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A comparative case study of microfinance organizations serving Los Angeles County

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A COMPARATIVE CASE STUDY OF MICROFINANCE ORGANIZATIONS SERVING LOS ANGELES COUNTY

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TABLE OF CONTENTS

Page

Page

Page

LIST OF TABLES

DEDICATION

I dedicate this dissertation to my amazing family. To my mother, Candy, who has been my biggest cheerleader all of my life, and who helped me begin my educational journey by teaching me to read at age three. To my father, Dan, who has always encouraged me to do my best, and who has shown me what it means to be a leader. To my sister, Sarah, who is truly the other half of my brain and my heart. To my husband, Kenchy, who is the most supportive and loving person I have ever met, and who makes my life better each and every day. And to my son, Dashiell, who inspires me to be a better person daily.

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“The Family Educational Rights and Privacy Act of 1974: Whose Rights Are Being Protected?”, Valente, M. A paper presented at the Society of Educators and Scholars Conference, 2008.

ABSTRACT

The purpose of this study was to determine which organizational characteristics, if any, play a role in the success of microfinance organizations currently serving Los Angeles county. According to the FIELD directory from 2008, there are currently seven MFIs serving the citizens of Los Angeles county. At the time of this study six out of the seven organizations continue to operate. Members from each of these six organizations were interviewed for the study. In order to determine whether or not lending-specific aspects of each organization had bearing on their success, leaders from two non-lending organizations were also interviewed. Responses were then examined to determine similarities and differences among the organizations.

The study found that there were several common themes to the responses. The organizations view themselves as offering assistance to people so that they can find their own way out of poverty – a "helping hand, not a hand out." They expect their clients to repay their loans, and will not lend out money to someone who does not meet income requirements.

The funding that these organizations receive comes from a variety of sources – banks, corporations, and private foundations. The current state of the economy is a concern for all of the organizations, because for them it means they are having to spend more time and energy fundraising, for the same amount of money they have received in the past, or in some cases, for less money than they have received in the past.

The future of these organizations, as well as the microloan industry as a whole, is something that the respondents are cautiously optimistic about. They hope to weather the current economic storm, and to be able to lend out more money to more clients in the future, and to provide more technical assistance to those clients as well.

Chapter I: Introduction

Introduction

"In my mind, it is possible to envision a world without extreme poverty, where imaginations of poverty will be of the distant past. But in order to reach this goal – to reduce and ultimately eliminate poverty – we must go back to the drawing board." – Muhammad Yunus

Poverty is an issue that plagues both developing and developed countries. Throughout history, there have been many attempts to alleviate poverty across the globe. "Since the 1990s, alleviating poverty has been the top priority in international development" (Develtere & Huybrechts, 2005, p. 165). One of the most recent trends in poverty alleviation is microfinance. Microfinance – the practice of lending small amounts of money to typically lower- or no-income entrepreneurs – is a concept that has made its way from the rural villages of Bangladesh and India to the greater metropolitan areas of the United States.

In recent years, microfinance efforts around the world have continued to gather momentum, and this momentum has prompted two unique conferences held within the past thirteen years dedicated to helping aid the poor citizens of the world using microloans. Microfinance garnered worldwide attention during the first Microcredit Summit, which was held in 1997. The goal of the first summit was "to reach 100 million of the world's poorest families" (The Microcredit Summit Campaign, n.d. - a, para. 1) within 9 years. A second summit was held in 2006, which outlined goals to be reached by 2015. A major focus of this campaign is to help 100 million families "rise above the US$1 a day threshold" (The Microcredit Summit Campaign, n.d. - b, para. 4).

Microfinance programs exist in nearly every corner of the world, from poverty-stricken countries such as Bangladesh to developed countries like the United States. The methods used in implementing microfinance programs in the U.S. versus those employed by third world countries may differ greatly, but the underlying assumption of microfinance throughout the world is the same: poor, would-be entrepreneurs, given access to financial resources and provided with education about everything from business planning to creating a savings plan will have a chance to determine their own future. In turn, these entrepreneurs – if successful – have the potential to transform not only their own lives, but also to transform the communities in which they live and operate their businesses. Responsible business owners can play an important role in the success of their surrounding community by providing economic opportunity. Therefore, as this specific group of business owners attempt to become contributors to the economy, they may also have the opportunity to assist in community-building as well.

The most famous microfinance organization in the world, the Grameen Bank, was founded by Muhammad Yunus in 1983. Dr. Yunus has since become a central figure in the microfinance movement, authoring books and articles on the subject. He often emphasizes the importance of credit as a tool which can help the poor become self-sufficient, noting that "credit is essential for the creation of instant self-employment, since it provides the investment that leads to small businesses and income for the impoverished" (Yunus, 2007, p. 21).

In creating the Grameen Bank in Bangladesh, Dr. Yunus formed what many believe is a successful organization. Researchers cite the high repayment rate (98%)

in addition to the increased level of empowerment among female participants as evidence that the Grameen Bank is helping the poor people of Bangladesh to raise themselves out of poverty. Singh and Belwal (2008) note that "the participation of women is increasingly being viewed as one of the prime contributors in economic growth. . . .Fostering women's entrepreneurship development is therefore crucial for economic growth and development" (p. 124).

In addition to his autobiography *Banker to the Poor*, which details the creation of the Grameen bank, Dr. Yunus has written numerous articles on the subject of microfinance. In a 1998 article in the *Journal of International Affairs*, Dr. Yunus (1998) described Bangladesh's almost continual bad luck in terms of being hit by natural disasters, asking "is there something wrong with Bangladesh? It appears to be a country existing only to shuttle from one disaster to the next" (p. 47).

Against this backdrop of unrelenting misfortune, Dr. Yunus (1998) describes his early days as an economics professor, noting that it became increasingly difficult for him to reconcile the theories he was teaching in the classroom with the realities of his surroundings, including many of his fellow Bangladeshis starving to death (p. 50).

Dr. Yunus is extremely passionate about his work. He believes strongly in the idea of lending small amounts of money to poor people. When he describes his first, personal experiences with microlending, it is easy to see why he believes in the idea. He states "it is vital that this point be understood loudly and clearly: that for lack of U.S. $27, 42 persons were spending their lives engulfed within a vicious cycle of poverty" (Yunus, 1998, p. 51). When he began loaning small amounts of money to the impoverished people of Bangladesh, he saw with his own eyes that this population, long ignored by banks, could be 'creditworthy' – because the poor people that he loaned money to repaid their loans, he felt that they should not be considered a high-risk population in terms of money lending (Yunus, 1998, p. 51).

At the heart of Dr. Yunus' theory is the belief that credit is the key to poverty alleviation. He describes this belief in an article published in *The Round Table,* entitled "Halving Poverty by 2015," in which he puts forth the idea that he thinks "that credit should be accepted as a human right, because it is so important for a person who is looking for an income" (Yunus, 2003, p. 367). Dr. Yunus believes that the poverty level in the world can be cut in half by the year 2015. He has faith that if the poor are given access to credit, they can then create jobs for themselves, and thus lift themselves out of poverty. Entrepreneurship is an important part of the equation in that for poor people in rural areas where wage jobs are scarce, self-employment may be the only means of providing income for oneself and one's family.

Another aspect of entrepreneurship that Dr. Yunus discusses in his article is social entrepreneurship. Social entrepreneurs are people who are working to help resolve issues in their communities (Yunus, 2003, p. 370). He notes their peculiar position, asserting that because they are difficult to fit into the already established economic system they are often overlooked. He expands on this idea of social entrepreneurship in a 2007 article in the Harvard International Review. He describes social businesses as those organizations with the primary purpose of creating change in the world, and notes that "all profit would be reinvested into the company" (Yunus, 2007, p. 23). Dr. Yunus' enthusiasm for this type of business is evident. He sees great potential in this type of business, noting that in third world countries these organizations could serve a wide variety of purposes, in areas such as education as well as energy (Yunus, 2007, p. 23).

Finally, in a 2009 interview with the International Educator conducted by Elaina Loveland (2009), Dr. Yunus not only addresses poverty alleviation on a large scale, but also prompts individuals to get involved. When asked how “the average citizen” can help, Yunus responds by encouraging people to form a “social action forum,” noting that individuals who form small groups to solve local problems can make a difference (p. 32).

In the United States, people have created their own “social action forums” over the past three decades in order to combat poverty in local communities. Based on the number of microfinance organizations currently serving local communities in the United States today (there are 58 in the state of California alone) the creators of these organizations share in Dr. Yunus’ vision of using small loans to help lift poor people out of poverty.

In developing countries, a microfinance community is created by the formation of a peer-lending group. Wahid and Hsu (2000) use the Grameen Bank’s method as an example, noting that out of the five people who make up a group, the two people who have the greatest need for the money get their loans first. If they pay back their loans on time, then the next two get their loans. The amount of the loans vary from $100 to $300 (p. 163).

In developed countries like the United States, however, microfinance looks quite different than it does in developing countries. In Bangladesh, for example, money is leant to women who weave mats, or who grow and sell food, or who own the village's only telephone. In the United States, money is leant to people – both women and men – who wish to start a bookkeeping business, or who hope to open a small grocery store, or who want to open a print shop. Solomon (1992) notes the obstacles that exist in terms of using the Grameen model in the United States, stating "these obstacles include (1) the small percentage of potential entrepreneurs; (2) an alleged lack of informal markets; (3) problems of long-term viability; (4) legal barriers; and (5) geographic and societal impediments" (para. 41). The populations that microfinance organizations serve in both places are similar in that they are classified as poor, but the places they live in look quite different. The rural villages of Bangladesh often have no running water or electricity. In contrast, many recipients of microloans in the United States live in urban areas – major cities with modern conveniences such as public transportation and free internet access at the local library. The group model used in the developing world has not had similar success in the United States. Schreiner and Woller (2003) cite several reasons that group lending has faltered in the United States, noting that people are often able to receive personal loans and therefore do not want to be part of a peer-lending group. There is also a difference in the composition of the poor population in the United States – it is a diverse group, and tends to be less concentrated geographically than poor populations in developing countries (p. 1569 - 1570).

The authors compare the types of microenterprises in which people typically engage in the United States versus in the developing world, noting that in the United States people may choose to provide child care, drive a cab, or paint houses, while in the developing world people are more likely to plant crops, take in laundry or husk rice (Schreiner & Woller, 2003, p. 1568). From this list it can therefore be concluded that the majority of microenterprises in the developing world are focused on rural-based activities while in the United States the activities have more urban leanings.

The United States also differs from the developing world in that the U.S. has a welfare system in place. Dr. Yunus (1999) notes that "many Americans argue that their welfare state has created a lazy underclass of dysfunctional individuals who would never be interested in or capable of starting their own businesses or supporting themselves" (p. 176). Handler and Hasenfeld (2007) echo this view, outlining the differences between reality and perception of welfare recipients. They note that people assume that welfare recipients are mostly young single mothers who do not work, but that is not the case – many welfare recipients (which includes people from many different backgrounds and ethnicities) work while on welfare and do not stay on welfare for long periods of time (p. 53).

Based on this description, Dr. Yunus' (1999) view of the poor may be more in line with reality than those who view the poverty-stricken as lazy and unwilling to work. Therefore, microfinance may be a logical alternative to the welfare system, for those who are able and willing to start their own business. But if microfinance organizations are to be seen as a viable solution to the problem of poverty in the United States, a thorough understanding of these organizations is needed.

Statement of the Problem

Although a significant amount of research has been conducted on microfinance organizations, the focus of this research has been almost exclusively on the recipients of the aid being delivered. Many articles report on the success of these organizations in terms of the number of people benefitting from microloans. However these data do nothing to help gain a clear picture of the lending organizations themselves. More research on the organizational structure, leadership and funding of these groups is needed to determine if microfinance organizations can successfully sustain their efforts to alleviate poverty in the United States.

Purpose of the Study

The purpose of this study is to examine the organizational structure, leadership and funding procedures of a group of microfinance organizations within California. These organizations all provide microloans to some of the state's poor residents who want to use the funds to start a business. By focusing on the organizational structure, leadership and funding procedures of these groups, the study will uncover any significant similarities or differences, which may have an impact on each group's success or failure.

Research Questions

The research questions to be answered in this study are as follows:

1. Among the organizations studied, how do the following factors contribute to their success:

    - Source of funds
    - Regulations/limits
    - Organizational structure
    - Selection process for loan recipients
    - Instruction/curriculum for loan recipients

- Loan amounts/repayment/interest rates
- Organizational vision/mission/philosophy
- Accounting procedures
- Organizational affiliation

2. How do selected characteristics of the factors stated in Research Question One hinder the success of the organizations studied?
3. What enabling or disabling characteristics can be identified (if any) that are common to many or all groups, or are unique to one or more groups?

Significance of the Study

This study will contribute to the literature already produced on microfinance, with a specific emphasis on microloan organizations in the United States. By performing a comparative analysis of several different California-based organizations, this study will create a snapshot not only of the groups examined, but also of the current state of microfinance in this part of the United States. The analysis of the data will not only provide scholarly information about how these organizations operate, but will also serve as a guide for other microloan organizations as they seek to improve their business practices. Leaders of microfinance organizations across the country will then be able to use this data as they plan their own lending activities to ensure the best possible results from their efforts.

Research Assumptions

Several assumptions are made in researching microloan organizations in the United States. The first is the assumption that the factors included in the interview questions are indeed the factors which have an influence over the success or failure of these organizations. The second is the assumption that responses received reflect the true feelings of the respondents.

Limitations of the Research

The scope of the study is limited geographically because it will focus only on microfinance organizations in Los Angeles County. The study is also limited in that it will examine organizations that are not only located in the United States, but whose efforts are directed at people living in the United States (as opposed to organizations based in the U.S. who raise funds to send to organizations in other countries, as well as organizations located in other countries, serving their own populations).

Definitions of Key Terms

Microfinance Institutions (MFIs) – organizations that "provide savings and credit facilities to establish or expand income generating activities of the poor" (Al-Sultan, 1997, p. 36).

Microcredit – "the process by which a 'bank' dispenses small loans to poor people who do not have the financial resources to secure a traditional loan under normal circumstances" (Glenwick, 2007, p. 2).

Microenterprise – "a development model in which small loans and peer support are made available to those interested in starting 'small' small businesses" (Solomon, 1992, p. 191).

Non-governmental organization (NGO) – a group of volunteers who provide some type of assistance to a population, not connected with any government group or agency.

Non-profit organization – any organization that has applied for and received 501 C3 status from the federal and state government.

Chapter II: Review of Relevant Literature

The Beginning of Microfinance: Muhammad Yunus and Grameen Bank

A great deal has been written about microfinance, and the Grameen Bank in particular, over the past three decades. As microfinance has moved from impoverished countries like Bangladesh to developed nations like the United States, the concept has been studied from many different angles, encompassing myriad viewpoints. Dr. Yunus himself has written books and articles, and given speeches about his project, the Grameen Bank, for many years. Other authors have not only examined the economic impact of microfinance programs, but have also observed the social consequences of introducing a microfinance program into a particular society.

Muhammad Yunus, winner of the Nobel Peace Prize in 2006, outlines the creation of the Grameen Bank in his home country of Bangladesh in his book *Banker to the Poor*. He states that he wanted to make his program different, so he created a repayment plan that included daily payments of small amounts of money (Yunus, 1999, p. 61).

