THE FEDERAL RESERVE BANK of KANSAS CITY

Funder's Guide

A GUIDE TO FUNDING SMALL BUSINESS DEVELOPMENT ORGANIZATIONS

Foreword

The Federal Reserve Bank of Kansas City serves the seven states of the Tenth Federal Reserve District, which include Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico and western Missouri. As the regional headquarters of the nation's central bank, the Kansas City Fed participates in setting national monetary policy, supervises and regulates financial institutions, maintains stability of the payment system, and provides financial services to banks and other depository institutions.

To succeed in each of these mission areas, the Federal Reserve relies on numerous resources, ranging from the most current economic and banking data to the analysis and expertise of its staff. One of the Federal Reserve's resources is its Community Development function, created in the 1980s following Congress' approval of the Community Reinvestment Act.

Community Development professionals take policymakers to the front lines of community issues through a range of initiatives, including forums, conferences, directed research and advisory councils. These initiatives position the central bank to respond effectively to emerging economic developments, long-term needs and new challenges confronting rural and urban low- and moderate–income communities.

The Kansas City Fed's Community Development department focuses its research, resources and programming on five primary areas: community development investments, financial stability for the underserved, neighborhood stabilization, workforce development and small business development. The Kansas City Fed understands the vital role small businesses play in growing the economy by providing jobs, building communities and being key innovators of new technology and processes.

This guide is an extension of the Kansas City Fed's mission. It offers philanthropists, funding agencies and small business development organizations information and guidance on how to support economic growth through supporting organizations that develop small businesses.

To learn more about the Federal Reserve Bank of Kansas City's Community Development Department, visit http://kansascityfed.org/community/.

FEDERAL RESERVE BANK *of* KANSAS CITY
Denver • Oklahoma City • Omaha

THERE IS AN OLD ADAGE, "IF YOU GIVE A MAN A FISH YOU FEED HIM FOR A DAY. IF YOU TEACH A MAN TO FISH YOU FEED HIM FOR A LIFETIME." Because of the many needs in low- and moderate income communities, many funders consistently make choices between supporting the immediate needs of a community, such as food pantries and shelters, and providing support to help create healthy and economically viable communities over the long term. In many ways, there are no correct answers only funding preferences within an ever-changing economic landscape. Sometimes communities critically need that day's worth of fish. However, many funders also share the long-term goal of helping communities get to where they are able to provide for their own needs.

To improve the economic health and viability of communities over the long run, greater economic growth must occur within these communities. By strengthening local economic conditions, the need for funds that deal with immediate community needs decreases over time as the community is able to better sustain itself. As these local economies grow, employment and business ownership increases. When that occurs, the community's image improves and overall quality of life in that community is enhanced. An improved local economy also creates a stronger tax base and advances the health of the broad regional and state economy.

The purpose of this guide is twofold. First, it is to provide funders with a rationale as to why small business development organizations should be considered for philanthropic support. The second purpose is to provide an overview of small business development organization activities along with potential questions a philanthropist may consider when determining whether to fund an organization of this type. As funders help increase the capacity of small business organizations and help small businesses start and grow within a community, there is a greater potential to improve that community's economic health. This in turn will reduce the need for immediate support services.

As funders help increase the capacity of small business organizations and help small businesses start and grow within a community, there is a greater potential to improve that community's economic health.

OVERVIEW OF PHILANTHROPIC FUNDING

Philanthropic funding to support the economic needs of individuals, families and communities is a significant part of the national charitable landscape. Funding to human service and public-society benefit organizations represent 20 percent of total funding in the United States.[1] Organizations that fit these categories represent 46 percent of all publicly reported charities. The categories of human service and public-society benefit are specifically focused on supporting and building the capacity of individuals, families and communities. Outside of religious organizations, these two groups receive the largest percentage of philanthropic gifts when combined. To put this in perspective, in 2012, slightly more than $63 billion dollars were contributed to the organizations that focus on these two categories.[2]

When discussing philanthropic dollar allocation, it is useful to ask the same question as the Rockefeller Philanthropy Advisors, which is "What do you want to achieve?" To follow-up, the advisors recommend that funders develop a well-defined vision of what change their philanthropic gift will help create.[3] When asking that question in the context of the national funding environment, funders that want to achieve the goal of creating economic growth and sustainability, particularly in low- and moderate-income communities, would do well to focus on the role that small business development plays in accomplishing this goal.

