



Microcredit as a Catalyst for Local Small Business Entrepreneurship and Growth

The Catalysts for Enterprise Development at the Confluence
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Abstract.

As a tool of socio-economic development, microcredit has been proven effective in spurring the growth of stagnant economies around the world. Based on the mechanism of lending small-value loans (formally known as microloans), microcredit has permitted entrepreneurs who are disenfranchised by the formal loan market to access capital to build their own business ventures. The infusion of capital in these small businesses has been proven to generate thousands of jobs and rejuvenate local economies. Over the past decade, the success of these microlending institutions abroad has been studied and recently applied to Western societies who are in the midst of one of the worst global recessions in modern history. This paper will explore the history and current best practices of microcredit and lay the groundwork for the creation of a microlending institution in the Greater Binghamton-region.

Keywords: Microcredit, Microfinance, Microlending, City of Binghamton, Binghamton University, Greater Binghamton, Community Development, Binghamton Economic Development, Social Development, Microenterprise, Entrepreneurship, NYSUNY 2020

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I. INTRODUCTION

The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement.” – James Truslow Adams in Epic of America, 1931

In the midst of a national effort to promote economic development and small business entrepreneurship, the need for capital remains paramount in previously industrialized centers around the United States which are suffering from social and economic stagnation. These centers, such as the City of Binghamton, are waging a battle against factors causing an outflow of capital, young talent, and resources in a variety of ways. Using federal, state, and local funds to support local economic development, community leaders and elected officials are collaborating more than ever to promote entrepreneurship through creative initiatives. These initiatives include business plan competitions, mentorship programs, and business incubators which offer business counseling and networking and reduced cost office space. While these programs have been relatively successful in their aims to stimulate business creation, there remains a large segment of the population who cannot access the loan market due to poor credit history and/or a lack of financial assets for collateral. In 2009, the Obama administration announced that the United States Small Business Administration (SBA) was authorized to provide stimulus measures which would “jumpstart credit markets for small business” (SBA, 2011). Accounting for nearly 70 percent of net job creation and 99-percent of total businesses in the United States between 1999 and 2009, small businesses would benefit from an increase in government loan guarantees and reduced fees for microloans (loans which are valued at or less than \$35,000) (McKernan, 2005). Utilizing federal funds allocated for the federal economic stimulus package, the SBA could now guarantee small business loans up to 90-percent. This in turn permitted nonprofit lenders such as Alternatives Federal Credit Union of Ithaca, NY to take riskier investments and lend to community members who previously have been barred from receiving capital due to a lack of collateral and good record. These borrowers, which on average have less than \$17,000 annual income and a family of three, have the opportunity to now pursue their business ideas via microenterprise (the smallest business size classification) and in turn foster community economic development and personal financial stability (The Seattle Post, 2009). Microcredit can also act as a business incubator in its own regard by providing capital to ideas which have substantial growth potential. In a statement by the Chairman of the Federal Reserve, Benjamin Bernanke, he stated:

Microenterprises not only provide a path to economic self-reliance for owner-entrepreneurs and benefit their local communities, but they are also important for the economy as a whole. [...] Microenterprises can grow into small businesses, and small businesses can grow into large firms. Thus, microfinance plays the role of a business incubator by compensating for the difficulties faced by very small firms and startups in obtaining credit from established financial intermediaries (Bernanke, 2007).

In this paper, we will explore the history of microcredit, its inception into the U.S. market, and current best practices and successes around the nation. At the end of the

paper, I will make recommendations based on the efficacy and necessity of microcredit in the Greater Binghamton region to stimulate microenterprise development and the overall economic stability of the City of Binghamton and Broome County.

