

## CHAPTER 15

# MICROENTERPRISE PROGRAM ACTIVITIES

### Introduction

Microenterprise development is seen as a holistic approach to a grantee's community and economic needs by embracing poverty alleviation, human development, and economic development strategies. For this reason, a wide range of institutions - stand-alone microenterprise-development organizations; community development corporations; private equity firms; community action agencies; women's organizations; community development banks and credit unions; housing and social service programs; and government agencies at the local, state, and national levels - are involved in microenterprise development.

After decades of operation, microenterprise programs in the United States are creating jobs, generating income, building assets, and enhancing skills. These results are particularly impressive considering the fact that a significant proportion of assisted micro-entrepreneurs face barriers presented by race, gender, ethnicity, income, job market fluctuations, or location.

Whether the business is the sole source of family income or a crucial supplement to family earnings, microenterprise development has put many low-income families on the road to self-sufficiency.

By generating new economic activity, microenterprise can increase public tax revenues and private incomes, thereby reducing dependence on public assistance and easing the burden on public budgets. These significant social and economic benefits far outweigh the cost of public and private investment in microenterprise development.

Microenterprises are the smallest, least visible portion of the business world, but are one of the major job generators in our economy. Microenterprise activities, under the CDBG Program, are activities designed to foster the business development, support, and expansion of microenterprise businesses.

Microenterprises range in type and capacity and represent a range of service providers and retail businesses. Some examples include the home-based daycare provider, the roving automobile mechanic, or the hairdresser who serves the neighborhood. Some microenterprise businesses are operated part-time, by owners who use the extra income to supplement wage and salary employment.

With careful planning, microenterprise development can be an effective self-sufficiency and empowerment strategy for a variety of special populations, such as:

- Displaced workers;
- Women and minority entrepreneurs; and
- Former public assistance recipients.

**Note:**

Throughout this chapter the Department's use of the term "Grantee" includes the jurisdiction staff, sub-recipients and program operators.

This chapter covers microenterprise activities that are eligible for assistance under the federal Housing and Community Development Act of 1974 (HCDA). The chapter applies to all CDBG funds, including grant and Program Income.

*Microenterprise Assistance is eligible only under HCDA [105(a)(22)]*

The chapter is designed to give California’s non-entitlement grantees the basic requirements/restrictions for the microenterprise activity under the CDBG Program. This chapter will help grantees determine what they must know and be aware of, when designing their program for their local needs. The grantee will also find additional, best practice/safe-harbor suggestions within the chapter and on the chapter web page, where additional resources can be found.

The Department strongly encourages grantees implementing microenterprise activities to read this chapter carefully and call the Department with any questions. Department staff is available to provide additional direction as needed to ensure proper implementation of microenterprise activities.

## Eligible Microenterprise

For CDBG purposes:

- A ‘microenterprise’ is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise; or
- ‘Persons developing microenterprises’ means persons who have expressed interest in, and who are, after an initial screening process, expected to be actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed.

Additionally,

- The business owner or person developing a microenterprise business receiving any microenterprise assistance must meet the national objective by meeting the low-moderate income definition under Limited Clientele (see National Objective section below for more detail).

*Only for-profit businesses are eligible for assistance under this activity.*

## Eligible Activities

This section briefly describes the eligible CDBG microenterprise services and activities available to assist the grantee in meeting the community’s economic development needs.

Under the CDBG eligible activity of “microenterprise assistance” there are three sub-activities that may be included in a microenterprise program:

1. **Technical Assistance (TA) Services:** examples include business assessment, preparation of business plans, management development, marketing, cash flow, customer service, competitive analysis, credit repair, preparation for financing and recordkeeping;
2. **Direct Financial Assistance:** Loans (up to \$50,000) and grants (up to \$10,000) for the establishment, stabilization, and expansion of microenterprises, and;

3. **Support Services:** in conjunction with one of the above, support services examples include child care, transportation, counseling and peer support groups.

CDBG funds may only be used for the cost of providing these sub-activities. A grantee may offer one, two, or all three of these microenterprise sub-activities within their designated jurisdictional limits; however, a grantee will need prior written approval from the Department if it wishes to operate a CDBG microenterprise program beyond the grantee's jurisdictional boundaries. The grantee will also be required to state the "service area" of their microenterprise program within their program guidelines (see Guideline section of this chapter, below).