This original model was changed and improved upon over time, until 1983, when the Grameen Bank officially opened. Sengupta and Aubuchon (2008) note that "through a series of trials and errors, Yunus settled on a working model and by 1983, under a special charter from the Bangladesh government, founded the Grameen Bank as a formal and independent financial institution" (p. 11). Yunus' initial excitement, however, was short-lived, as he discovered that a significant change had been made in the paperwork that he had drawn up in order to create the bank. He recalls that he originally intended for the ownership of the bank to be split so that 60% would be owned by borrowers and 40% by the government, but the government inverted the percentages. Yunus (1999) notes, “I felt betrayed” (p. 120).

Chapter I of this paper outlined Dr. Yunus’ thoughts and opinions on microfinance and microcredit. Therefore, the discussion that follows on the Grameen Bank in Bangladesh will be told through the eyes of other authors – researchers who have studied the impact that this institution has had on one of the poorest countries in the world.

Because one of the most frequently addressed topics in the literature on the Grameen Bank is the impact it has made in the lives of Bangladesh’s female population, that topic will be the focus of this section of the literature review. Abu Wahid (1999) describes the women of Bangladesh as facing two main problems – they do not own a substantial amount of land, and they have extremely limited opportunities in terms of finding a job (p. 99).

Lawrence Pineda and John Walusis (2000) add to the discussion, asserting that the Grameen Bank has helped provide women with opportunities in terms of working that they have not had before, thus helping to bridge the gap between the sexes in Bangladesh (p. 252). A study of 100 micro-enterprises in Dhaka, Bangladesh performed in 2007 by Alina Zapalska, Dallas Brozik and Denis Rudd found that the number of poor women who run a microenterprise that country is on the rise. Many of these woman cannot afford one meal a day (pp. 86-87).

Alexandra Bernasek and James Ronald Stanfield (1997) outline three cultural aspects which prevent women in Bangladesh from earning money, noting that because women are often hidden away, encouraged not to work, and have no collateral, they often cannot support themselves financially (pp. 360-361). Variations of these difficulties are faced by the female populations in other developing nations throughout the world. Microfinance institutions (MFIs) in these countries will be the focus of the following section.

From Bangladesh to Bolivia: Microfinance Around the World

In third world countries, microfinance often follows the Grameen Bank model. Lewis Solomon (1992) outlines the conditions which require poor entrepreneurs in developing countries to seek assistance from MFIs as opposed to traditional banks. These include strict rules to which banks adhere, coupled with high transaction costs, banks' unwillingness to engage in microlending due to cost and potential for risk, as well as the fact that many borrowers are illiterate and do not have an understanding of the banking system (Solomon, 1992, para. 10).

Lawrence Pineda and John Walusis (2000) note that "the Grameen Bank has been successful because it lends money to groups of individuals and then holds the group responsible to repay loans that any of its members do not repay" (p. 250). This model of group-lending has made its way around the world, based on its success.

Microfinance organizations have been created in many different countries around the world: places as diverse as Bolivia, South Africa, Indonesia, and Thailand, to name just a few. From the research done on these programs, it is difficult to say with any certainty whether or not the programs have been effective in helping to alleviate poverty around the world. The fact that there is no standardized way to measure the impact of these programs compounds the problem of measuring their effectiveness. Nevertheless, researchers have attempted to gather data about various aspects of these programs. Their findings are discussed here.

Southeast Asia.

Cambodia. A 2005 article in the *Irish Times* describes one of the Cambodia's microfinance organizations – Angkor Microfinance Kampuchea (AMK) as a bank that does not lend to the poorest of the poor, and plans on ending its reliance on donors in the near future (McCaffrey, 2005, para. 11). This description seems to go against the philosophies of many other MFIs, especially those which fall under the Grameen Bank umbrella. The mission of a large number of MFIs around the world is to target the "bottom poor" – whether or not they achieve that goal can always be debated. But for an MFI to focus its efforts on a group other than the most destitute, that is a different approach to microfinance. Of the Cambodian loan recipients, McCaffrey (2005) notes that "there is a resourcefulness among AMK's clients that would put the western world to shame. They are patient but watchful, ready to seize any opportunity that comes along" (para. 17).

Another Cambodian MFI – Amret – profiles a client on their website. The client is a woman named Sao Laiy, whose story is a specific example of the transformational power of a microloan: she has been a client for almost 20 years, and has borrowed increasingly larger sums of money to help with her farming and battery charging businesses. She is also now able to save money every year (Amret, n.d., para. 6 - 9).

Clients undertake a variety of activities with the money they receive, as the varying success stories found on the different MFI websites demonstrate. MAXIMA, another MFI serving the needs of the poor in Cambodia, reveals through a client profile that loans are not only used to expand agricultural efforts, but also can be used for service-oriented endeavors, such as a station where motorbikes are cleaned. The couple who used their loan to open the station now earn double what they were earning before and can now pay for their family's expenses, which includes sending their children to school (Maxima Mikroheranthvatho Limited, n.d., para. 4 – 7).

Thailand. Robert Taylor (2006) reports that microfinance was adopted in Thailand as a government policy earlier in this century, started by the Government Savings Bank of Thailand (p. 69). In many other countries, microfinance is the work of non-government organizations (NGOs), as well as individual banks – the government does not typically have a hand in regulating the microfinance industry. The author then proceeds to weigh the pros and cons of a government-sponsored program, noting that while such programs can have great resources and the ability to attract borrowers, there cannot be too much involvement on the part of the government so that people view their loans as loans instead of charity (Taylor, 2006, p. 69).

An organization called Microfinance Thailand describes the current state of microlending in that country as being small, because of the participation of the government (Microfinance Thailand, n.d., para. 1). The website then goes on to list eight NGOs and three government organizations involved in microfinance in Thailand. One of the government organizations listed is the Bank for Agriculture and Agricultural Cooperatives (BAAC). The bank has existed for much longer than many microfinance NGOs – BAAC's website notes that it was created in 1996 by the government, with a mission to provide credit to more of the country's citizens (Bank for Agriculture and Agricultural Co-Operatives, n.d., para. 3).

An organization called Step Ahead highlights the story of one of its members, a 79 year old woman named Jey Jaloeytham. She has worked her way up through various loans, starting out with a small store she operated out of her house, to selling hot food, to opening a restaurant and grocery store within the past 3 years (Step Ahead, n.d., para. 1 - 3). This story is yet another example of microfinance organizations in developing countries that have established programs to assist women who are looking to start a business. These businesses are typically home-based to begin with, but as this story demonstrates they can be expanded over time.

Vietnam. In Vietnam, there is little to no government involvement in microfinance. Nguyen Tien Hung (2004) states that there are no laws to govern the activities of MFIs in that country (p. 43). The poor people of Vietnam, as described by Nguyen Tien Hung are very different from the Cambodians described by McCaffrey, in that they live in remote areas, which causes feelings of seclusion and of not being credit worthy (p. 41). Vietnam's Agribank attempted to combat this isolation by bringing the bank to the people. By starting a Mobile Banking Program, poor people in rural areas now have access to financial services. Nguyen Tien Hung (2004) suggests that this program is an example of finding new and creative ways to reach the poor to keep transaction costs down and better serve the population (p. 43).

Indonesia. Indonesia's microfinance program is handled through the Bank Rakyat Indonesia (BRI). The local banking system was created in the 1970s and followed a rocky path. However, financial reforms in the 1980s changed the way banks in the country did business, and the government changed the banking system from one that was supported financially by the government to one that could support itself (Robinson, 1997, p. 24).

This change has made all the difference, as BRI is now held up as an example of a successful, self-sustaining organization. Marguerite Robinson (1997) notes that BRI is noteworthy because the bank has been able to lower the cost of microloans while also making a profit providing those loans to many borrowers (p. 26). Bank BRI's Microbanking website provides testimonials from three borrowers, one of whom is Tita Rosita. Tita runs a mushroom cultivation business, and unlike the stereotypical image of a microloan recipient she is educated and worked for a textile company before deciding that she wanted to start her own business. She has taken several loans from BRI in increasing amounts, and with the money has been able to expand her business (Bank BRI Microbanking, n.d., para. 7).

In addition to assisting women like Tita, BRI provides credit to a large number of people (Robinson, 1997, p. 26) which is important to organizations hoping to reach the 'bottom poor.' Most importantly, however, is the fact that BRI's way of doing business serves as a counter-example to those who believe that the only way for microfinance organizations to survive is through subsidies (Robinson, 1997, p. 27). This is an idea that could change the way that MFIs in the developing world operate. In fact, BRI has developed a program to teach people involved with microfinance organizations in other countries around the world how to operate with financial independence, called the Bank Rakyat Indonesia – International Visitor Program (BRI-IVP) (Bank BRI Microbanking, n.d., para. 2).

Philippines. The Centre for Agricultural and Rural Development (CARD) is "the Philippines' biggest microbank" (Granitsas & Sheehan, 2001, p. 38). Kathryn N. Gow (2000) explains that CARD's true success comes from empowering its' borrowers, which in turn helps to build up the community (p. 11). This sentiment is echoed by Alkman Granitsas and Deidre Sheehan (2001), who observe that many families have come up over the universal poverty line through the help of microloans (p. 38). The authors describe the microfinance landscape in the country as being far-reaching but disconnected, serving 120,000 borrowers (Granitsas & Sheehan, 2001, p. 38).

B. Lynne Milgram, in studying microfinance in the Philippines, takes a more critical view. In examining the Central Cordillera Agricultural Programme (CECAP), Milgram (2001) observes that the organization is more concerned with becoming financially independent than with serving the needs of the people in the community (p. 213). This view differs greatly from the words of praise CARD received from its observers. Milgrim (2001) also notes that oftentimes the loan amounts are not large enough for the recipients to create truly profitable businesses. (p. 215).

One organization in the Philippines that is determined to assist the people of that country is SEEDFINANCE. The group's mission is "work closely with, nurture, and empower deserving MFIs, in order to deliver the promise of reliable access to affordable financial and business development services" (Seedfinance Corporation, n.d., para. 1). SEEDFINANCE has 70 partner organizations with which they work to meet the needs of impoverished Filipino people throughout that country. The group provides not only financial assistance to its partner organizations, but also helps with training programs and technical assistance as well.

Africa.

Mozambique. In Mozambique, there is tension between one of the local microfinance organizations and the country's government. Journalist Frederico Katerere reported on the situation in a 2006 article, observing that President Armando Guebuza believed that if banks were set up in rural areas then the country's level of financial activity would increase (p. 8). De Vletter produced an in-depth report in 2006 outlining the situation in Mozambique with regard to microfinance, and this "chicken or the egg" question with regard to rural banking is one that Muhammad Yunus, in the creation of the Grameen Bank, addressed directly. Ishtiaq Hossain (1998) explains that the way the Grameen Bank is set up belies its belief that the bank should travel to the people (p. 45).

Nigeria. Nigeria also faces problems with regard to its MFIs. A 2008 study of 14 Nigerian MFIs performed by Francis Kehinde Emeni concluded that a good number of MFIs were poorly managed, with organizations either implementing bad rules, or having good rules but not enforcing them (p. 71). The other major problem facing these organizations is lack of publicity. Emeni (2008) notes that information about MFIs is not reaching the poor people in Nigeria who could benefit from microloans (p. 72). These issues will have to be address if MFIs in Nigeria are to play a role in helping to alleviate poverty in that country.

Zambia. A case study performed by James Copestake, Sonia Bhalotra and Susan Johnson (2001) examines the effects of microcredit on the people of Zambia. The Peri-Urban Lusaka Small Enterprise Project (PULSE) serves Zambia's poor people through a peer-lending program (p. 82). The borrowing structure is similar to that of the Grameen Bank, however, there is one major difference between PULSE and the Grameen Bank, and that is the group that each organization targets. The PULSE program does not lend to the "bottom poor," but rather to the poor who are able to participate in the economic system in some way (Copestake, Bhalotra & Johnson, 2001, p. 85).

The depiction of PULSE as an organization is that of an institution with strict rules and little flexibility. The authors note that PULSE only wants to lend to those who have a significant amount of stock, or women who have access to capital through a partner. The threat of seizure of property for not making payments also kept some poor business owners from taking out a loan from PULSE (Copestake, Bhalotra & Johnson, 2001, p. 86). The study also uncovered some other negative effects of the PULSE program. The loans "made only a small contribution to consumption smoothing and could even exacerbate vulnerability" (Copestake, Bhalotra & Johnson, 2001, p. 90). Therefore, it seems that PULSE is running into problems even though it is not attempting to assist the bottom poor.

South Africa. South Africa's history with microfinance can be described as unique. Pakama Siyongwana (2004) notes that South Africa's microlending environment is different from that of other third world countries in a number of ways (p. 856). Reza Daniels (2004) observes that "South Africa had, and continues to have, a sophisticated financial sector that is among the most advanced sectors in the world in terms of its depth, structure and liquidity" (pp. 847-848).

Regulation has played a significant role in the microfinance industry in South Africa. Siyongwana (2004) explains that the purpose of the Micro Finance Regulatory Council (MFRC) is to bring order to the microlending programs in that country (p. 851). There is a great divide between the formal and informal sectors of the economy in South Africa, which seems as if it was created by the onset of this economic regulation. M. T. Mogale (2007) argues that new laws need to be created in order to bridge the gap between the globally operating businesses and the microcredit economy (p. 350).

Siyongwana (2004) studied the informal segment of microfinance in South Africa and describes it as significant because of the services it provides to the people in that country who do not have access to the traditional banks (pp. 863-864). Therefore, if the government is able to acknowledge the role of informal money lenders, while working to provide adequate loan and credit services to its citizens, a greater number of people will have access to the credit they need to overcome poverty.

Many microfinance organizations in South Africa follow the Grameen model: Mogale (2007) notes that money is loaned to groups, and those groups are made aware that everyone is responsible for repayment (p. 347). However, there is an organization that eschews this popular model: The Start-Up fund, which lends to individuals (Reinke, 1998, p. 47). This method of lending has helped the organization to become profitable, as they have gained greater access to more traditional capital (Reinke, 1998, pp. 51-52). Other African MFIs may want to study the Start-Up Fund further to determine whether the model would be viable in their country.

South America/Central America.

Bolivia. David Schwartz (2002) notes that BancoSol in Bolivia transformed itself from an NGO into a bank that provides loans to microentrepreneurs (p. 32). Despite this achievement, there are those who are critical of the bank's efforts. Jessica Schicks (2007) states that the organization may be more concerned with the state of its financial health than serving the "bottom poor" (p. 554). Paul Mosley (2001) echoes this sentiment, noting that although poverty may have been decreased through BancoSol's efforts, there are still large parts of the poor population who are vulnerable (p. 130).

Brazil. Brazil has not yet had the success seen by Bolivia's BancoSol, but the demand seems to exist. Mario Osava (2003) describes the country's situation, noting that there is such a growing demand for microcredit that big banks are now paying attention (para. 1).

In its 2005 report on Brazil, the *Organisation for Economic Cooperation & Development* further clarified the role that banks in that country play in terms of micro lending, noting that it is public banks who are serving larger numbers of the poor population in that country, as opposed to the private banks (p. 71).