A. A Brief History of Microcredit and the Current State of the Industry

The history of microcredit begins in 1976 in the country of Bangladesh with a young Chittagong University Economics professor named Muhammad Yunus. In that year, Yunus established the Grameen Bank after providing a small loan of \$27 to craftsmen in a town nearby to the university and witnessing the efficacy of these “microloans” in stimulating microenterprise. The Bank grew quickly to its current scale of operation which claims to have lent upwards of \$5.1 billion to 5 million members. Inspired by the success of the Grameen Bank, nearly 3,200 microcredit institutions were established around the world by 2006 which “reached more than 92 million clients with 73% of these clients living in dire poverty.” (BusinessWeek, 2005). In a few short years, the ability of microcredit to positively impact the lives of millions of the world’s most impoverished people was recognized as a mechanism of social welfare and a tool of economic development. The theory of microcredit even earned Yunus the distinguished Nobel Prize in Economics. Yet despite this success, microcredit was slow to be incepted in the United States due to “a population with less self-employment experience, higher training and start-up costs, and complex regulatory barriers” (McKernan, 2005). While data on the viability of Microfinance Institutions (MFIs) is scarce, to this date ACCION USA—established in 1991 as an offshoot of ACCION International—is the only major national MFI that exists in the United States. (Bernanke, 2007). ACCION USA claims to have lent nearly \$277 million to over 2,400 clients and now boasts 5,100 active borrowers in 45 states making it the largest the nation. (ACCION, 2010). In recent years, however, microloans have soared in popularity due to increased awareness of availability with both lender and borrower. According to Deutsche Bank, between the years of 2004 and 2006, “investments in microfinance more than doubled [...] to \$4.4 billion and the total volume of loans made [rose] to \$25 billion” (Surowiecki, 2011). These investments have caused a boom in microenterprise and small business which account for over 60-percent of job creation worldwide every year. In the United States, microentrepreneurs are able to secure microloans up to \$50,000 (average \$13,000) for use in one or more of the following four criteria: working capital, purchase inventory or supplies, purchase furniture or fixtures, or the acquisition of machinery or equipment. Currently the Small Business Administration dictates to intermediary lenders—banks and credit unions which distribute the SBA loans—that these microloans carry a maximum term of six years and must generally have interest rates between 8 and 13 percent (SBA, 2011). The SBA also manages distribution by assigning one intermediate lending institution sole responsibility for providing microloans in a geographical area. For example, Alternative Federal Credit Union of Ithaca, NY provides microloans to entrepreneurs in Tompkins County and the surrounding adjacent counties as well as Broome County.

II. A Mechanism for Community Investment and Economic Development

Microcredit's success in spurring economic development and tackling issues of poverty in peripheral countries has gained increasing interest from local and national leaders around the world. The quintessential nature and mechanism of microcredit implies shifting wealth from the higher to the lower economic classes in order to catalyze economic development. The most important feature of microcredit, and perhaps the theory's strongest component compared to other antipoverty programs, is that it encourages ownership of a profitable, self-sustainable financial engine. Relating this concept to a popular English proverb, microcredit permits the community to "teach the man [or woman] to fish" and work for himself whereas most other antipoverty programs simply "give him the fish" at the cost, effort, and energy of the community. Through the lending of microloans, a new set of community members—and of them, potential entrepreneurs—have the opportunity to pursue their own business venture while creating jobs and claiming financial independence.

The microcredit concept, in theory, makes logical sense but does it work in practice? It is important to note when making the argument of social welfare that members of the most disadvantaged classes *may* not necessarily be the recipients of these awards. Microloans are designed to be given to the most promising entrepreneurs so that they may contribute to the local economy and create jobs. According to McKernan and Chen of the Urban Institute, "Although the subsidies don't go directly to disadvantaged groups, proponents argue that the benefits of economic development trickle down to low-income households" (McKernan, 2005). While the trickle down argument makes logical sense, microcredit institutions are by definition relatively blind to the economic situation of their client and judge the worthiness of a client based on the viability of their business idea. The potential for microcredit to work in the United States at the direct benefit of the poor is clearly demonstrated by Robert M Brook's research in India which delineates a 647-percent increase in household savings amongst the poorest members in a pilot microfinance initiative. (Brook et. al, 2008). Nevertheless, the use of microcredit as a tool for community social development is a critical *component* in an overall system of antipoverty policies.