*Microenterprise activities are **not** subject to the Public Benefit tests.*

The Grantee may choose to start a microenterprise assistance program using one or both of the first two sub-activities. Grantees may choose to administer the technical assistance and financial assistance sub-activities as stand-alone programs, however, the grantee's microenterprise support services can only be implemented in conjunction with technical assistance and/or with financial assistance activities. Support Services may not be administered as a stand-alone activity.

**Suggestion:** *The Department recommends that microenterprise programs use a holistic approach to assisting businesses and individuals wishing to start a microenterprise business, by ensuring that loans and grants are not given without technical assistance, and technical assistance not be provided without a source of funding for loans and grants. One without the other limits the potential for success and sustainability of microenterprise businesses.*

*CDBG activities are only eligible when, and if, a National Objective is met.*

## Ineligible Activities

### **General CDBG Activity Ineligibility:**

- The general rule is that any activity not authorized under the HCDA is ineligible to be assisted with CDBG funds. The CDBG program for States relies on statutes in the HCDA 105(a) [42 USC 5305(a)] to describe eligible programs/activities. Regulations governing CDBG for States at 24 CFR Part 570, Subpart I, do not directly address ineligible activities.
- An eligible CDBG activity that does not meet a National Objective (see the National Objective section below) is not permitted under the CDBG Program.
- Buildings for the general conduct of government are ineligible. However, the removal of architectural barriers from government buildings, pursuant to the Americans with Disabilities Act (ADA), is eligible under the category of public facilities and improvements.
- General government expenses are ineligible.
- Financing for political activities or engaging in other partisan political activities is ineligible. However, a facility assisted with CDBG funds may be used on an incidental basis to hold political meetings, candidate forums, or voter registration campaigns, if the building is available to all community organizations on an equal basis.

## **Microenterprise Ineligible Activities:**

- Assistance to a for-profit business or individual that does not meet the definition of a microenterprise business or persons developing microenterprises.
- Any assistance to a nonprofit organization.

## **National Objective**

CDBG program rules state that in order to be eligible for funding, every CDBG-funded activity *must* qualify as meeting a National Objective [24 CFR 570.483].

The Department requires the use of the Low-Mod Income (LMI) national objective with the microenterprise program. The LMI national objective is often referred to as the primary national objective and is met when a CDBG funded activity benefits low- and moderate-income persons, which is defined as persons at or below 80% of median income for the county.

### **Limited Clientele**

Under the LMI national objective umbrella, the limited clientele category (LMC) is used to qualify CDBG microenterprise activities. As discussed further below, this means that each assisted individual is income qualified *prior to* any assistance being approved.

Thus, in order to verify microenterprise clients as LMI, and qualify beneficiaries under the LMC, CDBG requires grantees to use the Department's *Income Determination Guide for Federal Programs (Income Manual)*. The Income Manual is located on the Department's CDBG webpage:

<http://www.hcd.ca.gov/fa/cdbg/IncomeManual.html>

For ***microenterprise technical assistance***, the Income Manual requires that each microenterprise business owner or persons developing microenterprises use the **self-certification process** to verify eligibility, which will ensure that all technical assistance clients have met a national objective.

For ***microenterprise financial assistance***, the Income Manual requires that Grantees use the **24 CFR Part 5** to verify eligibility of each microenterprise business owner(s), thus ensuring that all financial assistance clients meet the national objective.

## **Microenterprise Activities**

### **1. Technical Assistance (TA) Services:**

Technical assistance services are the most common of the three eligible microenterprise sub-activities. Technical assistance is critical for microenterprises since many of them are startups, requiring intensive business planning, basic accounting, and market research assistance. Microenterprise TA services can be provided through multiple delivery systems and with multiple providers (contractors and/or sub-recipients) depending on the design of the grantee's program and the needs of the microenterprise business community. TA delivery methods include, but are not limited to:

*Any person receiving assistance under a CDBG-assisted Microenterprise activity must be low- or moderate-income based on family size and income level in relation to county median income.*

- Group classes,
- One-on-one counseling,
- Peer-to-peer counseling and,
- Online computer training.

In some cases, one Program Operator may be providing all TA services to program clients and in other circumstance the grantee may operate the TA in-house. As well, the program may be run by a Program Operator with a number of other TA service providers with specific expertise (i.e. marketing, financial management, etc.) which the Program Operator coordinates. The grantee's program design for TA services should be tailored to the needs of local businesses, the capacity of the grantee, and barriers to starting a business for local individuals.

Microenterprise TA provides a foundation for growing and supporting local small businesses in the grantee's service area. It can be the springboard from which microenterprise businesses launch into a financial assistance program. It can also provide critical assistance sustaining a microenterprise business after absorbing new capital for business growth.

