

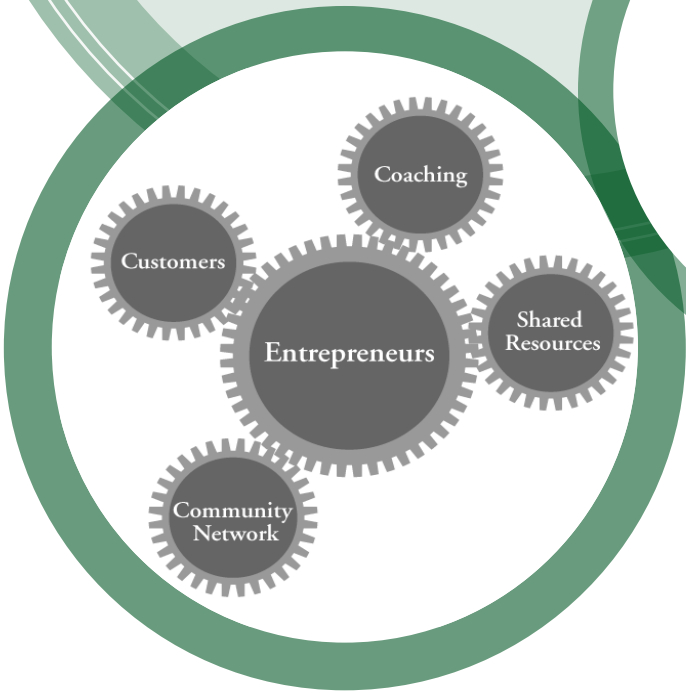


TOOLKIT

SMALL BUSINESS TECHNICAL ASSISTANCE

Micro Business, Small Business and Business Expansion

**Community
Economic
Development
Toolkit**



Disclaimer

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COMMUNITY ACTION PARTNERSHIP

SMALL BUSINESS TECHNICAL ASSISTANCE
Micro Business, Small Business and Business Expansion

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SMALL BUSINESS TECHNICAL ASSISTANCE: Micro Business, Small Business and Business Expansion

Introduction

This guide is intended for use by organizations that are considering providing small business technical assistance services. Small business technical assistance encompasses diverse topical areas that can serve a range of business sizes and needs. Business sizes include micro businesses, start ups, and small business expansion. Services can include assistance in areas such as marketing, management, finance and strategic planning. This guide will help organizations understand the complexities of small business technical assistance programs and the commitments needed to operate a successful effort. This guide will also detail the degree of support needed by community resources, local government, and public and private sector partners, with respect to scope of services and organizational budgets.

Small business technical assistance programs do not usually generate income on their own and are not self-sufficient programs. Feasibility must be measured in relation to the effectiveness of these programs and how technical assistance efforts can support other Community Economic Development (CED) projects and revitalization strategies. In the context of CED and neighborhood revitalization, it is imperative that small business technical assistance related programs be viewed as a linchpin that supports and enhances the economic foundation in communities. This economic foundation is vital to all other CED efforts aimed at neighborhood and community stabilization and revitalization.

Business technical assistance efforts develop sustainable and financially stronger business enterprises. These enterprises create jobs and generate income and investment in communities while attracting and retaining needed community goods and services.

Most business can benefit from technical assistance but the predominant small business needs to survive and grow is its ability to access capital. Most technical assistance efforts assist businesses by helping them obtain financing for operations or for larger or new facilities. Lenders require substantial documentation reflecting the borrower's management capacity, business track record and most importantly, showing that the business has the ability to generate income needed to repay the debt. Technical assistance providers help the entrepreneur start up, grow or expand their business. They ultimately help the borrowers make a strong case that they will be successful and repay the loan.

Many business technical assistance programs provide capital through loan funds that they operate. If you do not have a complementary loan fund, it is imperative that you locate (and partner) with local loan funds that can provide capital for business start ups or expansion. These sources include community loan funds, Community Development Financial Institutions (CDFI), credit unions, thrifts or commercial lenders.

Community loan funds and CDFI's are typically "mission" driven and focused on understanding niche markets and their credit needs. They have staff that can underwrite and understand the risks involved and focus on specific community needs. Commercial lenders do not generally have this capacity and will invest or give money to community loan funds and CDFI's.

This guide will provide community organizations with an understanding of considerations that should be explored in initiating a business assistance program. The guide outlines a process to develop your businesses assistance program focused on the needs of your community.

Programs can target specific small business needs such as:

1. **Microenterprises:** Microenterprise programs assist individuals to initiate small business ventures that are owned and operated on a part or full time by a single owner/operator. Assistance can focus on starting business enterprises and ongoing technical assistance to ensure business success. Programs will typically provide a series of classes and seminars that assist entrepreneurs with business plans, management and marketing plans, licenses and permits and in locating financing.