Peru. An article by Blanca Rosales (2009; with additional reporting by Maritza Asencios in Lima) reports that tensions in Peru are rising due to the recent economic crisis (para. 6). The group lending model used by many other countries is also used in Peru, but Rosales describes a woman who started a company with a group of other women, thus taking the model to the next level. Many microentreprenuers are part of group that borrows money together and that holds each member accountable, but many start their own businesses individually. The example of Rosa Pacheco and the export company she co-founded demonstrates that groups of women can not only borrow money together, but that they can also work together to earn more money and improve their lives (Rosales, 2009, para. 20).

One lending program, FINCA-Peru, groups potential loan recipients together instead of requiring borrowers to form their own groups before applying for a loan. Dean Karlan (2007) notes that when FINCA has 30 borrowers on their list they form a group (p. F54). This system is therefore different than other joint-liability lending programs because in other programs the borrowers form their own groups. The peer pressure in terms of repayment then becomes increasingly important throughout the process (p. F54).

As shown by the descriptions above of MFIs in the developing world, the research and discussion to date has focused primarily on the effectiveness of the programs in terms of what the recipients do with the loans, and what repayment rates are like. There is a large amount of anecdotal evidence to suggest that lending small amounts of money to people who have no access to credit through traditional channels is a worthwhile enterprise, because loan recipients are able to start businesses they would not otherwise have the opportunity to start. The income generated by these businesses then helps the entrepreneur improve her life in various ways – she can now afford more stable housing, perhaps, or adequate food for her family.

Scholarly research focuses either on the financial aspects of microfinance or on framing MFIs within a broader social and political context. Loan amounts and repayment rates are analyzed to determine a MFI's success rate, and organizations are discussed in terms of their place within their respective countries' political, economic and social structures. Because MFIs operate outside of the traditional banking system, but are in a similar business, the relationship between MFIs and the banking system in a particular country is sometimes examined as part of this discussion. Therefore, organizational effectiveness is measured either through individual recipient's stories, or by a strict financial analysis. Broader discussion helps to contextualize the role of MFIs in developing countries. The structure of each organization, and how that structure relates to the organization's effectiveness, is not a topic that is typically covered in the research.

From the Third World to Main Street: Microenterprise in the United States

Microenterprise. As the subject of microfinance is brought home to the U.S., the literature moves away from the term "microfinance" and instead uses "microenterprise" with much greater frequency. A study of several microfinance organizations (MFIs) in the United States performed by Pollinger, Outhwaite and Cordero-Guzmán (2007) indicates that there are issues when trying to compare microfinance organizations in the United States to those in developing countries (p. 25). After gathering data on 46 MFIs, Pollinger et al. (2007) conclude that many MFIs are not able to sustain themselves without help from outside organizations (p. 36).

Their research seems to indicate, therefore, that a number of MFIs in the United States are not operating at a self-sufficient level. The authors provide advice on one way to reach this level, at the same time acknowledging the difficulty involved in the prospect. They note that it is easier to gain self-sufficiency by lending to people who are less of a credit risk, but by doing that an MFI may be in danger of operating counter to its mission (Pollinger et al., 2007, p. 37).

Lewis Solomon (1992) comments further on the beliefs of MFIs in the United States, noting that microlending provides not only economic benefits both to the community and to the individual, but also provides personal benefits such as a greater sense of self-esteem for loan recipients (para. 30). Just as microloans provided to women in developing countries are seen as tools to help empower them and lift them out of poverty, loans made to individuals in the United States are seen as a way to provide not only economic independence, but also a sense of self-worth to the recipients.

The welfare system. The welfare system in the United States has been in existence for many years. In recent years there have been changes made to the welfare act. One of the major changes came about in 1996 when "Congress passed and President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA; Pub. L. No 104-193)" (Rodgers, 2005. p. 275). Rodgers (2005) goes on to explain the changes that occurred when, as part of this new law, the Aid to Families with Dependent Children (AFDC) was changed to the Temporary Assistance to Needy Families (TANF) program. The program went from being run by the federal government to being run by each individual state. The government placed a limit of 5 years for anyone receiving welfare benefits, and states received more money to help those recipients find work, in order to move them out of the welfare system (p. 275).

Lewis Solomon (1992) argues that laws and rules at every level tend to halt the progress of microenterprises (para. 51). The focus of the welfare program appears to be on the welfare-to-work aspect, which serves in almost direct opposition to the theory of microenterprise. If states have the goal of transitioning as many welfare recipients as possible into jobs, and are operating under specific time constraints, microloans will most likely be seen as something that may impede those efforts. If welfare recipients are focused on starting a business, the time and energy they would devote to a job search may decrease as a result.

Other entrepreneurial efforts: The Kauffman Foundation and B-Lab.

The Kauffman Foundation. The mission of the Ewing Marion Kauffman Foundation is "to help individuals attain economic independence by advancing educational achievement and entrepreneurial success. . ." (Ewing Marion Kauffman Foundation, n.d., para. 2). The organization, however, does not work specifically in the area of microfinance.

The section of the Foundation's website dedicated to Minority Entrepreneurship includes a link to the Urban Entrepreneur Partnership (UEP) site. This program is dedicated to assisting minority business owners (Urban Entrepreneur Partnership, n.d., para. 3). Keith Tillage, a client of the program, gives the following testimonial: "My UEP coach helped me secure $8 million in contracts and assisted me in aligning business and community resources to develop my enterprise from a $1.2

million to a $3.5 million organization" (Urban Entrepreneur Partnership, n.d., sidebar). Clients of the Urban Entrepreneur Partnership program include business owners who are overseeing multi-million dollar companies. Microentrepreneurs, men and women who do not qualify for traditional bank loans, do not fall into this category. Therefore, while the program has had success in serving its clients, it is not part of the microenterprise movement. In fact, CEO/Executive Director Daryl Williams (2010), in an article in the Detroit Black Pages, observes that both microenterprise programs, as well as job creation programs, are not "financially sustainable" (para. 1).

B Lab. B Lab (n.d.) is an organization that hopes to help businesses better serve the public (para. 1). One way that the organization works to accomplish this goal is through a certification process for companies. Undergoing an Impact Assessment and an Assessment Review are the first steps in the certification process, and once these steps are completed the company moves on to create "an amendment of corporate governing documents to incorporate stakeholder interests" (B Lab, n.d., para. 4).

The B Corp Directory currently lists 407 B Corps which have become part of the B Corp community. These companies have undergone B-Lab's assessment and have been found to meet the criteria set out by that organization. Therefore, if a person is looking to do business with a company that focuses not only on profits, but also on making a positive contribution to society, they can search the directory to find companies that fall into this category.

Another method that B-Lab is using to create change is the changing of public policy at the state level. What does this new legislation entail? B-Lab's Annual

Report describes the law as requiring companies to take all stakeholders into account when making business decisions, as well as requiring companies to create an impact on society that can be measured by an objective third-party organization (B Lab, n.d., p. 16). The organization notes that this public policy movement is gaining momentum, with several other states working toward passing this same type of legislation. Companies applying for B Corp certification are interested in becoming part of this new way of thinking about business – and want the world to be aware of their philosophy and vision. These companies, while for the most part not directly related to the microfinance industry, are bringing the idea of "social entrepreneurship" to light. The idea that a business can stay true to its mission while making a profit can ultimately help the microfinance industry. If large companies across the country continue to apply for and obtain B Corp status, stating that they are interested in considering the wants and needs of all stakeholders, then this community-minded attitude may trickle down to smaller, more community-based organizations like MFIs.

Microfinance Under a Microscope: A Critical Look at Microlending

Over the years, a great deal has been written about microfinance programs. Coverage of these organizations in the popular media in large part depicts them as successful and does not delve into potential flaws and inconsistencies. There are some authors who have chosen to take a critical look at microfinance programs, in an attempt to create a fuller, more realistic picture of how these groups actually work (or do not work, as the case may be). Michael Woolcock (1999) is one of those authors. He notes that it is important to study failed organizations in order to better understand how to grow successful organizations (p. 19).

In his research, Woolcock goes on to present five case studies of organizations which have encountered serious difficulties with microlending. Most notable, perhaps, are the two Grameen Bank-related stories. He describes the activity at one branch in Bangladesh the following way: “meetings may take several hours, such is the sense of despair and urgency, but no sooner is one group’s problems at least partially resolved than another’s will emerge” (Woolcock, 1999, p. 26). At one center in a different part of the country, difficulties arise when multiple burdens befall a group’s borrowers. When this occurs, and fellow group members have to shoulder the debts of their troubled group-mate in can cause problems within the group (Woolcock, 1999, pp. 28-29). Adams and Raymond (2008) offer their own words of criticism, asserting that there is no scholarly evidence to support current opinions of microfinance (p. 441).

A study conducted by Chowdhury, Ghosh and Wright (2005) examines the impact of micro-credit on the poor in Bangladesh over the span of several years. The authors conclude that their research indicates that micro-credit helps borrowers for the first 6 years and then their economic status evens out after that time frame (p. 307).

These studies are just a few of the examples of research that has found fault with various microfinance programs. The fact that some microfinance programs are not self-sustaining in terms of their financial viability is seen as a problem by some authors. Noah Hertz-Bunzl (2006) notes that “according to the UN Capital Development Fund, only one percent of microfinance institutions worldwide are financially stable” (p. 32). Again, the criticism focuses on the financial aspects, without examining the organizational structure of the MFIs being studied.

Another area of criticism involves the loan recipients themselves, or more importantly the poor who may not be benefitting from micro loans. Some authors argue that poverty alleviation is not actually occurring when loan money is going to groups not considered to be the "bottom poor." Rather, some MFIs loan money to the "working poor," or those who have already established businesses.

Conclusion

Microfinance organizations exist in almost every corner of the world. Many studies of these organizations focus on the recipients of the loans – their stories, their demographics, their repayment history. Other research provides a picture of the MFI being studied in terms of sustainability (or lack thereof), measuring interest rates, average loan size, and number of clients served. Those reports which are critical of microfinance attack the notion that MFIs have difficulty creating sustainability, that they do not serve the poorest of the poor, or that microenterprises (the typical result of microloans) are not a practical way to alleviate poverty.

This study aims to fill a gap in the research about microfinance organizations. The focus of this study will be placed on the organizations themselves, instead of the loan recipients. To date, there has been no research that specifically examines the organizational structure of MFIs in the United States, and more specifically, in Southern California. This study will examine each group's mission, values, source(s) of funding, accounting practices, and organizational structure in a quest to draw conclusions about how these organizations operate, how well they are operating, and what if anything they can do to improve the way they work. By finding out at the organizational level what is working for MFIs in California and what is not working, this study will help future practitioners build off of the successes (and learn from the mistakes) of the organizations that have come before.

Chapter III: Research Methodology

Introduction

This case study compares the operation of 11 MFIs currently serving people in Los Angeles County across several defined dimensions. Comparisons will be made across the following factors: source of funds, regulations/limits, organizational structure, selection process for loan recipients, instruction/curriculum for loan recipients, loan amounts/repayment/interest rates, monitoring of funded operations, organizational vision/mission/philosophy, accounting procedures and organizational affiliation. Interviews will be conducted with leaders of each organization in order to accumulate in-depth information about each MFI. All artifacts provided by the organization will be utilized as well.

Restatement of the Problem

MFIs in the United States face challenges specific to the United States. With the large number of microenterprise institutions currently in existence, especially during economically challenging times, it is essential to determine what makes such organizations successful. Furthermore, as there are no standardized measurement instruments currently in use, any attempt to determine whether or not an MFI is successful is a challenging task. To date, no work on the comparative effectiveness of these organizations from an organizational structure, leadership and funding standpoint has been performed.

Restatement of the Purpose

The purpose of this study is to gather information about several microenterprise organizations currently serving people in Los Angeles County in order to discover what has made them successful. By examining variables that range from organization mission to accounting practices, this study will attempt to design a profile of what a successful MFI in the United States looks like.

Restatement of the Research Questions

The research questions to be answered in this study are as follows:

1. Among the organizations studied, how do the following factors contribute to their success, in the opinion of key officers in these organizations:
    - Source of funds
    - Regulations/limits
    - Organizational structure
    - Selection process for loan recipients
    - Instruction/curriculum for loan recipients
    - Loan amounts/repayment/interest rates
    - Monitoring of funded operations
    - Organizational vision/mission/philosophy
    - Accounting procedures
    - Organizational affiliation
2. How do the factors stated in Research Question One enable or hinder the success of the organizations studied?
3. What enabling or disabling characteristics can be identified that are common to many or all groups or are unique to one or more groups?

Research Design

The design of this research is a comparative case study. Robert Yin (2003) notes that "case studies are the preferred strategy when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context" (p. 1). This study meets the criteria cited by Yin in that it seeks to discover how MFIs in Los Angeles County operate on an organizational level. Also, since the researcher does not have control over each organization's activities she will act only as an observer. Finally, the organizations being studied are part of a present-day trend of lending small amounts of money to impoverished people for entrepreneurial endeavors. Yin makes the argument for multiple (or comparative) case study research by stating that "analytic conclusions independently arising from two cases, as with two experiments, will be more powerful than those coming from a single case (or single experiment) alone" (p. 53). Therefore, this study will examine the operations of multiple organizations and will then compare similarities and differences among them.

The study will consist of semi-structured interviews conducted with leaders of the designated organizations. The purpose of the interviews will be to gather basic information about the organizations, and to develop a basis for comparison among the groups. The interview will contain questions relating to the following topics:

- Source of funds
- Regulations/limits
- Organizational structure

- Selection process for loan recipients
- Instruction/curriculum for loan recipients
- Loan amounts/repayment/interest rates
- Monitoring of funded projects
- Organizational vision/mission/philosophy
- Accounting procedures
- Organizational affiliation

Additionally, anecdotal information will be collected during the interviews which may help to supplement the hard data collected. Finally, the researcher will gather archival data that may be available, such as Mission Statements, Annual Reports, brochures and other relevant documents.

Description of Data Sources

The Aspen Institute is an organization that has been in existence for 60 years. The group's mission statement has two parts – they strive "to foster values-based leadership, encouraging individuals to reflect on the ideals and ideas that define a good society, and to provide a neutral and balanced venue for discussing and acting on critical issues" (The Aspen Institute, n.d., para. 1). The Institute works toward these goals not only through seminars and other events, but also through a number of leadership and policy programs.

One of these policy programs is the Economic Opportunities Program (EOP). The EOP consists of three components: microenterprise, workforce development, and financial services. The EOP's microenterprise component is managed by an organization called FIELD – the Fund for Innovation, Effectiveness, Learning and Dissemination.

According to their website, the purpose of FIELD (n.d.) is to “identify, develop, and disseminate best practices, and educate funders, policy makers and others about microenterprise as an anti-poverty strategy” (para. 1). The organization’s website contains a large number of resources for those who are intersted in learning about microfinance in the United States. One such resource is a directory of microfinance organizations in the United States, divided by state. FIELD’s listing of California based microfinance organzations was used as a starting point in terms of selecting data sources for this study. A major reason for studying MFIs in California is that based on Gross Domestic Product (GDP), California’s economy is ranked as the ninth largest in the world (California Department of Finance, n.d., para. 4).