With respect to community economic development, the availability of microloans has spurred the development of uncountable businesses around the world. In the United States, MFIs report tremendous success with their microloans with repayment rates upwards of 91-percent—a clear indicator that entrepreneurs are or on their way to being self-sustainable (McKernan, 2008). Increasing numbers of borrowers seeking microloans is the primary way to start their own microenterprise or improve upon their already established business. While this figure cannot directly be correlated to business success, the fact that lending is on the rise with such high repayment rates must give, at the very least, some testament to the importance and effectiveness of microcredit. While there is a *significant* lapse in data on the number of small businesses started using microcredit and their success rates, independent MFIs across the nation are reporting high number of successes when microlending is coupled with other support programs.

In the mid-1990s, the SBA extended many Economic Opportunity Loans (EOLs) to impoverished Americans across the country. The program offered \$25,000 to entrepreneurs but failed to provide educational support or address the needs that these

men and women had in addition to credit. The result was substantially high rates of loan delinquency and default (Brook et. al, 2008). As a result, current SBA stipulations on microloans state that intermediary lending institutions must provide business training and education programs before the loan is dispersed (SBA, 2008). In the next section, we will explore in depth the industry's answer to this problem, but what this example subtly hints is the need for institutions to examine their target audience and adjust their programs based on their research. In terms of this paper's target demographic—prior industrialized centers which suffered due to the reduction in manufacturing over the past several decades (i.e., City of Binghamton, NY and other “rust-belt” cities)—microcredit could serve to stimulate the economy given the prominence of business education amongst the population or the presence of education programs to support micro-entrepreneurs.

B. Business Education and Mentorship to Reduce Lending Risk and Increase Business Success

Establishing an industry in providing loans to a borrower who is otherwise disenfranchised in the established loan market due to poor credit history or a lack of assets is by nature a risky endeavor. Despite this, microcredit continues to grow as an industry in the United States every year. Many MFIs, including ACCION USA, have seen the importance of securing their investment by requiring borrowers to engage in a business education program or receive support and mentoring for their business. This type of training acts as a reinforcement to bolster loan security and maximizes the probability of success for a microenterprise. As of the year 2000, only 4-percent of U.S. microenterprise programs provide lending alone while the rest provide either lending and/or training (McKernan,2005). In fact, many lenders seem to value the basic consultation side of their institution as an important asset to the success of their lending program as well as their borrowers. In an interview with Co-Directors of an unknown MFI based in the United States, Eli Bildner and Alice Song are quoted as saying, “I don't think we'll ever compete on providing expert training advice, I don't think we should. I think we should focus on the one-on-one consulting and lending [small amounts of capital]” (Edgecomb and Gomez, 2009). These one-on-one consultations prepare microentrepreneurs with face time to work on their business plans and adapt to new challenges that they may confront in their growth. As a result, lending institutions are tapping into local and national business mentorship and consultation programs, as well as Universities, to augment their teaching capabilities. The end result of these education programs is that they have fortified borrowers with the tools and knowledge necessary to grow their business and in return repay their loans.

Programs that provide consultation, mentoring, and education already exist in large numbers across the United States. The Small Business Administration allocates funds for SCORE, a free business consulting nonprofit that links entrepreneurs with business professionals for mentoring and advice. SCORE has been attributed to having assisted over 8.5 million entrepreneurs in their start-up ventures over its lifetime—a true testament to its criticality. (SCORE, 2011). Also, there exist many local programs that provide assistance and education such as Broome County, NY's

Entrepreneurship Assistance Program offered at Broome County Community College which provides entrepreneurs with a 'boot-camp' experience in running a business. Lastly, by supporting more than 5,100+ clients ACCION has combined education and capital to prove various success stories as a powerful force behind the catalysis of microenterprise (ACCION, 2011).

III. Student Initiated Microfinance Institutions (SIMIs)

The barriers to micro-lending in the United States mentioned in the *Brief History of Microcredit* section of this paper are being brought down by a new model and social movement which I will refer to as Student-Initiated Microfinance Institutions (SIMI). The SIMI movement, which will be further discussed, addresses issues concerning overhead cost of establishment and questionable profitability (Edgecomb and Gomez, 2009). Combining a vast network of resources offered by the university and community with energetic spirit and talent brought by young and eager students, these student-led MFIs are steadily redefining the microcredit and microfinance industry.