Microenterprise loan funds work in conjunction with technical assistance providers (and are usually one and the same). Loan funds derive funds from the public sector (Community Development Block Grants, tax increment funds, Small Business Administration, Office of Community Services, etc) or private sector sources (foundation or corporate grants, donations or investments). Individual Development Account (IDA) programs are often used to support microenterprise development.

2. **Small Business Start Ups:** Entrepreneurs who hope to start up a new small business or franchise. This guide will also briefly touch on social enterprises. Social enterprises are businesses initiated by community organizations with a goal of creating jobs and generating income. Social enterprises are difficult; they operate in the same “high failure” rate as all small businesses, but they have inherent advantages including sources of capital and proven experience.
3. **Small Business Efficiency or Expansion:** The number one need of small businesses is accessing capital. Therefore, small business technical assistance will assist businesses and entrepreneurs with business, marketing, management plans and most importantly, properly presenting the businesses financial (or projected) success.

Most small businesses initiated by entrepreneurs survived by keeping income low (to avoid taxes) and did not have the time to devote to tracking their business success and management capabilities. Most technical assistance will revolve around setting up proper record tracking and accounting systems. Financial statements must reflect data provided by tax returns and must show stability, growth and success to be eligible for more capital (loans). Sound business, marketing and management plans provide the lender the comfort to support the businesses request.

Technical assistance programs must coordinate with appropriate sources of capital. Similar to microloan assistance, community loan funds and CDFI’s remain as a key financial resource that understands the business nuances of this market niche.

I. BACKGROUND

A. Definition and Importance

Small Business Definition: Small business definitions vary substantially. The US Small Business Administration uses a global number of 500 employees or less while other definitions peg the number at 250. Micro business definitions range from 1-10 employees. Despite differing definitions of size, small business success remains front and center in discussions on job creation.

A Brookings Institution policy brief focused on the importance of small businesses and job creation as stated in the introduction:

“As the nation strives to recover from the “Great Recession,” job creation remains one of the biggest challenges to renewed prosperity. Small businesses have been among the most powerful generators of new jobs historically, suggesting the value of a stronger focus on supporting small businesses and encouraging entrepreneurship”¹

The policy brief also included their definition of small businesses:

“The term “small business” applies to many different types of firms. To begin, the small business community encompasses an enormous range of “Main Street” stores and services we use every day, such as restaurants, dry cleaners, card shops and lawn care providers. When such a business fails, it is often replaced by a similar firm. The small business community also includes somewhat bigger firms—in industries such as manufacturing, consulting, advertising and auto sales—that may have more staying power than Main Street businesses, but still tend to stay relatively small, with under 250 employees”²

Despite the differences in definition, small businesses are a very important job provider for economically impacted communities and bring basic services and goods needed for balanced communities. Supporting this vital segment of our communities should be a key part of any local community development strategy.

Some small business facts provided by the Small Business Administration (SBA) discussing small businesses cited the following data:³

Small Businesses:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.

¹ Baily, Martin Neal, Brookings Institution Policy Brief #175, “The Future of Small Business Entrepreneurship: Jobs Generator for the US Economy, June 2010

² IBID

³ U.S. Dept. of Commerce, Census Bureau and Intl. Trade Admin.; Advocacy-funded research by Kathryn Kobe, 2007 (www.sba.gov/advo/research/rs299.pdf) and CHI Research, 2003 (www.sba.gov/advo/research/rs225.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics.

- Generated 65 percent of net new jobs over the past 17 years.
- Create more than half of the nonfarm private GDP.
- Hire 43 percent of high tech workers (scientists, engineers, computer programmers, and others).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.5 percent of all identified exporters and produced 31 percent of export value in FY 2008.
- Produce 13 times more patents per employee than large patenting firms.
- Small firms accounted for 65 percent (or 9.8 million) of the 15 million net new jobs created between 1993 and 2009
- 27.5 million small businesses in the US (of these, about 6 million have employees and 21.4 million are "Solopreneurs" or businesses with no employees)
- 18,311 business with over 500 employees
- An estimated 552,600 new employer firms opened for business in 2009, and 660,900 firms closed. This amounts to an annual turnover of about 10 percent. Nonemployer firms have turnover rates three times as high, mostly because it is much easier for them to go into business and cease operations.

Micro businesses are a subset of small businesses. A recent web publication, "Micro Business Law & Legal Definition" defined the scope of micro business opportunities:

"Micro business is a very small business, smallest of all businesses. The majority of micro business companies are one-person enterprises. Moreover, these companies operate out of owner's homes or a small executive suite office; and many of these companies have part-time help from a family member or friends. Micro businesses are conducted by trades people, professionals, doctors, designers, artists, writers, consultants, inventors, technicians, craftsmen, manufacturers, or workers from a variety of other disciplines."⁴

B. Size of the Industry

It is difficult to gauge the entirety of the small business development industry; in addition to a federally-designated network of small business support entities and some state or local public resources, there are a number of for-profit small business training and technical assistance programs, particularly online, which are not part of any formal network of service providers. However, one segment of the industry is of primary relevance for community development organizations (CDOs) considering becoming engaged in small business development work.

