiser in Illinois said he has a part-time, off-season job to offset his warm-weather business. "I've got this income coming in the winter months now, and that will afford me to still have some time to make sales calls and [do] marketing things for the following golf season," he said.

Some of the entrepreneurs in this cluster are on the threshold of going full-time with their businesses. Although the number of people with second jobs increased during the study,[32] the hours spent at their second job generally decreased.

Loan capital helped entrepreneurs solidify progress and grow

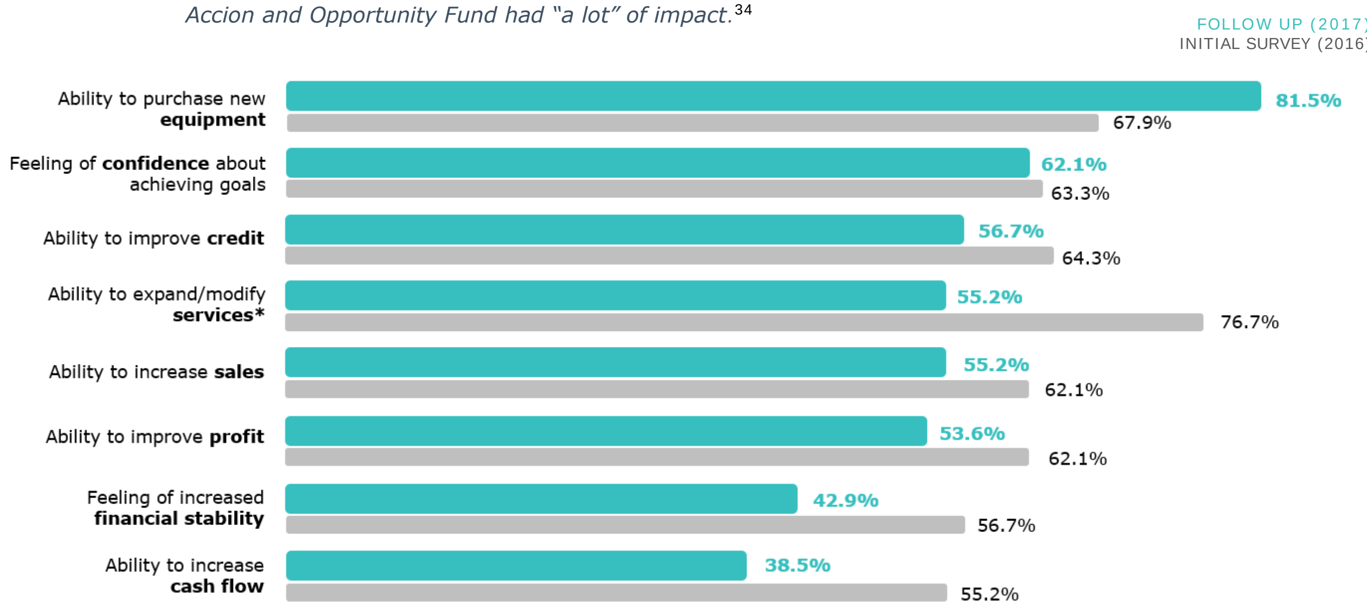
The majority of business owners sought a loan in order to maintain or expand their current business operations (as opposed to launching a new business). Stable and Strategic business owners said that their loans helped them expand and modify business services, purchase new equipment, and increases sales and cash flow (Exhibit 13). Their loans also helped entrepreneurs personally; most (63.3%) said they felt more confident about achieving their goals, and about half (56.7%) felt more financially stable.

In general, entrepreneurs perceived greater benefit from the loan during the preliminary survey than they did later. For example, in the preliminary survey, more than three-quarters (76.7%) believed that their interactions with Accion or Opportunity Fund contributed markedly to their ability to expand or modify products and services; in the final survey, just over half (55.2%) felt that way.[33] This may be because these business owners received their loan as they worked to turn side gigs into more stable businesses, so the sense of benefit came immediately after they had the money to pursue their goals.

[32] The change from initial to follow up survey is statistically significant at $p<.05$.
[33] The change from initial to follow up survey is statistically significant at $p<.05$.

Exhibit 13. Lending services had a strong initial impact

In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of impact.[34]



*Change from initial to follow up is statistically significant at p<.05

Access to capital bolstered entrepreneur confidence and supported business investment. The capital and accompanying business advice from Accion and Opportunity Fund improved confidence and created a greater sense of financial stability for most of the interviewed borrowers.

Significant impact

Capital allowed entrepreneurs to make strategic investments in their businesses. Unlike businesses in other clusters that sometimes used their loans to cover gaps in cash flow, the majority of interviewees in this cluster shared that they were targeted about their spending. For instance, the Illinois business owner who organizes golfing fundraisers for charities used his loan to develop a game that fuses miniature golf with poker — an innovation that increased his sales. An Illinois-based transportation entrepreneur used her loan to buy her first 15-passenger van, which led to a dramatic increase in her business's capacity to take low-income individuals to work and seniors to medical appointments.

Significant impact

Loans led to a domino-effect of good feelings for business owners. The majority of Stable and Strategic business owners told interviewers that loans played a role in bolstering their self-assurance. For many, like the women's empowerment life coach, one good thing led to the next. "The revenue of my business has definitely grown because I have a more clear brand and a very clear strategy of how to grow my business, and that was all due to the loan," she said. "The biggest thing has been the confidence that I've gained in myself. … I'm really proud of it." The New York music producer had a similar experience. "Accion helped me tremendously to give me the confidence to keep my business going," he said.

[34] Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. To see all 18 items, see the Data Appendix. The statistical significance of any difference in mean scores from the initial to the follow-up survey was determined using a paired-samples t-test.

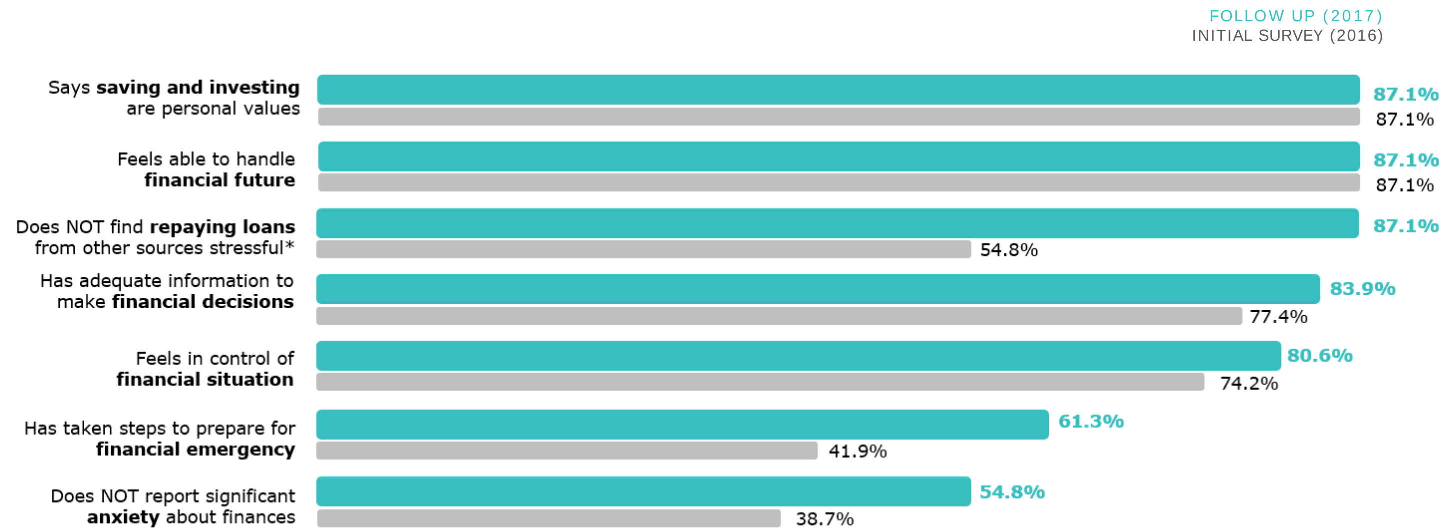
Loans helped increase business financial stability.

Entrepreneurs in this cluster experienced increases in sales, profit, and take-home pay, similar to entrepreneurs in the Focused and Growing cluster. In the follow-up survey, most Stable and Strategic entrepreneurs (64.5%) reported that their sales and profit rose in the six months prior,[35] and 54.8% said their take-home pay had increased in that period.[36]

Stable and Strategic entrepreneurs also reported increased financial stability at the end of the study, saying they had sufficient resources to cover expenses and the ability to withstand a financial emergency.[37] Most reported they were comfortable with their debt level, had a plan for financial emergencies, and were generally in control of their financial situation (Exhibit 14).

"**Accion** helped me tremendously to give me the confidence to keep my business going."

Exhibit 14. By the end of the study, most entrepreneurs in this cluster felt financially stable across myriad of indicators[38]



*Change from initial to follow up is statistically significant at $p<.05$

One of the biggest changes for this cluster was related to comfort with business debt. In the initial survey, about half (54.8%) said that they were comfortable repaying loans from sources other than Accion or Opportunity Fund. This increased to 87.1% by the final survey. This also reflects the overall low levels of debt held by these businesses. Most entrepreneurs (77.4%) said they owed less than $25,000. Of those with any amount of debt, about half (51.6%) reported they are very comfortable with the amount.

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[35] The change from initial to follow up survey is statistically significant at $p<.05$.
[36] The change from initial to follow up survey is statistically significant at $p<.05$.
[37] This is based on the composite score of survey items concerning financial stability. Stable and Strategic business owners increased their average financial stability score from the initial survey ($M=3.84$, $SD=0.69$) to the follow-up ($M=4.17$, $SD=0.61$). The increase in the average score is statistically significant at $p<.05$.
[38] Survey items were ranked on a scale of 1 (no impact) to 5 (a lot of impact). Values indicate the combined percent of borrowers who ranked impact as a 4 or 5. Change from initial to follow-up was measured for statistical significant using a paired-samples t-test for difference in mean scores.

Business owners in this cluster are prudent. They are also planners. This may be one factor that leads them to prioritize financial stability. The Illinois transportation businesswoman exemplified this value. "Because of [my loan from Accion], I actually created a cushion within my account where we'll always have enough money to take care of any kind of expenditures that come from accidents," she said.

Stable and Strategic entrepreneurs saw improved quality of life. Some business owners discussed improvements to their work-life balance, each saying the loan was the reason. The entrepreneur who provides van transportation said, "I've been able to pay for my daughter to go to the college. … We actually took a family vacation in 2016, which was the first real family vacation that we've been able to take since 2009." The Southern California speech therapist had a similar experience. "[I am] spending more time with my family … that definitely has been a big win," she said. Another entrepreneur said that the loan allowed her to hire, giving her more time with her family. Another noted that the loan helped her expand services, which led to increased sales, which led to more take-home pay, which meant she could buy things to improve life for her family.

"I've been able to pay for my daughter to go to college**."**

Most of these entrepreneurs reported that their businesses are also their passion, giving them a deep sense of personal satisfaction. "When you love to do what you do, it's not really work," the music producer said. An owner of a sun tan lotion business expressed a similar sentiment: "It gives me joy to continue with my company."

A solid business plan is critical for these business owners

Stable and Strategic business owners value planning. In the follow-up survey, 58.1% reported having a business plan, and in interviews, they talked about using business plans to guide their decisions. In fact, in interviews, many business owners in this category said that the single best advice they could give to an aspiring entrepreneur was to formulate a good business plan.

Successful business owners advised aspiring **entrepreneurs, "**Come with a good business plan!**"**

Most entrepreneurs in this cluster have businesses that are growing slowly, and this is reflected in their realistic and strategic growth plans. "I would like to see … a 3-5% increase in business each year," the van transportation provider said. The Chinese medicine practitioner shared a similar pace of growth. "[Last year] business growth increased a little bit, probably 5%," she said. The women's empowerment life coach from Massachusetts added, "Right now, I have a financial goal for this year to make $50,000 net."

Members of this cluster are among the most likely to talk about the value of a long-term plan. However, only some have strengthened their financial tracking practices. Compared to 6.5% of business owners reporting advanced tracking on the initial survey, 12.9% employed advanced tracking practices by the end of the study.[39] Those who employed moderate business tracking decreased from 64.5% to 45.2%, suggesting that many of those who have strengthened their business tracking already had moderate practices at the start of the study.

[39] The change from initial to follow up survey is statistically significant at $p<.05$.

Stable and Strategic entrepreneurs identify different ways of reaching success

This group's multiple business ventures and consistent additional employment set them apart from other clusters. But they differ among themselves in how they want to attain financial success. Some want to succeed by expanding their primary business and eliminating the need for a second job; others hope for multiple successful businesses, even at a small scale. But all were concerned about moving forward carefully, at a safe, steady pace. The owner of a speech therapy clinic voiced such caution. "Basically, it's my goal to grow, but to find out how to do that carefully," she said. "I don't want to grow ignorantly and unnecessarily. I want to make sure that I have a consistent amount of healthy profits before I make such moves."

This cluster exemplifies that not all entrepreneurs with multiple income sources want to focus on one business venture. Although a small and vocal minority from the interviews cite a desire to quit their second job, not everyone shares this priority, and many in this group prefer to have other jobs and businesses. The interviews illuminated how a second job can provide ongoing financial stability, putting the entrepreneur in a better position to pay their loan. With prudent planning, these business owners can continue their multi-faceted approach to long term success.

OFF BALANCE AND SEASONAL

Weathering the storm of cyclical business

Overview

Recent financial distress is a key characteristic for this small and hard working group of 24 entrepreneurs.[40] They are struggling and are the only group to report falling sales and profits throughout the study. They also reported low levels of financial stability. They own seasonal businesses and often have another job; only half draw a salary from their business. Although their debt level is low, it feels burdensome. Perhaps it's no surprise, then, that this group was less likely than other groups to say that their loans benefited their business, and less likely to expect business growth.

Entrepreneurs in this cluster felt challenged from all sides

Business owners in this cluster faced assaults from without and within, such as unanticipated health issues and seasonal ups and downs, detracting from the beneficial effects of their microloans in some cases.

External factors challenge these entrepreneurs. Many of these entrepreneurs were faced with unanticipated challenges outside of their control and unrelated to the capital they accessed through Accion or Opportunity Fund. The problems they faced took time and attention from their businesses and meant owners didn't reap the benefit of their efforts. For example, a Northern California entrepreneur who provides work space and start-up business support to other aspiring entrepreneurs lost ground when he was sidelined by an injury and had to close up shop for four months.

A woman who runs an electronic medical billing company in Florida had to deal with electronic theft, which took time away from her work with clients. "Someone got into my account unauthorized and grabbed some money from the account, and I had to close that account and reopen a new one," she said. To complicate matters, changes to her clients' health insurance policies meant she wasn't paid promptly for her services.