The FIELD 2005 Directory lists 58 MFIs in California. The FIELD directory listed 11 MFIs as being located in Los Angeles. Interview candidates were going to be drawn from the list; however, the directory was updated in 2010 (based on data gathered from 2008-2009). Because some of the organizations listed in the 2005 directory are not listed on the 2008 directory, the study will focus only on those MFIs currently listed. Furthermore, the study will be limited to those leaders who choose to participate in the study. The leaders, in a snowball sample, will be asked not only about their own organization but also about the organizations which are no longer listed in the FIELD Directory to determine if there is any information available about the organizations which no longer exist. The decision to study organizations based in Los Angeles is based not only on geographic proximity to the interviewer, but also on the fact that Los Angeles is the largest city in California, and is central to the largest metropolitan area in the United States. As mentioned previously, the economy of California is one of the largest in the world, and thus Los Angeles, being its largest city, can be seen as playing an important role in the state's economy.

Below is a list of the seven MFIs listed in the FIELD 2008 Directory which indicated that they provide microlending services to clients:

1. CHARO Community Development Corporation: As of this writing, this organization no longer exists.
2. Community Financial Resource Center (CFRC): This group offers a variety of services for those who wish to start a business: loans, individual development accounts (just as the Asian Pacific Islander Small Business Program offers), technical and computer help, and training. The group is also helping people in Los Angeles who may not be aware of banking services in their area to find out about these services and to begin to use them.
3. Episcopal Community Federal Credit Union: This credit union provides a variety of services to its members, including savings accounts, checking accounts, as well as loans. In addition, they offer counseling and financial literacy classes. According to the organization's website, it is "a very diverse credit union with 40 percent of its membership being Hispanic, 20 percet African American, 20 percent Caucasian, and 10 percent of other ethnic groups" (The Episcopal Community Federal Credit Union, n.d., para. 3). The credit union has been in existance since 1992.

4. Jewish Free Loan Association: This organization has been in existence for over one hundred years. The group “offers interest-free loans on a non-sectarian basis to individuals and families whose needs are urgent and who may not qualify through normal financial resources” (The Jewish Free Loan Association, n.d., para. 1). Small business loans are just one of many types of loans that the organization grants. The maximum amount of a microloan from this group is $15,000.
5. Pace Business Development Center: Pace Business Development Center (BDC) was created 17 years ago. The organization provides loans, training and consulting services for entrepreneurs. The group’s website also provides a directory of its clients for people interested in obtaining services from the businesses started through Pace BDC’s assistance.
6. Pacific Coast Regional Small Business Development Corporation: According to this organizaton’s website, “If you are looking for financing for your small business, PCR is the place to start” (Pacific Coast Regional Small Business Development Corporation, n.d., para. 1). The organization is partnered with a number of different banks, and offers a variety of loan programs geared toward both start-ups and existing businesses. PCR’s corporate values are team work, integrity, excellent customer service, and balance between personal and professional lives (“Pacific Coast Regional Small Business Development Corporation, n.d., para. 1).

7. Valley Economic Development Center, Inc. (VEDC): This organization was started in 1976. The VEDC provides training and counseling services in addition to lending money to potential business owners.

> In 2006, VEDC provided consulting for 5,000 businesses; graduated 250 business owners from VEDC's Entrepreneurial and Microenterprise Training Programs, was responsible for $20 million in direct and guaranteed lending and assisted in placing 45 people into jobs. These efforts resulted in the creation of 600 jobs and 155 new businesses. (Valley Economic Development Center, n.d., para. 10)

The following are the seven organizations in the FIELD directory that do not provide micro loans. Two of these organizations were selected randomly to participate in the study, in order to determine if lending practices has specific impact on the lending groups.

1. Asian Pacific Islander Small Business Program: This collaborative, consisting of five different organizations, is 10 years old and offers business counseling, workshops, training, as well as individual development accounts, which is "a matched savings program of the United Way of Greater Los Angeles" (Asian Pacific Islander Small Business Program, n.d., para. 4).
2. Broad Spectrum Community Development Corporation: As of this writing, this organization no longer exists.
3. Latino Business Chamber of Greater Los Angeles: This organization has only existed for a short time, but is sponsored by banks and utility companies, and is partnered with many different community-based organizations. According to the organization's Chairman:

> The LBC-GLA offers programs that are essential in growing businesses. We offer one-on-one technical assistance, “T/A”, to business owners, as well as unique resources such as the Business Technology Training Center. Our Center provides instruction in fundamental software from simple accounting applications like “Quickbooks” to more sophisticated accounting and industry specific software. We also provide certifications that assist our members in bidding on projects with major vendors which enhances their opportunities for procurement. (Latino Business Chamber of Greater Los Angeles, n.d., para. 2)

4. Long Beach City College Small Business Development Center Network: This organization offers many services in many areas, including business planning, website development, government contracts, among others. These services are provided at no cost to the potential or current business owner who is seeking assistance.
5. Operation Hope, Inc.: “Operation HOPE was founded to break down that barrier between privileged and poor” (Operation Hope, n.d., para. 4), and was founded in part in response to the Los Angeles riots that occurred in 1992 after the verdict in the Rodney King case was delivered. This organization works in underserved communities, teaching financial literacy to children as well as to would-be business owners. They also assist clients with a variety of financial matters such as helping a client to avoid foreclosure on his/her home, to starting a business, to recovering from a natural disaster.
6. TELACU Community Capital, Inc.: This group’s website states that it is “the largest Community Development Corporation in the United States” (Telacu, n.d., para. 1). The group created the Community Commerce Bank

(CCB) in 1976, and have been lending money to entrepreneurs ever since. They also developed TELACU Community Capital (TCC), which is the lender that business owners work with in order to obtain a loan.

7. Vermont Slauson Economic Development Corp.: This organization provides loans, training and business development assistance to entrepreneurs, in addition to assisting with real estate development in the area of South Central Los Angeles in which it is located.

Human Subjects Consideration

Representatives from each organization mentioned above will be contacted and asked to participate in an interview as part of the study. Interviews will be conducted (either via phone or face to face) with the respondents, in order to gather information. Based on the type of information to be collected, along with the methods used to collect the data (interviews will be conducted via phone or in person) it is expected that this study will qualify for IRB exempt status.

Description of Data Gathering Instruments

The interviews will be semi-structured. Specific questions will be asked of each interviewee, with a series of follow-up, probing questions (see Appendix B). The interviews will last approximately 60 minutes, and will be recorded. All interviews will be conducted either in person, via telephone or via email.

In 2010, FIELD gathered survey data from microfinance organizations across the country. In order to gather additional information each interviewee will be asked if their organization has completed the FIELD survey. If the organization has completed the survey, the interviewee will be asked for a copy of the survey responses so that this data can be used to inform and enhance the interview questions.

Validation of Data Gathering Instrument

Prior to interviewing the MFI leaders, all interview questions will be submitted to a validation team of three professionals to determine if the questions will elicit the types of responses that will provide data regarding the research questions. The validation team will consist of three individuals with earned Ed.D. or Ph.D. degrees who have conducted original research of their own. Feedback from the group will be solicited, and will then be used to clarify or change any questions that need adjustment. Once the feedback has been incorporated into the interview questions, the group will review the questions one additional time to determine if the changes are sufficient. Once the interview questions are finalized the interviews will be conducted.

Data Analysis

After the interviews are completed, they will be transcribed by a transcription service. The transcripts will then be coded for key words and phrases, with particular attention being paid to patterns in the data. Richards and Morse (2007) note that "coding is *linking* rather than merely labeling. It leads you from the data to the idea, and from the idea to all the data pertaining to that idea" (p. 137). Themes in the data will be uncovered after coding is completed. These themes will also be connected to each organization's FIELD survey responses (if available) as well. Connecting the interviews to the FIELD survey data will be an important part in the synthesis of the data. All themes discovered by the researcher will be validated by a separate validation reviewer.

Plans for Data Synthesis

After both the FIELD survey and interview data have been analyzed, both sets of results will be examined in order to synthesize the data. Because the goal of this study is to help practitioners to develop more effective MFIs, the data will be presented in a narrative format. The significant findings from the interview transcripts will be highlighted insights from the FIELD survey responses, if available, will be incorporated in order to create a full and robust picture of the organizations studied. These organizations will be used as an example to show other practitioners what is currently being done in the field of microfinance in the Los Angeles area. The study's findings will also be linked to the literature discussed in Chapter II, with a specific focus on how these findings will fill the gap in organizational structure research among MFIs. The results will be aggregated and compared by variable across institutions in order to find similar and disparate processes that lead to success.

Limitations of the Study

The focus of this study is organizational effectiveness among MFIs in the Los Angeles area. Therefore, one limitation on the study is the geographical location of the groups in the study. Another limitation is that the study will only examine those organizations that exist in the same community that they serve. By focusing on local organizations serving their own communities, U.S.-based organizations that assist people in other countries with microloans are specifically excluded from the study. The fact that MFI leaders are being interviewed versus those who are recipients of the loans they provide means that the data may be biased. The leadership of an organization, for example, may believe that they are effective in serving their community, but the loan recipients may have complaints that are beyond the scope of this study.

Applicability

The results of this study can be used in a variety of different ways. By focusing specifically on Los Angeles-based organizations, the results can then be used by other organizations as they seek to improve operations in their organizations. The results can also be used by people who wish to start an MFI in California, by providing them with a snapshot of the microfinance landscape in the state's largest city. Organizations in other states may be able to use the data collected to inform their decision-making as they move forward as well.

Conclusion

The goal of this study is to discover how factors such as source of funds, regulations/limits, organizational structure, selection process for loan recipients, instruction/curriculum for loan recipients, loan amounts/repayment/interest rates, organizational vision/mission/philosophy, accounting procedures, and organizational affiliation either contribute to or take away from, each MFIs success. By examining organizational structure in a comparative case study design, this study will seek to present similarities and differences among the MFIs studied. This information will assist other MFIs as they plan and fine-tune their operations. This study will also fill a gap in the current research with information on the day-to-day operations of MFIs in the Los Angeles area. Future researchers can then use this data as a basis for further studies.

Chapter IV: Results

Restatement of Research Questions

The research questions to be answered in this study are as follows:

1. Among the organizations studied, how do the following factors contribute to their success:
    - Source of funds
    - Regulations/limits
    - Organizational structure
    - Selection process for loan recipients
    - Instruction/curriculum for loan recipients
    - Loan amounts/repayment/interest rates
    - Organizational vision/mission/philosophy
    - Accounting procedures
    - Organizational affiliation
2. How do selected characteristics of the factors stated in Research Question One hinder the success of the organizations studied?
3. What enabling or disabling characteristics can be identified (if any) that are common to many or all groups, or are unique to one or more groups?

Description of Respondents

The respondents are members of six out of the seven microenterprise organizations listed in the 2008 FIELD directory that meet the following two criteria: (a) office location in Los Angeles County, and (b) ability to provide microloans. Prior to the beginning of the study the seventh organization closed its doors. In order to determine whether or not lending money made a significant difference in terms of the organizational factors outlined in research question 1, interviews with members of two microenterprise organizations in Los Angeles County that do not provide microloans were also conducted. The two non-lending organizations were chosen at random from the seven non-lending microfinance organizations in Los Angeles County listed in the FIELD Directory. These organizations provide technical assistance to people hoping to start a business or improve their business, but do not provide funding for these individuals. Organizations A – F represent the micro lending organizations and Organizations G and H represent the organizations that do not provide microloans. The following section includes analysis of responses from each of the interview questions, from all respondents. The interview questions are analyzed one at a time. After the analysis of the interview questions, the research questions are addressed, one at a time.

Analysis of Interview Questions

Interview question one: How long have you worked at this organization?

All of the participants from the lending organizations have been at their respective organizations for at least seven years, with the participant from Organization A having the longest tenure at seventeen years. The participant from Organization G has only been with that organization for 14 months, and the participant from Organization H has been with that organization for 4 years. The participant from Organization A has been at that organization since it was created, and the participant from Organization H is one of the founding members of that organization. That participant, along with the participants from Organizations B and E indicated that prior to their work with these organizations they were involved in the corporate world. Table 1 indicates the length of time each respondent has been employed at their respective organizations.

A few of the participants commented on the difference in their salaries from their previous positions.

- Participant A: “I wish the money came with it, but being small…you really don’t make a whole lot” (personal communication, May 19, 2011).
- Participant E: “I came out of corporate America, and the salary doesn’t come anywhere close to what used to be there” (personal communication, May 17, 2011).
- Participant G: “ . . .none of us are being millionaires doing this work” (personal communication, June 7, 2011).

Table 1
Participants’ Time at Organizations

Participant	Time at Organization
A	17 years
B	15 years
C	8 years
D	16 years
E	8 years
F	11 years
G	14 months
H	4 years

Interview question two: What is your position at this organization? Most of the participants are at the CEO, Director or President level in their respective organizations. The participant from Organization C is a loan analyst. Table 2 lists each participant's title.

Table 2
Participants' Titles

Participant	Title
A	Chief Executive Officer
B	Vice President/Chief Operating Officer
C	Loan Analyst
D	President/Chief Executive Officer
E	Director
F	Director
G	Director
H	Chairman/Chief Executive Officer

Interview question three: What is your organization's vision? All of the organizations' visions are similar – they focus on providing assistance and resources to underserved populations, with a belief that in providing such assistance they will also be working to improve the communities in which the loan recipients reside. There was no significant difference in the responses from the lending versus the non-lending organizations. They all envision stronger, more vibrant communities filled with citizens who are able to participate in the mainstream economy, based on the economic development services they are providing, whether that is in the form of loans, or in the form of technical assistance. Examples of specific comments follow:

- Participant A: "The vision of the organization is to be one of the premier organizations that help the poor in Los Angeles and we are moving towards that direction" (personal communication, May 19, 2011).
- Participant B: "…as far as providing tools and resources and information to help people become more economically self-sufficient and become…more

viable in traditional mainstream environment" (personal communication, May 24, 2011).

- Participant D: "Our vision is enriching communities by making economic dreams a reality" (personal communication, May 27, 2011).
- Participant F: ". . .it's driven to create – providing. . .job for the community, and everything else kind of follow from that, the livelihood, the wellbeing of the community" (personal communication, May 26, 2011).
- Participant G: ". . .we envision that our work will allow [our clients] to make use of resources that are more readily available to less underserved communities, that we will be able to help them participate in the mainstream economy, and that we will help them find access to capital on an equal footing with more mainstream groups" (personal communication, June 7, 2011).
- Participant H: ". . .we're about building businesses. . .we're about business development. But we're also about economic development" (personal communication, May 11, 2011).

Interview question four: Please describe the mission and philosophy of the organization. When asked this question, each participant referred to a printed mission statement, which s/he then read aloud. Again, the mission statements of the organizations are similar in that all of the organizations work to help people who might not have access to traditional means of capital to be able to secure a loan. The non-lending organizations had similar mission statements – they are working to help underserved populations move out of poverty and into the mainstream economy, but instead of accomplishing this mission through lending money they provide technical assistance and other services to their clients.

- Participant A: "…our mission is to help the helpless in terms of finances" (personal communication, May 19, 2011).
- Participant C: "To promote self-sufficiency with dignity in the way of a loan versus just a handout" (personal communication, May 27, 2011).
- Participant D: "Our mission is to create and sustain jobs and businesses in our communities by providing high quality economic development services" (personal communication, May 27, 2011).
- Participant E: "The mission of the organization is…the promotion of community development through the delivery of financial educational services to underserved and small businesses" (personal communication, May 17, 2011).
- Participant F: ". . .the focus is on minority immigrant refugee. . .and empower them to participate in the economy fully" (personal communication, May 26, 2011).
- Participant G: ". . .our mission is to assist low-income immigrants mostly with a focus on Asian immigrants, to help them start or expand their small businesses" (personal communication, June 7, 2011).