1. Microenterprise Development Organizations (MDOs)⁵

⁴ www.USLegal.com

⁵ This portion of the guide will focus primarily on information on the scope and practice of the 'microenterprise development' industry, deemed in this context to be relevant and applicable as a guide for any community development organization considering entering the business services market, regardless of presumed client demographics or business size characteristics.

Microenterprise development is the term used broadly to refer to the universe of CD/CED organizations

The microenterprise industry in the United States is comprised of a network of CDFIs and other community economic development nonprofit organizations that provide training and technical assistance, (usually, but not always, in addition to offering access to capital), to women, minority, and low-income entrepreneurs. Generally, these organizations serve any small business owners who cannot obtain debt or equity capital through traditional private sector sources.

Data on the microenterprise field is available from a census conducted in 2009 by the FIELD Program at the Aspen Institute. This study identified 696 microenterprise programs providing support to microentrepreneurs. A survey of these organizations revealed that 68% provided some financing component to clients; 72% reported providing some type of business development services directly to microentrepreneurs.⁶

Based on its FY 2008 census of microenterprise organizations, FIELD estimates that a total of 274,128 individuals received services from microenterprise providers in FY08.⁷

2. Federal SBA-Sponsored Small Business Resources

- ***Small Business Development Centers***⁸: The Small Business Administration (arm of the US Department of Commerce) designates and supports a nationwide network of Small Business Development Centers (SBDCs). There are 63 lead SBDCs covering every state and region of the country. Some lead centers are designated at the state level, while others are assigned to regions within a state. These lead centers take the responsibility of subcontracting with specific service providers to provide no-cost technical assistance and low-cost training to

involved in business services and lending work, due to the kind of clients and their needs that these organizations are usually best positioned to serve (and where needs/gaps exist in the existing federally-supported and private sector markets). In strict terms, it refers to any startup or existing small business with fewer than 5 employees, and owned by a traditionally disadvantaged person – woman, minority, or low-income. This is the set of entrepreneurs who are the ready client base of community development organizations offering business development services.

However, many organizations that do not explicitly limit their clients served to microentrepreneurs as defined above, or who offer loans larger than \$35,000, consider themselves part of the microenterprise development field because the underlying mission of promoting community economic development and wealth building is advanced by a broader client scope:

- There is significant overlap in the training/TA needs of these entrepreneurs, so expanding their target client base allows them to help fill a gap in the market: there aren't always high quality, accessible sources of training/TA for non-micro small businesses. SBDC/state-level network coverage is not always consistent (e.g., there is demand for training/TA among larger, potentially bankable small businesses).
- Serving these larger firms may help subsidize the costs of serving microentrepreneurs, if service providers set fees on a sliding scale, and thus make their program more viable and sustainable.

⁶ "U.S. Microenterprise Census Highlights, FY2008 Data." 2009. Aspen Institute/FIELD (Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination. Available at www.fieldus.org.

⁷ Ibid.

⁸ <http://www.sba.gov/content/small-business-development-centers-sbdc>

small businesses within their regions. SBDCs are typically located within universities, community colleges, or longstanding economic development agencies with experience in small business development services.

- **Women’s Business Centers⁹**: The SBA also sponsors a network of nearly 100 Women’s Business Centers (WBCs) around the country. These educational centers designed to assist women (particularly disadvantaged minority or low-income women) start and grow small businesses. This designation is often held by a community economic development agency doing other small business assistance or microenterprise development work.
- **SCORE¹⁰**: Originally created as the Service Corps of Retired Executives, SCORE was established by the federal government in the 1960s. SCORE chapters are associated nonprofit organizations nationwide that rely on volunteers to provide free small business mentoring and low-cost workshops. There are 13,000 volunteers providing service through 364 chapters.

C. History¹¹

Microenterprise development programs in the United States emerged as the logical extension of existing efforts to foster community economic development and alleviate poverty. Yet, confronting a financial sector largely uninterested in serving the poor, a few human service and economic development organizations piloted microenterprise programs modeled after innovative and successful experiences with informal sector entrepreneurs in developing countries (e.g. the famous Grameen Bank in Bangladesh) and unemployed workers in Europe. They included:

- Women’s economic development organizations grappling with the feminization of poverty in the 1980s, realized that financial independence was essential to ending women’s dependence on welfare. When initial investments in job training did not yield significant results, organizations such as the Women’s Economic Development Corporation in St. Paul, Minnesota looked for ways to help women create their own jobs.
- Anti-poverty agencies — both community action agencies (CAAs) and community development corporations (CDCs) — with roots in the 1960s war on poverty — saw microenterprise development as a new strategy they could use to promote economic self-sufficiency. CAAs such as the Central Vermont Community Action Council added microenterprise development to its range of social services. CDCs, revitalizing poor urban neighborhoods through housing, strip malls and small business development, piloted microenterprise programs as another tool to generate employment.
- The U.S. Department of Labor and a nonprofit policy center, the Corporation for Enterprise Development, together with practitioners launched pilot projects in the

⁹ <http://www.sba.gov/content/womens-business-centers>

¹⁰ www.score.org.