SMALL BUSINESS GROWTH IS VITAL TO COMMUNITY HEALTH

Small business development organizations focus on the support and development of new and existing small businesses. In the United States, there are more than 23 million businesses classified as small businesses with fewer than 500 employees. The following are some reasons that small business growth is vital to the development of communities:

Employment

The question of job creation and employment is a consistent national issue. This is an even greater concern in many low- and moderate-income communities that struggle with unemployment and under-employment. Small business growth has the ability to positively impact these communities. Research on small business and job creation shows that startup firms represent only 3 percent of total employment but close to 20 percent of all new gross job creation.[4] Small businesses in general, including startups, are powerful job creators and maintainers. According to the U.S. Small Business Administration (SBA) Office of Advocacy, during the past 17 years, small businesses have created 65 percent of all net new jobs.[5]

1) Lilly Family School of Philanthropy. Giving U.S. 2013 Highlights. Indiana University, 2013.
2) Blackwood, A., Roeger, K., and Pettijohn, S. (2012). "The Nonprofit Sector in Brief: Public Charities, Giving and Volunteering, 2012." Retrieved from Urban Institute : http://www.urban.org/publications/412674.html
3) Rockefeller Philanthropy Advisors.(n.d.)."Your Philanthropic Roadmap." Retrieved 2013, from Rockefeller Philanthropy Advisors: http://www.rockpa.org/document.doc?id=142
4) Haltiwanger, J., Jarmin, R. S., & Miranda, J. (2013). "Who creates jobs? Small vs. large vs. young." Review of Economics and Statistics, 95(2), 347-361.
5) SBA Office of Advocacy. (2011). "Frequently Asked Questions." Retrieved from United States Small Business Administration: http://www.sba.gov/sites/default/files/sbfaq.pdf

Positive Sense of Place

The perception of a community, by both individuals within the community and those outside of it, are important to the long-term health of a community. Developing local small businesses can attract individuals to move to a community and provide valuable goods and services to those within the community as well. In addition, small businesses, particularly those businesses known as mom and pop businesses, create a sense of place and charm.[6]

Social Impact

Small businesses can have a key role in creating positive social impact. In high poverty areas, self-employment is considered a key way to help individuals out of poverty.[7] Small business growth also improves a localities tax base, providing more resources for local governments to provide support, infrastructure development and amenities to improve communities.[8]

Reducing Brain Drain

A challenge for many rural and urban core communities is the attrition of young adults and the loss of talented professionals. Creating strategies to support small business and entrepreneurship growth in communities can be one way to reduce the out-migration of these individuals.[9] Because small business development improves local economies and provides a positive sense of place, these communities grow in attractiveness to professionals who may otherwise leave.[10]

For funders interested in helping communities grow, become self-sustainable and create a positive environment and sense of place, helping support small businesses can be a powerful way of accomplishing that goal.

THE KEY ACTIVITIES OF SMALL BUSINESS DEVELOPMENT ORGANIZATIONS

Many businesses could potentially use the support of a small business development organization to expand or grow.[11] They provide a variety of services to help strengthen business skills, improve access to business credit and coordinate other activities and programs designed to increase the number of new businesses in communities and help established businesses grow. Small business development organizations often provide services at low or no cost to business owners and can connect business owners to a variety of other needed resources. Helping these small business development organizations begin and grow can provide a funder with a valuable social return on investment as these organizations help improve local business outcomes.

