

Getting Results

A Small Business Development System That Works

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**HONORABLE
MENTION**

■ **CATEGORY:
ECONOMIC
OPPORTUNITY**

THE PROBLEM

Small businesses and microenterprises play a vital role in the health of our state economy in Massachusetts, especially in the inner-city and rural communities struggling the most in today's economy. Typically, small businesses require minimal start-up costs, employ members of the local community, and provide needed goods and services in their communities. Yet for all the potential of the small business engine, the Massachusetts state government does surprisingly little to support their development. There is no coordinated state policy to promote entrepreneurship, much less to promote it in inner-city, rural, and other disadvantaged locations. Instead, we have some strong, mostly private, local programs and several active and committed state agencies, but no statewide strategy or support system to ensure that businesses are assisted in an effective and efficient manner.

In an annual state development report card published by the Corporation for Enterprise Development, Massachusetts received a high mark in the category of 'entrepreneurial energy.' However, Massachusetts ranked very poorly in the categories of private lending to small businesses, income distribution, and long-term employment growth.¹ And yet, Massachusetts is home to thousands of very small businesses and microenterprises, and thousands of other individuals hoping to start a new entrepreneurial venture. Their success is our success as these entrepreneurs bring jobs, services, products, vitality, opportunity, and hope to lower income communities, and they help to reinvigorate the

¹ Corporation for Enterprise Development, *State Asset Development Report Card, 2002*. MA ranked 48th in private lending, 42nd in income distribution, and 32nd in long-term employment growth. Available online at <http://sadrc.cfed.org/states/ma.php>.

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state’s economy.² However, without the support of the Massachusetts state government, their potential is limited.

These very small business owners and aspiring entrepreneurs are quite diverse in many respects and have a correspondingly diverse set of needs:

- **Very small businesses need high-quality business consulting services.**

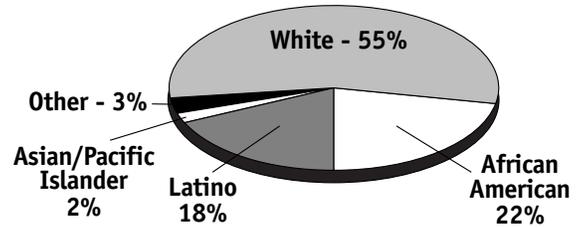
Many of these entrepreneurs lack substantial formal education, much less formal business training. They need assistance in developing viable business plans, identifying market trends, managing regulatory requirements, establishing and implementing sound financial plans, and all other aspects of running a business. Often the entrepreneur knows his/her skill very well (baking, construction, technology, etc.), but does not know the basics of starting and running a business. In many cases, these entrepreneurs come from other countries and are unfamiliar with business norms in the United States. Those who are immigrants may lack strong English language skills and need to receive assistance in their native language.

And of course, entrepreneurs are trying to succeed in a wide array of industries and sectors, each with its own particular challenges and opportunities. Some of these needs are not so different from those of larger and better-financed businesses, but lower income individuals are generally unable to pay for high-priced business consultants.

- **Very small businesses face challenges gaining access to capital.**

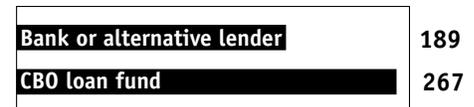
Massachusetts ranks 48th in small business lending according to the Corporation for Enterprise Development.³ A recent report by the Massachusetts Community Banking Council found that although small business lending rates are up in certain neighborhoods, many who have traditionally faced barriers in accessing financing continue to do so.⁴ Banks increasingly rely on credit scoring, which can accelerate loan processing, but may make it harder for lower income entrepreneurs to obtain financing, as the credit scoring models rely heavily on factors like personal wealth and personal credit history. At the same time, entrepreneurs may not know how to present their business plans in the most effective manner when applying for a loan.

Figure 1. Racial/Ethnic Breakdown of Clients Served

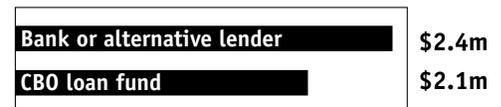


Data were provided by the Massachusetts Entrepreneurial Opportunity Network and cover the time period of 2001-2002. Data are compiled based on surveys of member organizations.