Many grantees require that the microenterprise borrower (financial assistance client) obtain TA on issues such as budgeting, marketing, or business planning in conjunction with the new loan in order to help alleviate risk and increase success.

**Suggestion:** *Grantees can use a needs assessment tool for micro TA applicants to develop an assistance program that is tailored to the individual client. Since microenterprise technical assistance is usually the grantee's first point of contact with clients, the program can be designed from the outset to best serve its clients when a needs assessment is conducted for each microenterprise business or person wanting to develop a microenterprise business. With microenterprise businesses representing a wide range of business and service types, the needs of the microenterprise business can be varied and distinct. A generic TA Program, will not fit every clients' needs for growth and expansion. TA services designed for one client may not be appropriate or sufficient for another. It is important, for a successful TA program, to ensure that there is a good match between the needs of the client and the service(s) offered and available. Completing an individual needs assessment for each client will provide critical insight to help ensure success, allow for realistic goals to be established, and give the grantee the ability to measure the success of the program.*

Services to program participants should result in increased capacity. At a minimum, the program participants should develop and take away one or more "deliverables" from the program. Typical deliverables may include, but are not limited to the following:

- Individual and Business Needs Assessment;
- Business Plan;
- Market Analysis and Marketing Plan;
- Training for QuickBooks™ or other business accounting programs;
- Training on Internet use for e-commerce, and website design for greatest impact;
- Training on "branding" and creation of a product "niche";
- Development of print ready marketing materials and/or logo;
- Legal counsel on the appropriate organizational structure for the business as it forms and grows (sole proprietorship verses S Corporation, or Limited Partnership); and
- Identifying access to capital and preparing for financing.

The delivery method of TA services provided to clients is up to the Grantee and is determined as part of the program design and planning process. The Grantee must include its method of delivering the TA services in adopted program guidelines. TA services may be provided as a stand-alone activity or before and/or after microenterprise financial assistance as part of on-going business support. Providing microenterprise TA before and after microenterprise financial assistance helps ensure the micro-business owner has capacity to properly utilize CDBG financial assistance and strengthens skill sets for future business expansion and growth. In this microenterprise program model, TA services can mitigate the risk of providing grants or low interest loans from public funding to for-profit micro-businesses.

### **Limited Clientele (LMC) for Microenterprise TA**

The Self-Certification form must be reviewed and signed by the program applicant and Grantee. In certifying LMC status, the Grantee only looks at the owner(s) family income, not the income of any employees. Once a program applicant has met CDBG microenterprise eligibility criteria, they become program participants (TA clients) and are eligible to complete an evaluation of needs and technical assistance services as outlined in adopted program guidelines.

Once the self-certification is completed and shows the participant to be income eligible, there is a three year presumption of LMI status to allow for continued CDBG microenterprise program assistance. The three year clock begins from the date the applicant signed the Department's Income Self-Certification form. For most businesses, capacity building may take less than three years, however, some microenterprise business or individuals may need services beyond three years. In the event a program participant requires more than three years of microenterprise technical assistance services, the Grantee will need to have the participant re-certify using the Department's Income Self-Certification form, so the grantee can re-verify the participant meets the CDBG Microenterprise TA Program eligibility criteria.

*The Self-certification form is active and considered current for three years from the date it is executed. After three years, the participant must re-certify.*

**Note:** Grantees are advised to collect the Self-Certification Form only. Any additional documentation obtained by the Grantee, beyond the Self-Certification Form, cannot be ignored when determining that a client meets the national objective (LMC). Any red flag issues that arise from information on the Self-Certification Form and additional documentation required by the grantee must be addressed within the file prior to any determination of eligibility.

**Suggestion:** *If the grantee's program includes both TA Service, which requires only a self-certification for eligibility, and Financial Assistance, which requires full Part 5 calculations for eligibility, it is recommend that the grantee inform all TA clients that being eligible for TA does not automatically mean they will be eligible for financial assistance.*

### **Mixed Income Classes**

Microenterprise TA services, under the Department's Program, only meet the LMC requirement if **all** assisted clients are income eligible. This means that if the grantee provides a service for ten clients under the Program and it is determined that some are not low- or moderate-income eligible, the service becomes ineligible.

For this reason, mixed income TA classes, which would require all participants to be self-certified, are extremely difficult to operate eligibly. However, the Department will review any request to allow mixed income classes as long as the request shows that under the requirements of A-87 or A-122 and 24 CFR Part 85, the CDBG funding will only pay for the LMC class participants, and has clear and sufficient documentation to substantiate the expenditures.