FUNDING SMALL BUSINESS DEVELOPMENT ORGANIZATIONS

Many funders focus on areas that they, or their staff, have a history, experience or professional expertise. This section of the guide is for funders interested in supporting small business development organizations but may not yet have the expertise or awareness of what to look for when reviewing requests from these organizations. Many philanthropic organizations are well acquainted with the general process of evaluating the strength of a non-profit organization. Many of these evaluation techniques include evaluating board strength, looking at historical, current and projected budgets, assessing management history and ability, and gathering input from organizational stakeholders. When evaluating specific types of non-profits, additional questions to help determine whether they would be an appropriate recipient of funds, is also advised.

The following section of the guide is designed to help philanthropic organizations understand key activities of small business development organizations and some potential questions to ask prior to making a funding decision. Each activity will be defined and information will be provided as to why that activity is important, how that activity works and some potential questions a funder may want to ask before making a decision.

Business Micro Lending and Alternative Credit

Micro lending and alternative credit is the provision of loans, lines of credit and other credit resources to business owners who may not be able to acquire credit from traditional lending sources such as banks and credit unions. Micro lending is often defined as business credit of less than $50,000. Alternative credit has no defined limit but often is more difficult to receive. Many times, it is used to help support a gap in finance between what the bank is willing to lend and what the business owner needs. These forms of credit are generally made available to individuals with poor or no credit history, weak or little collateral and personal assets, or to startup businesses that are riskier than what banks and credit unions are willing to provide credit to.

6) SBA Office of Advocacy. (2011). "Frequently Asked Questions." Retrieved from United States Small Business Administration: http://www.sba.gov/sites/default/files/sbfaq.pdf
7) Barth, J. R., Yago, G., and Zeidman, B. (2008). "Stumbling blocks to entrepreneurship in low-and moderate-income communities." Entrepreneurship in Emerging Domestic Markets (pp. 69-119). Springer US.
8) Cortes, B. S., and McKinnis, M. R. (2012). Minority-Owned Small Businesses, SBA Lending, and State-Level Economic Performance. ASBBS Annual Conference, 19, pp. 195-207. Las Vegas.
9) Walzer, N. (Ed.). (2009). Entrepreneurship and Local Economic Development. Lexington Books.
10) Edmiston, K. (2010). "Introduction: Entrepreneurship in Low and Moderate Income Communities. (pp. xvii-xxvii)." Kansas City: The Ewing Kauffman Foundation. Retrieved from http://www.kc.frb.org/publicat/Commaffrs/04%20Introduction.pdf
11) U.S. Small Business Administration. (n.d.). "Small Business Trends." Retrieved October 29, 2013, from U.S. Small Business Administration: http://www.sba.gov/content/small-business-trends

Why It's Important

Access to credit is critical for business owners. When seeking to start a new company, the ability to obtain a loan strongly indicates whether that business will be successful and create additional jobs.[12] The SBA cites lack of adequate financing as one of the reasons for business failure.[13] In an effort to maximize small business development, employment growth and maintain businesses, especially in low- and moderate-income communities, effective micro and alternative capital sources are very important.

Accion Texas is one of the premier micro loan providers in the nation. Since its inception in 1994 they have distributed more than $139 million in loans at an average size of $13,513 and created or retained more than 10,500 jobs.

Source: Accion Texas, Inc. 2012 Annual Report

When attempting to create business growth in many low- and moderate-income communities, credit score and collateral issues could potentially make it difficult for traditional financing companies such as banks and credit unions to lend to these individuals and companies. Even owners with good credit scores and available collateral may not receive funding from traditional lending institutions because they lack positive revenue and performance history. These institutions generally are viewed as conservative lenders.

How It Works

There are multiple types of micro lending and alternative credit, but a common type of credit is a standard term loan. Term loans, either small micro loans or larger alternative credit term loans, have two key components: the loan fund and the loan loss reserve. Funders may wish to support either or both.

A loan fund is the amount of dollars available to be lent out to borrowers over a given period of time. There is no set size to how large or small a loan fund may be. An organization may have a multi-million dollar loan fund that provides loans to many borrowers in a given year. Another organization may only have a small loan fund available to a limited audience that only provides one to two loans per year on a special needs basis. Loan funds can be funded a variety of ways. There are certain government programs that support the creation of micro and alternative loan funds. Banks may finance loan funds through their charitable departments or through their Community Reinvestment Act requirements. Some loan funds are developed by individuals who combine their funds together to support others in their community who are seeking to start a business. Regardless of which way a loan fund is created, the funding community is a valuable part of the loan pool capitalization process.