Figure 2. Businesses Financed by Source, 2001-02



Dollar Amount of Loans Secured by Source, 2001-02



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² In this paper, we focus on the needs of very small business owners and micro entrepreneurs. While we do not adhere to a strict definition, we are talking generally about businesses with 1 to 20 employees and/or total annual sales of less than \$2 million. Moreover, we are focused on entrepreneurs and business owners who are less likely to tap traditional networks of support and assistance. This includes people of color, linguistic and cultural minorities, recent immigrants, women, lower income individuals, and those trying to start or grow a business in an economically struggling community. Thus, we are talking about a group that is larger than just micro entrepreneurs (traditionally defined as businesses with five or fewer employees) but smaller than the entire small business community (which can include firms with up to 500 employees, according to definitions used by some federal agencies). There are an estimated 2 million entrepreneurs that fall into this category throughout the U.S. In this paper we will refer to these entrepreneurial ventures as very small businesses.

³ Corporation for Enterprise Development, *State Asset Development Report Card, 2002*.

⁴ *Patterns of Small Business Lending in Greater Boston 1998-2001*, Massachusetts Community and Banking Council, 2002.

As hard as it is to obtain bank financing, it is even harder to find flexible investments from venture capital firms or angel investors. There are no bonds or stocks to sell, and rarely is there an IPO opportunity. Very small businesses are generally high risk, have weak collateral, and rarely offer the get-rich-quick opportunities private investors seek. As a result, some entrepreneurs rely on credit cards or even more expensive sources of capital to support their firms. Often the firms are chronically undercapitalized, preventing them from achieving their true potential.

- **Many very small businesses operate in challenging markets.**

This paper is focused on entrepreneurs seeking to operate businesses in inner-city, rural, and lower income communities. By definition, these are tough markets. Some of these communities are plagued by high crime rates or at least the perception of high crime rates. People living in these communities have less disposable income, and there may be less synergistic business activity to attract customers. Vacant storefronts in the business district can hurt the businesses that do operate in the area. In some inner-city neighborhoods, there may be an over-concentration of certain business types (e.g., hair salons, chiropractors). In thinly populated rural areas, it may be hard to find a large enough market without substantial advertising or marketing.

- **Massachusetts's small business development system is not meeting its potential for serving very small businesses.**

State agencies involved in the field do good work, but largely in isolation of one another and without any central leadership. In addition, a large number of non-profit, community-based organizations operate programs to support very small businesses. Many of these programs are highly successful and have received national recognition for their effectiveness. However, the non-profit sector is plagued by limited funding, complicated and restrictive public funding streams, uneven quality, and other challenges.

Because there is no coordinated service delivery system, very small businesses that seek enterprise development services face the following conditions:

Confusion. The “alphabet soup” of providers is both confusing and discouraging to the business owner. There is no one place to go. Many providers have some information but it is not complete. There are only informal referrals between providers, which are often based on personal relationships between staff rather than formal institutional partnerships. As a result, many individuals never access the services that are available or waste time searching for the most appropriate provider.

Gaps and overlaps in types of technical assistance and training. In an economy as sophisticated as the Massachusetts economy, high-quality and niche-oriented training and technical assistance are essential. There is a plethora of general technical assistance/training for start-up businesses and a scarcity of more sophisticated services for older growing enterprises.

Gaps and overlaps in financial products. Alternative financing needs to be flexible in terms and collateral and competitive in price in order to leverage bank financing effectively. Alternative lenders in Massachusetts have been able to serve businesses that are viable and have average collateral coverage. However, where the business is viable but has weak collateral, there are few financing alternatives. Too small for venture capital, too weak for angel investors and lenders, there are many potentially high-growth enterprises held back due to inadequate financing.

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Staff recruitment is difficult and turnover is very high, in part because community-based organizations can rarely afford to pay a competitive salary for top-notch business advisors.