Other methods of providing TA services such as one-on-one, peer-to-peer, and on-line training would likely not have the same mixed income class issue since the service method is for a single participant rather than a group.

### **Direct Benefits**

Under microenterprise TA, clients may **not** receive any direct benefits since this is a service activity. The Department defines 'direct benefit' as financial assistance to the microenterprise or individual developing a microenterprise, for costs associated with normal business operations, such as rent, inventory and marketing materials. These, and other direct benefits, are considered financial assistance and must be provided under the Financial Assistance activity, which requires a full Part 5 income eligibility determination. Any direct benefit would be considered ineligible if given to a TA client.

### **Program Income and Microenterprise TA Services**

Unlike Microenterprise Financial Assistance, TA is not an eligible use of the grantees' Revolving Loans Account (RLA) and is not considered eligible funding under the non-revolving portion of the RLA. The grantee can only operate the Microenterprise TA activity with grant funds, or must request a waiver under the CDBG Program Income Waiver process. See Chapter 14 for more information on PI, RLA and the PI Waiver process.

### **Activity Delivery under Microenterprise TA**

Unlike Microenterprise Financial Assistance, as discussed below, Microenterprise TA does not include Activity Delivery, a separately budgeted allocation for activity implementation costs. All costs directly related to the implementation of the Microenterprise TA activity are considered direct activity costs.

### **Reporting and Documentation**

Under the CDBG Microenterprise TA Service activity, grantees are required to report accomplishments, and other beneficiary data, annually. The grantee in turn must have documentation on file to allow the Department or HUD to verify that the reported accomplishments and beneficiary data are real and accurate. The grantee must ensure that each microenterprise TA client has their own file documenting all services that particular client received including but not limited to class subject, attendance and/or one-on-one sessions attended, and service topic.

There must also be evidence in the file of any product that was created under the TA program. For example, if the Program Guidelines indicate that all clients will receive a needs assessment and will be required to develop a business plan, then copies of those deliverables must be in the client file.

Additionally, the grantee must maintain evidence of costs/expenditures for the TA services and ensure that the correct accounting method is used for all costs. For example, if the grantee uses a sub-recipient agreement to manage all or a portion of the program, the grantee must maintain evidence that the costs paid under the sub-recipient agreement are eligible under OMB A-122 (non-profit) or OMB A-87 (in-house staff or another government entity), and meet all requirements of Part 85, as necessary.

Financial documentation should be maintained in a file, along with any financial documents submitted to the Department for reimbursement. This means that all back up documentation (for example, invoices and time sheets) noted on a Funds Request and the Summary of Expenditures Form should be maintained together at the grantees location.

## **2. Microenterprise Financial Assistance:**

The CDBG direct financial assistance activity includes both grants and loans to microenterprise businesses, and can be an effective and useful tool for Grantees to stimulate and grow their local business economy. CDBG microenterprise financial assistance loans and grants are a source of flexible, non-traditional financing.

While the financial assistance activity can be riskier than providing TA services, it can provide necessary capital to keep a business open, or start and support a new business venture. It is also a source of future Program Income (PI) allowing grantees to build up a portfolio of loans that can, in turn, be used to make further microenterprise loans.

*A business that is ineligible under the Microenterprise Program may be eligible under the Business Assistance Program.*

**Suggestion:** *The Department encourages grantees to tie loans and grants to required Microenterprise TA, whether the TA is funded with CDBG or not. Requiring/providing TA before and even after financing, will help to reduce the risks associated with providing CDBG funds to low-income, small businesses, and ensure repayment to the grantees' PI and Revolving Loan Account.*

Microenterprise financial assistance may be provided as either grants or loans, as stipulated in the Department's sample program guidelines, included on the CDBG website along with this Chapter. Department policy requires the use of microenterprise financial assistance guidelines when implementing a CDBG Microenterprise Financial Assistance Program. See the section below on Program Guidelines for more information and the requirements associated with developing and implementing program guidelines.