An additional benefit to funders is that supporting these loans is a great way to recycle their funding dollars over time. Since loans are repayable, most loan funds re-lend dollars once the borrower satisfies the debt. A gift of $1,000 today may have five to 10 times the impact over time if the loan is paid back by the borrower and then lent out again to a new business owner.

A traditional loan fund has what is known as a loan loss reserve. A loan loss reserve consists of funds set aside by the lender to protect the loan fund in the event a borrower defaults on a loan. Since alternative and micro lenders traditionally lend to a higher risk borrower, a loan loss reserve is critically important. Oftentimes, lending organizations borrow funds at a very low percentage rate through programs, such as the SBA Advantage program, or other sources to then re-lend through their organization's loan fund. If a borrower defaults, the organization would then be responsible to repay the funds from operating expenses or take funds from the loan fund, potentially damaging the organization's or the loan funds ability to survive. This makes loan loss reserves extremely important. The SBA provides a good benchmark through its micro loan program for a loan loss reserve size. The organization's policy requires a loan loss reserve that equals 15 percent of the outstanding loans made by the organization based upon the performance of the loan portfolio. This can be reduced to 10 percent over time if there are low defaults but never lower than 10 percent. Funders can provide support dollars to build a loan loss reserve to protect the lending organization from the potential for loan default that occurs in higher risk business lending.

12) Fracassi, C., Garmaise, M. J., Kogan, S., and Natividad, G. (2013, August 28). "Business Credit for U.S. Subprime Borrowers: How Much Does It Matter for Entrepreneurial Success?" Retrieved from Social Science Research Network: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2157707

13) Ames, M. (n.d.). "What are the Major Reasons for Small Business Failure?" from his book, Small Business Management. Retrieved September 27, 2013, from U.S. Small Business Administration: http://www.sba.gov/content/what-are-major-reasons-small-business-failure

What to Ask

When organizations are seeking philanthropic dollars, there are a few things a funder should look for when making a funding determination.

- Lending decision process – Lending decisions are traditionally made through lending software that uses past variables to determine likelihood of repayment or through a lending committee. Many loan committees have a variety of professionals, including bankers. All lending decisions should have a defined process that includes an application, evaluation, and acceptance or rejection process. The following are questions a funder may consider asking:
  - What are your lending criteria, such as credit score, equity requirements or business age, size and type?
  - What is your process from application to loan reward?
  - How are lending decisions made?
  - If a loan committee makes decisions, what are their qualifications and how are they selected?
  - If loan decisions are within the organization, what software or process is used to ensure lending consistency?

- Loans default rate per year – The fastest way for a micro loan or alternative credit fund to fail is through loan defaults. The SBA reports that the average default rate for their micro loan fund is 18 percent.[14] This is an excellent benchmark for a funder who is interested in supporting a loan fund. In addition, a loan loss reserve should be in place to cover the estimated loan loss in a given year. Loan fund management questions arise if there is a high default rate. Funders should be wary of funding such a loan fund without solid justification for the abnormally high loan losses. The following are questions a funder should consider asking:
  - What is the average loan default rate for the past three years?
  - What is the size of your loan loss reserve?
  - What process is in place to address troubled loans prior to default?
  - When a loan defaults, what is the process for collecting collateral?

- Businesses started or jobs created – One reason for alternative lending is its ability to help create businesses and increase jobs. For a funder, this can be one of the critical social returns on investment for their philanthropic gift. Many loan funds have a job creation requirement attached to their loan. An example would be that for every $25,000 lent, one job should be created. Some questions a funder may consider asking are:
  - What are the job creation criteria per business loan?
  - What is the estimated job creation of your annual lending?
  - How many businesses are estimated to be created based upon the amount of annual lending in a given year?