Currently there exist over 12 student organizations utilizing microcredit to promote microenterprise and social development across the country at campuses such as Loyola University (New Orleans), Harvard University, Cornell University, Georgetown University, and Yale University (Define Poverty, 2011). Recognizing the need for a consolidated 'hub' for the purpose of supporting student organizations in critical areas, approximately 7 of these student groups have joined forces in establishing the Campus Microfinance Alliance (CampusMFI) which claims to have lent more than \$150,000 to "disadvantaged entrepreneurs who need it most"(CampusMFI, 2011). Spearheaded by the Intersect Fund of Rutgers University, CampusMFI was established with the following goals:

- 1) To establish a clear target market,
- 2) To explore lending models,
- 3) Develop training programs for students,
- 4) Develop a metric for outcome evaluation,
- 5) Centralize critical resources, and
- 6) Provide legal and financial structure assistance (Edgecomb and Gomez, 2009).

The member programs composing the alliance have been instrumental in displaying both the efficacy of the student-led programs in catalyzing microenterprise and the shortcomings of their respective business models. The increased collaboration and communication between these programs have allowed their leaders to reorganize, adapt, and learn successful practices and implement them into their own programs. As of this year, CampusMFI began offering grants to inspire students on any campus to start their own student-led MFI ranging from \$1,000 to \$5,000 based on their client size. Through this grant funding, CampusMFI will seek to expand their network and incorporate more programs around the United States. This in turn, combined with increased efforts to promote awareness of the availability of microloans, will fuel the growth of microenterprise and current business by increasing the amount of lending

institutions in areas sharing many similar qualities and challenges to the City of Binghamton, NY.

IV. BEST PRACTICES

Of the 12 student-led MFIs in existence across the nation, I will highlight a portion of those which have successfully launched and currently provide both microloans and business assistance. All the MFIs that are mentioned in this report have been listed as 501(c) non-profit organizations allowing them maximum flexibility in raising funds through tax-deductible donation and minimizing expense—an important attribute of these student-led institutions. Of these twelve institutions, seven have conglomerated into what is known as the Campus Microfinance Alliance located at www.campusmfi.org. The seven MFIs that are currently enlisted in this alliance are as follows:

- a) Bentley Microfinance Group (est. 2008 at Bentley Univ.)
- b) Capital Good Fund (est. 2009 at Brown Univ.)
- c) Elmseed Enterprise Fund (est. 2008 at Yale Univ.)
- d) The Intersect Fund (est. 2008 at Rutgers Univ., founders of CampusMFI)
- e) Duke Microfinance Leadership Initiative (est. 2006 at Duke Univ.)
- f) Community Empowerment Fund (est. 2009, at Univ. of North Carolina)
- g) SCSU Micro Loan Program (est 2009 at St. Cloud State Univ.)

Of these MFIs, we will explore two which will serve as our “Best Practices” by which we will model our recommendation. Our intent is to decompose the function, practice, and operation of these institutions in order to extract those which will serve best the City of Binghamton. Unfortunately, standardized metrics of performance for loans have not yet been fully developed and implemented at the national scale. Therefore, we will rely on statistics which have been published by CampusMFI and the institutions themselves.