Interview question five: Is your organization affiliated with a larger organization or does it operate independently? Most of the organizations operate independently. The notable exceptions are one of the lending organizations, which is affiliated with a church in Los Angeles (which is in turn part of a larger, national church organization) and one of the non-lending organizations, which is itself an umbrella for five different community-based organizations. Organization E operates under a larger organization but is not financially tied to that organization, as the director explains:

- Participant E: "…under the [Organization name], the contract says you have to have a director. Well, [larger organization] has a director too. So you have to have a director, and the director has to have total autonomy in budget control over running the program. . . .But I have a boss who is the president of [larger organization]. So it's a little weird in there. But I'd like to say that the [Organization name], the way I'm running it, is totally self-sufficient. So I'm not a drain on [larger organization] at all" (personal communication, May 17, 2011).

Interview question six: Please describe your organization's structure. The responses to this question indicated a similar theme – that each of the organizations is operating with a fairly small staff. There is a straightforward division of labor in all of the organizations. Some respondents, when asked this question, described the organization's various programs instead of listing the organization's staff positions.

- Participant A: "We have supervisory committee [made up of four people] and then we have myself [the CEO] and then we have three other employees and that's it" (personal communication, May 19, 2011).

- Participant C: "We have a CEO. We have a Director of Major Gifts, Director of Marketing and Program, a Fiscal Manager, Grants Writer, Loan Analysts, Loan Manager and Administrative Assistant" (personal communication, May 27, 2011).
- Participant D: "I'm the President, I report to a Board of Directors, we have three divisions. One is business lending. The other is business services. And the final is corporate services" (personal communication, May 27, 2011).
- Participant G: "I have a program manager. . .we have a part-time program assistant. . .and then I have business counselors. . ." (personal communication, June 7, 2011).

Interview question seven: How does your organization distinguish itself from other MFIs in Los Angeles county? Most respondents focused on the services that they provide when answering this question, although there are certain aspects that set each organization apart from the group. Organization B, for example, is the only organization that is currently using the peer lending model used in countries outside of the United States as part of their program. Organization C does not charge interest on their loans and requires a cosigner, two characteristics not shared by any of the other organizations in this group. Organization G, one of the non-lending organizations, mentioned community focus as a distinguishing factor of their organization.

- Participant A: "…a lot of groups in Los Angeles are just loans. They are just loan groups that do the micro loans. We have the brunt of the services, the savings, the checking, the counseling…" (personal communication, May 19, 2011).

- Participant B: "That is definitely what makes us unique is that we have this peer aspect of it" (personal communication, May 24, 2011).
- Participant C: "…because we're interest-free, we secure the money by requiring cosigners, so we don't accept collateral and even if someone is a strong borrower with good credit, every loan is required to have a least one cosigner, often two cosigners" (personal communication, May 27, 2011).
- Participant D: "How we're different…is that we look at finance and technical assistance as being equally important things…We only do small business. And microbusiness. It's all we do. We don't do housing, we don't do childcare, we don't do a lot of other things. All we do is small business" (personal communication, May 27, 2011).
- Participant F: ". . .we are strong in Asian languages. Our counselor are bilingual. . .we are also strong in lending. . .as an SBA micro lender. We are one of the three in Los Angeles county. . . So we are here long enough to demonstrate that yeah, we can lend, we can service our own loan, and then we can raise the money. Those are important" (personal communication, May 26, 2011).
- Participant G: "What makes us unique is that. . .we came about this from a community focus. What we try to do is create economic-development

opportunities in our respective communities" (personal communication, June 7, 2011).

Interview question eight: Does your organization have a Board of Directors? If so, does the Board of Directors play a significant role in the organization's day-to-day operations? Every organization interviewed, both lending and non-lending, has a Board of Directors. Each participant indicated that the Board does not play a significant role in their organization's day-to-day operations.

- Participant B: "…we have a separate board of directors that provides the executive leadership for the organization that's comprised of banks, community leaders, and leaders to different…industry sectors in the city" (personal communication, May 24, 2011).
- Participant C: "…they are a small group that make up our loan committee that meets weekly to approve loans" (personal communication, May 27, 2011).
- Participant G: "So they continue to oversee, from the board level. . .the direction of the organization. And they continue to look not only at the small business needs in the communities that they serve, but also how they can grow the collaborative itself" (personal communication, June 7, 2011).

Interview question nine: Where does your organization's funding come from? Many of the participants stated that their funding comes from multiple sources, including banks, the government, and private foundations. The lending organizations, because they lend out money, are also earning interest on their loans, which adds to their funding. The notable exception is Organization C, which receives all of its funding through private donations and which also does not charge (and therefore does not earn) interest on its loans. The participants also mentioned fundraising when asked about funding.

- Participant A: "…our funds come from deposits. Our funds come from loans, interest on loans, our funds come from grants and I look all over the world to get grants, if I possibly can" (personal communication, May 19, 2011).
- Participant B: "Operationally, banks again, private foundations, some corporate funding. We host annual fundraisers….I would say that probably about 70% of our funding comes from banks" (personal communication, May 24, 2011).
- Participant C: "…we have some grants from foundations, but the bulk is private donations" (personal communication, May 27, 2011).
- Participant D: "Right now, about one-third comes from government, one-third comes from earned income, and one-third comes from charitable contributions and grants. The one-third from government…majority of that is federal" (personal communication, May 27, 2011).
- Participant E: "Right now most of my funding is coming from banks" (personal communication, May 17, 2011).
- Participant H: "Most of our funds are private funding and dues monies" (personal communication, May 11, 2011).

Interview question ten: Are there restrictions placed on the money your organization receives? If so, how does that affect your organization's operations?

All of the respondents noted that there are various restrictions placed on the funds they receive. Because they all receive funds from multiple sources, they are faced with different restrictions based upon the source of the funding. Funds that come from banks and the government carry the strictest guidelines, while private funds and charitable donations can be less strict. Both lending and non-lending organizations face similar situations with regard to the restrictions placed upon their funding, with the main difference being that if the lending organizations receive funds specifically earmarked for loans, then they must be sure to lend out that money as opposed to using it for operational or program costs.

- Participant B: "…when we raise loan capital…it's very explicit that this is for lending because basically we're taking a loan from the bank" (personal communication, May 24, 2011).
- Participant C: "There are certain donor-directed funds that have certain criteria, like you must be [of a specific religious faith]….in general, we're non-sectarian, but certain donors have specified that you must be [of a specific religious faith]" (personal communication, May 27, 2011).
- Participant D: "The government's very restrictive. It's program specific, it's outcome oriented. The earned income of course is not…the grants, charitable contributions, most of that is unrestricted. Most of that is to support the organization and what we do" (personal communication, May 27, 2011).
- Participant E: "Most of the time when you're raising funds, the grant itself will tell you how the funds can be used" (personal communication, May 17, 2011).

- Participant F: "…for example, if it's for refugee, that's all we can serve. There's income requirements, there's location requirements, there's size of business requirements" (personal communication, May 26, 2011).
- Participant G: "Most of them, particularly the private corporations, well, even the foundations too, they want to make sure that we're serving a majority of low- and moderate-income individuals" (personal communication, June 7, 2011).

Interview question eleven: Are there any federal, state or local regulations that affect your work? If so, please describe. The respondents answered this question in a variety of ways. Because there are a few different types of organizations in the group, and they receive funding from different sources, it appears as if they all operate under slightly different rules. Most of the respondents, both from the lending and non-lending organizations, spoke in general terms about the rules governing their organization, as opposed to mentioning specific laws or policies to which they must adhere.

- Participant A: "…there is a lot of regulatory compliance. . . . safety and soundness is very important, so there is a lot of auditing that has to be done…" (personal communication, May 19, 2011).
- Participant B: "…because we are certified with the U.S. Treasury, there are certain minimum standards that we have to meet and certain types of lending that we have to engage in order to maintain our certification. So, for example,

we can't just go out and suddenly start making loans to everyone in the 90210 zip code. . ." (personal communication, May 24, 2011).

- Participant D: "We're a state licensed lender in the state of California. That's very, very important. We are also a federally certified CDFI. . .Those are the two big…things that govern what we do. And then much of our federal money comes with restrictions…" (personal communication, May 27, 2011).
- Participant G: "Not really laws. I mean, what affects us quite a bit is funding of programs that we make use of" (personal communication, June 7, 2011).

Interview question twelve: Do the welfare system and food stamps place any restrictions on, or offer any opportunities to enhance, the work that your organization does in terms of making loans? If so, please describe. Based on the participants' responses, these programs do not have a great deal of interaction with the welfare system or the food stamp program. This is true for both the lending and non-lending organizations.

- Participant A: "…we will lend to someone who is on welfare, who is on unemployment, who is disabled, but who have some kind of income coming in" (personal communication, May 19, 2011).
- Participant B: "…you can receive waivers but you have to get in touch [with one] of the directors of the program and you need to make sure that you inform them of what you're trying to do. . .we've been relatively successful in working through some of those challenges with the income limitations that are placed on welfare and very low income participants who come to our program

looking for participation or services" (personal communication, May 24, 2011).

- Participant C: "…we do see them. . . but just given that that's very little money, it may not mean that we can give them a loan that they'll be successfully be able to pay back" (personal communication, May 27, 2011).
- Participant E: "The childcare business boot camp was designed to help childcare providers to operate more like a business. . .usually, it's situations to where you have individuals that were on welfare receiving federal funding, and then they leave that situation, and they decide they can take care of children, never thinking that this is an opportunity for them to operate a business. So what we do is help them to operate more like a business. . . .part of my contract has a Jobs Bill Act in it, the Jobs Bill Act of 2010. And everything that we do in this program should have economic impact. It doesn't say anything about welfare, but the piece that could. . .have positive impact on welfare is maybe finding individuals that are on welfare that are suitable for starting a business and offering training to them. I can certainly do that" (personal communication, May 17, 2011).
- Participant F: "…I think micro finance and welfare may not be so inclusive. I think it's probably not very well set premise to think that in United States the micro finance can eliminate the welfare. . .It still take a lot to do business in the United States.. . .To be able to move people on welfare out of that system, their business has to be or potentially going to be much better than the welfare. But

even . . .still, what about Medicare? What about healthcare?" (personal communication, May 26, 2011).

- Participant G: "Not really. . .it's not like we can provide any more or less service, whether they're a [welfare] recipient or not. I don't think we even ask. We want to know that they are – you know, what their income is, but we don't ask what kind of assistance they may be on" (personal communication, June 7, 2011).
- Participant H: "Not particularly that I can see. But I'll tell you. Those programs are important, especially with smaller retailers that drive sales. And sales are at the root of everything. So those programs are important" (personal communication, May 11, 2011).

Interview question thirteen: How do you select your clients? Most respondents indicated that if a potential client contacted them, they would be considered for a loan – no one is turned away at the beginning. Income requirements, however, do need to be met so that the organization can be sure that the recipient has the ability to repay their loan. Motivation and a certain level of commitment are also important factors.

- Participant B: "I think the most important characteristic and I think this is true about all of our lending programs is that . . .this process and what we have to offer is only successful if you are willing to work and you have the discipline and the wherewithal to do this…we believe in the potential of people in their hard work and their aspirations – and then that's about where it ends and if you can't harness your intent and your hard work and put it to good use then we really can't work with you" (personal communication, May 24, 2011).

- Participant D: "We lend to anybody and everybody. We are not demographically limited, geographically limited, we loan to everybody and anybody, including – fact is, we have a policy, depending on the source of funds, residency is not even an issue" (personal communication, May 27, 2011).
- Participant F: "…we can serve anybody as long as their income requirement [is] met" (personal communication, May 26, 2011).
- Participant H: "Our workshops are open to anyone that wants to participate. . .but the one-on-one consultation – you need to be a member" (personal communication, May 11, 2011).

Interview question fourteen: Do you provide instruction regarding business planning for your loan recipients? If so, please describe the curriculum. Instruction on how to write a business plan, along with other services provided by these organizations typically falls under the umbrella of "technical assistance." Most of the organizations have some type of technical assistance program, and they offer a wide variety of services to potential and current business owners. The two organizations that do not lend money focus primarily on the technical assistance aspect of small business development. Across the board, respondents mentioned that the technical assistance aspect of microenterprise work is extremely important, and they emphasized that potential business owners and loan recipients need to be fully prepared prior to obtaining a loan. Preparation includes having a solid business plan and knowing the market. The organizations do a great deal to support potential business owners both before they obtain their loan, and after, as they begin to grow their business.

- Participant A: "…after they complete the 6 hours with the instructor then . . .they're going to move forward with their group and they're going to work on their own. . .at each loan level what they experience is a tutorial overview – because there's tutorials at each loan level – and they get increasingly difficult as you go up in the loan levels" (personal communication, May 19, 2011).
- Participant C: "We have business loan funds, but we don't assist with the business plan. We usually refer that to a couple of different places for people to get that help. When it comes to us, we want a pretty well-done, complete business plan" (personal communication, May 27, 2011).
- Participant D: "We have a variety of instructional programs. Some of them are multi-week in nature: you come eight weeks, three hours, once a week. And take courses in marketing, take courses in strategic planning, take courses in accounting. We also have one all day course. . .we also have workshops, about 100 some workshops a year. Our training programs are segmented between those who are in a startup situation, and those are in fledgling" (personal communication, May 27, 2011).
- Participant E: "…all new clients go through an orientation process. . . .the first step in working with any client, whether they're in business or not, is

completing a business plan. We have templates and documents so we can help them. We don't do the business plan for them. They're supposed to complete the business plan. . . .after orientation, you are eligible to start to meet with a consultant. And whether you're looking for money, trying to complete a business plan or trying to structure your business, you'll have someone to help you to go through all those pieces" (personal communication, May 17, 2011).

- Participant F: "It's kind of geared toward building up the business plan. . .so we started from personal assessment, and then we go into business idea, and how do you define your market? What kind of products, kind of driven by the market. And then we go into pricing. . .then we go through zoning, we go through marketing plans and some legal issue, type of entity, sole proprietorship and all of that" (personal communication, May 26, 2011).
- Participant G: "There are three categories in which we provide assistance. We run the entrepreneur training programs, we call them ETPs, in each of our community groups. And they are approximately 24 hours of instruction. . .we also do just one-off workshops. . .and so people will come for that. And that may be the only time we see them. They saw a workshop they wanted to go to, they enjoyed it, and that was that. . .and then we also get people that just call us out of the blue, or they attended a workshop and decided 'hey, I could use more one-on-one assistance with my business.' Or they've taken the ETP Program, and they've graduated and they've got a business plan, but they still

need help. . .they still need to be walked through certain issues. And so then we'll provide one-on-one assistance" (personal communication, June 7, 2011).

- Participant H: "Maybe they need accounting services. Maybe they need legal services. Or it might be a referral to legal services or accounting services, or bringing in an outside contractor to work with them" (personal communication, May 11, 2011).

Interview question fifteen: Once recipients are selected, how are loan amounts determined? Because these organizations need to be mindful of their own bottom line, they will not provide a loan in an amount higher than what they believe the recipient will be able to pay back, mainly based on their current income. In this way, these organizations operate like banks (although many of them are non-profit organizations). This question does not apply to Organization G, which does not lend money; however, Organization H, which works with banks to help individuals receive loans, did answer the question.