- Business support services – Support services can help reduce the risk of default on a loan. Because many alternative loan funds lend to higher risk borrowers, the need to improve that owner's business knowledge can reduce the risk of business failure. Many loan funds now require continued learning, consulting or other support activities as a condition of getting a loan. Funders could consider the following questions:
  - What other services does your organization provide to a business owner receiving loan funds?
  - Is there a requirement for continued learning or consulting support as a condition for receiving the loan?

Consulting and Technical Assistance

Many local small business development organizations provide consulting and technical assistance as part of their program. Consulting and technical assistance involves an expert or specialist working with a business owner to help start or grow an existing business.

Small business consulting can be costly and time intensive for small business development organizations. The need to utilize experts and the time commitment required for one-on-one support means there is a potential for tremendous cost to the small business development organization. In addition to potentially providing funding to support consulting and technical assistance, funders can also be a valuable resource in connecting organizations with business partners who can provide this service at a free or reduced cost.

Rudy Ellis, a Nebraska farmer, gave $2.3 million to the Nebraska Community Foundation to be used to support entrepreneurship in Holt County, Neb. With those funds, the county hired a full-time business coach to help develop local businesses.

Source: A Primer, Field of Interest Funds & Economic Development 2010 by the Center for Rural Entrepreneurship.

14) Dilger, R. J. (2013). Small Business Administration Microloan Program. Congressional Research Service. Retrieved from http://www.fas.org/sgp/crs/misc/R41057.pdf

Why It's Important

When seeking to start or grow a business, consultants and technical assistance providers can help business owners in areas where their skillset is lacking. Consultants and technical assistant providers can often draw on their industry knowledge and experience, and their past work with similar type organizations to help small business owners. They can help the owner avoid pitfalls, identify potentially missed opportunities and develop solid business models that lead to greater profitability and growth. The support of a professional who can help supplement the owner's ability can lead to better business outcomes.[15]

How It Works

General consulting helps a business owner strategize around the four key elements of business: management; operations; marketing; and finance. A consultant works with the business owner to help analyze existing areas of business activity and also to strategize for future growth. Technical assistance is a form of consulting that usually revolves around a specific business activity. Examples include inventory management for a retail company, supply chain management for a manufacturing company, or specialized marketing research to help a small business penetrate a new market.

What to Ask

- Client selection process - Small business programs often have limited resources to support clients similarly to most non-profit organizations. As a result, many have narrowed their focus to specific types of businesses that they choose to serve. In recent years with the emergence of programs like economic gardening, which focuses on existing growth-oriented small businesses, many programs have begun to focus on specific business types or sizes as a way to improve social return on investment or achieve specific local economic development goals. Some questions a funder might ask are:
  - What are the criteria for businesses to be accepted into the program?
  - Are there geographical limitations, and if so are there specific targets for small business growth in that geography?
  - Are there business size or type limitations, if so why?

- Consultant credentials - The credentials of the consultant or technical assistance provider are important to the success of a well-run program. While these programs often use volunteers with prior business experience to lower costs, it is important to know their qualifications. A funder may ask:
  - Are there training processes for volunteer consultants to ensure they are prepared to provide support to small business owners within the organization?
  - If the consultant is a professional, what are their qualifications?

- Number of clients and average hours per client - Because consulting programs can require substantial hours due to the interactive nature of the program, it is important to know how many clients are served and the results. Some questions for a funder to consider:
  - What is the average hours served per client?
  - How many clients are served per year?
  - How are client or consultant outcomes tracked?

Networking Activities

Networking activities can take a wide variety of forms like events hosted by the small business development organization to connect businesses with other business owners in their community. Other activities include industry specific networking groups, such as trade associations, and events that connect business owners to corporations to determine if there are opportunities within the corporations' supply chain or with bankers.