They have seasonal businesses. Entrepreneurs in this cluster often operate businesses with highly seasonal and/or unpredictable revenue cycles. In the preliminary survey, these entrepreneurs reported that they didn't expect year-round business activity, and none anticipated much revenue during the winter. About a third (29.2%) said that most of their revenue came during a single season.[41]

Of the seven entrepreneurs in this group who participated in interviews at the beginning and end of study, five talked about the challenges of seasonality at

> **"The** seasonality of the business probably is the **hardest part. [It's]** feast or famine."

[40] Seven of the 24 borrowers in this cluster also participated in in-depth interviews.
[41] Seasons are defined as follows: winter (December, January and February), spring (March, April and May), summer (June, July and August), and fall (September, October, November).

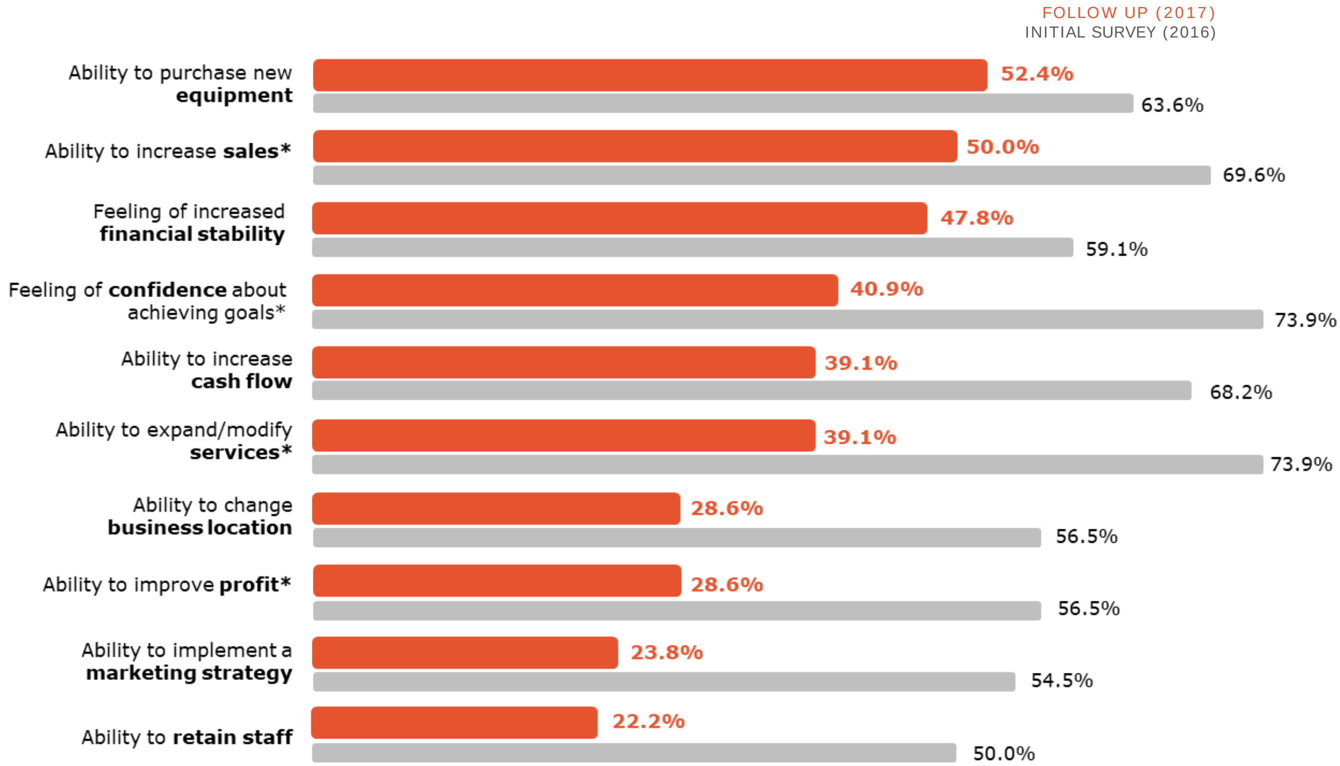
length. A Colorado-based landscaper called it "feast or famine." He added, "The seasonality of the business probably is the hardest part." Other businesses in this group, including a traveling craft vendor in New Mexico, a horseback riding camp in also in New Mexico, a motorcycle mechanic in Northern California, and a paint-your-own pottery company in Arizona, explained similar challenges.

The benefits of microloans are fleeting for these business owners

About half of the entrepreneurs in this cluster (54.2%) sought a loan to maintain their business operations. The other half included entrepreneurs who hoped to expand their businesses (33.3%) or launch a new business (12.5%). They reported that access to additional capital provided an initial boost, but by the end of the study, the benefit was little more than a memory. In the initial survey, they reported that their loan was an obvious asset, letting them expand and modify services. They felt confident that they could achieve their goals and increase their sales (Exhibit 16). By the follow-up survey, those feelings had cooled. Unlike entrepreneurs in other clusters, these business owners no longer reported the benefits they originally identified.

Exhibit 15. Microloan benefits are short-lived for these business owners

In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of impact.[42]



*Change from initial to follow up is statistically significant at $p<.05$

[42] Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. The chart lists only those items where at least half of all borrowers in this cluster rated it a 4 or 5 in either the initial survey or the follow-up. To see all 18 items, see the Data Appendix. The statistical significance of any difference in mean scores from the initial to the follow-up survey was determined using a paired-samples t-test.

Loan impact varies by use of loan. Entrepreneurs provided more nuanced explanations of the perceived benefits of their loans in interviews. A few interviewees noted little or no impact from their loan, while others saw moderate or significant effect.

Little or no impact

A small number said they had other options to access capital. Two business owners who participated in both the initial and final interviews said they could have borrowed from other sources; therefore, their loans had little or no impact beyond what they might have accomplished on their own. The owner of an Arizona-based paint-your-own pottery studio used her loan to invest in a second retail location. Although her sales increased, at the follow-up interview, she wondered if she had picked the wrong spot for a second location.

Moderate impact

Some business owners used their loans for strategic spending and saw moderate benefit. Three interviewees said that, without their loans, they might have missed an important business opportunity or might have made choices that weren't favorable in the long run. One entrepreneur reported that he might have sought credit from a "loan shark" and potentially damaged his credit. Instead, his loan enabled him to buy needed equipment, cover a cash shortage, and build a stronger credit history. Another entrepreneur in this small group used the loan to bolster marketing, achieve a "more professional" look, and purchase equipment.

Still, entrepreneurs sometimes wondered whether getting a loan and running a struggling business was truly the best choice for them. Two additional businesses shared they are struggling and not sure whether obtaining a loan was the best idea at the time. One business owner is thinking about taking a hiatus from the business if things do not turn around quickly; another hopes to get his business in good enough shape to sell.

Off Balance and Seasonal business owners have benefited from advice and support outside of access to capital. While most entrepreneurs came to Accion and Opportunity Fund looking for capital, interviewees said that the advice they received helped them weather external challenges. Several entrepreneurs said they were able to restructure their loan repayments when sales or profit decreased drastically. Others spoke about being able to contact Accion and Opportunity Fund with questions as they encountered challenges. In addition, Accion and Opportunity Fund provided entrepreneurs with connections and networking opportunities. Despite other challenges, the owner of the horseback riding camp spoke of how she changed her business model after contact with an Accion connection. "The summer program that I run was the idea of my mentor that Accion [connected] me with," she said. By replacing individual riding lessons with group lessons, she changed the trajectory of her business. "I make so much money during the summer doing it that it pays for almost all my expenses during the year. It's fantastic."

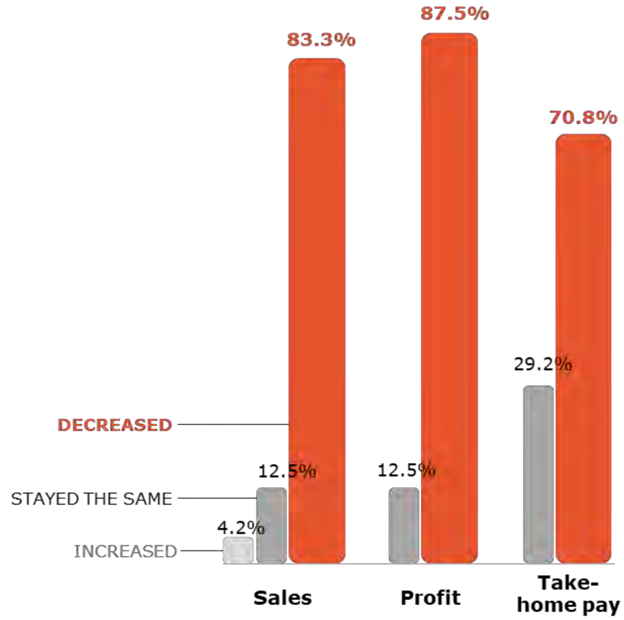
A motorcycle mechanic said he benefitted from the experience of Opportunity Fund staff. "When you talk to them, they just understood, because I'm sure they deal with a hundred different business ideas and people every day." He advises other entrepreneurs to take advantage of this gold mine of experience. "If you have needs, let people know you have them because they're out there willing to help ... there's a lot of information … that you'll receive if you ask."

Off Balance and Seasonal business owners wrestled with financial volatility

Business owners in this cluster are worried. They are worried about an emergency they cannot cover. They are worried about declining revenue and profit. And they are worried about their inability to predict take-home pay. Many feel like they must count every penny to keep their heads above water.

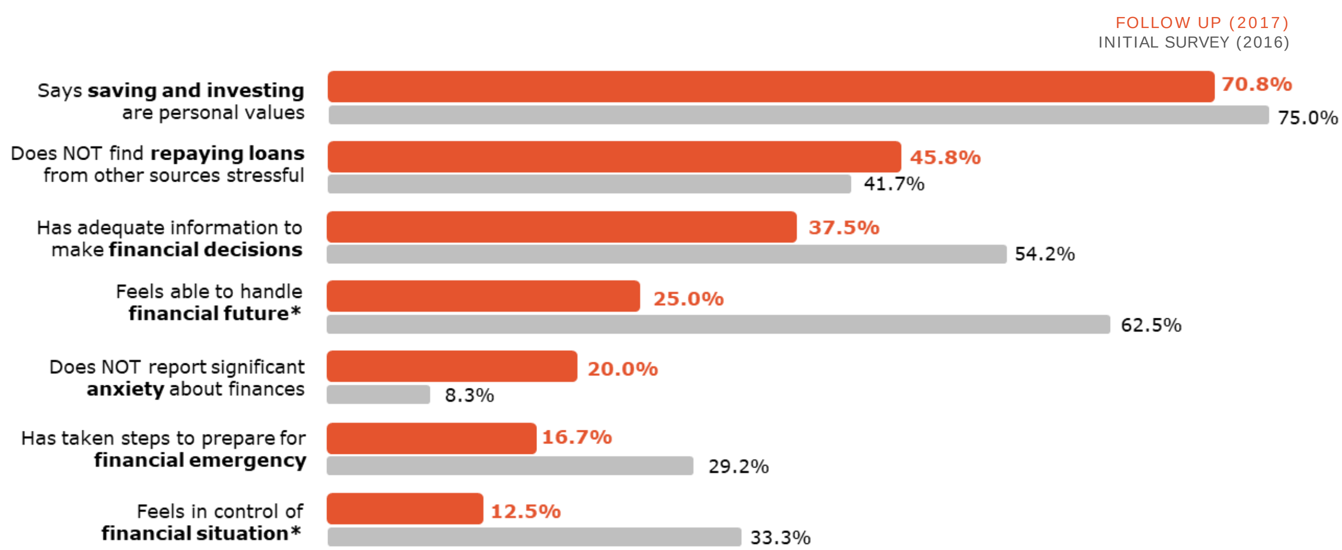
Most entrepreneurs reported recent declines in financial health. Business owners said profit, sales, and take-home pay had all fallen recently (Exhibit 16).

Exhibit 16. Financial health lagged in final survey



Business owners lack a sense of financial control. Recent declines in several measures of financial health made these business owners nervous about the future. Although the influx of capital from Accion and Opportunity Fund served as a short-term boost in resources and confidence for them, by the end of the study, entrepreneurs said they felt less control over their financial situation and less able to handle their financial future. At the time of the initial survey, these entrepreneurs already had a low sense of control over their finances, with only a third (33.3%) saying that they felt in control. By the end of the study, only 12.5% felt in control (Exhibit 17).

Exhibit 17. By the end of the study, business owners felt less financially stable[43]



*Change from initial to follow up is statistically significant at p<.05

[43] Survey items were rated on a scale ranging of 1 (no impact) to 5 (a lot of impact). Values shown in this exhibit represent the combined percent of borrowers who rated the impact as a 4 or 5.

In the follow-up survey, more entrepreneurs expressed low confidence in their ability to predict take-home pay due to the unpredictability of business activity. Only about a third (29.2%) felt they could predict their monthly take-home pay. Given the seasonality of their businesses, interviewees said, it was difficult to predict revenue from month to month. This made for rising stress levels. A hair salon owner reported, "My life is more stressful, more accelerated. … I feel like I used to be more comfortable doing my things before."

Entrepreneurs feel unprepared for financial emergencies. Although these business owners consistently expressed their willingness to surmount any challenge and go forward, only 16.7% said they have sufficient cash reserves to withstand a financial emergency — the lowest among all the clusters. In the follow-up survey, a third (33.3%) reported their debt was higher than it had been a year earlier. The owner of the paint-your-own pottery shop felt stretched to the limits. "If I had something catastrophic, I'm not sure how I would deal with it," she said. "I'm pretty tapped out financially." The entrepreneur with the horseback-riding camp feared a serious vet bill. "If one of my horses gets sick … I do not have anything in the bank ready to pay for that bill."

"If one of my horses gets sick, **…** I do not have anything in the bank ready to pay **for that bill."**

Entrepreneurs in this group said they had not planned for a financial emergency. If faced with one, most said they would rely on a credit card. The landscaping business owner imagined a series of options. "I'd probably see if my credit cards can handle it first. If not, I'd probably go to friends or family. Third, to Accion or something like that."

Business owners in this cluster are focused on today. In the follow-up survey, most borrowers (70.8%) said their finances were a significant source of worry. Perhaps due to that worry, this cluster is much more attuned to the day-to-day cash flow than members of other clusters, and is more likely to employ a fairly high degree of advanced tracking. This held firm throughout the study, however closely monitoring finances did not result in better outcomes for this cluster.

Although in the final survey more than half of the members of this cluster (58.3%) said they had a business financial plan, no one participating in an in-depth interview had one. Interviewees instead emphasized consistent tracking of expenses and sales.