¹¹ This section draws heavily on an excerpt from “Microenterprise Development in the United States: An Overview”. Fact Sheet Series, Issue 1, published by Aspen Institute/FIELD and the Association for Enterprise Opportunity (AEO). 2000. Available at www.fieldus.org.

late 1980s to test self-employment as a job strategy for those receiving unemployment benefits and as a self-sufficiency option for welfare recipients.

- Replicators of group lending models originally piloted in Latin America and Asia include the Good Faith Fund in Arkansas, Working Capital based in Boston and ACCION International (with six offices in the United States).

Demonstrating the promise of a new strategy, these pioneers inspired dramatic growth in the field through the 1990s, attracting rural policy centers, refugee resettlement agencies, community colleges, credit unions, employment, housing and social service programs to the field.

Initially, microenterprise programs focused on credit. In developing countries, thousands of poor microentrepreneurs were taking, and repaying, small, short-term loans under an innovative system called peer or solidarity group lending. This method, now well known, has many variations, but the basic idea is that a group of borrowers come together to co-guarantee the small loans made to each member, thus replacing collateral with peer pressure. In addition to taking responsibility for many of the loan processing functions, the borrower group is a nexus for support, networking and training for its members. For those in the community economic development movement in the United States who were somewhat suspicious of individual entrepreneurship, peer lending offered a way to deliver financial resources directly to disadvantaged individuals in consonance with an agenda of empowerment.

However, the initial focus on providing credit to poor microentrepreneurs changed relatively quickly. Most programs have abandoned peer lending for more traditional individual loans. But more significant is the fact that microentrepreneurs are not seeking loans in large numbers. Of the 55,756 clients served by the practitioner programs listed in the 1999 Directory of U.S. Microenterprise Programs, only 6,000 (11 percent) were borrowers. By 2008, the ratio of loans to total clients served was even lower. Of an estimated 274,128 individuals served, only an estimated 9,191 loans were made by microenterprise programs in that year. This is at least partly due to the availability of credit cards in the U.S, as well as microenterprise programs' recognition of the intensive training and assistance microentrepreneurs need (including services 'upstream' of business training, such as financial literacy) in order to be successful in operating a business and repaying a loan.

As practitioners recognized the diverse challenges their clients faced in starting and operating a business, they shifted attention to training and technical assistance. Offered by over 72 percent of all microenterprise programs¹², these skill-building activities are the most important components of the field in the United States today. Training for business development focuses on business skills and often culminates in individual business plans. Training for low-income and welfare clients takes a longer step-by-step approach in recognition of lower educational levels and entrepreneurial exposure, and often includes a focus on building financial literacy. Technical assistance ranges from setting up incubators for new businesses to helping with product design and marketing.

¹² U.S. Microenterprise Census Highlights, FY2008 Data." 2009. Aspen Institute/FIELD (Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination. Available at www.fieldus.org.

II. BUSINESS DEVELOPMENT PROGRAMS

A. Services

Business development services are non-financial resources and support provided to potential new small businesses and microenterprises as well as existing small business seeking growth. The most common types of business development services provided by microenterprise programs are individual technical assistance (in various forms) to entrepreneurs, provided by 92% of programs, and group training, offered by 85% of programs.¹³

Examples of the most common kinds of technical assistance and training provided by microenterprise development organizations around the country include¹⁴:

1. Technical Assistance

- *Business plan review*: Clients often need individual help to work out specific aspects of their business plans.
- *Loan applications*: Program staff may help clients prepare loan applications (for their own or other finance products).
- *Mentoring*: Programs match new entrepreneurs with experienced ones for advice and support.
- *Financial Literacy/Credit Counseling*: Clients may need individualized counseling in financial management and overcoming issues with past debt.
- *Specialized help/"coaching"*: Offered after training and through the life of the client's loan (if there is one) specific problem solving is needed in many areas including: legal issues, accounting, and accessing markets.
- *Business Incubation*: Programs may provide facilities where small start-ups and microenterprises can operate for no or low rent, and share access to equipment and/or office services.
- *Technology Services*: Programs may help to enhance entrepreneurs' technology capabilities including internet access, website, and business software or data.