A. The Intersect Fund (Rutgers University)

Established in 2008 at Rutgers University (located in New Brunswick, NJ) by undergraduates Rohan Matthew and Joe Shure, the Intersect Fund is entirely student-run and employs nearly twenty volunteer student interns each year as of 2009. As of 2011, the Fund managed over 200 small business clients and provided 3 loans which have led to the creation of over 15 microenterprises in 2010-2011 (The Intersect Fund, 2011). The services which Intersect provides range from hosting a business boot camp (called Entrepreneur University), providing loans between \$500 and \$5,000, one-on-one strategy consulting, training with tax preparation software, free tax preparation for those earning less than \$50,000 per year, vending events and graphic design. As an instrument to provide open access to their services, Intersect offers a free orientation and consultation which includes planning activities, business evaluation, and resource networking to anyone who is interested in starting their own business venture. From

there, potential entrepreneurs are admitted to the eight-week Entrepreneur University boot camp which connects them with business experts and training. The curriculum offers assistance with crafting mission statements, opportunity analysis, determining target demographics, competition analysis, research and marketing assistance, legal assistance, and cost structuring. The program cost to the entrepreneur ranges between \$100 and \$250 based on a graduated scale of household size and income. Upon graduation, Intersect provides programs which continue to promote the growth of their client's businesses. These programs include advanced expert business seminars which serve to further educate clients on topics related to planning and bookkeeping, mentoring services through *MicroMentor* which match clients with well established business professionals in the area, and a semi-annual gala to showcase clients' businesses and promote networking.

The loan amounts that Intersect provides range between \$500 and \$5,000 and have an interest rate of 8- to 15-percent determined on a personal basis. In order to obtain a loan, Intersect mandates that the borrower attends the orientation session, complete the boot camp course, and finalize their business plan. Once these are completed, the application for the loan requires references, a credit report, a copy of the prior year's tax return, monthly income, and the intents for the capital supplied by the loan.

The Intersect Fund boasts both community and corporate partners which provide the backbone of their operations. Through partnerships with local churches, banks, schools, and libraries, they have been able to host training events free of charge. Their corporate partners range from Hogan & Hartson (a reputable international legal firm which serves as pro bono legal counsel to the Fund), Ernst & Young (a tax business which placed a senior manager to advise Intersect Fund's Board of Directors), to Self-Help Credit Union. These partnerships are instrumental in Intersect's operations and according to their website, ensure "clients have access to the resources that will allow them to succeed" (The Intersect Fund, 2011). In addition, these partnerships help the institution create events such as their Entrepreneur Showcase and Holiday Bazaar which claim to rake in revenues of nearly \$1,000 per hour. Strategic partnerships also help raise funds for the institution via donation. As of 2011, Intersect has forged an alliance with the Catholic Campaign for Human Development which has agreed to match 1:1 donations up to \$35,000. Intersect's community channels are seen as their most important source of funds for which they are able to pay their operating expenses and fund microloans. Furthermore, due to their federal 501(c)3 non-profit status, all donations are tax-deductible which further entices the influx of funding for their programs.

B. The Capital Good Fund (Brown University)

With roots in a social entrepreneurship class much like Binghamton University's CIC2020: Pro-Seminar in Civic Entrepreneurship, the Capital Good Fund was originally intended to "combat environmental devastation and create economic opportunity for low-income Americans" (Capital Good Fund, 2011). Since the fund's student-led creation in 2008, over 70 loans totaling to over \$100,000 has been dispensed to entrepreneurs around Providence making it one of the fastest growing institutions in

the country. The Fund embraces an image of connecting low-income Americans with loans and education that will break them out of unemployment, divide, exclusion, and credit crisis to reach financial independence. In order to achieve this, the Fund has established four types of loans which target not only potential entrepreneurs, but other political and environmental aims as well. These four include:

- *Small Business Loan* which targets low and moderate income Rhode Island residents interested in starting their own business venture or expanding an existing one. The loans, which range between \$500 and \$2000, are specifically targeted to entrepreneurs who are willing to incorporate environmentally friendly practices into their business operations. Much like most MFIs, in order to receive this loan borrowers must complete a 12.5-hour educational entrepreneurship basics course called the *Exploring Business Basics Workshop* offered directly through the program in order to develop a business plan. (12-month, 15% APR)
- *DoubleGreen Loan* which is directed to lower a borrower's energy bill by providing funds to purchase energy-saving and environmentally friendly investments. Two categories exist under this loan: 1) Credit Builder Loan which provides \$200 to install a programmable thermostat to promote energy efficiency (12-month term at 15% APR) and 2) The Home Loan which provides funds to properly "weatherize" the home by updating all heating and cooling systems up to \$5,000 (36-month term at 5% APR).
- *Digital Equality Loan* which provides capital to update a borrower's computer technology between \$500 and \$1000. (12-month term at 15% APR)
- *Citizenship Loan* which provides funds to cover the cost of obtaining US citizenship to legal residents of Rhode Island. (\$875, 12-month term at 15% APR) (Capital Good Fund, 2011).