Despite challenges, Off Balance and Seasonal entrepreneurs are committed to moving forward

The motorcycle mechanic described small business ownership as a story of "ups and downs." And that seemed to be the case for this cluster, where entrepreneurs weathered a downturn but were still working to reach financial stability. Off Balance and Seasonal entrepreneurs dealt with unanticipated expenses and revenue fluctuations, yet often lacked financial plans to address these challenges.

Despite the hardships, these business owners are committed to their entrepreneurial identities, but they need extra support. For instance, the business owner who provides workspace to aspiring entrepreneurs was forced to make big changes when an injury sidelined him for four months. "I had an injury and couldn't run [my business] … Accion stepped in and helped me a lot. … They gave me a month off and then readjusted my loan amount and reassessed the time frame on the loan. … From soup to nuts, they were willing to work with me and get through the situation," he said. In the end, this business owner was able to cover his refinanced payments. "The money I had left from their loan helped me make that bridge of the four months, and I was able to stay in business that way," he said.

The New Mexico horseback riding business is one outstanding example of how an entrepreneur can improve her business prospects. The advice she received from a mentor played a critical role in her success. "I actually didn't really apply for the loan for the money. I applied, really, to get the services that Accion provides," she said. She credits those services even more than the cash for her recent success. "I love the people at Accion," she said. "They've made me part of their family. I really feel like I'm part of their family." She advises peers to take advantage of what CDFIs and community resources offer. "Take classes. Go to Accion, go to [the] Small Business Development Center, the SBA."

"I actually didn't really apply for the loan for the money. I applied **... to get the** services that Accion provides."

On the whole, Off Balance and Seasonal entrepreneurs feel uncertain about the future. Unexpected expenses and revenue fluctuations were common, as was the absence of a plan to manage them. Seasonal businesses present unique challenges and opportunities that require creative problem-solving and continued outreach for support to meet their fluctuating needs.

RETRENCHING

Working hard to establish their business

Overview

The Retrenching cluster is made up of 48 entrepreneurs[44] with businesses at a crossroads. Although most experienced success during the study — 68.8% increased their sales and profit — the number of those who were able to take home a salary fell drastically, from 42.6% in the first survey to one business owner (2.1%) in the final survey.[45] The meaning of that decline is not entirely clear. It could be an indication that entrepreneurs in this cluster are consciously reinvesting in their businesses as many noted a focus on positioning their business to become more established. Entrepreneurs in this cluster report a sense of optimism about the future, both in terms of their personal financial security and their anticipated business success.

"**My main goal when I** went for the loan was to get the business started, and, with the loan from Accion, I was **able to do that.**"

Retrenching entrepreneurs are working hard to establish their businesses.

Entrepreneurs in this cluster are unique in several ways.

Entrepreneurs don't take a salary from their business (yet). As stated earlier, while more than half (68.8%) of these business owners reported improved sales or profits during the study,[46] only one entrepreneur in the entire cluster drew a salary at the time of the final survey, a drop from 42.6% in the initial survey.[47] Small business owners commonly forego paying themselves, especially soon after a launch or at key growth points. Some interviewees said that, although they don't draw a salary, they use business proceeds to pay rent or other personal expenses. Others said they didn't need a salary from their business, often because they have a second source of income. These owners reinvested their profits in the business. For example, an entrepreneur who operates a film festival with her spouse said that they don't earn any income from their business, as each year any profit is put back into the business or is used to pay debt from previous years.

Some entrepreneurs started their businesses as side gigs. About half of the interviewees in this cluster started their business as a side job — a business that was only active seasonally, for a couple of days per week, or during the owner's free time. A video producer in Florida started his business with his brother as a side job because they were both good at it; the husband and wife who run a film festival started it as a way to make niche movies available to a Southern California audience one weekend per year; a swap meet toy vendor from Colorado started his business as a way to earn extra income on the weekends. Similar to some of the Stable and Strategic entrepreneurs, many of these business owners started their

[44] Thirteen of the 48 entrepreneurs in this cluster participated in in-depth interviews.
[45] The change from initial to follow up survey is statistically significant at p<.05.
[46] This percentage is based on the share of entrepreneurs who said that either sales or profit had increased. In the final survey, most borrowers (58.3%) said sales had increased, and 56.3% said profit had increased.
[47] The change from initial to follow up survey is statistically significant at p<.05.

businesses exclusively to earn additional income, never intending them to be their full-time focus. For instance, the toy vendor, who can only sell toys on weekends when the swap meet is open, will continue to maintain a weekday job. Because the film festival only occurs one weekend per year, the owners will also continue to work regular jobs the remainder of the year.

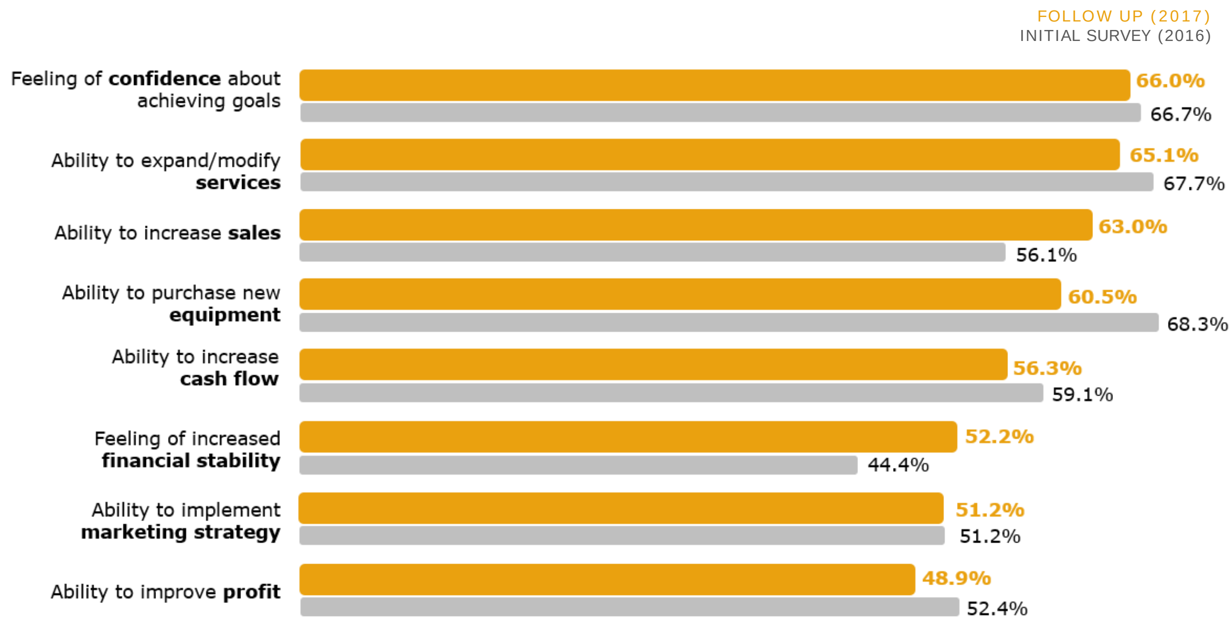
Business owners in this cluster value microloans and felt significant initial boost from their loans

This cluster has the largest percentage of entrepreneurs (25.0%) who obtained a loan specifically to launch a business. The loan made business dreams come true. That was the case for the owner of a uniform shop in Southern California. "My main goal when I went for the loan was to get the business started, and, with the loan, I was able to do that," she said. Another 39.4% sought a loan to expand an existing business. About a third (35.4%) sought capital to maintain a business, for example, to pay general and administrative expenses or maintain inventory.

Support from Accion and Opportunity Fund — in the form of capital, advice, and networking — helped business owners make strides toward their goals. In fact, this cluster gave some of the highest ratings for the perceived overall impact of Accion and Opportunity Fund across several areas of business. Two thirds of the business owners in this group indicated that their loan played a major role in improving sales, acquiring new equipment, and expanding or modifying products and services. A similar number said that their loan helped them feel confident about achieving their goals (Exhibit 18).

Exhibit 18. Lending services had an ongoing impact on business owners and their businesses

In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of impact.[48]



[48] Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. This exhibit shows only those items on which at least half of all borrowers in this clusters rated the item a 4 or 5 at either the initial survey or the follow-up. To see all 18 items, see the Data Appendix. Change from initial to follow-up survey is not statistically significant based on paired-samples t-test of difference in mean scores.

Loans helped entrepreneurs feel like they had valid businesses. Most interviewees said that the Accion and Opportunity Fund loans helped them purchase specific items that made them more competitive. The loan itself, the business advice, the accompanying networking opportunities, and the enhanced competitiveness resulted in a sense of increased legitimacy – a feeling that their enterprise was now the real deal.

Moderate impact

Loans helped businesses increase efficiency and competitiveness. Most interviewees said their loans enabled them to make purchases that fundamentally improved their business output, elevating their sense of being "real players" in their field or community. The Florida video production business owners bought equipment to speed the editing process. "In this work, if you can finish faster, we can take care of more clients, so that will give us an advantage," he said. An online variety store owner based in Florida said the loan led to an expanded product line. "Now I'm spending a lot more time working on the business than I was because … the more money I make, the more products I buy."

Others purchased commercial vehicles (e.g., construction truck), equipment, or property that they could use later for business expansion. Those who used the loan to increase inventory said it allowed them to better establish their markets. That was the experience of an energy drink distributor in New Mexico. "[Buying more inventory] helped me establish with the retailers that I'll have the product, and that I'm able to buy more product along with it."

Significant impact

The loan and accompanying lender services helped businesses become established and gain legitimacy. Entrepreneurs reported that their loans enabled them to accelerate their business growth, establish their operations as legitimate businesses, and focus their endeavors more tightly. The owner of an Illinois-based online tea shop said her loan led to "explosive growth." "The loans have really pushed the company from this hobby … into a legitimate online business." A Northern California café and crêperie owner said that her loan capital enabled her to quit a second job and focus entirely on her own business. "Since I quit my job, the business improved considerably," she said. Other entrepreneurs said that the quick turnaround between loan application and approval enabled them to take advantage of timely opportunities. "I got the loan right before Christmas, [which is] a good time to get a business going," said the owner of an online variety store. The swap meet toy vendor said he has been able to focus his business, dropping a line of housewares and specializing in just toys. Because of advice from Accion, he even changed the name of his business to reflect this new focus.

Although all business owners sought a loan because they needed more capital, a small group of interviewees said that the networking and marketing support they received had an even greater impact on their businesses than the loan itself. The owner of a barbershop in Southern California said that his lender has a partnership with a local news station, which did a TV profile on the shop — a major marketing win.

Entrepreneurs use profit to further their business goals

Many business owners in this cluster saw sales and profits increase, and improved their ability to meet their financial obligations. Many also strengthened financial tracking practices. However, at the end of the study, only one business owner in this group reported drawing a salary. As noted earlier, interviewees said that when they didn't write themselves a paycheck, it was because they didn't need it (they had a second source of income), because they use their profits to pay their living expenses directly (did not separate their personal and business finances), or because they chose to reinvest any revenue back into the business.

Although most entrepreneurs said in the final survey that they didn't take a salary from their business, about a quarter (22.9%) said their take-home pay increased in the same period. Many interviewees said that they don't always keep their business and personal finances separate, and often, take-home pay doesn't come in the form of a salary. Rather it is business revenue used to pay business and household expenses. This makes sense, especially for those entrepreneurs who started their business as a side gig or for newer businesses not yet making a profit. Some entrepreneurs, such as the Florida-based online variety store owner, said that they would rather re-invest earnings in the business. "I don't really have a salary because, at this point, I don't need it," she said. "I get money from Social Security and pension. I'd rather reinvest [business profits] into the company right now."

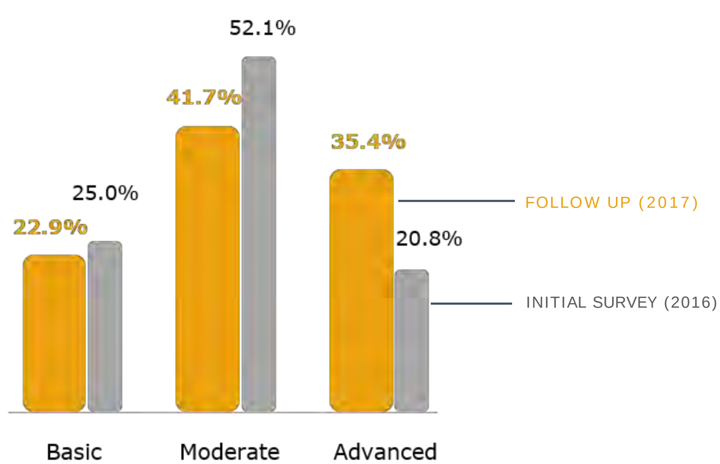
Some business owners may delay drawing a salary because they have payroll and other costs to cover. For example, the Florida video production business recently hired its first employee. The employee receives a paycheck every other week, but the brothers who own the business take only a quarterly commission after covering payroll and other costs.

Business owners strengthened their financial practices but may not be prepared for financial emergencies

Similar to Off Balance and Seasonal entrepreneurs, most entrepreneurs in this cluster have strong day-to-day financial tracking practices. Yet, not all are prepared for financial emergencies or have a long-term business plan.

Business owners have improved their financial tracking practices over time. The portion of entrepreneurs who use advanced tracking practices increased from 20.8% on the initial survey to 35.4% in the follow-up survey (Exhibit 19). Despite this increase, few Retrenching entrepreneurs attributed the change to their interactions with Accion or Opportunity Fund. At the beginning of the study, more than half (59.6%) said they had not changed their business finance tracking because of the loan. A slightly larger number (62.6%) said the same thing at the end of the study. Interviewees indicated that when they did change their tracking practices — for example, moving from using a notebook to using Excel — it was to meet the needs of a growing business. With more things to keep track of, they wanted a more sophisticated tracking method.

Exhibit 19. More business owners employed advanced tracking practices at the end of the study



Business owners can meet their financial obligations, but they may not be prepared for emergencies. Given the nature of some of the "side gig" businesses in this cluster, entrepreneurs may experience unpredictable business activity. Yet, most are able to meet their financial obligations, paying bills and loans on time (Exhibit 20).