2. Training

- *Recruitment and Screening*: Potential clients need to judge whether they want to join the program, and programs need to screen out those who are inappropriate. Programs often offer short introductory workshops to help accomplish this.
- *Financial Literacy*: Prior to starting a business, many people need a better understanding of basic money matters such as banking, saving, taxes and budgeting.
- *Business Training*: Starts by exploring a business idea and culminates in a business

¹³ U.S. Microenterprise Census Highlights, FY2008 Data." 2009. Aspen Institute/FIELD (Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination. Available at www.fieldus.org.

¹⁴ "Program Design for Microenterprise Development." Microenterprise Fact Sheet Series, Fall 2000. Aspen Institute/FIELD. Available at www.fieldus.org.

plan, closely reviewing the many steps in between, including market analysis, financing, legal issues and management.

B. Organizational Structure^{15,16}

Microenterprise development programs vary in their institutional form. Some are institutions whose sole purpose is to provide microenterprise development assistance. Many are embedded in organizations with broader missions. They include community development finance institutions that provide financing and technical assistance for multiple purposes, educational and human services organizations, place-based community development corporations, and others. The 2008 FIELD census captured data from all these types of institutions. Within the dataset, 125 organizations identified themselves as having a separate microenterprise development program within their structure, suggesting that at least 34 percent of reporting institutions represented organizations with broader missions.

Microenterprise programs provide services in a wide variety of settings, and many programs serve multiple geographic areas. Forty-seven percent serve rural markets, 50 percent serve urban markets, 13 percent operate statewide and 6 percent operate in multiple states.

The majority of microenterprise programs (82 percent) have five or fewer full-time equivalent (FTE) staff members. The median number of FTE staff is three and the mean is four. The median operating budget is \$250,000 and the mean is \$504,308. However, the range in the size of programs is wide — from the smallest with a budget of \$5,000 to the largest with a budget of \$9 million.

Most programs' scale of service is also small. The median number of individuals served by organizations through any kind of training or technical assistance was 138; the mean was 336. The majority of organizations report offering fewer than 20 hours of business development services to each individual. A third of the organizations report offering nine or fewer hours of service per individual assisted, and almost two-thirds (63.5 percent) report offering 20 or fewer hours per individual.¹⁷

C. Funding Sources

Sources of funding for microenterprise program operating budgets vary widely. For 175 organizations reporting in FIELD's 2008 census, funding was distributed in the following way: federal, 30 percent; private 29 percent; state, 8 percent; local 12 percent; earned income 16

¹⁵ The majority of microenterprise programs (between 68 and 94%, depending on interpretation of FIELD's 2008 microenterprise census data) offer a direct lending product to clients. No data are available that distinguish lending from TA-only microenterprise programs, so this section uses aggregate data available for all microenterprise programs.

¹⁶ This section excerpted from "U.S. Microenterprise Census Highlights, FY2008 Data." 2009. Aspen Institute/FIELD (Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination. Available at www.fieldus.org.

¹⁷ "Key Data on the Scale of Business Development Services." 2010. By Elaine L. Edgcomb and William Girardo. Aspen Institute/FIELD.

percent; and other 5 percent. The median for earned revenue was \$6,415, with almost 40 percent reporting no earned revenue at all. The mean was 16 percent, and the range was from 0 to 100 percent.¹⁸

Traditionally, a typical microenterprise program will seek core funding from relatively reliable, multi-year, federal and/or state funds that it supplements with one-time funding from government agencies, foundations, banks, churches and businesses. The Association for Enterprise Opportunity (AEO) estimates that microenterprise programs patch together funding from six to eight different sources. Patching is likely to continue to be the predominant method of program funding in the foreseeable future.¹⁹

Funding is a particularly critical matter for organizations just getting into microenterprise or small business development services, especially those that are interested in providing only training and technical assistance without providing lending. Traditionally, relatively few of the reliable, long-term public financial resources mentioned above have been available to support training and technical assistance, but rather have been focused on providing lending capital. The recent recession has reduced overall available funding for community economic development activities, and the lack of training resources is even more pronounced in the current context. Of the funding now available from federal (SBA, CDFI Fund, USDA) and private foundation sources, virtually all is focused on efficiency and scaling up existing CDFI/microenterprise programs, or provides lending capital (often with more stringent loan-loss reserves or matching requirements than in the past).

This is consistent with a significant ongoing area of research and advocacy in the microenterprise development field – scale, sustainability, efficiency, and earned income are the key themes of a major industry-wide project coordinated by the Aspen Institute’s FIELD initiative.

Thus, the likely best funding sources for a community development organization seeking to enter the microenterprise training and technical assistance field in the current economic context is to seek funding from community banks or local/regional foundations with whom they have an existing relationship, and/or to find ways to generate revenue from the new line of business to help make it self-sufficient.