- Participant A: "It's based on income. It's based on their credit. It's based on their needs. . . we discuss all of these things. We really try to bring them back into the fold of being financially independent" (personal communication, May 19, 2011).
- Participant C: "We have guidelines for emergency loans that go up to $3,000, so they need to come in and they need to demonstrate what amount they need and then based on their income and expenses, whether they could manage a

payment back and then the cosigner, up to $1,000 is one cosigner, above $1,000 is two cosigners" (personal communication, May 27, 2011).

- Participant D: "…it's really tied to how much they can pay back. Lending's all about, what can you pay me back? . . .Everyone wants as much as they can get. . . .How much do you really need to get you operational?" (personal communication, May 27, 2011).
- Participant H: "They say, 'Well, I just need that much.' Why do you need that much? You have to explain that whole process. And you have to be able to repay the loan. So you have to take a look at all the variables. . . what do you need today? What do you need tomorrow? What do you need next year?" (personal communication, May 11, 2011).

Interview question sixteen: What is your repayment policy/schedule? Most organizations indicated that while they have a set repayment schedule, they are willing to work with clients individually to determine a fair repayment timeframe. The repayment schedule is an important part of the process, as the organizations need to know that they are going to get back the money that they loan out, as well as the interest that they charge for the loan. This question was not answered by the non-lending organizations, as it does not apply to them.

- Participant A: "We work it out with them, and we also look at what their payments are currently. Is that $75 [loan payment] going to really affect them, affect the fact that they have to buy gas. Affect the fact that they have to buy milk for their kids. You know, and food. . . . we always tell our members, when we give our loans, if you are having a problem, you make sure you call us and let us know because we might be able to renegotiate the loan for them" (personal communication, May 19, 2011).

- Participant B: "The first loan level it's a minimum of 4 months you have to pay the loan back, so it's 4 to 6 months for the first loan level. . . .and it goes all the way up to 36 months . . .at the $5,000 level" (personal communication, May 24, 2011).
- Participant C: "It's case by case. We want it to be manageable. . . a $1,000 loan, usually the payment is about $50 to $100 a month. A $15,000 loan is $350 to $400 a month" (personal communication, May 27, 2011).
- Participant F: "Twelve months to 36 months" (personal communication, May 26, 2011).

Interview question seventeen: What interest rate are you currently charging your clients? The interest rate that the organizations are charging varies. The only organization that does not charge any interest on their loans is Organization C. This question does not apply to the non-lending organizations, and therefore they did not respond to the question.

- Participant A: "It depends on the type of loan, it depends on your credit score. . . . because in the risk based scores, we do add on a few percentage points because they are risky loans. . . you have to do that, and regulation says that we have to do that" (personal communication, May 19, 2011).

- Participant D: "…loans above $7,500 to $50,000 are 10 percent. Or 10.5 percent. From $7,500 down to zero, it's 11.25 percent" (personal communication, May 27, 2011).
- Participant E: "Interest rates, if we're doing the loan, it's typically whatever Wall Street is plus a typical interest rate is minimum Wall Street plus two. The highest I typically see is three over prime. If it's a deal that we're doing in collaboration with a bank, we don't get involved with that at all. What their fee structure is and what their interest rate is, is totally up to them. There are laws to say they can only do so much. So we rely on that to take place for the client" (personal communication, May 17, 2011).
- Participant F: "Interest rate and repayment, we've been going 3 years and 6.75%. But that's pretty much dictated by SBA (Small Business Administration)" (personal communication, May 26, 2011).

Interview question eighteen: How do you track loans distributed to, and payments made by, your clients? All of the organizations have a system in place to track their loans. They all use a computer software program to in order to keep track of the money going out, and the payments coming back into the organization. Additionally, they use the tracking system to determine when a client is delinquent in their payments, so that they can then communicate with that client. As with the two previous questions, the non-lending organizations did not answer this question because it is not applicable to them.

- Participant A: "…we pull a loan delinquency report every week. . .if we don't get in touch with them, we have a collection agency that works with us, so we just send it over to the collection agency so that they can send them letters, so we have to do those things, because we are not giving away money here" (personal communication, May 19, 2011).
- Participant B: "…we have a loan servicing software program that manages all of that and as a lending institution we basically have the same functionality . . .as a bank" (personal communication, May 24, 2011).
- Participant C: "We have software that allows us to track that and send out letters to borrowers and cosigners. Eventually, if there's no response or we don't get anywhere, we have an outside collection agency" (personal communication, May 27, 2011).
- Participant D: "We service all of our loans, we always have. We have a computerized portfolio management system. . .we have a very, very nice system that basically keeps track of all the payments, delinquency rates, and – handles all the servicing" (personal communication, May 27, 2011).
- Participant F: "…we have it in house. We purchased the software, and then we set it up, and we do it in house" (personal communication, May 26, 2011).

Interview question nineteen: What are 1 or 2 of your organization's top goals right now? The goals mentioned by the respondents were quite varied. Most of the goals focused on the financial aspects of the organization, but there were also goals related to marketing and outreach. Overall, the organizations hope to continue to build upon their success by offering more loans to more people. Expansion was a common them, with the non-lending organization expressing a desire to provide services to more people in the community.

- Participant A: “Because we are small, it’s so difficult to be able to have a good marketing program. So, I think that’s one of our weaknesses, marketing. . .I would like to see and the board would like to see [Organization A] at $10 million in another 3 to 4 years, so by 2015. . .if we could be at $10 million [that] would double [Organization A], that would be great” (personal communication, May 19, 2011).
- Participant B: “…our goal is to just figure out how to. . .operate in this new economy and where are the resources going to come from. . .everybody always talks about vertical integration when we have the field – maybe it’s not vertical, maybe it’s octagonal integration. . .we have to figure out. . .how are we going to survive and how we’re going to work more cooperatively because. . .definitely in our universe there are a couple of non-profits that did not make it. And I know we have to think about. . .who can we huddle up with to make sure that we’re providing the very best possible services to the clients that we desire to work with because we’re only one piece. . .of the puzzle of what makes our – that. . .makes our game work if you will” (personal communication, May 24, 2011).
- Participant C: “…one goal is reaching out more to the community, bringing in even more applicants. We have the funds. We have the staff. We can give

more loans. So we're always working to do more outreach" (personal communication, May 27, 2011).

- Participant D: "On microfinance, right now is to double the amount of lending we did last year, and then double it again in 3 years. So, last year we did 125 loans. We want to do 250 loans this year. We want to get to 500 loans the following year. . . Overall? $1,000,000 a month in lending. That's our goal. Build up our balance sheet over the next three years to $50,000,000. Right now we're at $25,000,000. And to be small business CDFI in the state of California. And to be the microfinance lender for metropolitan Los Angeles" (personal communication, May 27, 2011).
- Participant E: "The . . .goal for [Organization E] is what we refer to as LTC or long-term clients. One of the goals of the SBA (Small Business Administration) is to keep the clients involved with the program. The longer they're involved with the program, they see more success. So it's not designed for you to come in and speak to a consultant today and never see them again. It has to be repetitive. In order to reach the long-term client goals, you have to have spent at least five hours with a client. So that's our top goal. The second would be job creation. . . So if you have a business that you're working with and they are in business, then the idea is to get them to the point where they're creating jobs. . ." (personal communication, May 17, 2011).
- Participant F: "So if we want to borrow $1,000,000 next year, which we plan to, we need to raise $150,000. And so it's not easy. We need to ask a lot of

people. That's one goal. Another goal is to become a CDFI because that's just another source of money" (personal communication, May 26, 2011).

- Participant H: "Well, the goals are to increase our capacity to provide more technical assistance. Because like I say, almost every small business needs technical assistance. So it's a question of: how many can you reach?" (personal communication, May 11, 2011).

Interview question twenty: What steps are you taking to accomplish those goals? While most of the respondents listed very specific goals for their respective organizations, when asked about how they will try to accomplish those goals the answers became more generalized. All responses indicated the desire to grow the organization in the future.

- Participant A: "…so things like getting things on the internet, marketed pieces, they are out there, but because we are so small, I don't have the time. . . the lending part and the membership part. And the marketing is an important piece of that" (personal communication, May 19, 2011).
- Participant D: "On the microfinance side, it's basically been about building up staff capacity and building up sales capacity. . .And I put my stuff in Spanish, which is in Spanish now, and I put my people, 50 percent here which are Latino, most of them speak Spanish, out into the community. And that's what we're going to do" (personal communication, May 27, 2011).
- Participant E: "…I rely a lot on my consultants. . .they hear me saying all the time milestones, milestones, milestones. . .if they're doing their job and the

client is focused, you'll see the milestones. . .'cause they can't just stay in the same place. . .there are lots of things that the business can do to create milestones" (personal communication, May 17, 2011).

Interview question twenty-one: Describe your organization's biggest success story. Most of the respondents cited individuals or specific businesses that their organization had assisted, and others shared organizational success stories. Whether the focus of the response was on a person, a business, or the organization, a majority of the respondents linked that success to the overall improvement of the surrounding community.

- Participant A: "…years ago when we first started, we give a loan to an organization named [restaurant name]. And [restaurant name] didn't have any place to turn to and what they were doing, they were revitalizing the MacArthur park are because there was a lot of drugs and illegal activity going on in that area, but [restaurant creator], he had in his mind that he wanted to see this area revitalized. . .so what he did, he decided to start this entrepreneurial training program. . .then they started a coffee shop. . . We loaned them $25,000 for that" (personal communication, May 19, 2011).
- Participant C: "…we hear success stories all the time from people who have adopted a child or who have gotten help with their – we have a loan fund for children with special needs, so they've gotten their child therapies that they needed and have seen real progress in their child" (personal communication, May 27, 2011).

- Participant D: "I got a $5,000,000 grant in December from JP Morgan Chase. . .Chase. . .recognized the fact that we are of scale, we run a good solid financial operation, we're self sustaining, our portfolio performance is stellar, our defaults are below 8% on our microloans, which is good. . . we get our money back" (personal communication, May 27, 2011).
- Participant E: "(in reference to a specific business)…what's interesting about them is they weren't a true startup. They had an idea. They had already started purchasing product and so forth, but they were at a place where they couldn't move. They couldn't grow any further because they needed funding. . . .the first loan that they got allowed them to move into a commercial space. They outgrew that space until they . . .went past a wall and took over the next space. . .they've tripled the size of their business. . . .They can come back to us and get as much money as they ever need, as long as we can see that they can repay the debt" (personal communication, May 17, 2011).
- Participant G: "…every time one of our clients opens a business, you know, that's a huge achievement. Any time that any of our clients with an existing business does well enough that they could make another hire, you know, that's a big achievement. . . .when we're working with a client for two years to open a restaurant and when they finally open and not only do they do great business, but then they get written up by Jonathan Gold of LA Weekly. . .those are the achievements that we take a lot of pride in" (personal communication, June 7, 2011).

Interview question twenty-two: What are some of the biggest challenges your organization is facing currently? The main challenge facing all of the organizations, both lending and non-lending, is the current state of the economy. These organizations are competing for fewer and fewer dollars to both fund their loan programs, and to keep their organizations operational. As they work to serve a greater number of clients, they face an uncertain economic future, which impacts them in terms of funding as well as the use of other organizational resources such as personnel and physical space.

- Participant B: "…I think our challenge and sort of our mission is to figure out how we can be more entrepreneurial. How can we be in charge of driving more of our income. How we can actually control that a little bit more" (personal communication, May 24, 2011).
- Participant C: "…really trying to reach out to people that need us, but that can also meet our criteria to get the help we offer" (personal communication, May 27, 2011).
- Participant E: "…I think my biggest challenge is space. . .when you start to do one-on-one, face-to-face consulting and you're open Monday through Friday and you should be able to see, say, five clients a day per consultant, then you start to see the space go. . .the other challenge is due to the economics, philanthropic dollars are not as plentiful as they used to be. . ." (personal communication, May 17, 2011).

- Participant G: "There are so many more people we could serve if we just had more bodies. Yet, it's a pretty challenging time to raise our annual budget. . . .we definitely see on the corporate side a diminishment in funding. And so we're going to have to compete more often in the public sector for contracts. And I think it's just gonna be tougher to find our financing. And I think that will hold us back from growing, even though there's a need. I just don't know if we can meet that need. That's probably our biggest challenge" (personal communication, June 7, 2011).
- Participant H: "The size of the demographic that we're dealing with is just enormous. So I mean you can never do enough. . . .We don't have the resources to do enough" (personal communication, May 11, 2011).

Interview question twenty-three: How are you tackling those challenges? Because one of the biggest challenges facing these organizations is how to grow their organizations in the current economy, the respondents focused on the steps they are taking in order to promote their organizations to a larger and larger audience. Reaching out to new potential clients is an important part of meeting this challenge. However, the organizations cannot help more people if they do not have sufficient funding, so there is an emphasis on greater fundraising as well.

- Participant B: "…we know that you can have working poor people that lose a job, are homeless and permanently poor. So, these are important programs like helping people to build savings and if we can help accelerate that process or get people on a track so that they can change that behavior and that can actually become part of their general behavior – if you will – rather than an exception. We're trying to figure out how to do that because there are not a lot of people operating in that space and that's where a lot of our growth has come from" (personal communication, May 24, 2011).

- Participant E: "…doing the speaking engagements, running the program, doing the orientation, forming all the relationships with all the different cities. . .and if you don't do that, you won't continue to get the clients in. So that would be a challenge. . . so I am constantly talking to other organizations. . .about allowing me to have a consultant in those places" (personal communication, May 17, 2011).
- Participant G: "…definitely where I would want to go is just to have more business counselors. . . later this year we're gonna do some strategic planning with our Board, and some of the issues that will come up will be are there communities. . .that we should be reaching out to?" (personal communication, June 7, 2011).

Interview question twenty-four: What mistakes has your organization made in pursuit of its goals? Some of the organizations responded "none" to this question, but the ones who cited a mistake spoke about it as a learning experience. Although the mistake had been made, the organization learned from the error and was able to move on with that knowledge. The organization was able to become stronger as a result.

- Participant A: "…when we first started. . .we had an employee embezzlement and that's because we did not have a reconciler. . .we didn't have someone on the outside reconciling the books, and so that was a big mistake that we made. The embezzlement was over. . .$30,000 and for a small organization that's a lot. . . so what we did to correct that, we hired [an] outside reconciler. So there is somebody completely outside of the organization looking at our books on a monthly basis. So it was a hard lesson to learn" (personal communication, May 19, 2011).
- Participant D: "On microfinance, I think one mistake was not for us to get some scale sooner. . . City of LA is schizophrenic about small business development. One year it likes small business, the next year it doesn't like small business. Don't even begin to try to understand microfinance, so the city of LA is not a player. . .so one, I think we should have done something better, microfinancing some years ago. When it was in favor, I could be generating more support" (personal communication, May 27, 2011).
- Participant E: "So you're looking at. . .a fairly large number based on the number of loans, but they were all State Loan Guarantee loans. And I think where we missed a step is we didn't go out and get other programs. . . So when the State of California started having budgeting issues, they stopped paying people. . .so we had some layoffs, some full time people that went to part time. Some people that just saw the writing on the wall and said okay, I think I better go find a job. And I think that was a mistake on our part. . .and I also think

that running an organization as streamlined as we run this is also a mistake. It helps with keeping your costs down, but it overwhelms the people that work here" (personal communication, May 17, 2011).