Exhibit 20. Most business owners can repay current debt but are not prepared for emergencies[49]

Category	% that reported "most of the time" or "always"
Able to meet business debt and other obligations on time	91.7%
Monthly revenue is sufficient to cover operating costs	77.1%
Business could withstand negative events	66.0%
Able to pursue growth opportunities for business	60.4%
Able to predict monthly take-home pay	52.2%
Cash reserves are sufficient to withstand financial emergency	39.6%

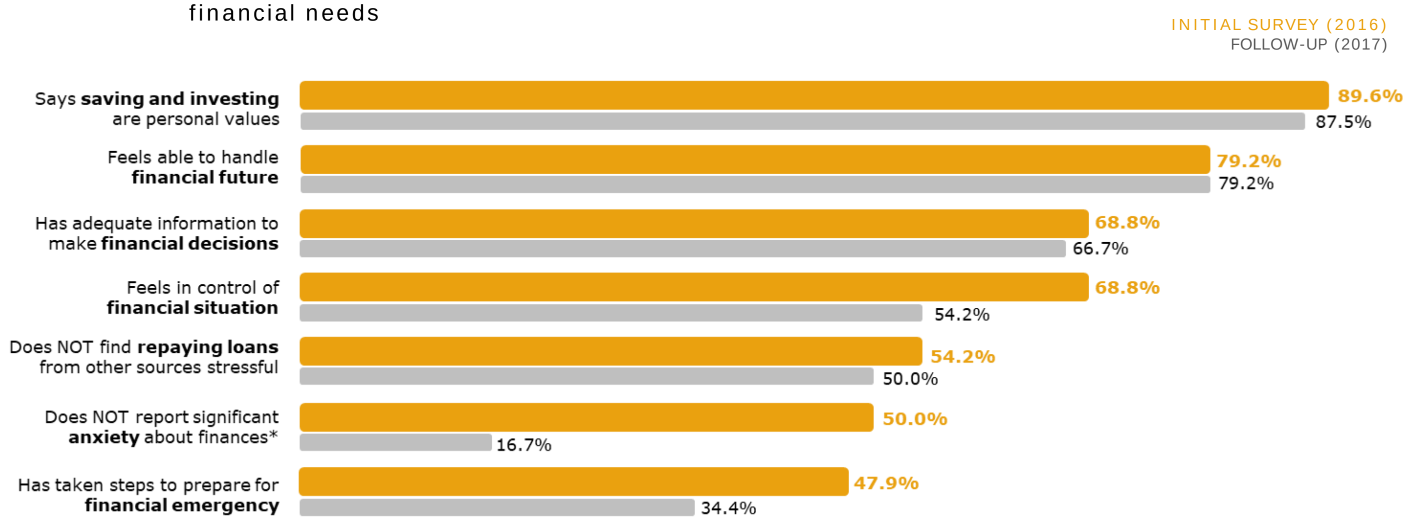
While most Retrenching business owners are optimistic about weathering negative events, only 39.6% reported that they could withstand a true financial emergency. Most said that if they faced a relatively small financial emergency, they could tap into savings. But for larger things, most said they would need outside help. The owner of a house cleaning service in Northern California said she had both personal savings and business reserves that she could dip into for small shifts in her business but she would go to Opportunity Fund if a significant emergency occurred. "In the event I have a significant expense, I know they'd help me."

[49] Survey items were rated on a scale of 1 (rarely) to 4 (always or almost always). Values shown in this exhibit represent the combined percentage of borrowers who ranked the impact as a 3 (most of the time) or 4.

Retrenching business owners are optimistic about the future

Even though they are not taking home income from their businesses, entrepreneurs in this cluster expressed some of the highest confidence in their personal financial stability. They felt like they were in control of their financial future and they reported experiencing little stress over such financial obligations as loans (Exhibit 21). In the initial survey, Retrenching entrepreneurs were upbeat about all indicators except one: They found finances a significant source of anxiety. But by the final survey, things had turned around. In the first survey, only 16.7% of Retrenching entrepreneurs reported that they were not worried about finances. But by the final assessment, half (50.0%) said they were no longer worried. [50]

Exhibit 21. Business owners feel capable of meeting their future financial needs



*Change from initial to follow up is statistically significant at p<.05

From the first survey, most Retrenching entrepreneurs anticipated increases in sales (89.6%), profit (91.7%), and take-home pay (63.8%). Interviewees said they hope to expand their businesses, so they would soon demonstrate increased stability.

Retrenching businesses face unique challenges

While Retrenching entrepreneurs often possess high commitment and optimism, they face unique obstacles. Some have dipped into personal savings to stay afloat. Others are unprepared for emergencies, and still others rely on a limited set of strategies without ever seeing success. The film festival owners typify this struggle. "We've lost money every year, but we're working to get to year number five. Then I think we will be much more viable," the festival owner said. Yet the results have been dispiriting. "Every year I sit down and try to make a budget, and every year it falls apart." These entrepreneurs' commitment to their businesses, regardless of circumstance, is a defining characteristic of this group.

"[My goal] is to triple the sales here, hire a person at the start, to get three technicians and the office person and grow the business."

[50] The change from initial to follow up survey is statistically significant at p<.05.

SLOWLY GROWING AND OPTIMISTIC

Working to strengthen their businesses in niche markets

Overview

Slowly Growing and Optimistic entrepreneurs have not let setbacks get in the way of their goal of future financial stability. Many of these 43 entrepreneurs[51] started their companies to fulfill a specific dream or out of a desire to be their own boss. They used their loans to purchase equipment, pay off debt, or move to a better location. Although many of these business owners appreciated the initial influx of loan capital, ultimately, this cluster reported the lowest impact from lender services. Although these business owners said they can meet their monthly financial obligations, they also reported the lowest level of comfort with the size of their business debt. Despite these challenges, entrepreneurs are confident about the future of their business, anticipating increases in take-home pay, sales and profit.

Examples of unique Slowly Growing and Optimistic businesses:

- Embroidery
- Faith and Fitness Ministry
- Gutter and siding installation
- Office building coffee shop
- Post-mastectomy boutique
- Religious imagery restoration
- Special needs athletic programs
- Specialty creperie
- Unisex hair stylist
- Wholesale zipper merchandise
- Wood crafts
- Yearbook printing

Entrepreneurs have specialized businesses and inconsistent cash flow

Slowly Growing and Optimistic entrepreneurs are unique in that many have very specialized businesses and have unpredictable business activity.

Many operate "niche" businesses. Numerous entrepreneurs in this cluster serve niche markets. There is a boutique serving women who have had mastectomies, an artisanal jam maker, an artist who restores religious imagery, and a sports program for people with special needs. Although some entrepreneurs created their businesses to fulfill a long-time goal of being their own boss, others turned a hobby into a small business. These businesses have a limited client base, requiring the entrepreneurs to adapt and expand their products and services to keep their clients engaged. The New York-based entrepreneur who restores religious imagery is focused on this need. "We are trying to grow; we are trying to innovate our markets." The owner of the artisanal jam company had similar plans. "Our biggest goal for the year is to land an airline account and to launch our new product line."

Slowly Growing and Optimistic businesses are set apart by their income volatility. Inconsistent cash flow was the principal factor interviewees in this cluster highlighted related to lagging business growth. Almost all interviewees reported unpredictable business activity, and unlike the Off Balance and Seasonal businesses where the low activity months were usually more cyclical, these entrepreneurs described more unpredictable ebbs and flows in income. More than half of the business owners in this cluster (60.5%) did report an increase in sales or profit in the final survey; however, some said they had drained their savings to some degree (18.6%), and others said they hadn't been able to save more (79.1%). Although their businesses showed some growth, they often were not as profitable as owners would have liked, which put a crimp on financial independence and the entrepreneur's sense of financial stability.

[51] Thirteen borrowers from this cluster participated in in-depth interviews.

The owner of a gutter and siding business in Colorado is a veteran of such ups and downs. "Last month and this month are two different things. Right now, they're almost night and day." A graphic designer in Southern California noted similar monthly fluctuation, with some long dry spells. "There are low seasons, months with very low income, and, especially, after the end of the year, production is really low because people don't want to do much business."

In the four years that the artist who restores religious images has been in business, he has seen his share of dramatic swings. "I have seasons when I can earn two, three times what I would make with a weekly paycheck. And then there are weeks when I don't make much… So when I do well, it's time to back myself up a little, to save in order to be able to survive the times when it gets difficult." Because most business owners lack sufficient cash reserves to withstand the low periods, some won't pay themselves in order to cover costs.

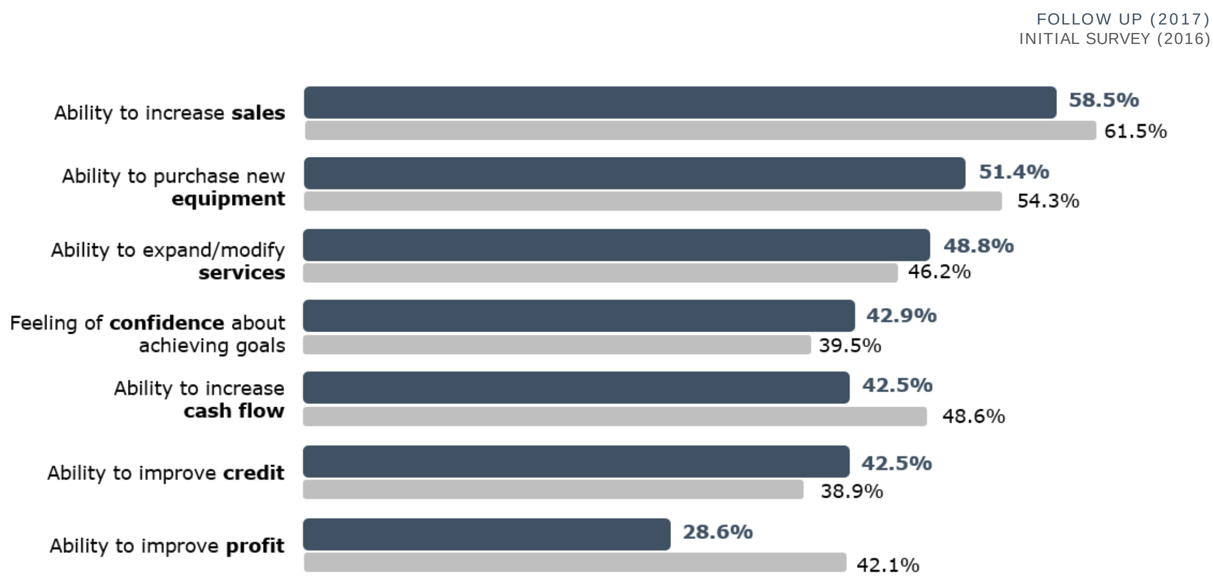
Microloans have had some tangible impacts, but entrepreneurs **don't always see the role of the** lender in their success.

About half of the entrepreneurs in this cluster (48.8%) sought a loan in order to maintain operations, and the other half (46.5%) borrowed to pay for an expansion. Only two (4.7%) sought capital to launch a business.

Compared to other clusters, a smaller number of these business owners rated lending services from Accion and Opportunity Fund as having a significant impact on their businesses. In both the initial and final survey, a little more than half reported that their loan significantly helped them increase sales or acquire equipment (Exhibit 22).

Exhibit 22. Only some business owners said lending services had important effects

In the categories listed below, percent of entrepreneurs who said Accion and Opportunity Fund had "a lot" of impact.[52]



[52] Borrowers were asked to rate the impact of Accion or Opportunity Fund on 18 items. Survey items were rated on a scale of 1 (no impact) to 5 (a lot of impact). Values in this exhibit represent the combined percent of borrowers who ranked the loan's impact as a 4 or 5. This exhibit shows only those items on which at least 40% of all borrowers in this clusters rated the item a 4 or 5 at either the initial survey or the follow-up. To see all 18 items, see the Data Appendix. Change from initial survey to the follow-up is not statistically significant based on paired-samples t-test of difference in mean scores.

Access to capital helped some entrepreneurs acquire needed resources; for others, it created breathing room. Slowly Growing and Optimistic interviewees said they benefited from their loans in two key ways: access to capital gave them breathing room to focus on establishing their business; and, the loan helped pay for needed resources during crucial times in their businesses.

Little or no impact

Access to capital provided breathing room. About half of the interviewees said that the loan gave them time to take stock. These entrepreneurs often used their loans to pay off debt or catch up on bills. Some set aside a bit of cash to ensure that they could focus on strengthening their businesses. Some of these entrepreneurs were approved for a smaller loan than what they had applied for, so they couldn't always use the money as they originally intended. For example, a San Francisco Bay Area owner of a carpet cleaning business sought a loan to repair the business's vans, but the loan amount was not enough to cover the repairs, so the owners used the loan to pay bills instead. "[The loan] gave us some breathing space with bills that were due: advertising bills, rent, and other bills that were piling up. It gave us a little more wiggle room to be able to concentrate more on the actual business instead of just paying off everything that we owed at the time. It gave us a good break." While this breathing space was significant at the time, most of these business owners said that the impact of the loan was not long-lasting, since they ended up with more debt and continued to have unpredictable cash flow that at times made repaying the loan difficult.

Two entrepreneurs felt that in hindsight, the influx of cash was not the best solution for them, particularly when their debt load was already high. The Southern California owner of an auto repair shop said she felt the loan added to her already existing debt without giving her enough capital to make a significant dent in it. She said, "nothing really changed. It was a $10,000 loan. I owed about $50,000 [in] other debt. I still had to juggle other cards."

Moderate impact

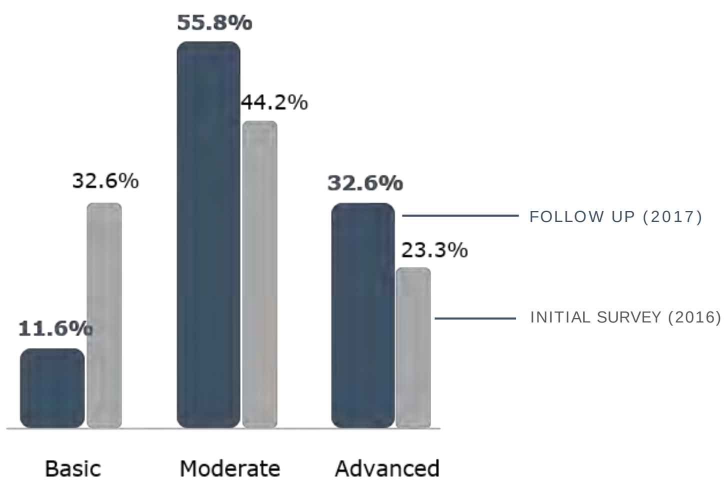
Access to capital provided a boost at crucial times. For the other interviewees, the influx of capital came at a pivotal moment. These Slowly Growing and Optimistic business owners used the loan to buy equipment they needed for growth, fix broken equipment, pay for business licenses, or launch websites to help better market their businesses. The owner of the Colorado gutter and siding business said using his loan for marketing led to an increase in business at a crucial time. "There was an upswing right after I got the website done," he said. The loan also covered signs on the business's trucks, which also helped. "[It] gave me a little bit more balance at home to spend time with my kids. They're getting older and getting ready to leave the nest, and so this year, having some of that other advertising out there full-time kept me from having to always go and pass out flyers and knock on doors and things like that, where I would never see the kids."

Slowly Growing and Optimistic business owners are formalizing their financial practices

"We put [money] in the savings. I want to average a certain amount in the checking account to run the company. Then, whatever is left over that month goes into the savings."