In California, Wells Fargo Bank²⁰ and Comerica have established multi-year grants to business technical assistance organizations, reflecting the importance of technical assistance and the importance of small businesses. The bank programs support micro and small business technical assistance programs. Included are some of the largest Small Business Development Centers (SBDCs) in the state and smaller business assistance providers focused on ethnic or industry specific businesses in cities and communities.

¹⁸ Ibid.

¹⁹ "Sources of Public Funding." Microenterprise Fact Sheet Series, Fall 2000. Aspen Institute/Field.

²⁰ "Building Capacity to Deliver Technical Assistance to Small Businesses" program. The current two year \$1.7 million commitment (\$850,000 per year) is in its 12th year and provides grants to small business technical assistance providers. This initiative was driven in partnership with the California Reinvestment Committee.

Local Government – City and county governments have also been a resource for operating subsidy as well as, to a lesser extent, lending capital. The Aspen Institute’s CDFI sustainability study specifically cites integrative relationships with local government, and the funding they can provide, typically through the federal Community Development Block Grant (CDBG) funds, as a key source of subsidy money and key aspect in loan fund sustainability for CDFI loan funds.

Consistent with the preference for promoting scale and sustainability, funders are also interested in cooperative efforts between community and economic development organizations that leverage the strengths of all partners in order to improve service to their target market. Another possible way to enter the microenterprise market is to leverage additional dollars and staff by seeking partnerships with more traditional economic development organizations, existing federally-sponsored regional small business programs, and financial institutions. Examples will follow in the Process section of this toolkit.

III. PROCESS: EXPLORING MICROENTERPRISE/SMALL BUSINESS DEVELOPMENT ENGAGEMENT

A. *Due Diligence/Market Research*

1. Existing Business Development Services:

The first necessary step for CBOs interested in engaging in small business development/microenterprise technical assistance is to identify all existing resources that provide small business development of any kind within their target market/geography. These resources would, at a minimum, include the kinds of organizations mentioned in the Background section of this toolkit - other CED organizations, CDFIs, and (not mutually exclusive) SBA-designated small business support entities. CBOs should thoroughly explore the both the scale and scope of existing organizations’ services. It is important to assess the market penetration and coverage of these organizations, including their target and actual clientele, types and sizes of businesses served, scope and quality of services offered, etc. In this way, CBOs can determine what market opportunities may exist for them in their community, what gaps exist in the kinds of clients or businesses served, and what services are offered (training, access to capital).

2. Market Demand for Business Development Services:

Moreover, CBOs, must also seek to document the potential market demand for business development services within the community they serve (whether defined geographically and/or by demographic/socioeconomic factors). To do this, they may want to conduct surveys and/or focus groups among their current client population, as well as reaching out to other potential clients who fall within the parameters of the community they serve under their mission. They should seek to talk with existing small business owners within the community they serve, as well as individuals who may be operating informal businesses without structure or support, in addition to potential business owners.

CBOs need to assess the extent to which this population's needs for entrepreneurial training and technical assistance are being met.

3. Gap Analysis

The third logical step in due diligence is for CBOs to carefully identify any gaps that exist in the business development services being provided to the organization's client community. Since CBOs frequently serve a target client population that shares common characteristics such as language, culture, income, neighborhood, etc., it is necessary to examine the extent to which any existing business development training and technical assistance within in the community are at reaching out to and serving the needs of that population.

It may be that there is lending capital available, but little or no training and technical assistance. It may be that existing training and technical assistance are offered only to existing small business owners, not potential entrepreneurs. There may be language or cultural limitations to the services offered.

B. Organizational Considerations

In addition to due diligence that explores the environment in which a CBO might offer microenterprise or business development services, a CBO exploring small business development work must also look internally and closely examine its own mission, capacity, and role in enhancing the available business development services within its target community. Key questions the organization must ask in order to determine the best route to proceed include:

1. How does microenterprise/small business development fit with the organization's existing mission/organizational culture?

Organizations should think carefully about whether small business development assistance fits within, or is a logical extension of, their mission and existing programs. Small business development engagement may make sense for a number of community development organizations. For example, organizations involved in fostering income and self-sufficiency may see microenterprise/small business development as a way of boosting self-sufficiency and asset building through self-employment within a disadvantaged community, especially in difficult economic times. Organizations involved in youth development and/or workforce development may similarly find microenterprise development training a logical next step – helping their client populations to consider and move toward self-employment rather than being dependent on jobs provided by firms owned outside the community. Moreover, small business development is essential for community stabilization because it creates jobs and brings in important goods and services to distressed communities. In addition, providing small business assistance probably is sensible for CDCs involved with developing commercial real estate. An organization that develops/owns a mixed use project, commercial center, business incubator or operates a strip commercial improvement program needs to ensure that their tenant businesses thrive in order for the organization to do so.