Interview question twenty-five: What do you see in your organization's future? In the future of the MFI industry as a whole? The respondents had mixed feelings about the future of their organizations and the industry as a whole. Most were hopeful that their organization would continue to grow, would give out more loans to more people, and provide technical assistance to more business owners and potential business owners. The current state of the economy lead some respondents to voice their concerns about the future of the micro-lending industry. Cautious optimism was expressed by some respondents.

- Participant A: "…$10 million in assets, many, many more members coming in. Be able to really streamline our microloan program. . .so it's not only getting the loan, it's being able to help these individual[s] sustain their business, so that comes with training, it comes with being able to manage your finances, because the first year of these small loans are very important" (personal communication, May 19, 2011).
- Participant C: "I think this agency will be expanding. We are expanding. We've almost hit $10 million out in the community, in loans. It does seem like micro-finance is growing. . .It's gonna depend . . .what happens with banks, the future of banks. It might fall more on smaller agencies to do it" (personal communication, May 27, 2011).

- Participant D: "…the bigger ones are going to get bigger. . .Now, microfinance is not in vogue, Wall Street Journal has done way too many India articles, and when people start killing themselves because they have a microloan, you've got a problem. Funders don't differentiate India from the United States in that regard. . . .One of the things happening now among different microlenders, bigger ones, they're going heavily online. . . .Our next phase, we call it our second phase, will basically be allowing someone to put the application in, online. But of course my staff is also reminding me, my Spanish speaking staff, in the community is that it's too complicated for many of our borrowers" (personal communication, May 27, 2011).
- Participant E: "…I can see us becoming obsolete at some point in time. . .so in the next 5 years I don't see a whole lot of change. I'd like to see more funding made available to help businesses, and not necessarily access to capital because I think it's gonna take a few years for the average business owner to get to the point where they can just sign their name and get funding" (personal communication, May 17, 2011).
- Participant G: "If we're able to survive these two or three years of a recession, then I've got to think that our future will look better. It remains competitive out there. . . It seems that for the industry, in general. . .a lot of people. . .up to the President, say that small businesses are going to be one of the ways we get out of this recession, that as many as two-thirds of the new jobs created are created in small businesses. And it's supporting those small businesses that

will help our economy grow and help employ more people" (personal communication, June 7, 2011).

- Participant H: "So leadership is a key. We have to really instill leadership with our business owners. So it's more than just being a successful businesswoman or being a businessman. Part of it is being a leader, representing your business interests, your community's business interests, your community's economic interests, and the contribution to overall society. How do you get yourselves into positions to lead?" (personal communication, May 11, 2011).

Interview question twenty-six: What advice would you give to someone who is trying to start an MFI in California? The responses to this question centered around the idea that the field is currently a bit crowded, and that it would be difficult if not impossible to start an organization that does similar work to those interviewed in Los Angeles county specifically. The respondents noted that one needs passion and enthusiasm for this type of work, as it can be exhausting, and not extremely financially rewarding. Another theme that was uncovered is that it is important for any new organization to have funding in place.

- Participant A: "Really, they should do a lot of homework. They should look around to see what is in the industry, who does them, how successful they are. . .where are you getting your funds from and what are the requirements of that company that's giving you these funds to lend. . .it's not just, 'I want to help the poor,' 'I want to do this,' it's how are you going to be sustained. . ." (personal communication, May 19, 2011).

- Participant B: “Be sure that you really love it and you really believe in it and definitely you’ve got to take the long view. . . .you really have to evaluate what you believe in because if you believe that capitalism is bad and it destroys lives. . .you [are] probably going to be at a very uncomfortable crossroads doing this work because you’re going to have to be able to sit across from a banker or somebody with deep pockets and hopefully persuade them to believe that you [have] a strong market rationale for why they should put their money into something that you’re doing because it’s going to benefit them too” (personal communication, May 24, 2011).
- Participant C: “You need to have significant capital to be able to lend it out. . .it’s not as easy as it sounds” (personal communication, May 27, 2011).
- Participant D: “…I think it’s almost impossible right now to start up a microlending organization nowadays. . . .I think right now it’s more helpful to have organizations or chambers or groups to provide help and technical assistance to small businesses and to microbusinesses to start up and to grow. And to partner themselves with microfinance organizations like us for the money” (personal communication, May 27, 2011).
- Participant E: “Well, they need a steady stream of income because most nonprofits don’t have big bank accounts. . .they need to. . .have a plan, a strategic plan. That should be the most important thing. . .I would say I wouldn’t want to start another business like this in this economy. Because funding is coming from the same resources. . . Not unless they’re in an area

where it's not being served. But in LA, there are so many nonprofits. I have so much competition, it's unbelievable. . . .So if you were going to start something like ours, I would think that it would have to be in an area where the services aren't available now. I wouldn't try and split this thing up any more than it already is. . ." (personal communication, May 17, 2011).

- Participant G: "Don't do it. . .I mean, it's a crowded field. There would have to be some unmet need that they feel they could meet. . . and they should find some kind of steady income. Having to raise it is a lot of work. And if you're new to it, then you don't have a track record. So it would be very difficult to try to set up from scratch" (personal communication, June 7, 2011).

Chapter V: Findings and Conclusions

Findings

The purpose of this study was to examine a specific set of organizational characteristics possessed by a group of microfinance organizations operating in Los Angeles County, in order to determine how these characteristics either helped or hindered their success. The study looked at the following factors: source of funds, regulations/limits, organizational structure, selection process for loan recipients, instruction or curriculum for loan recipients, loan amounts and repayment rates, organizational vision, mission and philosophy, accounting procedures, and organizational affiliation.

Restatement of the Research Questions

The research questions to be answered in this study are as follows:

1. Among the organizations studied, how do the following factors contribute to their success:

    - Source of funds
    - Regulations/limits
    - Organizational structure
    - Selection process for loan recipients
    - Instruction/curriculum for loan recipients
    - Loan amounts/repayment/interest rates
    - Organizational vision/mission/philosophy
    - Accounting procedures

- Organizational affiliation

2. How do selected characteristics of the factors stated in Research Question One hinder the success of the organizations studied?
3. What enabling or disabling characteristics can be identified (if any) that are common to many or all groups, or are unique to one or more groups?

Brief Review of Findings

Source of funds. As stated in Chapter IV, funding for all of these organizations comes from multiple sources. Organization C distinguishes itself from the others in the group in that it does not receive any funds from banks or from the government, only from foundations and private donors. This organization also does not charge any interest on their loans: therefore, interest income is not one of their funding streams, as it is for all of the other organizations. Regardless of whether or not an organization is receiving funding from a bank or from a private donor, the current state of the economy is certainly having an impact on that funding. Banks, foundations and individuals are tightening lending regulations, which means that there is less funding for these organizations. The participants indicated that they are always looking for new sources of funding, which is a time-consuming, but necessary, part of their work.

In terms of the impact that the source of funds has on these organizations' success, it would appear that the impact is great – for two reasons. The first one is that, if these organizations cannot raise enough funds to then provide loans to members of the communities in which they operate, then they will have to either provide different services or close their doors. The second reason is the fact that, if they do not have enough funds to operate the organization itself, they will also be forced to close their doors. For these reasons the source of funding for the organizations has a definite impact on their success.

Regulations and limits. There are a variety of regulations within which these organizations need to operate. Most regulations seem to dictate that the organizations serve low-income individuals, which is so closely aligned with each group's mission statement that it does not seem to be a particularly burdensome guideline. Three of the organizations mentioned being certified CDFIs (Community Development Financial Institutions), which is a program housed at the U.S. Department of the Treasury. According to the CDFI website, a CDFI provides financial services for people who live in communities that are not well served by traditional banks. These service include mortgages, loans and technical assistance (Community Development Financial Institutions Fund, n.d., para. 1). Therefore, the CDFI-certified organizations are restricted in the types of people they can lend money to, although as was mentioned previously, this falls in line with the mission of these groups.

Two of the organizations also stated that they received funding specifically for microloan programs from the SBA (U.S. Small Business Administration), which is another government program working to assist small business owners in the United States. The SBA website states that the SBA lends money to organizations that based in the community, and then those organizations lend that money to borrowers in that area (U.S. Small Business Administration, n.d., para. 1).

The organizations receiving funding from the SBA have another set of guidelines they need to follow in order to continue to receive SBA funding. Again, meeting these guidelines is made easier by the fact that the work that these groups are doing sets them up for success in following these rules. The other main rule that the organizations must follow is that if funds coming in are earmarked for loans, then they must lend that money out, and if funds coming in are earmarked for operational costs, they must use that money to run the organization. The rules and regulations that these organizations must follow have an impact on whether or not the organization is successful in that if they cease to be in compliance, there is a threat that they could lose some of their funding. Again, the economic impact of this aspect of the organizations is the important part.

Organizational structure. All of the organizations are run by extremely dedicated, hard-working people, with a small staff of similarly-minded individuals working to assist them in meeting the goals of the organization. These organizations could be described as "lean" – each employee wearing multiple hats, performing many different tasks, as needed. The offices which house these organizations are modest but provide each team with a "home base" from which to operate. Each organization has a board of directors, but the boards do not have a say in the day-to-day operations of the organization. The directors of these organizations are charged not only with setting the vision and taking steps to see that it is realized, but also with fundraising and ensuring that the needs of the community members are being met.

Organizational structure has an impact on an organization's success or failure because these organizations have learned to operate with the fewest number of staff possible, in order to keep their operating costs low. Many of the organizations employee business counselors, and some respondents would like to be able to hire more business counselors but cannot at this time due to the economy and to space constraints. If the need for more business counselors grows and an organization is not able to hire additional counselors, this will have an impact on their success, as they will not be able to reach additional clients. This fact could potentially harm their reputation in the community. However, at this time, when the economy is impacting everyone negatively, it seems as though these organizations will do whatever it takes to try to best serve the needs of their communities. This may mean assigning additional work to current staff members.

Selection process for loan recipients. All of the participants interviewed indicated a similar pattern with regard to their client selection process. All of the organizations will discuss the loan process with any individual who contacts them for information. Some potential clients, upon learning what will be expected of them in terms of the creation of a business plan and possible training hours, will chose not to move forward with the loan application process. For those who do want to move forward, all of the organizations have income requirements that need to be met. If those requirements are met and the client completes the necessary training, then the loan is made. This policy is straightforward, and has an impact on the organizations' success in that if their clients do not repay their loans, part of their funding will disappear, thus having a negative impact on their finances. This fact could then also lead to problems obtaining other funding, if other sources of funding base their decisions in part on repayment rates.

Instruction and curriculum for loan recipients. Each organization, with the exception of Organization C, provides training and technical assistance to their clients. The programs vary greatly, but the goal for each is the same – to prepare a potential business owner to successfully start and then continue to operate his or her business. Most organizations emphasize the importance of a well thought-out business plan and an understanding of what running a business entails. As Participant D states, "I don't want someone who's thinking, 'You know what? I want to be my own boss, I want to set my own hours.' And then you realize, no, business is a 24/7 thing" (personal communication, May 27, 2011).

These organizations operate with the goal of not only lending money to potential business owners, but also making sure that those clients succeed in their chosen endeavors. This organizational aspect has an impact on their success in two ways. The first way that curriculum can impact success is that if an individual receives proper training and then becomes a successful business owner, he or she can then return to the organization and borrow perhaps a larger amount of money, and continue their relationship with the organization, which benefits both parties. The second way that curriculum can negatively impact the organization's success is that if the need for instruction surpasses the number of instructors, the organization may be hindered in its ability to serve its clients.

Loan amounts, repayment and interest rates. As discussed in Chapter IV, these three organizational aspects are similar for all of the organizations interviewed. Loan amounts are calculated based on what the organization determines that the individual will be able to repay. Repayment schedules are fairly standard, but each organization is willing to work with individuals who are having trouble repaying their loan. Interest rates can vary but are less than what traditional banks currently charge. These three aspects, because they have a direct impact on the organization's finances, have a definite impact on their success. If a loan is not repaid, or there is a delay in repayment, that is money that the organization does not have, either to put back into the lending program or to fund its operations. Lower repayment rates can also hurt an organization's reputation. Interest rates need to be kept low so that low-income clients are able to repay their loans. Rates cannot be set too low, however, or the interest income that the organization earns will be affected.

Organizational vision, mission and philosophy. Each organization's vision and mission center around assisting low-income members of the community. It is important to note that the goal of these organizations is to empower people and to help them to become part of the mainstream economy. But, these organizations are not charities. They expect that their clients will pay back the money they borrow, and in most cases, to pay interest on the loan they receive. These organizations envision communities filled with successful businesses that have been started by their clients. These businesses will then help contribute to the economic development of the areas in which they operate.

An organization's vision and mission have an impact on their success, no matter what type of organization it is. But with these organizations in particular, the philosophy that they follow plays a vital role in whether they succeed or fail. Because their mission involves helping people by lending money, they must be selective – as a bank would be, for example – when it comes to deciding to whom they will give a loan. They must vet their clients carefully, taking a close look not only at what the funds will be used for, but also whether or not the client has the determination and knowledge needed to succeed. These organizations are helping people to start businesses, and that endeavor, at any income level, is a challenging one, filled with unexpected obstacles. By choosing to essentially partner with their clients, these organizations are stating their belief in their clients through the making of loans. It is a powerful statement to make.

Accounting procedures. All of the organizations interviewed noted that their accounting procedures are handled in-house with the use of a software program. This method of tracking the loans has an impact on the organizations' success because by using a software program, calculations regarding loan payments can be made by computer, instead of having to have a staff member take time to make those calculations. Also, if a client is late with a payment, or winds up defaulting on the loan, the program can then generate that information so someone from the organization can either contact the client, or in the case of defaulting, can forward the client's information to a collection agency.

Organizational affiliation. The fact that all of these organizations are operating independently without having to rely on a larger organization to support them, indicates that organizational affiliation does not have an impact on their success. It also indicates that right now, Los Angeles County is large enough to support these six lending organizations (along with others that were not included in the FIELD directory, and therefore not included in the study). The fact that there were seven MFIs on the FIELD list when the study began, and a year later one of them was gone, may mean that the competition will continue to grow. This fact may lead to organizations partnering with each other in the hopes of surviving. In the current economy, the future is uncertain but the fact that these six MFIs are currently in business on their own defines them as successful.

Similarities and differences among the organizations studied. Many more similarities than differences exist among the organizations studied. The similarities among the lending organizations have been mentioned previously, but will be outlined again briefly here. All of the organizations receive their funding from a combination of sources, as opposed to one singular source. They all run lean operations, with a small staff of people who perform many different functions within the organization. All of the organizations have a board of directors who help to set the direction of the organization, but who are not involved in the organization's day-to-day activities. Lending money is only one activity that these organizations engage in; they also provide technical assistance and training for their clients. The philosophies of the organizations are similar – they want to help people out of poverty and into the mainstream economy, but not with a handout. They feel that lending money helps the would-be business owner follow his or her chosen path with dignity.