This group began the study least likely to use more than basic financial tracking; 32.6% reported such practices as using a notebook or checkbook to track business finances. However, by the final survey, 55.8% employed "moderate" practices and 32.6% reported "advanced" practices (Exhibit 23).[53]

Exhibit 23. Almost all business owners now have moderate or advanced financial tracking practices



The proportion of business owners who said they had substantially changed their business finance tracking as a result of the loan or interactions with Accion or Opportunity Fund was 12.5% on the initial survey and 11.7% on the follow-up survey—a smaller percentage than other clusters.

These entrepreneurs are good trackers, but not great planners.

Entrepreneurs in this cluster are meticulous about tracking their expenses and sales, whether on paper or by computer, but they are relatively inexperienced in projecting sales, profit, or take-home pay. Most interviewees, including a Northern California café owner, said that they track their expenses and sales almost daily — a common practice the evaluation team observed in small businesses with seasonal or unpredictable revenue. "I track it [my cash flow] every day, mostly through my cash register app," the café owner said. The owner of the Colorado gutter and siding business said he sees tracking as "just simple basic accounting. I do it by hand on paper. I don't use a computer program. I like to be able to look at the numbers."

Although few businesses in this cluster have formal business plans, some are taking steps in that direction. The owner of the gutter and siding business said that he started to develop a plan, but "in construction, it's so hard to have a financial plan. The amount of work you have changes from week to week, month to month, and so [a] financial plan is very hard. … It can change your whole scope of thinking, and now you're just trying to survive." On the other hand, a Florida entrepreneur who creates athletic programs for special needs children said that the influx of capital from her loan allowed her to plan for the future. "Our expenses are more balanced. They're not as scattered as they were when we first moved into the location and got all the equipment. I think that if we didn't have the loan approved

[53] The change from initial to follow up survey is statistically significant at $p<.05$.

at the time, we still would've been more in the red and a lot farther from that [break]-even point than we are now."

Some entrepreneurs in this cluster are prepared for surprises, just not big surprises. In interviews, some said they are prepared to cover moderate expenses such as equipment repairs. The owner of an auto repair shop said she had faced financial emergencies in the last year, including a $1,500 van repair bill. But, she had "some money in the bank" to cover it. The café owner faced similar expenses but did not see them as emergencies. "It's more like expected." However, it is clear that not all entrepreneurs in this cluster are well prepared. At the end of the study, only a quarter (25.6%) said their business could withstand a negative event, and an even smaller number (9.3%) said their businesses had sufficient cash reserves to withstand a financial emergency (Exhibit 23). Therefore, while some business owners have the funds to cover minor expenses, they do not have the cushion they need to handle larger challenges.

Exhibit 24. Most business owners can meet their current debt but are not prepared for emergencies[54]

Category	% that reported "most of the time" or "always"
Monthly revenue is sufficient to cover operating costs	76.7%
Able to pursue growth opportunities for business	50.0%
Able to meet business debt and other obligations on time	44.2%
Able to predict monthly take-home pay	37.2%
Able to withstand negative events	25.6%
Has sufficient cash reserves to withstand financial emergency	9.3%

Business owners in this cluster are uncomfortable with their level of business debt. While nearly half of these entrepreneurs (44.2%) said they could meet their business debt and other obligations on time, they are far less comfortable with their debt level than members of other clusters. In the final survey, almost two thirds of these entrepreneurs (65.2%) said they were somewhat or very uncomfortable with their level of debt. Additionally, 72.1% reported difficulty paying their debt, indicating that it was a source of stress. The auto repair shop owner is in that group. "I still have debt…it's killing us," she said. This is surprising given that, by the end of the study, almost all Slowly Growing and Optimistic business owners reported they had the same amount of debt (41.9%) or less debt (46.5%) than they did a year earlier. Some Slowly Growing and Optimistic business owners told interviewers that their loan added more stress with few benefits.

[54] Survey items were ranked on a scale from 1 (rarely) to 4 (always or almost always). Values shown in this exhibit represent the combined percentage of borrowers who ranked an impact as a 3 (most of the time) or 4.

Slowly Growing and Optimistic entrepreneurs remain optimistic

> "I think the biggest challenge for me being in sports apparel is the big market. I think the big company already established hurts the small business trying to get their foot in the door."

These entrepreneurs anticipate growth. This cluster was among the least likely to experience changes in take-home pay. Most (67.4%) said that their take-home pay remained the same over the past six months. However, three-quarters (76.7%) anticipate an increase in their take-home pay in the coming six months.

The same is true for sales and profit. While less than half of business owners (41.9%) reported an increase in both sales and profit in the past six months, most (81.4%) anticipate increases.[55]

Slowly Growing and Optimistic business owners need cash flow to achieve their goals. Some Slowly Growing and Optimistic entrepreneurs are stuck; they want to hire more people, develop additional products, or purchase equipment to expand their businesses, but they aren't able to yet. At the end of the study, nearly half of these entrepreneurs said they were rarely (11.9%) or only sometimes (38.1%) able to pursue business growth opportunities. The owner of the gutter and siding business was in this predicament. "I'm just a small company. I could take on more work if I had more people, but to have more people, I have to have more money."

The interviews offer some insight into the strategies some entrepreneurs are implementing to improve their businesses. "I actually started going to school … for music management," an Illinois event and music planner reported. He is also managing a local band. The owner of the auto repair shop "signed up for some business coaching of someone who owns a successful shop." And the café owner is constantly on the lookout for new locations for her business.

Slowly Growing and Optimistic business owners need to open new doors to move from positivity to practicality. Entrepreneurs in this cluster are particularly hopeful for the future. They have realistic goals that are focused on short-term improvements to their business, such as hiring additional help or upgrading equipment or location. Yet some appear to be at an impasse, unable to afford the things they know would allow them to grow. They are also stressed about their debt and are not sure they could withstand a financial emergency.

Unlike Off Balance and Seasonal business owners, who generally know when their growth seasons occur, Slowly Growing and Optimistic entrepreneurs' "seasons" aren't truly cyclical. For example, the religious imagery restoration business owner may be hired for a large restoration that temporarily boosts his income. Revenue at the post-mastectomy boutique fluctuates with insurance payments, so sometimes the owner receives many payments at once, and other times she waits weeks.

Although some Slowly Growing and Optimistic entrepreneurs have long-term goals for their businesses (the entrepreneur who restores religious art dreams of becoming "a global wholesale seller of crafts"), they haven't necessarily developed a plan to achieve those goals yet. Many in this group aim to translate their overall optimism into a clear path forward for their business.

[55] At the beginning of the study, 92.3% anticipated increases in sales and profit. The change between the two surveys was not statistically significant at $p<.05$.

Conclusions and Implications

CDFIs and other mission-based lending services play a crucial role in revitalizing distressed local and regional economies. Small business lending creates opportunities for low-wealth communities to participate in and benefit from financial services, disrupting structural and systemic causes of poverty.[56] Microfinance in particular provides a way for new entrepreneurs to launch or grow a business, paving the way for women, people of color and immigrants to reach financial security for themselves and their families.

Among the challenges CDFIs face is the need to demonstrate that their strategies bring lasting change to communities.[57] There is also growing interest in internally focused learning to continue to strengthen lending services.[58] This study is an important step forward in conquering that challenge. It explores the longer-term impacts of microlending on small business owners across the country and offers insights into how small business owners define success and the outcomes they achieve over time. These findings ultimately can be used to guide future investments in entrepreneurs, their businesses, and their broader communities.

[56] Brookings Institution: Mark Pinsky (2001). Taking stock: *CDFIs look ahead after 25 years of community development finance*. http://brook.gs/2DDGPUP
[57] Theodos, B., Seidman, E. (2017). *From compliance to learning: helping community development financial institutions better determine and demonstrate their results*; https://www.urban.org/sites/default/files/publication/90246/cdfi_compliance_to_learning.pdf
[58] Ibid.

What did we learn?

Rawknykz Barbershop, San Diego, CA

Most entrepreneurs are thriving. By many indicators, entrepreneurs are better off than they were at the beginning of the study and expect to continue their business success. Over one in four entrepreneurs in the study were Focused and Growing business owners, on a trajectory to continue to grow their sales and profits. Many entrepreneurs improved their financial management practices, are more financially stable, and have a more favorable work-life balance as a direct result of their loan.

Success means something different to every small business owner. Some owners want to expand, hire more workers, bring in more revenue, and multiply profits. Others intend to hold their secure "day jobs" and have a small business on the side for additional income. Others are happy with their current levels of sales and revenue. For entrepreneurs, success is personal: a sense of autonomy over life and livelihood. Understanding that success looks different to every entrepreneur can help ensure lending supports more small businesses to meet their goals.

Small business owners have different needs. Just as success has different definitions, this study provides empirical data showing the ways in which entrepreneurs' needs differ. Although some small business owners benefit by devoting loan capital to specific uses, such as equipment purchases or investment in marketing, others benefit just as much from the technical assistance and guidance they receive from lenders. Business owners with a second business or second job have unique long-term planning needs, particularly if they wish to ultimately jettison that second job. Other entrepreneurs serve niche markets with unpredictable or seasonal demand and require technical assistance to gird them for this market instability.

Small businesses create jobs. These small business owners added over 300 new FTEs during the course of this study. Many small business owners were able to hire new workers and expand their benefits in meaningful ways.

Short- and long-term loan impact varies by borrower type. One key finding of the cluster analysis was that each cluster perceived the impact of their loan on their personal and business goals differently. While nearly all clusters initially found their loans highly beneficial, this perception did not persist for all groups. For some, tangible benefit faded once the capital was spent. The gain appeared to last longer for small business owners who had a targeted use for the loan, such as an equipment purchase, and for those not relying on Accion and Opportunity Fund's loan alone to cover existing expenses.

Microloans are a boon to business owner confidence and quality of life. Microloans boost myriad business indicators: they improve cash flow, allow staff expansion, and make equipment purchases possible. But for many entrepreneurs, just as important was the lift in self-confidence the loan sparked, giving them the sense that someone took a chance on them. Loans gave small business owners determination and certainty about tackling their goals. Further, loans heightened their sense of legitimacy as entrepreneurs. While such holistic benefits are hard to measure, they are a clear indication of the personal worth of mission-based lending.

Two Amigos Western Wear, Oakley, CA

What's left to study?

Research is needed to understand the effect of small and micro business lending on community level indicators. Initially a large-scale goal of this study was to look at how microfinance affects communities. Tracking community-level metrics would include understanding how an entrepreneur's networks change and grow over time, generational impacts of entrepreneurship (i.e., how business owners' children relate to entrepreneurship), and how business owners contribute to wider neighborhood and community development. However, during study design, it was determined that long-term community-level outcomes were beyond the scope of this project. Community transformation takes time, and entrepreneurship is just one of many elements that can make a difference at a community level. Further exploration is needed to determine how microfinance interventions may link to longer-term community-wide development indicators such as neighborhood revitalization and poverty alleviation.

Additional objective measures of financial growth are needed. The study was based heavily on entrepreneur self-report. Therefore, some financial indicators may suffer from bias, as it is only natural for respondents to paint a positive picture about their businesses. Although this study looked at self-reported change in measures such as take-home pay, revenue, and sales, it did not look at objective measures of such changes. Specific and accurate measurement of these changes can be difficult because small business owners track finances in a variety of ways. Determining how to collect such data remains an ongoing challenge. Yet an analysis of this information could deepen our understanding of how small and micro business lending affects financial health.

Ongoing exploration of the link between advising services and entrepreneur outcomes is needed. Accion and Opportunity Fund provide affordable capital and support services to their clients. Support can vary from one lender to the next and is often based on individual entrepreneur needs. Matching the type and amount of support received to entrepreneur outcomes such as financial tracking, financial security, and quality of life could further demonstrate how advising services impact small business owners and help identify which services are needed to maximize these benefits.

How can this study's results support entrepreneurs?

Financial volatility impacts small business owners differently depending on their levels of financial stability. On average, small business owners were more financially stable and prepared to withstand financial emergencies at the end of the study than they were at the beginning. For several clusters, this meant their businesses were more profitable. Some entrepreneurs were able to project sales and revenue and save money to cover unexpected costs. But this was often not the case for entrepreneurs with high levels of financial instability, such as the seasonal business owners in the Off Balance and Seasonal cluster and those still unable to draw a salary in the Retrenching cluster.

Consider how entrepreneur clusters indicate business trajectories. It is expected that most entrepreneurs will experience highs and lows over the course of their businesses. It is possible then that the clusters identified in this study represent phases that business owners may go through as they adapt to the challenges of entrepreneurship. Entrepreneurs in the Focused and Growing cluster may have been small and struggling to make ends meet at some point but were able to get their business ready for growth. Stable and Strategic entrepreneurs could face future challenges that cause them to course correct and slow down, similar to Retrenching entrepreneurs. Slowly Growing and Optimistic entrepreneurs may use their financial tracking abilities to achieve future stability. Recognizing these characteristics in entrepreneurs can help address their individual needs and help them move to a future path of success.

Antijitos Colombianos, San Diego, CA

What's Next for Accion and Opportunity Fund?

The insights that Accion and Opportunity Fund have gained from this research will be instrumental in enabling us to develop and refine solutions that respond to the business owners we serve. The data from this research is richer and more holistic than any previous evaluation effort we have undertaken, allowing us to better understand the unique journeys that entrepreneurs experience as they pursue greater economic opportunity and personal fulfillment.

The findings from this study, illustrated in the first round of data collection and reinforced in the second round, reveal the value of the services we provide to entrepreneurs. These results illuminate the tremendous power of Accion and Opportunity Fund saying "yes" to business owners. The study also reveals the importance of partnering with entrepreneurs to write their own success story – recognizing that success has different definitions, including those who prioritize financial stability, creative freedom, or other personal goals over business expansion.

Importance of customer-centric services

We have learned that entrepreneurs encounter unique challenges and opportunities in their business journeys. Their experiences vary depending on the personal goals that led them to start their businesses, the nature of the business' cash flow, and the business owner's ability to plan for and withstand a financial crisis. While each individual business owner and enterprise is unique, this research demonstrates that customer segmentation by typology, based on rigorous application of data, offers a promising way to better serve our customers. These customer typologies are not easily delineated by factors such as industry or business age, underscoring the fact that there is simply no replacement for lenders getting to know individual

Turning Insight into Action

This chapter includes insights from Accion and Opportunity Fund. Written in their own words, Accion and Opportunity Fund offer their plan to utilize study findings to strengthen their services and support the field.

customers and their businesses as part of the lending process. The typologies developed through this research will assist us in developing solutions that are further tailored to help our customers succeed on their own terms.

Helping business owners manage financial volatility

This study reveals that the business owners we serve face varied challenges in managing business cash flow and maintaining household financial stability. The data also shows that Accion and Opportunity Fund clients tend to increase their financial health (including their business profits, business financial reserves, household savings and financial management practices) in the years after taking out their loans, an encouraging set of outcomes. These gains often enable borrowers to create more jobs in their neighborhoods and offer expanded benefits to their employees. Nevertheless, even those entrepreneurs whose businesses are growing, and thriving, often struggle to build sufficient reserves to withstand a financial emergency, and many say they would be unable to withstand a negative event. For those whose businesses are not thriving, finances are a significant source of stress. Given that many of our clients specifically start their businesses to improve their financial stability, as established in the preliminary report, there is a clear opportunity for organizations like ours to better support small business owners in managing the common challenge of cash flow volatility and building financial resilience for their businesses.