2. What is the organization’s capacity to expand to offer microenterprise/small business development?

Even if small business assistance fits with an organization’s mission, the organization should carefully consider whether it has the staff and financial capacity to expand its services into this realm without causing its existing core programs and services to suffer.

3. What is the “value added” for this organization to engage in microenterprise/small business development assistance?

In choosing the most appropriate way to enter the small business development field, an organization should seek to build on its existing strengths. Referring to the ‘gap analysis’ conducted during the due diligence phase, the organization needs to carefully identify exactly what new or different element it brings to the table in terms of small business development services within its client community that may enhance existing resources. In particular, the organization should examine whether it is able to offer training/technical assistance in a different language or culturally-sensitive way than is currently available. An organization may also be able to provide space/venue for assistance in a community that have been difficult to reach for existing small business development resources. CBOs may have an existing relationship, reputation, and trust developed within an underserved community that provides value in reaching out to them that other organizations do not have.

C. Choosing an Approach

After considering both external due diligence and organizational considerations, an organization is prepared to determine the best fit approach to micro/small business development for both itself and the community it serves.

Partnerships are critical for success and strongly encouraged for organizations just moving into offering small business assistance work. CBOs should actively seek out partnerships with small business development agencies operating within their geography (as discussed previously, every region of the country is, at a minimum, at least nominally served by one of the 63 Small Business Development Centers designated by the federal Small Business Administration) as well as financial institutions/loan funds. Furthermore, relationships with local banks or CDFIs that don’t have good reach into target geography or market, but sees the benefits of serving this market, can provide opportunities (financial or technical).

Strategic partnerships provide a number of benefits. First, building on the strengths of two or more organizations allows CBOs to expand the range of services available to their client population without incurring significant burden of hiring, training, or solely funding new programs. Collaboration is likely to enhance the capacity of all partners involved and thus improve the overall community economic development outcomes within the target community. Partnerships will also allow CBOs to leverage more resources for microenterprise/small business assistance work; as mentioned earlier, in an era of constrained resources, funders demonstrate

a strong preference for experienced organizations and/or strategic partnerships in an effort to achieve scale and sustainability among microenterprise programs. Partnerships with financial institutions are very important since they can be a resource if you are looking for new TA staff, locations for meetings, and may run the training sessions with their staff.

Finally, partnerships are especially critical in the context of providing training and technical assistance without operating a loan fund. Direct linkage to a source of lending capital is an important 'carrot' to motivate potential entrepreneurs to avail themselves of (and pay for) training or coaching/advising services.

The basic choices in approach for a community development organization seeking to expand into microenterprise/small business development training and technical assistance are providing entrepreneur development through financial literacy training; engaging in strategic partnerships to connect or tailor existing TA resources to the organization's client population; and independently offering training or technical assistance.

1. Financial Literacy Training and Programming

In partnership with existing services, a CBO wishing to enter the microenterprise field may elect to help build the market of potential entrepreneurs among underserved populations within its target client population by providing basic financial literacy programming. Such programming may be a logical extension of the work already done by the organization and may include financial literacy and very introductory entrepreneurship training, as well as programs such as Individual Development Accounts (IDAs). The concept would be preparing the agency's existing client base for becoming entrepreneurs through asset building skills, networking in local business networks, learning new technology or improving language skills, learning basic budgeting and accounting in order to formalize an existing informal business, etc. The populations often served by CBOs are likely to require significant, intensive entrepreneur development of this kind before being ready to access mainstream business development services.

2. Strategic Partnership with Existing Microenterprise/Small Business Development Organization(s)

An agency just entering the microenterprise market might also move one step further by partnering directly with existing service providers to collaboratively offer training and support more directly linked to micro- and small business development. This approach would emphasize connecting the agency's traditional client base with existing small business training, counseling, and lending resources. Activities would likely consist of marketing and/or co-hosting small business training sessions with partners, as well as providing some targeted counseling, technical assistance and loan packaging services to clients identified through this joint outreach. The CBO in a partnership of this sort may also provide translation of training materials or alternate language instructors to help reach new clients, or may host the partner-operated training sessions in the neighborhood served by the CBO in order to make services more accessible to their traditional client population.

This kind of arrangement provides an opportunity to broaden the clients served by existing small business lending resources to include the agency's traditional clients, and to improve economic outcomes among that client base. This approach carries a greater likelihood of being able to access some resources through service agreements from partners, as well as generate fee income. It also keeps open possibility of becoming lender at a later time, after gaining some experience in the small business development market.

3. Offering Training and Technical Assistance Independently

Based on the availability and quality of existing resources within a community, a CBO may elect to offer training and technical assistance services on its own. Agencies may want to focus, at least initially, on training workshops for potential or existing entrepreneurs within their target client base, as training allows both for higher marginal revenue generation and scale that is manageable. In addition, training has relatively low startup costs because of the availability of existing curricula. A guide to microenterprise/small business training curricula is available through the Aspen Institute's FIELD program.