Gaps and overlaps in geographical coverage. Many technical assistance providers, trainers, and alternative finance organizations serve a limited geographical area. In some areas there are competing providers; in others, there are none at all. As a result, entrepreneurs may have to travel long distances to access services. In the worst cases, entrepreneurs are disqualified from receiving assistance because programs are so restricted (i.e., they can only serve residents of a particular city or town, they can only serve individuals below a certain income level, etc.). In those areas where there are overlapping service providers, improved collaboration might allow for a more efficient and effective use of limited resources.⁵

Lack of consistent quality. The quality of service in technical assistance, training, or lending is only as strong as the individual providing the services. The practitioners who perform these vital services are generally talented, committed, and hard-working individuals. However, many lack formal training in how to provide business consulting services to very small businesses.⁶ There is no generally recognized set of credentials, so employers struggle to find the right staff person with the necessary combination of skills and interests. Furthermore, there is no system whereby users of the service can provide feedback on the quality of the service, except to the provider itself. Finally, staff recruitment is difficult and turnover is very high, in part because community-based organizations can rarely afford to pay a competitive salary for top-notch business advisors. This inconsistent quality can result in entrepreneurs receiving bad advice that hurts their businesses. More often, it simply results in wasted time, effort, and resources and undermines the confidence that entrepreneurs and funders have in the system.

Lack of scale and ability to leverage. With so many small providers offering overlapping services and serving the same geographical areas, there is tremendous competition for funds. Funders are challenged to figure out the best way to invest their money and often give smaller amounts so they can give to more organizations, rather than making large investments in a smaller number of high performers. This limits the ability of organizations to grow and stabilize. Equally important, it harms the ability of organizations to leverage outside funding sources into the state. For example, the federal Community Development Financial Institutions fund requires a 1:1 match for its grant funds. It is difficult for an organization to raise the match (usually around \$500,000) when the many funds are spread so thinly. Furthermore, the outside funder has at least as much difficulty in trying to determine who to fund as the in-state funder.

Lack of market penetration. While smaller organizations struggle to achieve scale and financial stability, larger, regional organizations struggle to penetrate certain inner-city and rural markets. Many entrepreneurs are much more likely to access services through a nearby, well-known, trusted community-based organization than they are to go to a downtown government office, outlying university campus, or distant regional organization.

THE SOLUTION

It is critical to solve these problems so that Massachusetts can have a thriving entrepreneurial economy that reaches into every community and neighborhood of the Commonwealth. Massachusetts should create an environment where talented, hard-working entrepreneurs can thrive. Fortunately, despite the problems and challenges detailed above,

⁵ Note that some overlap may be useful in that it gives entrepreneurs some choices. A little bit of competition can serve to improve the quality of services being delivered. Competition and choice are valuable in the non-profit sector as well as the for-profit sector.

⁶ Many of these providers do have business training, such as an MBA. However, to be successful working with the entrepreneurs on whom this paper is focused, practitioners need a unique mix of training in the fields of business, social work, advocacy, and community organizing.

we do not have to start from scratch. Massachusetts is home to many effective programs and initiatives that address some of the problems listed above. We need to build on these elements to create a *coordinated delivery system* that works throughout the state.

The most effective system will be one that is built at three levels: the community level, the regional level, and the state level. Massachusetts needs to bring together all the players to make the system both effective and user-friendly. Such a system must be designed to respond to the diverse needs of entrepreneurs across the Commonwealth. It must reward provider performance and innovation, and it must build on what already exists and what is already working.

Community Resources

Entrepreneurs, especially those in inner-city, rural, and disadvantaged communities, are most likely to benefit from business development services if they are accessible to them at the local level. Accessibility is not just a question of geographic proximity, but also of linguistic and cultural competence. A recent immigrant to the United States is much more likely to receive the help she needs from a community-based organization where people speak her language than from someone in a federal office building downtown. Local organizations that are well respected in the community can provide effective case management and follow-up services, help to coordinate other service providers, and hold those other providers accountable to high performance standards. Over the past 10 years, dozens of non-profit organizations have begun to play these roles. Community development corporations (CDCs), Community Development Finance Institutions, chambers of commerce, local business associations, and other non-profit organizations have established training programs, technical assistance programs, and specialized loan funds to support these businesses. Many of the existing organizations have developed innovative small business programs, which support their local economies.