According to the Fund's website, the loans that they have distributed have created 39 jobs,

improved the credit scores of over 50 people, and even prevented over 4-tons of carbon dioxide emissions through their DoubleGreen loan. As a 501(c)3 non-profit organization, the Capital Good Fund can accept tax-deductible donations which provide the backbone of their funding. Strategic Partnerships with organizations such as Brown University (which contributes student interns), the Rhode Island Economic Development Corporation, SCORE, AmeriCorps Vista, and the Johnson & Whales University RISmall Business Development Center permit the Capital Good Fund to offer education programs, promote awareness, draw funds, host networking events, and staff their organization.

VI. RECOMMENDATIONS

As discussed, MFIs offer a source of capital to entrepreneurs who are otherwise disenfranchised from the typical loan market due to factors such as bad credit and limited assets. From the community and local economy standpoint, these loans serve as low-risk investments in small business enterprises that stimulate job creation and economic growth. Across our nation, and by large across the world, MFIs have served as a foundation of entrepreneurial innovation. In the wake of economic stagnation due

to the mass-exodus of manufacturing firms out of the Greater Binghamton area, we must see the importance of creating opportunity for both low-wealth and highly educated individuals who otherwise have no access to starting capital. In no other city has the underlying supporting network (specifically, organizations such as the Broome County Business Incubator, SCORE, and BCC's Entrepreneurial Assistance Program), the availability for start-up capital (via the City's annual Business Plan Competition and similar programs), and the presence of a nationally-renowned research university been as fertile for entrepreneurial exploit as that in the City of Binghamton. The timing to launch a MFI is ripe as well. At the national level, the current Obama Administration has promised unprecedented support in policy and funding for small businesses. The funds assigned to our region have been secured by Alternatives Federal Credit Union located in Ithaca, NY through the Small Business Administration (SBA). Under the rules and regulations of the SBA, which assigns one institution to represent independent geographical regions, Alternatives has been appointed as the sole lender of SBA-guaranteed microloans in eight counties adjacent to Tompkins County, NY. However, the closest Alternatives bank to Binghamton is located 50-miles away (approximately 1-hour 15-minute commute) in Ithaca. The sheer physical distance alone represents a significant underrepresentation of this lending institution which has a product that could spur the development of enterprise in our city drastically. The need for an institution that can increase local awareness of microloans and broker lending between AFCU and our community is paramount and critical to the future of our local economy. In this section of the report, I will make clear my recommendation for the establishment of a non-profit, student-led MFI in the City of Binghamton that can assist in dispensing desperately needed capital into the Greater Binghamton area. I will provide the framework based off of successful best practices and community assets that will ensure critical impact in the growth of our economy.

A. Establish a Student-led Microfinance Institution in the City of Binghamton

After thorough research, the most successful student-led MFIs have used resources readily available in their community to grow and prosper into an integral element in their local economy. These MFIs share the following traits:

1. Creative use of local assets and partnerships to promote and fund their efforts
2. Use of highly driven student interns for the operation of their institution
3. Advisors from local community businesses and educational institutions
4. A heavy focus on mentorship and consultation for all clients at all stages of their business

Based on these traits, I propose that a Student-led MFI be established in our city.