### **Microenterprise Financial Assistance Program Basics**

The following applies to grantee's grant funds and Program Income, RLA funds:

- CDBG Microenterprise grants shall not exceed \$10,000;
- CDBG Microenterprise loans shall not exceed \$50,000;
- The Microenterprise business or eligible individual starting a microenterprise business may not receive a grant and loan at the same time;
- If the microenterprise business or eligible individual starting a microenterprise business

receives a grant and at a later date receives a loan, each time, the assistance must be considered new and income qualifying and project certification must be completed again;

- All Microenterprise grants and loans must submitted to the Department in writing prior to provision of financial assistance (approval by the Department will not be required, but the certification must be on hand before assistance is committed or provided);
- Grantees must submit the microenterprise grant and loan information/certification on the Department's standardized loan/grant certification form, which can be found on the Microenterprise Grant Management Manual Chapter web page;
- While the grantee will not be required to submit source documentation related to the project's grant or loan and the eligibility certification, they will be required to maintain all documentation at the grantee's location for monitoring purposes;
- Each microenterprise business must have 5 or few employees, one or more of whom owns the enterprise;
- Any changes to the scope of work or terms of the loan or grant will require a re-approval process by grantee, and evidence of the re-approval must be in the client file.

***Suggestion:*** *Since the grantee's microenterprise loan and/or grant will not be approved by the Department, the grantee does run the risk of the Department's monitoring requirement determining that an individual microenterprise loan or grant was not eligible and the funds would be required to be repaid to the source (grantee's grant funds to the Department, RLA funds back to the grantee's RLA account). The Department has CDBG ED Loan Representatives that are available to discuss an individual "project" should the grantee need assistance in determining if the microenterprise or individual starting a microenterprise business is eligible, and if the associated costs are eligible.*

## **Microenterprise Financial Assistance Loans versus Grants**

If the grantee allows both grants and loans in the program guidelines, the guidelines must clearly delineate the rules and parameters for lending versus granting funds and they must be different. When determining whether a cost should be granted or loaned, the general rule is grants should not be given for items that have resale value. For example, marketing materials (flyers) have no resale value but tee-shirts with the business name on them, sold by the business have a resale value. Please discuss with CDBG staff when developing your guidelines.

**Note:** Federal and State rules do not require underwriting criteria for microenterprise activities. Under financial assistance, however, should the grantee determine that they will perform underwriting for loans the grantee must identify the underwriting criteria to be used in their guidelines. This is necessary because denying funding to a microenterprise business or person developing a microenterprise business based on criteria not written in the approved and adopted program guidelines could lead to equal opportunity concerns or violations. For example, if a grantee determines that a credit score should be a criterion for financial assistance, then this requirement must be fully stated in the program guidelines.

## **Limited Clientele (LMC) for Microenterprise Financial Assistance**

Unlike the Microenterprise TA activity, which only requires the Department's Income and Self-Certification Form, the Financial Assistance activity requires Grantees to complete the 24 CFR Part 5 (Part 5) qualification process. Grantees should refer to the Department's Income Manual for guidance on the Part 5 eligibility qualification process. This requirement is in addition to

meeting the business size requirement of 5 or fewer employees, one or more of who owns the enterprise.

The Part 5 income eligibility process must be completed for those participants and businesses receiving direct financial assistance in the form of a loan or grant. It also must be completed prior to a commitment of assistance. Whenever 'direct benefit' is being requested, Part 5 must be used. Again, the Department defines 'direct benefit' as financial assistance to the microenterprise business for costs associated with normal business operations, for example rent, inventory and marketing materials.

Grantees should review and familiarize themselves with the Department's *Income Calculation and Determination Guide for Federal Programs* (Income Manual) on the CDBG website. Grantees must approve and sign the Part 5 Income Summary and Certification Form. The Department's Income Manual is on the CDBG website at: <http://www.hcd.ca.gov/fa/cdbg/IncomeManual.html>

Since income eligibility is how the Grantee documents meeting the CDBG national objective for microenterprise financial assistance, (benefit to low/moderate income individual or LMC), it is the most important program eligibility standard, and therefore the process should be completed accurately and carefully.

Training slides on that topic can be found on the Department's website at: [http://www.hcd.ca.gov/fa/cdbg/docs/EventTraining/Meeting\\_Low\\_Mod\\_Income\\_Requirements\\_for\\_CDBG\\_Activities.pdf](http://www.hcd.ca.gov/fa/cdbg/docs/EventTraining/Meeting_Low_Mod_Income_Requirements_for_CDBG_Activities.pdf)

**Note:** A current CDBG microenterprise TA client who decides they want to apply for CDBG financial assistance from the Grantee, and are determined not to meet full Part 5 income eligibility, would no longer be eligible for further microenterprise TA services, **and** are not eligible for any direct financial assistance. However, the costs of TA services received to date do not need to be returned and would not be considered ineligible.