As for differences among the organizations studied, a few were notable. Organizations A and C for example, both have a religious affiliation. Both of these organizations also tend to make loans for non-entrepreneurial endeavors, with Organization A providing auto loans and Organization providing student loans, for example. Organization B is the only organization that uses the peer-lending model, so popular in other countries around the world, in one of its programs. Organization C, as has been mentioned before, is the only organization that does not charge interest on its loans. Organization D does both microloans and small business loans, and according to Participant D is looking to find ways to transition their microloan borrowers to small business loan borrowers. Organization E is the only organization that has a program specifically designed to help childcare providers who want to start and continue to operate that type of business. The fact that Organization F has specific funds set aside to help refugee populations distinguishes it from the other organizations in the group. The populations that Organizations G and H serve, although they do not provide microloans to these groups, set them apart from the other organizations studied. Organization G deals primarily with the Asian community, and Organization H serves the Hispanic/Latino community in Los Angeles County.

Conclusions

Microfinance has always had its supporters and its detractors. This at times controversial poverty alleviation tool, which started in Bangladesh with the Grameen Bank, is part of the landscape of economic development efforts currently taking place in Los Angeles County. The goal of these organizations is to help low-income people become business owners, which will then help to enrich the local communities that they serve.

There is one main conclusion that can be drawn from these findings, and that is there are currently two main threats to these organizations. The first threat is the state of the economy. All of the respondents indicated that it was becoming more difficult to obtain funding, because the current state of the economy is shrinking the sources of funding upon which they have come to rely. They now have to spend more time than ever fundraising, and the competition for the funds that are available has become more intense. The fact that more than one respondent, when asked what advice he or she would give to someone looking to start a microfinance organization, replied with the advice *not* to start this type of organization means that the field may be a bit crowded at the current time. In the span of a few years, the field went from seven lending organizations in Los Angeles County to six.

All of the respondents, when asked about funding, indicated that it was more difficult now than in previous years to attain the funding they desired. Therefore, it does not appear that there is room for new organizations of this type to start up in Los Angeles County. As Participant E noted, “I wouldn’t want to start another business like this in this economy. . .I have so much competition, it’s unbelievable” (personal communication, May 17, 2011).

The second threat to the success of these organizations has to do with their leadership. One of things that has helped to keep these organizations alive during these difficult economic times is the dedication of their leaders. The respondents have been part of their organizations in most cases for many years, and as leaders in their organizations they are helping to keep their colleagues focused on the mission and vision that guides their work. By having consistent leadership, these organizations can continue to set goals and accomplish those goals, even in the face of obstacles such as potential decreases in funding. The men and women who participated in this study showed a tremendous passion for the work that they do, and it is this passion that will help these organizations to survive in the future. However, these leaders will need to do more than guide their organizations – they need to be sure to have their successor in place so that once they leave the organization, the mission and vision can continued to be carried out by those that lead the organizations in the future. The current leaders of the organizations need to be sure that they begin to groom their successors now, so that when they are ready to move on they are sure that they are leaving their organization in capable hands.

The six lending programs examined in this study, by providing loans as well as technical assistance and training to borrowers, are serving a distinct need in the community. Jonathan C. Lewis (2010), Chair of the Board of Directors of an organization called MicroCredit Enterprises, supports this mission, stating that in order to help communities, MFIs need to provide more than just loans (p. 3). If the current leaders can find successors who will serve the mission of their organizations with the same passion and dedication that they possess, then the organizations will have a much greater chance of survival in the future.

Recommendations for the organizations. There are two recommendations that these organizations may want to consider as they move forward. The first is to apply for B-Corporation certification. As mentioned in Chapter II, B-Corporations are organizations that have demonstrated a commitment to not only their stockholders, but also to all of their stakeholders. These organizations then can use this new certification as leverage when soliciting funding from investors. A B-Corporation certification will show potential investors that the organization is socially responsible, which is of growing interest in all areas of business today. Becoming a B-Corporation may help these organizations with their fundraising efforts. There may be other benefits as well, including access to resources and services which will help the organizations improve their internal structure as well as their performance.

The second recommendation is that these organizations may want to explore working in rural areas, or partnering with organizations that work in rural areas. Currently these organizations are serving the urban poor, which is a group which, as established previously, looks quite different than the poor populations in developing countries such as Bangladesh or Vietnam. But the rural poor in the United States may have more in common with the poor in other countries, and therefore some of the tenets of the Grameen model – such as making smaller loans – may be more successful than they are in the city areas. This may be difficult to accomplish, as these organizations are fully entrenched within the communities they serve, and they may view this type of expansion as counter to their mission. But if they decide to pursue more clients in the future, this may be one way to enlarge their client base.

Connecting to the research. In Chapter II, Pollinger et al. (2007) noted the crux of the problem that microfinance organizations – both domestic and foreign – face:

> In terms of increasing self-sufficiency, by targeting different segments of the microbusiness population, it is easier to generate value by lending to individuals with better credit records, due to their increased ability to handle debt and lower associated default rates. However, in doing so, an MFI must be careful not to subvert its mission. (p. 37)

This study, by examining a specific sample of microfinance organizations in Los Angeles County, supports Pollinger et al.'s statement. The organizations studied have strong mission statements that guide their work, and passionate leaders who are helping the organizations to realize their missions. However, they are also very aware of the fact that in order to survive, the organization needs to bring in money. As discussed previously, this money comes from various sources, one of which is interest earned on the loans that each organization provides to its clients. In order to ensure that the loans will be repaid, with the specified interest, the organizations need to vet their clients carefully. This involves answering the question “will the client be able to repay the loan?”

With income requirements for clients, these organizations are not able to serve the “bottom poor” that Dr. Yunus often refers to when speaking about microfinance. The jobless and homeless populations would simply not meet the criteria outlined by these organizations. However, a close inspection of the mission statements of the organizations examined in this study reveals that they are not looking to help the bottom poor, but rather the people who seem to be just outside of the mainstream economy. They are also looking to improve the communities in which they operate, which means that economic and business development are also part of their mission. Therefore, it seems that they have taken Dr. Yunus’ mission and modified it to meet the needs of their own organizations.

Lewis Solomon (1992) explores the larger implications of microloans, stating that by building a microenterprise, an entrepreneur can develop not only greater financial independence, but also increased self-esteem (para. 30). This idea falls very much in line with the American version of microfinance, as evidenced by the organizations observed in this study. These organizations are attempting not only to provide funding to their clients, but by offering technical assistance and trainings, they are providing much-needed support as their clients attempt to start businesses. This idea is built into each organization's mission statement.

Finally, Michael Woolcock (1999), in investigating the difficulties faced by five different microlending organizations expressed his opinion about the importance of his type of research. This study is quite different in that it looked at successful organizations instead of failed organizations; however, the sentiment driving the research was similar. One of the goals of this study was to fill a gap in the research, the gap being a lack of research on microfinance organizations from an organizational point of view. The bulk of the research up to this point has focused on loan recipients. By studying these six lending organizations from the inside, a richer picture of the microlending industry in Los Angeles County is created.

Suggestions for further research. There are three main types of follow-up research that would be helpful in providing a more comprehensive view of microfinance in the United States. The first type of research involves replicating this study with organizations in California, located outside of Los Angeles County, as well as with organizations in states outside of California, and also organizations outside of the United States. The second type of research involves studying loan recipients from each of the participating organizations. The third type of research would be to replicate the FIELD survey to obtain data about the number of loans given out by each organization, along with demographic data on loan recipients.

In terms of replicating this study, one could use the current FIELD directory to find to find other microlenders in California as well as in other states. According to the directory, there are a large number of microfinance organizations in California, many of which are located outside of Los Angeles County. In order to develop a complete picture of microlending in the state, this study could be replicated with these other organizations, to determine how factors studied here either help or hinder their success. In addition, it would also help to paint a more comprehensive picture of microlending in Los Angeles County if organizations not listed in the FIELD directory were examined – Participant D mentioned two organizations that are currently attempting to start microloan programs in Los Angeles. If one were to ask the participants in this study for names of organizations not listed in the FIELD directory, a snowball sample could then be created which would help to complement this study. This study could also be replicated in other states to provide data on microlending in other parts of the country at this time. Finally, if the study were replicated with organizations outside of the United States, comparisons between foreign and domestic microlending organizations could be made, further enriching the picture of microfinance around the world.

Gathering information from the men and women who have received loans from the organizations examined in this study would also serve to enrich the data presented here. If loan recipients were interviewed about their experience in dealing with the organization which gave them their loan, then that data could be looked at in comparison with the responses given by the participants interviewed in this study. The data gathered from the loan recipients would help provide a clearer picture of how the organizations are performing with regard to client satisfaction. The organizations could then use this data to either make changes to the way they operate, or to continue on their course, depending on the information gleaned from the loan recipients.

Finally, the FIELD directory information presented for some of the organizations studied here is lacking in detail. For example, many of the organizations did not report on their lending practices, with many items listed as “unreported” in the current directory. It would be helpful to contact these organizations in order to gather the information listed as “unreported” – such as the number of loans made within the past year and the demographics of the recipients, for example. That information could then be triangulated with the organizational data to develop a more robust snapshot of the current status of these organizations, and how their organizational characteristics may be influencing their success. All of this additional research would also help to fill in the gaps in the current research and would contribute to the current body of literature on microfinance.

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APPENDIX A

Organization mission statements

The following Mission Statements are taken directly from each organization's website. Website links are deliberately not included, in order to protect the identities of the participants in the study.

Organization A:

Providing members of our community with a strong financial and economic base. Through [Organization A], we will tangibly and faithfully invest in and empower the families, small businesses, institutions and neighborhoods that make up our diocesan community.

Organization B:

To create and enhance the economic wealth and capacity of the residents and businesses in disinvested areas of Los Angeles by delivering quality community development programs and facilitating collaborative efforts among business, the community and government.

Organization C:

[Organization C] offers interest-free loans on a non-sectarian basis to individuals and families whose needs are urgent and who may not qualify through normal financial resources. **Interest-free loans instead of charity fill an important gap in our social system by promoting self-sufficiency with dignity.**

[Organization C] affirms the ancient biblical requirement for interest-free lending by offering assistance to people in need with the goal of helping them to lead more rewarding and responsible lives.

Organization D:

To create and sustain jobs and businesses in our communities by providing high-quality economic development services.

Organization E:

The primary mission of [Organization E] is the promotion of community economic development, through the delivery of financial and educational services to underserved small business persons and communities.

Organization F:

[Organization F] is a local, non-profit organization that aims to facilitate the start-up and expansion of businesses in Los Angeles, by providing its clients with business training, capital acquisition, market development, and technical assistance.

Organization G:

The mission of [Organization G] is: to assist the development of small and micro businesses in Los Angeles with a particular focus on the Chinese, Korean, Japanese Thai and Filipino business communities, especially those of low income immigrants.

Organization H (no mission listed on the website, the following is the organization's vision statement):

The vision of [Organization H] will be organized to focus on economic development in the Latino community in the greater Los Angeles Metropolitan area. This includes setting the platform for the growth of Latino-owned businesses through actual programs for procurement, access to capital, technical assistance, and other structures that can be developed for use by its members.

Policy issues and advocacy will be an additional priority for the organization. It will deliberate on leveling the playing field to enable Latinos full participation in the U.S. economy at a level representative of its demographics. [Organization H] will open its doors for strategy and collaboration with other chambers, minority chambers, advocacy organizations, and the public sector to effectively address these issues.

APPENDIX B

Interview Questions

BACKGROUND/ORGANIZATIONAL QUESTIONS

1. How long have you worked at this organization?

2. What is your position at this organization?

3. What is your organization's vision?

4. Please describe the mission and philosophy of the organization.

5. Is your organization affiliated with a larger organization, or does it operate independently?

6. Please describe your organization's structure.

7. How does your organization distinguish itself from other MFIs in Los Angeles county?

8. Does your organization have a Board of Directors? If so, does the Board of Directors play a significant role in the organization's day-to-day operations?

EXTERNAL FACTORS/INFLUENCE

9. Where does your organization's funding come from?

10. Are there restrictions placed on the money your organization receives? If so, how does that affect your organizations' operations?

11. Are there any federal, state or local regulations that affect your work? If so, please describe.

12. Do the welfare system and food stamps place any restrictions on, or offer any opportunities to enhance, the work that your organization does in terms of making loans? If so, please describe.

CLIENT SELECTION/LENDING PRACTICES QUESTIONS

13. How do you select your clients?

14. Do you provide instruction regarding business planning for your loan recipients? If so, please describe the curriculum.

15. Once recipients are selected, how are loan amounts determined?

16. What is your repayment policy/schedule?

17. What interest rate are you currently charging your clients?

18. How do you track loans distributed to, and payments made by, your clients?

GOALS/SUCCESSES/CHALLENGES/THOUGHTS ON THE FUTURE

19. What are 1 or 2 of your organization's top goals right now?

20. What steps are you taking to accomplish those goals?

21. Describe your organization's biggest success story.

22. What are some of the biggest challenges your organization is facing currently?

23. How are you tackling those challenges?

24. What mistakes has your organization made in the pursuit of its goals?

25. What do you see in your organization's future? In the future of the MFI industry as a whole?

26. What advice would you give to someone who is trying to start an MFI in California?

APPENDIX C

Recruitment email

Dear __________,

My name is Melinda Valente, and I am currently a doctoral student at Pepperdine University. I am working toward obtaining an Ed.D. in Organizational Leadership. In choosing my dissertation topic, I have chosen to study microfinance organizations in Los Angeles county. The purpose of the study is to determine whether or not certain organizational features determine success in microfinance organizations in Los Angeles county. The features being examined in the study include source of funding, organizational structure, regulations/limits, selection process for loan recipients, organizational vision/mission/values, accounting procedures, and organizational affiliation. I will collect information from several different organizations to determine if similarities exist as well as to discover any major differences among the organizations studied. My Faculty Advisor, Dr. Jack McManus can be reached at (310) 568-5657 or Jack.McManus@pepperdine.edu.

I obtained your contact information through your organization's listing in the FIELD U.S. Microenterprise Directory. FIELD, the Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, conducted a U.S. Microfinance Census recently whereby the organization collected survey data from microfinance organizations across the country. The survey gathered data about loans distributed as well as other services offered by the organizations surveyed. Your organization participated in that census, and your inclusion in the directory was the criteria I used to select the organizations for my study. I am writing to you today to request an interview with you to discuss your organization's leadership, structure and other relevant characteristics. The interview will consist of approximately 20 questions, and should take no more than one hour of your time. In addition, it would also be helpful to me to obtain copies of any written materials created by your organization (promotional materials, as well as an annual report, your FIELD questionnaire answers, to use a few examples). If this is not possible, I understand.

Please contact me at your earliest convenience to let me know if you are interested in participating in my research. I plan on conducting my interviews during the month of May. If there is another person at your organization better suited to answer my questions, I would appreciate it if you would please forward this email to that person.

If you have questions about your rights as a research participant, you may contact Pepperdine University Graduate and Professional Schools Institutional Review Board (GPS IRB) at (310) 568-5753 or gpsirb@pepperdine.edu.

Thank you in advance for your help and I look forward to hearing from you. If you have any questions, please don't hesitate to ask.

Sincerely,

Melinda L. Valente

Doctoral student

Pepperdine University, Graduate School of Education and Psychology

Phone:

Email:

APPENDIX D

Validity questionnaire

Interview question validation chart

Interview question	answers	Research question
1		N/A (background information)
2		N/A (background information)
3		1a
4		1b
5		1b
6		1b
7		1c
8		1c
9		1d
10		1e
11		1f
12		1f
13		1f
14		1g
15		1g
16		1h
17		1i
18		2
19		2
20		2
21		3
22		3
23		3
24		3