This institution would have the mission to lend microloans to community members located within the Greater Binghamton and Broome County area in order to start a microenterprise, enhance a current enterprise, or acquire assets that are in the best interest of our local community (i.e., citizenship, energy-reducing products, or obtain new technology). In addition to this, the institution would be tasked to be the "one-stop" place where community members who are interested in starting their own business

venture can obtain the necessary information to do so. While thorough investigation and planning efforts are needed in order to establish the details of how loans would be constructed and then dispersed, the major question in the upstart of this institution would be whether or not an affiliation and partnership would be established between itself and Alternatives Federal Credit Union. As the sole lender of SBA-guaranteed loans, AFCU and the new institution could agree to forge an alliance in dispensing the funds allocated to Alternatives by the SBA. The new institution could serve as an intermediary and representative arm of Alternatives to the local community in Broome County. Such an alliance would alleviate the necessity for Alternatives to actively engage in costly expansion and permit student interns to do most of the leg work needed to sell their product at essentially no cost. In turn, student interns would gain valuable insight and experience as local community members jump-start an influx of capital and job creation as entrepreneurs. Advertising efforts and businesses operations would be assumed by the new institution under the advising of AFCU and local community and business leaders. By having an alliance with AFCU, the new institution could provide a loan product that would value up to \$35,000 guaranteed by the SBA funds allocated to Alternatives.

Whether or not AFCU agrees to a strategic partnership, the new institution would be able to provide loans and consultation services to interested community members and entrepreneurs. Funding for loans would be raised primarily through tax-deductible donations. In the City of Binghamton, the potential for community business and local government assistance and contribution is strong. A significant portion of funding could be raised through contributions on behalf of business, industry, and community organizations that see a healthier economy in the best interest of their own goals and business objectives. The new institution could also seek to apply for local, state, and federal government grants—if such grants exist (further research is needed as to the availability of government grants). On May 2, 2011, Governor Andrew Cuomo and SUNY Chancellor Nancy Zimpher announced their NYSUNY 2020 program which targets the SUNY system as a catalyst for state economic and educational growth. As the plan begins to be acted upon, funds totaling up to \$145 million may be available for the support of programs like microfinancing to spur job creation. It's imperative that the success of microfinancing across the world as a tool of economic development be made to campus leadership as the four University centers of the SUNY system draft their plans for this program. As a student-led initiative, the institution could also apply for grants through the previously discussed CampusMFI Alliance. The Alliance offers funds between \$1,000 and \$5,000 to jump-start the establishment and operational capabilities of new student-led MFIs. From the start, every dollar will be necessary to grow the institution into an important economic component of our city. Due to this, strategic partnerships should be formed between local, county, and state governments, local credit unions and banks, community organizations and venues, media, and businesses in order to promote the awareness and mission of the institution. As shown in the best practices, these partnerships will serve to the critical in the success of the institution.

As previously discussed, the institution would be almost entirely staffed by student interns from Binghamton University and Broome County Community College—the two local higher education institutions in the region. These student interns will be

the backbone of the daily operation of the institution and its interaction with community members. Since it's critical to the vitality of the institution to focus heavily on low-cost and sustainable business practices and operations, the students would need to be volunteers until funds are secured to employ them. With proper growth and community receptivity, the institution will eventually need to seek summer student interns in order to continue year-round operations that extend beyond the Fall and Spring semesters. Students who are local to the area and those who opt to reside locally during months when school is not in session are extremely critical to the operation of the institution. Never-the-less, the institution must actively seek student volunteers on campus regardless of origin and locality. In addition to the valuable talent and knowledge sets that they will provide to the new institution, BU and BCC students will be critical in mobilizing efforts in the community to support operations (i.e., educational programs, business and government interactions, advertising). Already, student group leaders on BU campus, such as the Microfinance Connection club, have pledged their support in recruiting student interns and on-campus promotion—a sign of high student receptivity of this institution.

Equally as important as gaining student involvement, gaining advisors to establish the long-term and strategic goals of the new institution is paramount. The new institution should seek to recruit volunteers from local industry and business, university faculty, local government, community organizations, and local financial institutions to serve as advisors to the student leaders. A strong relationship between Binghamton University's School of Management and Broome County Community College should be forged in order to draw talent to support the mission of the new institution. Advisors will play the critical role of overseeing the executive decisions made by the institution's student leaders. Partnerships with local government will permit the new institution to offer products which are tailored to supporting the agenda of community development and economic stimulus. It will be important to draw from local government information that will allow the new institution to offer products and consultations that are most appealing and accessible to target demographics in the community.