Putting insights into action

In the coming months, Accion and Opportunity Fund will continue to evaluate opportunities to incorporate this study's findings into our work. These opportunities include:

Diversifying the structure and delivery of our financial products

The standard term loan, most widely used product across the CDFI industry, provides transparency and predictability in cost. Customer expectations today include speed, low friction in the application process and product options. Accion and Opportunity Fund are already implementing a variety of innovations in our loan application and underwriting processes to reduce the time required to get capital into business owners' hands. Yet, it is possible that other capital and/or repayment structures could better serve their financial needs.

For example, business owners in the *Stable and Strategic*, *Slowly Growing and Optimistic*, and *Off-balance and Seasonal* clusters tend to experience periodic fluctuations in cash flow. For these business owners, a financing structure that allows for greater repayment amounts in months with higher revenue and smaller repayment amounts in slower months may be beneficial. For business owners that have a relative degree of financial stability, such as those in the *Focused and Growing* cluster, a line of credit that allows entrepreneurs to capitalize on growth opportunities may be valuable. Business owners in the Retrenching cluster who face the prospect of making personal financial sacrifices to continue the growth of their business may benefit from a more seamless process to restructure their loan to reduce monthly payments.

With any innovation in capital delivery, our core values of responsible lending will remain central to our design and delivery processes. This includes ensuring that the structure and features of a financial product match up with the goals and cash flow patterns of the business, that the entrepreneur clearly understands the full cost of the product, that the product supports them in improving their financial health.

Making financial advising services more relevant to the diversity of small business owner experiences

This research reveals that entrepreneurs who use Accion and Opportunity Fund's non-financial services (such as financial counseling, mentorship programs, online resources and workshops) see great benefit to them. Yet, many clients are not taking advantage of these opportunities. Perhaps they face barriers to accessing these services, or they don't find them to be relevant or beneficial enough to adopt in a meaningful way. This presents an opportunity to improve how we connect small business owners to resources that can help them reach their goals, on their own terms.

Business planning emerged as a concept that business owners generally value, but don't always operationalize. Among those who are operating on thin margins and with variable cash flow (such as entrepreneurs in the "Off-Balance and Seasonal" and "Slowly Growing and Optimistic" clusters), tools and resources that integrate into the day-to-day operations of a business and address a short-term need, such as building savings, might be most relevant. Addressing this immediate need for stability could help business owners free up mental space to adopt more future-oriented behaviors, such as developing and following a business plan.

Some entrepreneurs appear more immediately ready to adopt new approaches to business planning. For example, business owners in the "Focused and Growing" cluster have gained short-term stability through increased profits, financial reserves and household savings. Yet, long-term planning to forecast potential financial pitfalls or opportunities remains a challenge. Those in the "Retrenching" cluster are working hard to establish or expand their ventures, even to the point of sacrificing their household financial stability to ensure business survival. They are optimistic about the future, but lack sufficient resources to weather a financial emergency. Entrepreneurs from each of these groups are tracking their finances with increasing levels of sophistication and planning for business growth, but could benefit from more robust tools to build financial projections and develop strategies to minimize the impact of financial emergencies. Financial coaching and/or mentoring services that are bite-sized and convenient, such as those using digital channels (e.g. text message and web conferencing) might be more accessible for those who could use assistance in developing a long-term strategy.

Business owners in the "Stable and Strategic" cluster are managing irregular cash flow through diligent planning and by piecing together multiple sources of income. They have been successful in building and maintaining financial stability despite seasonal fluctuations in business cash flow. Given their affinity for strategic planning, they may benefit from tools that help them formalize their financial management practices. Yet, for these tools to be useful, they must be able to integrate multiple sources of income to generate an accurate picture of the entrepreneur's finances.

Adopting evidence-based solutions

This research has been useful in informing future priorities for product and service innovation. Yet, further data and insights will be needed to determine whether our current hypotheses hold once we begin to adopt new solutions. This entails building a discipline of evaluation, testing and refinement into the design of new products, partnerships and services to ensure they are effective.

In addition, we know that implementing new products and services can be challenging even when they fit a clearly defined need. Both Accion and Opportunity Fund have encountered challenges in implementing new products in the past, including operational and change management hurdles. These early efforts have moved us to embrace an experimental approach to innovation built on testing and iterating new interventions to better meet the needs of particular customer segments. This includes working at the local level to design targeted initiatives for borrowers in key markets, and then scaling promising solutions to new geographic settings.

We expect that many existing and/or developing offerings by organizations in the social, private and public sectors can effectively support our customers in managing their cash flow and improving their business planning processes. Accion and Opportunity Fund can play an important role in connecting entrepreneurs to these services, testing strategies to encourage adoption, and evaluating their impact on business owner outcomes.

We look forward to continuing conversations with fellow practitioners in the CDFI industry and across the broader entrepreneurial ecosystem to consider the implications of these findings for our work moving forward.

Methods Appendix

This appendix contains additional details about the study methods as well as a brief overview of study participants.

Methods Overview

In order to obtain the most comprehensive and detailed understanding of the mid-term impact of small business loans, the study employed a mixed-methods approach to data collection, using both quantitative and qualitative data elements. This section provides additional detail regarding the study methods used.

The study consisted of two key methods:

1. Surveys: The survey went beyond typical metrics, such as business revenue and number of employees, to measure entrepreneur' personal and business goals, financial management practices, and plans for the future. Business owners who received their loan between January 2014 and March 2015 and were in loan repayment were eligible to participate. This time frame was selected to ensure a large enough sample size while also ensuring an appropriate amount of time since loan receipt to observe change. The survey was offered in English and Spanish and was conducted initially between January and May 2016 and again between March and June 2017.

   Regionally representative samples of loan recipients were invited to complete the survey online or via telephone. Sample sizes and composition varied in accordance with the number of loans granted across Accion and Opportunity Fund member networks (Exhibit 1). While the sample in each lending region was intended to be representative of the region as a whole, each sample represents entrepreneurs across cities and states. The completed surveys represent entrepreneurs across 27 states (Exhibit 2).

2. In-Depth Interviews: A smaller cohort of entrepreneurs who completed the survey also participated in in-depth, semi-structured telephone interviews between April and June 2016 and again between April and June 2017. The interviews were designed to delve deeper into entrepreneurs' experiences, financial practices, and quality of life measures not typically captured through surveys. Interviewees were sampled using ten Metropolitan Statistical Areas (MSA) as the regional focus. By focusing on ten MSAs interviews provide insight regarding nuances in entrepreneur experiences within each lending member. The interviews were offered in English and Spanish and asked business owners to reflect on the impact of their microloan on their household and business, and on how the entrepreneur defined success for their business. The number of interviews completed by metropolitan area is shown below (Exhibit 2).

Exhibit 1. Survey and Interview Sampling

Lending Region	Total Eligible Borrowers[59]	% of Sample	Completed Surveys		Number of In-Depth Interviews	
			Initial	Follow-up	Initial	Follow-up
East (Florida, New Jersey, New York, and Massachusetts)	1,353	11.6%	157	94	47	25
Illinois and Northwest Indiana	618	15.0%	93	59	26	11
Southwest and Rocky Mountains (Arizona, Colorado, Nevada, New Mexico, and Texas)	1,435	10.4%	149	100	57	25
San Diego	294	20.4%	60	30	27	14
Los Angeles and Bay Area	1,656	6.2%	102	67	41	25
Total	5,356	10.5%	561	350	188	100

Quantitative Data Analysis

This section outlines the approach to analyzing the survey. Data from 350 matched Initial and Follow-up surveys completed by June 15, 2017 were included in the analysis.[60]

All variables were screened to determine the amount of missing data. At the individual business owner level, missing data from either the initial or follow-up survey resulted in that owner being excluded from the analysis of that particular variable (pair-wise deletion). For scales consisting of averages, scores were computed if at least half of items had responses.

Descriptive analysis was conducted on all survey items in the form of counts, percentages and/or proportions. All subsequent parametric and nonparametric analyses were conducted one-tailed and were considered significant if alpha is less than .05. Change over time was assessed using data from entrepreneurs who had completed surveys at both initial and follow-up. Tests were considered statistically significant if their alpha value is less than .05 (one-tailed where relevant). Where possible, individual items were combined to create scales before testing for statistical significance; this was important to create more stable estimates and reduce experiment-wise type I error.

Cluster Analysis

The research team employed a data analytic technique called *cluster analysis* to distinguish different types of entrepreneurs based on the changes in business practices and financial outcomes reported in the follow-up survey. Cluster analysis is a set of multivariate analytic techniques used to identify underlying groups within data sets based on a defined set of characteristics.

As noted in the report, groups were identified by the following variables:

1. Change in sales and profit during the past six months

[59] This includes only business owners who received a loan between January 2014 and March 2015.
[60] Of 372 reached at follow-up, 22 businesses had closed and were not included in the full analysis.

2. Change in personal/household savings during the past six months
3. Employment outside of business
4. Ability to draw a salary from the business in the past six months
5. Business financial stability (i.e., sufficient revenue to cover expenses and withstand a financial emergency)
6. Personal and business financial tools such as business savings account, credit card, insurance, retirement account
7. Business tracking tools
8. Comfort with current level of business debt
9. Personal financial security, such as financial stress and ability to plan

Only businesses that were open at the time of the follow-up survey and that responded to all cluster analysis questions were included in this data analysis (n=259).

This approach created clusters (or groups) of entrepreneurs that are most alike one another, while simultaneously maximizing the differences among groups. The research team used a hierarchical cluster analysis utilizing Ward's method[61] of distance calculation to identify five "types" of entrepreneurs based on data from the follow-up survey. Based on the data, five distinct groups of entrepreneurs emerged. [62]

Next, we explored the ways in which each of the five groups of entrepreneurs differed from one another based on survey items included in the cluster analysis and some items not included in the cluster analysis. This data, along with data from in-depth interviews (see below), created the basis for each cluster profile that appears in the report.

The cluster analysis identified compelling groups of entrepreneurs and identifies ways in which they are unique from one another. However, it is important to acknowledge two potential limitations:

1. The cluster analysis included only businesses that were open at both the initial and follow-up survey and;

2. The analysis included only business owners who provided answers to all questions from the follow-up survey. While these entrepreneurs did not appear to differ in any substantive way that the research team could identify, it is worth noting that the entrepreneur clusters are based on a subset of the full matched sample.

Qualitative Data Analysis

This section provides an overview of the approach to analyzing the in-depth interviews. Data from all interviews at initial and follow-up completed by June 30, 2017 were included in the analysis.

The qualitative data analysis consisted of two phases, 1) content analysis of all follow up interviews and 2) trajectory analysis of matched initial and follow up interviews for each of the clusters.

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[61] Ward's method uses the F value to maximize the significance of differences between clusters, which gives it the highest statistical power of all methods.
[62] We elected to explore the 5 group solution based on the changes in the agglomeration coefficient.

Content analysis

The analysis team developed a codebook guided by the six evaluation domains and emerging findings from the initial round of data analysis. Utilizing ATLAS.ti software, the data were coded accordingly. New codes were added as the data analysis team observed new trends not captured by the then current codebook.

Interview participants were segmented into mutually exclusive families based on gender, number of employees, borrower status, and age of business (Exhibit 2). These categories were developed jointly with Accion and Opportunity Fund and based on the first round of data analysis and expected outcomes. Interview data were exported for each code and family. The analysis team reviewed, interpreted, and summarized the key trends for each code and entrepreneur family. Based on this initial review, several additional lines of inquiry appeared and the analysis team took the same approach for analyzing and interpreting those pieces.

Exhibit 2. Family Analysis Description

Family	Description
Business size	• Sole owned/operated • 1-4 employees • 5+ employees
Type of borrower at beginning of study	• First time borrower • Repeat borrower
Gender	• Male • Female
Length in business at start of the study	• Less than 2 years • 2-5 years • More than 5 years

Trajectory analysis

The analysis team used the clusters identified in the quantitative analysis to conduct a longitudinal trajectory analysis for each business owners in each cluster. This allowed for the examination of smaller cohorts of entrepreneurs within the larger sample to understand the conditions under which change happens and to examine the impact lending services have had on entrepreneurs across the nation. The trajectory analysis focused on the following questions:

- When do any changes occur for entrepreneurs? Which changes co-occur with or precede others? Are there any reasons, surges or ‘tipping points’ for those changes?
- What are the contextual processes that condition or influence changes and the timing of changes?
- Are changes substantive or symbolic?
- How meaningful do entrepreneurs see those changes?

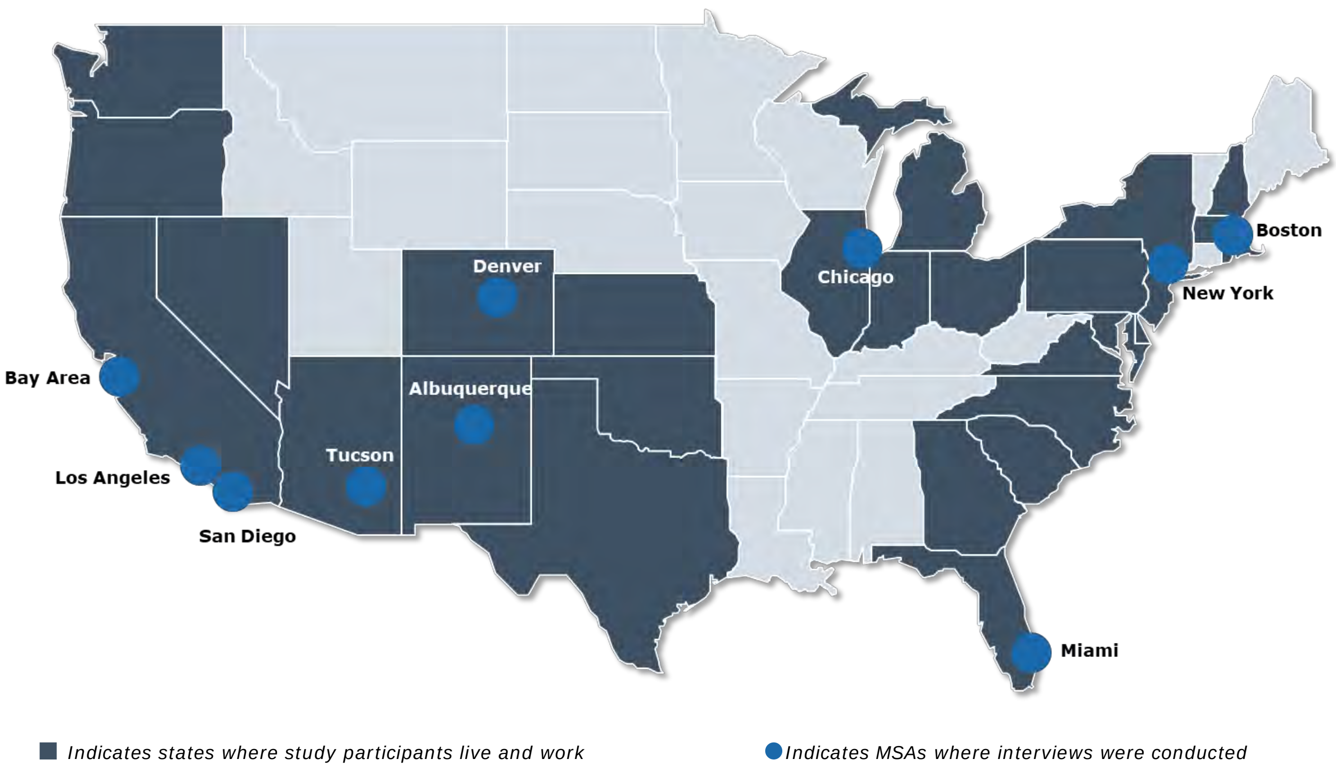
Matched interview participants for each cluster were used to conduct a second round of content analysis. Looking at both coded data and transcripts for both sets of interviews, the analysis team used a deductive approach to answer the above questions.

