This program directive is provided to sub-grantees of Prosperity Works in order to re-state the strict rules of using IDA funds for business IDAs. Non-compliance will not be tolerated. Any deviance violates the rules of the federal funder -- the Assets for Independence Program -- and will result in suspension of your IDA initiative. Business IDAs have very specific mandates that must be followed. If any IDA is found to be out of compliance, the match funds must be returned to Prosperity Works.

A business IDA must have a complete business plan that is reviewed by an eligible microenterprise agency or financial institution. In order to be approved for use of AFI IDA funds, the minimal components of a qualified business plan include:

* A description of goods or services
* A marketing plan
* A financial plan

In order for an IDA withdrawal request to be approved for a business IDA, the minimum requirements must be met:

* Six months of regular savings in the IDA account
* Financial education completed; Self-Advocacy Portfolio completed
* Business Plan (with the minimum three elements above) completed
* Business Plan reviewed and signed off on by a certified microenterprise organization or financial institution
* Business licensing completed – business licensing should meet state and local requirements
* Business financial account opened at a federally insured financial institution. *Note: the only exception to this condition is if the IDA payment will be made directly to a vendor.*

**Resources**

New Mexico Small Business Development Center

<http://www.nmsbdc.org/sbdc_services.html#bizplan>

Navajo Nation, Eastern Agency, Regional Business Development Office

<http://www.navajobusiness.com/pdf/DngBus/SmallBus/StrtBus/BusPlnWrkshts1.pdf>

WESST

<http://www.wesst.org/business-toolkit/business-plan-toolkit>

Accion New Mexico

<http://www.accionnm.org/business-plan.php>

### Business Capitalization

IDA accounts may be used for the expenses included in a **qualified business plan**, including capital, plant, equipment, working capital, and inventory expenses. IDA funds are made payable directly to a **business capitalization account** that is established in a federally insured financial institution. A business capitalization account is a business operating account (checking or savings) established at a financial institution. The financial institution will only open a business account with proof that a legal business exists – i.e., business license, or corporate certificate if applicable.

This definition is very broad, making business IDAs one of the most flexible uses within this project. The business can be a start-up, retention, or expansion. The IDA can be used for capital purchases (i.e., equipment, real property). An IDA could also be used as “owner equity” if it is placed into a business account, thus providing a means by which the business owner could leverage a small-business loan.

The qualified business plan is a business plan that has been reviewed and approved by a Small Business Development Center (SBDC), a Microenterprise Development organization, or a Financial Institution that makes business loans. **The plan must include a description of services or goods to be sold, a marketing plan, and projected financial statements.**

The Savings partner’s savings and the related match funds may be used as “working capital” for the business. Use of the IDA funds should be included in the business plan financial projections, regardless of whether they are considered working capital or will be used for another qualified expense.

Special Management Considerations with Business Ownership

* Good credit is essential to receiving a business loan, and in opening business credit accounts with local and national vendors.
* The business plan development process can be lengthy and takes extensive training, as well as one-on-one assistance.

**AFI Legislation (2000) – Pertinent References**

“(C) BUSINESS CAPITALIZATION.--Amounts paid from an individual development account

directly to a business capitalization account that is established in a federally insured financial

institution (or in a State insured financial institution if no federally insured financial institution is

available) and is restricted to use solely for qualified business capitalization expenses. In this

subparagraph:

(i) QUALIFIED BUSINESS CAPITALIZATION EXPENSES.--The term ``qualified business capitalization expenses'' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

(ii) QUALIFIED EXPENDITURES.--The term ``qualified expenditures'' means expenditures

included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

(iii) QUALIFIED BUSINESS.--The term ``qualified business'' means any business that does not contravene any law or public policy (as determined by the Secretary).

(iv) QUALIFIED PLAN.--The term ``qualified plan'' means a business plan, or a plan to use a business asset purchased, which--

(I) is approved by a financial institution, a microenterprise development organization, or a nonprofit loan fund having demonstrated fiduciary integrity;

(II) includes a description of services or goods to be sold, a marketing plan, and projected financial statements; and

(III) may require the eligible individual to obtain the assistance of an experienced entrepreneurial adviser.”

AFI Program Office:

* The business should be legally established and not in violation of any law or public policy.
* The owner must have a “Qualified Business Plan” that has been reviewed and approved by a financial institution, microenterprise development organization, or nonprofit loan fund. The IDA can pay for expenditures indicated in the Qualified Business Plan, such as:
	+ Capital
	+ Plant
	+ Equipment
	+ Working Capital
	+ Inventory
	+ Licenses