### **Microenterprise Loan/Grant Project Certification Form**

Every loan or grant (project), funded with PI (RLA funds) or contract grant funds, must be submitted to the Department prior to commitment for assistance. The grantee is required to submit using the Department's Loan/Grant Project Certification Form, which can be found on this chapter's web page.

While the grantee does not need Department approval before assistance, the Department requires knowledge of each microenterprise financial assistance project being funded with CDBG funds. The certification date will be used to determine when the project was approved at the grantee level to ensure that assistance (loan or grant costs) were not expended prior to that certification date. The Department will not approve reimbursement requests without evidence of projects being certified by the grantee on file at the Department.

The Project Certification Form must be signed by the Grantee's Authorized Representative.

### **Loan/Grant Committee**

While there is no requirement for the Grantee to have a loan/grant committee, the Department recommends each Grantee consider their use. A loan/grant committee can allow the grantee to ensure that the loan or grant approval process is open and fair. Whether the grantee uses a

loan/grant committee as part of the approval process or not the process of loan/grant approval or denial must be fully explained in the grantee's Financial Assistance Guidelines.

## **Multiple Microenterprise Financial Assistance**

Once the Grantee provides assistance (loan or grant) to a microenterprise business or person developing a microenterprise business and the certification is submitted to the Department, new assistance to the same business or person developing a microenterprise business will require a new part 5 income qualification to meet the National Objective and new loan/grant certification form. For example, if the grantee provides a grant to a microenterprise business and after a period of time the business requests a loan, the loan would be considered new assistance (new "project").

## **Reporting and Documentation**

Because financial assistance is a different activity, requiring much more information, and different documentation than microenterprise technical assistance, Grantees will have separate applications for each activity. And while the grantee is not required to maintain separate files for the financial assistance ("project") versus technical assistance services, the files should maintain separate sections of documentation for each activity.

Under the CDBG Microenterprise Financial Assistance activity, grantees are required to report accomplishments, and other beneficiary data, by each individual loan or grant ("project"). The grantee in turn must have documentation on file to allow the Department or HUD to verify that the reported accomplishments and beneficiary data are real and accurate. The grantee must ensure that each microenterprise financial assistance client has their own file documenting all loans or grant information, including evidence of costs, income qualification, and loan or grant costs for the project, and federal overlay compliance.

## **Program Income and Microenterprise Financial Assistance**

The CDBG Program allows grantees to keep and reuse program income (see Chapter 14 for what program income is and the rules associated with its use). To maintain program income, the grantee can create and maintain Revolving Loan Accounts (RLA) for certain eligible RLA activities, one of which is Microenterprise Financial Assistance. However, the grantee, under the RLA requirement must "revolve" a minimum of 60% of these funds within a RLA during each program year (state fiscal year). This means that funding grants from the microenterprise financial assistance RLA should be very limited since a grant doesn't 'revolve.' Grants, along with Activity Delivery, are limited to 40% of the funds within a given program year. Thus, if no loans are given during a program year, then no microenterprise financial assistance in the form of a grant can be given.

## **Activity Delivery under Microenterprise Financial Assistance**

Under the sub-activity of microenterprise financial assistance, Activity Delivery costs are those costs needed to provide the loans and grants. They are the necessary costs, beyond the actual loan or grant amount to ensure the "project" is eligible, the grantee's guideline requirements were enforced and all federal overlays were completed. Activity Delivery is the costs outside the loan or grant. However, Activity Delivery is **not** the cost of managing the grantees loan portfolio, or for submitting required reports related to the grantee's CDBG contract with the Department. These costs are considered General Administration costs.

The Microenterprise Program Grant Management Manual chapter 15 web page has a chart that shows these costs broken out into the appropriate categories.

### 3. Microenterprise Support Services

Support services are the least common of the three eligible microenterprise program sub-activities. This microenterprise sub-activity **cannot** be offered as a “stand-alone” activity like microenterprise technical assistance and microenterprise financial assistance. It must be offered in conjunction with either the microenterprise TA or financial assistance programs. Therefore a Grantee is advised to determine, at the onset of program design, if there is the need for this particular microenterprise activity within the Grantee’s community, and if this service fits within the Grantee’s microenterprise program model. The intent of this microenterprise service is to provide general support to businesses or owner(s) while carrying out other microenterprise activities.

Examples of support services include child care, transportation, counseling and peer support groups.