Overview of Study Participants

The report analyzed data from 350 matched participants (meaning they completed both the initial and follow-up surveys). Study participants are a geographically and demographically diverse group of entrepreneurs. They include entrepreneurs from 27 different states and Puerto Rico (Exhibit 3).

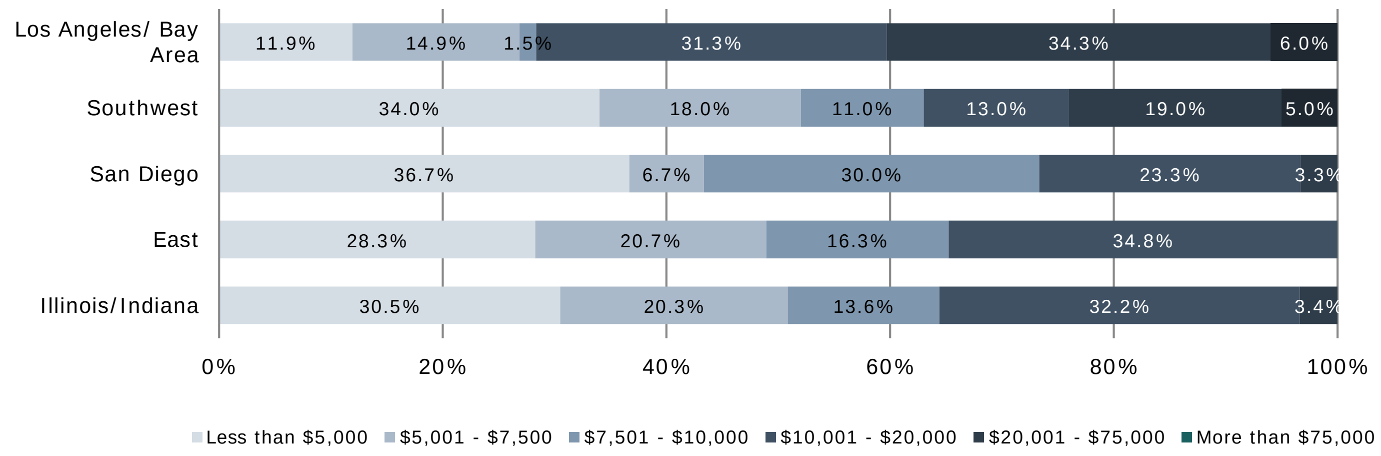
To ensure a sample of business owners that reflects the diversity of Accion and Opportunity Fund-supported entrepreneurs, the study employed stratified cohort probability sampling, engaging entrepreneurs that reflect lending in each region on factors such as ethnicity, borrower status (first time or repeat borrowers), and income level. This approach maximizes the ability to generalize findings across each funding region.

Exhibit 3. Regional Representation of Surveys and Interviews



Loan amounts across the matched survey sample varied widely, from $200 to $500,000, with most (58.2%) under $10,000. Each lending member has its own range of loan amounts. Opportunity Fund's loan range, for example, was $2,500 to $100,000, while some Accion loans were for larger amounts (Exhibit 4).

Exhibit 4. Loan Ranges by Sample Region (n=350)



Entrepreneurs represent a wide range of business industries, from transportation and warehousing to arts and entertainment (Exhibit 4). There are regional differences when looking at specific industries. For example, almost half (48.5%) of transportation and warehousing entrepreneurs are from the Los Angeles and Bay Area while the largest group of retail trade services (32.6%) is from the East Coast.

Exhibit 5. Business Industries (n=350) [63]

Retail Trade	13.3%	Manufacturing	4.9%
Administrative and Support and Waste Management and Remediation Services	11.5%	Information	3.7%
Professional, Scientific, and Technical Services	8.9%	Arts, Entertainment, and Recreation	3.3%
Transportation and Warehousing	9.5%	Educational Services	2.6%
Accommodation and Food Services	8.1%	Finance and Insurance	2.6%
Health Care and Social Assistance	8.1%	Real Estate and Rental and Leasing	1.4%
Construction	6.2%	Agriculture, Forestry, Fishing and Hunting	0.9%
Wholesale Trade	5.5%		

The categories utilized throughout the report to identify businesses industries reflect the names of the North American Industry Classification System (NAICS). NAICS industry names are the standard that Federal agencies use when classifying business establishments and may not be the common name used by

[63] 9.8% (or 34 respondents) indicated an "other" service field.

entrepreneurs. For example, the category Administrative and Support and Waste Management and Remediation Services refers to businesses primarily engaged in providing support activities for the day-to-day operations of other organizations. Those services include janitorial services, document preparation services, and security services.

Data Appendix

Table 1. Cluster Analysis Variables

The following table details the indicators used for the cluster analysis. All indicators used are from the follow up survey. Total column includes all borrowers that were not part of any cluster.

Cluster	Focused and Growing		Stable and Strategic		Off Balance and Seasonal		Retrenching		Slowly Growing and Optimistic		Total	
Indicator	%	n	%	n	%	n	%	n	%	n	%	n
Employment outside the business	0.0%	113	100.0%	31	38.0%	24	58.0%	48	5.0%	40	29.0%	350
Take home a salary from businesses	100.0%	113	93.5%	31	50.0%	24	2.1%	48	95.3%	43	73.0%	333
Business Sales and Profit in last six months												
Increase	77.0%	87	74.2%	23	0.0%	0	68.8%	33	60.5%	26	63.1%	221
Decrease	6.2%	7	9.7%	3	91.7%	22	4.2%	2	4.7%	2	14.6%	51
Stay the same	16.8%	19	16.1%	5	8.3%	2	27.1%	13	34.9%	15	22.2%	78
Personal take home pay in last six months												
Increase	58.4%	66	54.8%	17	0.0%	0	22.9%	11	23.3%	10	39.6%	126
Decrease	3.5%	4	0.0%	0	70.8%	17	4.2%	2	9.3%	4	12.3%	39
Stay the same	38.1%	43	45.2%	14	29.2%	7	72.9%	35	67.4%	29	48.1%	153
Personal/household savings												
Increase	53.1%	60	54.8%	17	0.0%	0	33.3%	16	2.3%	1	35.4%	112
Decrease	3.5%	4	9.7%	3	75.0%	18	6.3%	3	18.6%	8	14.9%	47
Stay the same	43.4%	49	35.5%	11	25.0%	6	60.4%	29	79.1%	34	49.7%	157
Business financial stability[64] *(i.e., sufficient revenue to cover expenses, ability to withstand financial emergency)*	3.36 (0.50)	113	3.05 (0.59)	31	2.26 (0.51)	24	2.92 (0.64)	48	2.38 (0.61)	43	2.96 (0.71)	350
Personal and business financial tools[65] *(i.e., business savings account, credit card, insurance, retirement account)*	6.60 (1.79)	113	6.32 (1.25)	31	6.08 (1.61)	24	6.17 (1.73)	48	4.98 (1.57)	43	5.93 (1.80)	350
Business tracking tools[66]	3.10 (0.77)	113	2.71 (0.69)	31	3.33 (0.76)	24	3.13 (0.76)	48	3.21 (0.64)	43	3.01 (0.76)	350
Personal financial security[67] *(i.e., stress about finances, ability to plan for financial future)*	4.13 (0.60)	113	4.17 (0.61)	31	2.85 (0.61)	24	3.87 (0.68)	48	3.07 (0.58)	43	3.77 (0.77)	348
Comfort with debt												
Very uncomfortable	1.8%	2	0.0%	0	16.7%	4	14.6%	7	32.6%	14	11.7%	37

[64]Average of items in Question 11: Business financial stability. Items include: monthly business revenue sufficient to cover operating costs; able to meet business debt and other obligations; can withstand negative events; am able to pursue growth opportunities; have sufficient cash reserves to withstand financial emergency, able to predict monthly take home pay. The scale ranged from 1 to 4, where 1=Rarely; 2= Sometimes/occasionally; 3=Most of the time; and 4=" Always or almost always."

[65] Sum of items in Question 12: Personal and business financial tools. Items include: personal/business savings and checking accounts; investment accounts; business financial plan; business credit card; and business insurance. The scale ranged from 0 to 9.

[66] Categorization of responses to Question 13: Business tracking tools. Responses were scored on a scale 1 to 4, where 1=No tracking practices to 4=advanced practices (uses financial software and/or an accountant to track business finances).

[67] Average of items on Question 20: Personal financial security. Items include: feel in control of current financial situation; finances are a source of worry; have ability to handle financial future; saving and investing are important; have adequate information to make financial decisions; repaying loans is a source of stress; and have planned for a financial emergency. The scale ranged from 1=Not at all true to 5=Very true.

Cluster	Focused and Growing		Stable and Strategic		Off Balance and Seasonal		Retrenching		Slowly Growing and Optimistic		Total	
Somewhat uncomfortable	5.3%	6	12.9%	4	37.5%	9	12.5%	6	32.6%	14	15.5%	49
Somewhat comfortable	39.8%	45	35.5%	11	25.0%	6	27.1%	13	34.9%	15	33.5%	106
Very comfortable with the level of debt	53.1%	60	51.6%	16	20.8%	5	45.8%	22	0.0%	0	39.2%	124

Table 2. Demographics of Clusters

The following table details key demographic variables by cluster for matched cases. Total column includes all borrowers that were not part of any cluster.

Cluster	Focused and Growing		Stable and Strategic		Off Balance and Seasonal		Retrenching		Slowly Growing and Optimistic		Total	
Demographics	%	n	%	n	%	n	%	n	%	n	%	n
Reason for obtaining the loan												
Open	12.5%	14	6.7%	2	12.5%	3	25.0%	12	4.7%	2	14.4%	50
Maintain	41.1%	46	50.0%	15	54.2%	13	35.4%	17	48.8%	21	45.1%	157
Expand	46.4%	52	43.3%	13	33.3%	8	39.6%	19	46.5%	20	40.5%	141
Ethnicity												
White	36.6%	34	39.3%	11	31.8%	7	34.1%	15	46.0%	17	34.9%	103
Black	16.1%	15	21.4%	6	31.8%	7	20.5%	9	16.2%	6	19.3%	57
Latino	34.4%	32	35.7%	10	18.2%	4	34.1%	15	29.7%	11	35.3%	104
Other	12.9%	12	3.6%	1	18.2%	4	11.4%	5	8.1%	3	10.5%	31
Age												
0-34 years old	24.2%	23	21.4%	6	8.7%	2	29.5%	13	15.8%	6	19.3%	58
35-54 years old	53.7%	51	53.6%	15	73.9%	17	59.1%	26	60.5%	23	60.7%	182
55+ years old	22.1%	21	25.0%	7	17.4%	4	11.4%	5	23.7%	9	20.0%	60
Gender												
Female	35.8%	34	53.6%	15	56.5%	13	52.3%	23	52.6%	20	48.3%	145
Male	64.2%	61	46.4%	13	43.4%	10	47.7%	21	47.3%	18	51.7%	155
Industry												
Accommodation and Food Services	4.4%	5	16.1%	5	4.2%	1	8.3%	4	18.6%	8	8.0%	28
Administrative and Support and Waste Management and Remediation Services	9.7%	11	16.1%	5	4.2%	1	12.5%	6	14.0%	6	11.4%	40
Agriculture, Forestry, Fishing and Hunting	0.9%	1	3.2%	1	0.0%	0	2.1%	1	0.0%	0	0.9%	3
Arts, Entertainment, and Recreation	2.7%	3	0.0%	0	8.3%	2	4.2%	2	0.0%	0	3.1%	11
Construction	5.3%	6	0.0%	0	4.2%	1	8.3%	4	4.7%	2	6.0%	21
Educational Services	2.7%	3	3.2%	1	0.0%	0	6.3%	3	0.0%	0	2.6%	9
Finance and Insurance	2.7%	3	0.0%	0	4.2%	1	0.0%	0	7.0%	3	2.6%	9
Health Care and Social Assistance	11.5%	13	6.5%	2	12.5%	3	2.1%	1	2.3%	1	8.0%	28
Information	3.5%	4	9.7%	3	0.0%	0	8.3%	4	0.0%	0	3.7%	13
Manufacturing	1.8%	2	3.2%	1	12.5%	3	2.1%	1	11.6%	5	4.9%	17
Other Services (except Public Administration)	5.3%	6	3.2%	1	16.7%	4	12.5%	6	18.6%	8	9.7%	34
Professional, Scientific, and Technical Services	15.9%	18	9.7%	3	8.3%	2	4.2%	2	4.7%	2	8.9%	31
Real Estate and Rental and Leasing	1.8%	2	0.0%	0	0.0%	0	2.1%	1	0.0%	0	1.4%	5

Cluster	Focused and Growing		Stable and Strategic		Off Balance and Seasonal		Retrenching		Slowly Growing and Optimistic		Total	
Demographics	%	n	%	n	%	n	%	n	%	n	%	n
Retail Trade	11.5%	13	12.9%	4	12.5%	3	14.6%	7	9.3%	4	13.1%	46
Transportation and Warehousing	14.2%	16	6.5%	2	12.5%	3	2.1%	1	2.3%	1	9.4%	33
Wholesale Trade	5.3%	6	9.7%	3	0.0%	0	8.3%	4	4.7%	2	5.4%	19

Table 3. Impact questions by cluster

The following illustrates all 18 impact items by clusters. Borrowers were asked to rate each statements on a scale from 1 to 5.