One example of a powerful networking program is the 1 Million Cups program created by the Kauffman Foundation. It provides a weekly networking meeting over coffee that allows two entrepreneurs to pitch their idea to potential investors and other individuals from their community. This event is currently held in more than 20 cities across the nation.

www.1millioncups.com

Why It's Important

Networking is a tool to build a business owner's social capital. In the business world, social capital is the formal and informal connection with peers, professionals, businesses and key individuals that can provide information, resources and opportunities to a business owner. Research shows that the higher level of social capital a business owner has, the more likely their business is to be successful.[16]

How It Works

The primary goal for networking events is to help the small business owner increase the breadth and depth of connections with key peers, professionals and corporations. Business owners from challenged communities may have a very limited social network of business peers, professionals and support providers when they start their business. Developing a strong network of productive relationships can enhance business outcomes.

15) Pena, I. (2002). "Intellectual Capital and Business Start-up Success." Journal of Intellectual Capital, 3(2), 180-198.

16) Cooke, P., and Wills, D. (1999). "Small firms, social capital and the enhancement of business performance through innovation programmes." Small Business Economics, 13(3), 219-234.

What to Ask

- Type of event – Because there are a variety of networking events, it is important to understand what type of event is best. While many networking events have value, ones that are specifically designed to introduce business owners to key resource providers and market opportunities can provide additional benefit. Also, formal events, such as trade association events, can provide tremendous value to small business owners that join because of the shared learning and connection to industry-specific resources. Some potential questions are:
  - How often is the event held?
  - Is membership required?
  - What are the criteria for participation?
  - Are there measurable outcomes?
  - How many small businesses and other stakeholders participate?

Small Business Education

Many small business development organizations provide training classes and educational courses for new and existing small business owners. The goal is to improve the skillset of the business owner so that the owner will be able to effectively start or grow a business. The most common classes focus on business plan writing and general business skills development in the areas of marketing, operations, accounting and management. In many cases, these classes serve as low-cost alternatives to college business courses and have the capacity to serve a wider range of individuals seeking to learn entrepreneurship.

Why It's Important

Many individuals seek to be small business owners without any knowledge of the small business process. Small business education helps individuals learn the process of becoming a business owner in hopes to increase business survival and success rate. Small business education also helps existing owners improve their skills leading to better company outcomes.[17]

One of the most well-known entrepreneurship training programs is the Kauffman Foundation's FastTrac program, which has supported over 300,000 entrepreneurs since 1993. Local communities can become a FastTrac affiliate and teach the program through their small business development organizations.

Source: Startup Your Idea. (n.d.). Retrieved October 1, 2013, from Kauffman FASTRAC: http://fasttrac.org/

How It Works

There are numerous courses that small business organizations might offer. Business plan classes are particularly popular and valuable to business owners because they not only help create a plan of action for a new business, but in many cases are required for business owners seeking a business loan.

What to Ask

- Class type – Because of the diversity of classes, understanding the type and duration of the class is important. Some classes could be industry specific, some could be a single evening class designed to expose owners to opportunities. Other classes could be multi-week classes designed to help a business owner have a working business plan at the end. Some potential questions are:
  - What is the purpose of the class?
  - What will students learn or be able to do after completion?
  - How is student learning measured?
  - Who are the instructors and what are their qualifications?
  - Is it self-created or nationally recognized curriculum?

- Number of classes and students – Some philanthropic requests may be to help fund the courses provided by an organization on an annual basis. Understanding what the small business development organization's course calendar is, and expected number of students served, can help determine the efficacy of the program. Some educational outcomes questions might be:
  - Is there a calendar listing of the courses that includes titles and durations?
  - What is the total number of participants expected on an annual basis?
  - Why were the classes chosen and how do they fit the types of small businesses the organization serves?

Entrepreneurship-based Economic Development Organizations

Entrepreneurship-based economic development is an emerging form of economic development in the United States. Increasing awareness of this form of economic development is one of the key priorities for the Federal Reserve Bank of Kansas City's Community Development Department due to its potential to help improve the economies of many rural and urban core communities.