CDBG Microenterprise support services program is a very simple activity to administer since it does not require a separate eligibility process. Determination of an applicant’s eligibility has already been completed for the other CDBG microenterprise program activities: technical assistance and financial assistance. Furthermore, the program client has up to three years for micro-service eligibility once income eligibility has been confirmed. Finally, microenterprise support service activities do not trigger any federal overlay compliance processes, such as NEPA, Labor Standards, and Relocation.

Support service costs can be paid to participants on a reimbursement basis upon receipt of proper documentation and paid invoices. Additionally, the Grantee has the option of directly paying the service provider for eligible services upon receipt of invoices.

Separate Program Guidelines will be required for Support Services, like all other microenterprise sub-activities.

## Program Guidelines

Program guidelines are used for the purpose of informing potential clients of the basic rules of the grantee’s program, including what is eligible and what is not eligible in the program. The grantee cannot decline services, loans or grants to applicants without being able to point to written statements within the guidelines showing the authority for approval/denial, as required by Equal Opportunity law.

*Department policy requires that each of the three sub-activities, technical assistance, financial assistance, and support services have separate sets of program guidelines.* The Grantee is required to use the sample program guidelines published in conjunction with this Chapter on the CDBG website as a basis for their local program. Additionally, the CDBG Program requires that all guidelines be approved and adopted by the grantee’s governing board (city council, board of supervisors). It is highly recommended that the grantee submit their draft guidelines to the Department for review and approval before submitting to their board for final approval.

The Department considers the sample program guidelines provided to be best practices/safe harbor when operating and implementing CDBG Microenterprise programs, but Grantees may amend them to fit their unique community needs. The sample guidelines allow the grantee to

have a starting point and the Department's sample program guidelines also ensure full compliance with all federal and state regulations and therefore must be included within the local program guidelines. Grantees may alter the sample guidelines, but the proposed changes must be submitted to the Department in track changes for review and approval prior to the Grantee formally adopting them.

Further, if the Grantee alters the guidelines, the changes must be clearly marked by highlighting the changed text, or using editing software such as Word's Track Changes so as to expedite the Department's review and approval process. This process, including approval by the governing body, will be required each time the grantee changes its guidelines.

Grant limits, income requirement, loan requirements, TA service available, obligations of TA clients' to progress and how that will be measured are all examples of elements needed within a grantee's guidelines. The sample guidelines on this chapter's web page will give the grantee a good starting point.

## Eligible Costs

### Microenterprise TA

Implementation of any CDBG Microenterprise activity including technical assistance, financial assistance and support services, requires Grantees to review program costs for eligibility. Each CDBG microenterprise activity has different eligible costs associated with it.

The CDBG Microenterprise TA activity provides funding to cover only those costs associated with the delivery and provision of technical assistance services to eligible microenterprise businesses and persons. Eligible microenterprise TA activity costs include, but are not limited to, all allocable costs associated with funding TA services that are exclusively provided for, and restricted only to, eligible program participants. Typical CDBG TA service direct costs are:

1. Costs connected to the provision of business development workshops or classes;
2. Costs connected to the provision of 'one-on-one' counseling using professional business development staff;
3. Costs associated to provide opportunities for 'structured peer networking'; and
4. Costs associated with accessing online business training courses.

The grantee must maintain evidence in the file of the above costs being paid by the grantee, including invoices, timesheets, and payment record via the grantee's account records.

**Note:** Documentation of an invoice on file does not show evidence that the invoice was paid. Grantees must maintain records that document the grantee payment (copy of check) and accounting records that show the costs/invoice being paid.

### Microenterprise Financial Assistance

Disbursement of CDBG funds for each project (grant or loan) must be monitored, tracked and reconciled. The Grantee must ensure that all the approved project costs included in the Loan/Grant Certification are evidenced by paid invoices. If leverage is included, the project file must have documentation of leverage being expended. *Department policy requires that CDBG funds only be paid out to third party vendors, or to the microenterprise for reimbursement of costs*

upon submittal of receipts documenting eligible costs, and can only be reimbursed for costs approved and identified in the grantee's approved loan or grant documents. When the project is completed and all project costs are paid, then the Grantee will complete reconciliation. If all approved CDBG funds for that client have not been utilized, the Grantee will adjust the loan/grant amount to reflect the actual amount expended.

Typical CDBG costs associated with direct financial assistance can be grouped into two separate categories; activity delivery and activity costs:

Eligible Microenterprise Financial Assistance **activity delivery** costs are:

- 1) Cost associated with the Part 5 income determination process;
- 2) Costs connected with review of applicant threshold documentation;
- 3) Costs related to financial underwriting and analysis of the business and owner, if included in the Program Guidelines;
- 4) Escrow Costs associated with closing a loan or grant; and
- 5) Costs associated with satisfying federal overlay requirements, such as the NEPA environmental review, labor standards compliance, and relocation compliance.