As the backbone of new institution's mission, business consultation, education, and training is the most important service it can offer to the community. Regardless of a client's need for capital, the new institution should serve as a place of training and education in business affairs, management, and operation. Therefore, partnerships with SCORE, the Binghamton SBDC (the Small Business Development Center located at Binghamton University which has advised over 12,000 clients and garnered \$150 million for their businesses), local business incubators such as the Greater Binghamton Innovation Center, and Broome Community College's 60-hour Entrepreneurial Assistance Program (EAP) are critical to mission of the institution. Drawing from these partnerships, institution student leaders should engage in staging seminars that can educate local community members. Furthermore, BCC's EAP should serve as the foundation of the educational experience and a requirement for all borrowers of funds. In addition to this, Alternatives offers their own education program which could supplement or serve as an additional option to fulfilling this requirement. In the early stages of the new institution's creation, these partnerships would alleviate the pressures of formulating entirely new educational programs.

As mentioned, the products offered by the institution would revolve around small microloans. The values of these loans would be dictated by current levels of funding and partnerships with AFCU, but I personally envision two types of loans given AFCU accepts an alliance. The first type of loan would be called *direct loans* and these would serve as loans based on donations and fundraising solely done by the new institution. These loans would range between \$500 and \$5000 depending on the necessity and ability to pay back the amount lent plus interest. Interest rates on direct loans would lie between 8% and 15%. The advantage to these loans is that the new institution can create several classes of these loans to serve different purposes. These classes, structured much like that of the Capital Good Fund, would be Small Business Capital loans (designed to assist small business start-ups and growth), Green Economy loans (designed to support political, social, and environmental efforts), and Citizenship loans (designed to support legal residents the ability to obtain citizenship). The addition of more classes and derivations of these classes could be created and guided through partnerships with local government officials.

The second type of loan would be called *indirect loans*. These loans would be brokered by the new institution while the funds would be lent by Alternatives. These loans would be valued at a maximum of \$35,000 and subjected to the interest rates and terms and conditions set forth by the lender AFCU and the SBA who guarantees them.

With this structure in place, the new MFI should seek a flow of business as modeled below:

1. Community member contacts the institution with an interest and an idea
2. The institution offers a free consultation to assess the viability of the idea and the business potential of borrower
3. Once initial checks and assessments are completed, borrower begins training through the EAP.
4. Once graduated from the EAP, the borrower establishes contact with a business mentor who will help finalize their business plan.
5. The borrower applies for the loan with proper training and business plan.
6. If accepted, the borrower obtains capital and pursues venture with guidance of their mentor and SCORE advisors. The borrower also applies for space in a business incubator and applies for additional external funding (i.e., submits business plan in the City's annual Business Plan Competition)
If denied, the borrower tweaks business plan with mentor and re-applies at a further date.

To assist in the establishment of this new MFI in the Binghamton area, the creators should contact students who are actively involved in Cornell University's Big Red MicroCredit Fund. Big Red has a long standing relationship with AFCU who underwrites loans and collaborates with their student board of directors to offer products to the Ithaca community. Establishing contact with this group would greatly supplement the efforts undertaken to establish a student-led MFI in Binghamton. In addition, Big Red and the new institution in Binghamton could collaborate and share best practices and methods in order to foster a more comprehensive strategy targeted at regional development.

The opportunity presented by the existence of a student-led MFI offers an extremely low-cost, high-impact source of credit designed to spur economic development in the Binghamton region. The social ramifications and potential for job creation makes the establishment of an institution of this type a no-brainer—microloans has the potential to drastically change the landscape of the current economy by fueling innovation from low-asset individuals such as students and underrepresented social groups. Student-led MFIs have recently sprung up across the nation at universities of all different sizes. The City of Binghamton offers resources and assets that almost ensure the success of an institution such as this. The only question now is *who* will be the one to rear the efforts to make this institution a reality.

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