Instead of focusing on recruiting companies to come into a community, entrepreneurship-based economic development focuses on supporting the creation and growth of local businesses. This form of economic development has been emerging in many communities since the Economic Gardening program was created in Littleton, Colo., in the

17) Unger, J. M., Rauch, A., Frese, M., and Rosenbusch, N. (2011). "Human capital and entrepreneurial success: A meta-analytical review." Journal of Business Venturing, 26(3), 341-358.

late 1980s. Pioneered by Littleton economic developer, Christopher Gibbons, Littleton eliminated all tax incentives and efforts to recruit corporations into the town and instead focused on growing key businesses that already operated in the area. Because of the success of this model in Littleton, recognizing the challenge of getting companies to relocate into their community or region, many communities, particularly in rural areas, have shifted to growing their own local businesses.

Why It's Important

Many rural and urban core communities are not considered prime locations for locating plants and divisions from existing companies. These communities may not be attractive places due to workforce skills, lack of adequate transportation routes, and lack of available land and a negative perception of the community. As a result, many of these communities struggle to create a sustainable and growing economy. This in turn leads to higher unemployment rates, outmigration of youth and talented professionals and a poor perception of the community. An entrepreneurship-based economic focus allows a community to create a development plan that doesn't rely on the chance that a corporation or large business may relocate to their community. It works to generate economic growth from the creation of local businesses to lead to an economically sustainable community.

Network Kansas developed an entrepreneurial ecosystem in Kansas that connects aspiring, emerging, and established businesses to a wide network of business-building resource organizations across the state. Learn more about the programs created to help develop entrepreneurial capacity in Kansas. The organization has developed more than 25 entrepreneurial communities across the state.

www.networkkansas.com

How It Works

Organizations that utilize this economic development strategy focus on creating a collaborative network of small business development providers within a geographic region to ensure that small business owners have the resources, education, networking and capital necessary to start and grow as rapidly as possible. These organizations seek to create business growth by creating a culture of entrepreneurship and small business ownership in a targeted area, and then support that growth through a wide range of support activities.

What to Ask

There are many variations to the entrepreneurship-based economic development model. Some communities focus only on existing businesses, while others focus on the whole spectrum of small businesses ranging from startup to the small business threshold. Entrepreneurship-based development models such as Economic Gardening focus specifically on stage 2 companies that have between 10 to 99 employees. Still others focus only on specific business types such as technology-oriented businesses. Some possible questions include:

- What types of businesses does your organization focus on and why are they chosen?
- What services are offered to the small businesses that you target to help grow?
- What are your annual outcome targets for businesses served and business growth?
- How are businesses connected to the collaborative business development partners in the area?
- How do you measure the economic impact of your program for your community?

CONCLUSION

The development of small businesses in low- and moderate-income communities is vital to creating a long-term sustainable economy, reduce unemployment and poverty, and improve community perception. Funders can play a key role in supporting small business growth in these communities by actively funding small business development organizations that exist to create local small business creation and growth. As funders look to create positive social return on investment and create long-term economic health in their communities, supporting small business development organizations may be a key way to achieve this goal.

The following are a few ways that funders can become more engaged in finding and supporting business development agencies:

- Contact the local chamber of commerce or economic development organization. These organizations often either provide small business development services or have relationships with small business development organizations that do provide these services.
- Contact your local Small Business Administration and request information on who are their service or referral partners in the small business arena.
- Reach out to local banks and credit unions that may use small business development agencies as referral partners.

- Put out an open request for a funding proposal that targets small business development agencies.
- Connect with the state department of economic development that uses many of these entities as intermediaries or referral partners.

For additional information on small business organizations, including information and links to help funders understand the roles and impact of small business development organizations, programs that help connect funders to community development-based organizations, and general information on community development visit, http://kansascityfed.org/community/smallbusiness/.

CONTACT:

Dell Gines
Senior Community Development Advisor
Federal Reserve Bank of Kansas City – Omaha Branch
Dell.Gines@kc.frb.org
402-221-5606

grow YOUR OWN GUIDE
FEDERAL RESERVE BANK OF KANSAS CITY

The Federal Reserve Bank of Kansas City has a developed the *Grow Your Own Guide to Entrepreneurship Based Economic Development* for those that are interested in learning more about economic development that focuses on growing local businesses. The guide can be found at: *https://www.kansascityfed.org/publicat/community/gyo/gyo-guide.pdf.*