Offering training and technical assistance may be well suited for a CBO that has a ready pool of existing microenterprises within its community. This will allow the organization to have some scale to its efforts, as well as provide direct community benefits by creating jobs by building on a successful business enterprise, and/or by creating additional location or scale that provides specific goods or services lacking in the community.

IV. SOCIAL ENTERPRISES

Social Enterprises are a category of businesses enterprises that are created and operated by non-profit organizations. Instead of having a single purpose goal of longevity and the creation of profit, these businesses usually will have one or more "socially responsible" goal such as:

1. Job Creation: Creating full time unsubsidized employment opportunities. This could be targeted to certain populations such as:
 - a. Individuals that are part of a subsidized training program designed to build skills (home weatherization, solar installation, construction, billing or accounting services) and ultimately need full time employment.
 - b. Certain impacted populations such as recently incarcerated (or part of criminal justice programs) or those with mental or physical impairment(s).
2. Social/Community Impact: Improving the community through recycling, community gardens, green products or related neighborhood improvement efforts while generating income.
3. Business/Entrepreneurial Training: Providing an environment where entrepreneurs can gain the vocational and business skills while being employed.

The Social Enterprise Alliance defines social enterprises as:

“A social enterprise is an organization or venture that achieves its primary social or environmental mission using business methods. The social needs addressed by social enterprises and the business models they use are as diverse as human ingenuity. Social enterprises build a more just, sustainable world by applying market-based strategies to today's social problems.”²¹

Issues and Concerns:

1. A major obstacle for social enterprises is the competition between business and socially responsible goals. Successful businesses are already very difficult to establish and succeed. Business decisions may dictate layoffs or a reduction in employee benefits. This conflicts with the organizational goals that parallel subsidized service program goals which focus on serving the needs of the individual.
2. Flexibility: The business enterprise needs management flexibility to make quick decisions and jump at business opportunities without having to wait for the next board meeting for approval to proceed.
3. Oversight: Does the board or staff have the technical skills to understand the business enough to ensure that it meets business and social goals.
4. Entrepreneurial Skills: Does the business enterprise manager have the entrepreneurial skills to operate and grow a business.
5. Systems: Are the right management systems in place (bookkeeping, personnel, and billing) to serve the business enterprise.
6. Structure: Is the business legally structured properly to ensure that the non-profits tax status is not in jeopardy or that liability issues are managed properly.

Through the operations of programs and services to the community, non-profit organizations will be exposed to many opportunities that could generate income while serving community needs. Most successful enterprises have some very important commonalities:

1. The organization (or director) is very well regarded in the community.
2. The business manager has small business experience and is very entrepreneurial.
3. The business activity is well understood either through the organization's experience operating a similar program or service they provide.
4. The organization has the right management, legal and operational policies in place.
5. The enterprise has access to capital for start up and operations and the enterprises success does not rely heavily on cash flow generated in the initial years of activity.
6. The organization has the right individual or board subcommittee that can manage and understand the business enterprise. Additionally, the board members should be able to add value to the operations of the business (small business operators, bankers, accountants or legal professionals).

²¹ Social Enterprise Alliance, Web Site: www.se-alliance.org

V. RESOURCES

Additional guidance and technical assistance for organizations seeking to provide microenterprise/small business development services are available from the following sources:

Association for Enterprise Opportunity (AEO): primary nationwide network of microenterprise development organizations. Website include state-specific searchable directory of partners/networks. www.aeoworks.org.

California Association for Micro Enterprise Opportunity (CAMEO): CAMEO's mission is to promote **economic opportunity and community well-being** through Micro Enterprise development. Member organizations provide entrepreneurs with small business financing such as loans and credit, technical assistance and business management training. Contact: www.microbiz.org

FIELD: (Fund for Innovation, Effectiveness, Learning and Dissemination), program of the Aspen Institute dedicated to helping the U.S. microenterprise field achieve scale and sustainability. www.fieldus.org.

Small Business Administration: The SBA website contains significant resources and guides for small business assistance. Included are directories of local business and technical assistance providers and information on all SBA funding programs. See www.SBA.gov

Social Enterprise Alliance: The Social Enterprise Alliance (SEA) is the leading membership organization in North America for social enterprises, service providers, nonprofit organizations, corporations, and venture capitalists that is actively building the field of social enterprise through networking opportunities, educational forums, strategic partnerships, and impact legislation. See: www.se-alliance.org

USDA Rural Information Center: "Starting Your Own Small Business" this comprehensive guide focuses on rural business development and has one of the best resource guides for Federal, State and private sector funding resources. See the following web guide at: www.nal.usda.gov/ric/ricpubs/small_business.htm