Eligible Microenterprise Financial Assistance **activity costs** are limited to the amount included in the grant agreements or promissory notes for the loans.

*Activity Delivery Costs will only be approved by the Department and reimbursed to the Grantee when in connection with an approved and closed loan or grant. Grantees will not be eligible to receive activity delivery funds if a jurisdiction has not closed a CDBG microenterprise loan or grant. Activity Delivery is limited to the maximum percentage noted either in the contract with the Department or the amount noted in the most recent NOFA, on a per project basis.*

### **Microenterprise Support Services**

Under the Microenterprise support services program, CDBG funds are eligible for the delivery of documented support services that may be needed by the owner of, or person developing a microenterprise to enable the establishment, stabilization, or expansion of the business. Eligible costs include;

1. child care;
2. transportation;
3. counseling; and
4. peer support programs.

### **Ineligible Costs**

Ineligible costs include, but are not limited to:

- Providing "direct benefit" assistance to TA clients under microenterprise technical assistance (for example, paying business rents, inventory, or marketing materials). However, these items may be eligible costs with CDBG funds under Financial Assistance loans or grants;
- Activity delivery work and costs connected with qualifying a microenterprise loan or grant are ineligible costs under the Microenterprise TA program for a TA client;
- Operational costs of participation in a business incubator; and

- Costs associated with ineligible activities (see above section on this subject).

## Federal Overlays

Under the State CDBG program and as a Grantee of federal monies jurisdictions are responsible for ensuring that CDBG funds are spent in accordance with federal laws, regulations and policies. The Department will monitor/audit a Grantee's microenterprise program activities to ensure compliance with CDBG program requirements, including the Davis-Bacon Act, NEPA, Relocation/Displacement and Equal Opportunity laws. The grantee should review its contract with the Department or the Grantee's approved Reuse Plan to determine what federal overlays apply to CDBG. Federal overlays are triggered based on the scope of work for the project or program. For example, microenterprise TA, for the grant contract period, is considered the scope of work and the grantee would determine what federal overlays apply, and to what extent, at the start of the TA period. For microenterprise financial assistance, by contrast, each project must be evaluated for federal overlay triggers and requirements. And, if a microenterprise business receives a grant and at a later time requests a loan, these separate transactions would be considered two projects with two scopes of work and therefore would require re-evaluation before the second loan approval.

*Records must be maintained for a minimum of five years beyond the grant closeout between the Department and HUD.*

*The Department will inform grantees as each grant year is officially "closed" to allow the grantee to start the five year clock.*

Responsibility for ensuring full documentation of compliance with these federal overlays rests with the Grantee as the legal responsible entity for CDBG funds. If there are problems with a project's NEPA review or relocation plan, or payment of prevailing wages on a construction project, the Grantee is financially responsible for correcting any problems with compliance. Therefore, it is imperative the Grantee be knowledgeable on the requirements of federal overlays to ensure documents are in compliance. Department staff is able to assist with any federal overlay questions or compliance issues.

## Documentation

Grantees must ensure documentation for all TA services, loans or grants, and any support services, and their associated costs, are included in the clients' files.

Additionally, the grantee must maintain and update its Public Binder, displaying all required documents within that binder.

A grantee, when administering any of the three microenterprise program sub-activities, must document and maintain records of the following:

- Each activity/client meets a CDBG "national objective";
- Payment of only CDBG-eligible program expenses;
- Compliance with any applicable federal overlay requirements triggered by program activities; and
- Client files showing applicant information (whether assisted or not), loan/grant information and/or TA and Support services that were provided.

## Things to Consider

- A completed market analysis is a very useful tool in determining if there is appropriate demand for a microenterprise program. It should not be left on the shelf, but regularly referenced, evaluated and updated.
- Determine technical and credit needs in Grantees target market.
- Regular program evaluation will improve desired program goals and objectives.
- Do your Microenterprise activities have applications clients must complete? Does the application(s) collect all the needed information? Do you track all submitted applicants? Do you maintain the file of those not funded? Do you assist clients on a first come, first serve basis?
- Do you have goals associated with your Microenterprise Program? How do you measure the outcomes? A successful Microenterprise Program, regardless the sub-activity, will require periodic evaluation and even adjustments.