Survey questions: Please rate each of the following statements from 1 to 5. 1 means Opportunity Fund had NO impact on that item. 5 means Opportunity Fund had A LOT of impact on that item. Not all statements may be true for you and/or your business. Please mark N/A if the statement is not true for your business (e.g., mark N/A if your business sales have not increased)

Survey Item	Initial Survey Means (Standard Deviation)	Follow-up Survey Means (Standard Deviation)	Means Difference ** indicates statistical significance when p<0.05*	Percent of borrowers who marked 4 or 5 at Initial Survey	Percent of borrowers who marked 4 or 5 at Follow-Up Survey
OVERALL STUDY SAMPLE (n=350)					
a. My new equipment	3.70 (1.34)	3.78 (1.34)	0.08	62.90%	63.40%
b. Feeling more confident I can achieve my goals	3.39 (1.42)	3.48 (1.40)	0.09	49.70%	53.70%
c. My ability to expand or modify my products/services	2.87 (1.55)	2.96 (1.57)	0.01	38.00%	38.50%
d. My cash-flow	3.76 (1.37)	3.75 (1.41)	-0.01	62.30%	61.90%
e. My ability to increase business sales	2.35 (1.52)	2.52 (1.63)	0.17	26.80%	30.10%
f. My business' overall profit	2.70 (1.56)	2.69 (1.62)	-0.01	32.90%	33.20%
g. My ability to revise, develop, or implement a marketing strategy	2.59 (1.57)	2.79 (1.59)	0.21*	30.30%	37.10%
h. My ability to improve my credit	3.48 (1.53)	3.51 (1.48)	0.03	53.60%	56.00%
i. Feeling more financially stable	3.73 (1.37)	3.65 (1.48)	-0.08	62.80%	61.00%
j. My change in location	2.89 (1.51)	2.97 (1.58)	0.08	37.40%	39.10%
k. My ability to project my business sales and profits	2.60 (1.54)	2.66 (1.60)	0.07	31.30%	32.60%
l. My ability to improve financial record keeping	3.15 (1.51)	3.08 (1.54)	-0.07	46.00%	45.20%
m. Having more take home pay	2.60 (1.53)	2.61 (1.61)	0.01	29.40%	31.50%

Survey Item		Initial Survey Means (Standard Deviation)	Follow-up Survey Means (Standard Deviation)	Means Difference * *indicates statistical significance when p<0.05*	Percent of borrowers who marked 4 or 5 at Initial Survey	Percent of borrowers who marked 4 or 5 at Follow-Up Survey
n.	My ability to help improve a particular area/neighborhood	2.19 (1.45)	2.20 (1.53)	0.01	20.20%	22.90%
o.	My ability to hire staff	3.59 (1.36)	3.49 (1.42)	-0.10	55.90%	52.40%
p.	My ability to retain staff	3.63 (1.37)	3.52 (1.42)	-0.10	60.60%	54.10%
q.	My ability to spend more time with my family	2.33 (1.65)	2.21 (1.60)	-0.12	29.60%	25.60%
r.	My ability to work less	3.71 (1.53)	3.55 (1.65)	-0.17	62.30%	57.90%

FOCUSED AND GROWING CLUSTER (n=113)						
a.	My new equipment	3.50 (1.63)	3.56 (1.69)	0.06	56.10%	58.00%
b.	Feeling more confident I can achieve my goals	3.86 (1.32)	3.96 (1.37)	0.10	71.00%	71.40%
c.	My ability to expand or modify my products/services	3.87 (1.37)	3.88 (1.37)	0.01	68.00%	68.80%
d.	My cash-flow	3.84 (1.29)	3.67 (1.44)	-0.18	67.30%	60.20%
e.	My ability to increase business sales	3.84 (1.32)	3.86 (1.39)	0.02	68.30%	69.40%
f.	My business' overall profit	3.78 (1.33)	3.78 (1.40)	0.00	65.40%	65.80%
g.	My ability to revise, develop, or implement a marketing strategy	3.45 (1.46)	3.27 (1.54)	0.00	51.50%	52.40%
h.	My ability to improve my credit	3.76 (1.50)	3.70 (1.55)	-0.06	62.50%	67.30%
i.	Feeling more financially stable	3.64 (1.36)	3.68 (1.45)	0.04	58.50%	61.60%
j.	My change in location	2.25 (1.64)	2.10 (1.57)	-0.15	24.70%	27.60%
k.	My ability to project my business sales and profits	3.10 (1.51)	3.33 (1.62)	0.23	41.80%	53.80%
l.	My ability to improve financial record keeping	2.64 (1.58)	3.03 (1.61)	0.40*	31.60%	44.70%
m.	Having more take home pay	3.04 (1.46)	3.27 (1.67)	0.23	42.70%	53.70%
n.	My ability to help improve a particular area/neighborhood	2.23 (1.45)	2.63 (1.70)	0.40*	23.80%	30.60%
o.	My ability to hire staff	2.81 (1.55)	3.04 (1.70)	0.23	39.30%	46.80%
p.	My ability to retain staff	2.73 (1.50)	2.96 (1.64)	0.23	35.60%	44.60%
q.	My ability to spend more time with my family	2.68 (1.57)	2.77 (1.68)	0.09	34.00%	34.30%
r.	My ability to work less	2.15 (1.46)	2.25 (1.60)	0.10	20.00%	23.40%

Survey Item	Initial Survey Means (Standard Deviation)	Follow-up Survey Means (Standard Deviation)	Means Difference * *indicates statistical significance when p<0.05*	Percent of borrowers who marked 4 or 5 at Initial Survey	Percent of borrowers who marked 4 or 5 at Follow-Up Survey
STABLE AND STRATEGIC CLUSTER (n=31)					
a. My new equipment	4.46 (1.18)	3.96 (1.46)	-0.50	81.50%	67.90%
b. Feeling more confident I can achieve my goals	3.71 (1.33)	3.89 (1.07)	0.18	62.10%	63.30%
c. My ability to expand or modify my products/services	3.52 (1.50)	4.17 (1.14)	0.66*	55.20%	76.70%
d. My cash-flow	3.12 (1.51)	3.53 (1.33)	0.40	38.50%	55.20%
e. My ability to increase business sales	3.48 (1.41)	3.55 (1.35)	0.07	55.20%	56.70%
f. My business' overall profit	3.59 (1.39)	3.74 (1.20)	0.15	53.60%	62.10%
g. My ability to revise, develop, or implement a marketing strategy	2.85 (1.43)	3.15 (1.35)	0.30	35.70%	42.90%
h. My ability to improve my credit	3.37 (1.45)	3.89 (1.21)	0.52	56.70%	64.30%
i. Feeling more financially stable	3.22 (1.53)	3.70 (1.10)	0.48	42.90%	56.70%
STABLE AND STRATEGIC CLUSTER (continued)					
j. My change in location	2.64 (1.82)	2.50 (1.56)	-0.14	30.00%	29.40%
k. My ability to project my business sales and profits	2.48 (1.44)	3.04 (1.49)	0.57	28.00%	37.00%
l. My ability to improve financial record keeping	2.09 (1.51)	2.78 (1.59)	0.70	17.40%	34.60%
m. Having more take home pay	2.71 (1.61)	3.21 (1.34)	0.50	41.40%	41.40%
n. My ability to help improve a particular area/neighborhood	1.94 (1.31)	2.00 (1.24)	0.06	19.00%	16.70%
o. My ability to hire staff	2.05 (1.27)	2.26 (1.37)	0.21	9.50%	16.70%
p. My ability to retain staff	1.89 (1.24)	2.68 (1.57)	0.79	9.50%	27.30%
q. My ability to spend more time with my family	2.25 (1.29)	2.40 (1.43)	0.15	16.00%	34.80%
r. My ability to work less	1.58 (0.96)	2.21 (1.44)	0.63*	8.70%	21.70%
OFF BALANCE AND SEASONAL CLUSTER (n=24)					
a. My new equipment	3.67 (1.46)	3.48 (1.63)	-0.19	63.60%	52.20%
b. Feeling more confident I can achieve my goals	3.90 (1.04)	3.24 (1.26)	-'0.67*	73.90%	40.90%
c. My ability to expand or modify my products/services	3.86 (1.17)	2.86 (1.52)	-'1.00*	73.90%	39.10%
d. My cash-flow	3.71 (1.31)	3.48 (1.37)	-0.238	68.20%	39.10%
e. My ability to increase business sales	4.00(1.14)	3.00 (1.48)	-'1.00*	69.60%	50.00%
f. My business' overall profit	3.60 (1.23)	2.50 (1.32)	-'1.10*	56.50%	28.60%
g. My ability to revise, develop, or implement a marketing strategy	3.00 (1.49)	2.63 (1.54)	-0.368	54.50%	23.80%

Survey Item	Initial Survey Means (Standard Deviation)	Follow-up Survey Means (Standard Deviation)	Means Difference * *indicates statistical significance when p<0.05*	Percent of borrowers who marked 4 or 5 at Initial Survey	Percent of borrowers who marked 4 or 5 at Follow-Up Survey
h. My ability to improve my credit	3.00 (1.59)	3.05 (1.28)	0.05	36.40%	27.30%
i. Feeling more financially stable	3.48 (1.21)	3.38 (1,40)	-0.095	59.10%	47.80%
j. My change in location	3.19 (1.80)	2.81 (1.60)	-0.375	52.90%	31.60%
k. My ability to project my business sales and profits	3.14 (1.15)	2.33 (1.24)	-'0.81*	43.50%	18.20%
l. My ability to improve financial record keeping	2.79 (1.51)	2.53 (1.54)	-0.263	35.00%	27.30%
m. Having more take home pay	2.58 (1.50)	2.26 (1.37)	-0.316	28.60%	13.60%
n. My ability to help improve a particular area/neighborhood	2.42 (1.51)	2.50 (1.68)	0.083	27.80%	29.40%
o. My ability to hire staff	3.00 (1.56)	2.87 (1.55)	-0.133	43.80%	35.00%
p. My ability to retain staff	3.07 (1.49)	2.64 (1.39)	-0.429	50.00%	22.20%
q. My ability to spend more time with my family	2.18 (1.29)	2.41 (1.54)	0.235	19.00%	25.00%
r. My ability to work less	2.17 (1.20)	2.00 (1.53)	-0.17	14.30%	14.30%
RETRENCHING CLUSTER (n=48)					
a. My new equipment	3.91 (1.38)	3.71 (1.69)	-0.20	68.30%	60.50%
b. Feeling more confident I can achieve my goals	3.91 (1.16)	3.95 (1.26)	0.05	66.70%	66.00%
c. My ability to expand or modify my products/services	4.08 (1.14)	2.08 (1.36)	0.00	66.70%	65.10%
d. My cash-flow	3.59 (1.39)	3.57 (1.47)	-0.02	59.10%	56.30%
e. My ability to increase business sales	3.63 (1.23)	3.70 (1.68)	0.08	56.10%	63.00%
f. My business' overall profit	3.63 (1.24)	3.54 (1.43)	-0.10	52.40%	48.90%
g. My ability to revise, develop, or implement a marketing strategy	3.28 (1.37)	3.25 (1.70)	-0.03	51.20%	51.20%
h. My ability to improve my credit	3.33 (1.53)	3.38 (1.56)	0.05	46.50%	46.70%
i. Feeling more financially stable	3.37 (1.43)	3.51 (1.44)	0.14	44.40%	52.20%
j. My change in location	2.24 (1.56)	2.18 (1.70)	-0.06	38.70%	29.60%
k. My ability to project my business sales and profits	3.00 (1.45)	2.82 (1.52)	-0.18	38.50%	29.80%
l. My ability to improve financial record keeping	3.06 (1.53)	2.74 (1.60)	-0.31	36.60%	40.50%
m. Having more take home pay	2.86 (1.50)	2.39 (1.42)	-'0.47*	33.30%	20.00%
n. My ability to help improve a particular area/neighborhood	2.97 (1.49)	3.00 (1.79)	0.03	33.30%	41.00%
o. My ability to hire staff	2.62 (1.47)	2.35 (1.55)	-0.27	30.30%	24.30%
p. My ability to retain staff	2.61 (1.59)	2.61 (1.62)	0.00	28.10%	26.50%

Survey Item	Initial Survey Means (Standard Deviation)	Follow-up Survey Means (Standard Deviation)	Means Difference * *indicates statistical significance when p<0.05*	Percent of borrowers who marked 4 or 5 at Initial Survey	Percent of borrowers who marked 4 or 5 at Follow-Up Survey
q. My ability to spend more time with my family	2.60 (1.45)	2.30 (1.60)	-0.30	20.50%	29.50%
r. My ability to work less	2.50 (1.48)	2.16 (1.62)	-0.34	20.00%	24.40%
SLOWLY GROWING AND OPTIMISTIC CLUSTER (n=43)					
a. My new equipment	3.50 (1.73)	3.25 (1.82)	-0.25	54.30%	51.40%
b. Feeling more confident I can achieve my goals	2.92 (1.40)	3.30 (1.31)	0.378	39.50%	42.90%
c. My ability to expand or modify my products/services	3.38 (1.52)	3.35 (1.38)	-0.027	46.20%	48.80%
d. My cash-flow	3.38 (1.52)	3.12 (1.32)	-0.265	48.60%	42.50%
e. My ability to increase business sales	3.57 (1.59)	3.46 (1.48)	-0.108	61.50%	58.50%
f. My business' overall profit	3.16 (1.46)	2.78 (1.11)	-0.378	42.10%	28.60%
g. My ability to revise, develop, or implement a marketing strategy	2.67 (1.51)	2.36 (1.27)	-0.303	29.70%	22.20%
h. My ability to improve my credit	3.12 (1.45)	3.00 (1.33)	-0.118	38.90%	42.50%
i. Feeling more financially stable	2.62 (1.42)	2.78 (1.27)	0.162	29.70%	31.00%
SLOWLY GROWING AND OPTIMISTIC CLUSTER (continued)					
j. My change in location	1.67 (1.43)	1.62 (1.43)	-0.048	22.60%	13.80%
k. My ability to project my business sales and profits	2.42 (1.60)	2.30 (1.36)	-0.121	26.30%	16.20%
l. My ability to improve financial record keeping	2.00 (1.34)	2.06 (1.32)	0.063	17.10%	17.50%
m. Having more take home pay	2.62 (1.62)	2.41(1.37)	-0.206	29.70%	15.40%
n. My ability to help improve a particular area/neighborhood	1.77 (1.31)	1.96 (1.40)	0.192	20.00%	21.90%
o. My ability to hire staff	2.75 (1.67)	2.32 (1.31)	-0.429	29.40%	15.20%
p. My ability to retain staff	2.75 (1.58)	2.43 (1.45)	-0.321	32.40%	20.00%
q. My ability to spend more time with my family	2.06 (1.44)	1.87 (1.26)	-0.194	19.40%	16.70%
r. My ability to work lessS	1.81 (1.40)	1.75 (1.22)	-0.06	16.70%	13.90%