- **Kitchen Incubators/Food Processing Centers**

Nuestra Comunidad's kitchen incubator is one of two CDC-sponsored kitchen incubators and food processing centers. These incubators offer local entrepreneurs the option to rent kitchen space with access to modern equipment, allowing them to start a food business without the need to purchase a commercial kitchen. (Massachusetts state law requires that food being sold be prepared in a licensed commercial kitchen.) Entrepreneurs that make use of these incubators range from specialty caterers to small businesses that process and package their own line of food products. The Franklin County CDC's Food Processing Center is home to more than 20 businesses, some of which market their products to local grocery stores and provide food for local school lunches. Local farmers have a new way to get their products to market through this center. Technical assistance for these businesses is offered at each location, giving the entrepreneur access to expertise on how to market products and remain competitive in the local economy through pricing and distribution. Without access to this kitchen space, most of these entrepreneurs would not be able to start their businesses.

Figure 3. Impact of CBOs in Massachusetts

Total number of entrepreneurs served	4,648
Entrepreneurs of low/moderate income	1,200
% female entrepreneurs	53%
% male entrepreneurs	47%
Total number of business started	108
Total number of businesses expanded	354
Total number of jobs created/retained	720

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While there are currently about 50 to 75 such programs in Massachusetts, an ideal system would have as many as 200 organizations operating in local neighborhoods and rural communities.

While some local organizations may offer certain services directly, in most cases, they should partner with other organizations (as some already do) so that they can offer a wide array of top-notch services at much lower cost.

- **Crime Prevention in the Business Community**

In addition to helping entrepreneurs start and grow their businesses, CDCs partner with community-based organizations to ensure businesses have the opportunity to thrive in safe neighborhoods. In Boston, several CDCs have partnered with local Main Streets programs through funding provided by the Local Initiatives Support Corporation to reduce crime and encourage entrepreneurship. The collaboratives have focused on reducing crime through cleaning up parks and open public spaces, engaging local police and youth in constructive discussions, and reducing the amount of loitering around businesses in the area. The results so far have included increased consumer traffic in neighborhoods historically plagued by high crime rates; open communication between store owners and local residents, local police, and local youth; and more clean, safe, open space in Boston.

- **Community-Based Lending Programs**

Some local CDCs have established successful small business lending programs that offer more flexible financing to entrepreneurs. Lower Cape Cod CDC, Dorchester Bay EDC, Quabog Valley CDC, and others have capitalized loan funds with federal and private dollars. For smaller loans, the CDC has sufficient capital to make the loan themselves. For larger deals, the CDCs (and other community-based lenders) have found ways to collaborate with private lending sources to offer more financial opportunities to entrepreneurs. For example, they have partnered with banks to offer loan packages that include financing from both institutions. This way, the business financing is diversified and the CDC loan becomes the equity for a bank loan to be approved.

While there are currently about 50 to 75 such programs in Massachusetts, an ideal system would have as many as 200 organizations operating in local neighborhoods and rural communities. We do not recommend having 200 fully staffed, comprehensive business development programs around the state. There is not enough money, demand, or qualified people to build that type of system. While some local organizations may offer certain services directly, in most cases, they should partner with other organizations (as some already do) so that they can offer a wide array of top-notch services at much lower cost. This is where the regional organizations and networks come into play.

Regional Collaboration

In certain parts of Massachusetts, regional organizations and networks have been formed that allow community-based organizations to offer better service at lower cost. These regional organizations can achieve greater scale and efficiency, hire full-time professional staff, and fill service gaps in areas not served by any local organization. Such organizations can focus on lending, one-on-one technical assistance, or group training and courses. Of course, in many cases the same organization or network will provide two or three of these services. The models listed below are a few chosen from around the state. These are models of local organizations that have come together at a regional level (regions vary in size) to collaborate in offering their services. This enables them to offer greater opportunities to the entrepreneurs they serve and make for a more efficient statewide system that avoids gaps and overlapping services and the squandering of resources.

- **Western Massachusetts Enterprise Fund (WMEF)**

The Western Massachusetts Enterprise Fund was founded in 1987. It is a collaboration of 12 CDCs and other local community organizations that offers loans to clients who would be found ‘unbankable’ by traditional lending standards. WMEF serves the First and Second Congressional Districts in Massachusetts, which have a population of about 750,000 rural, urban, and suburban residents. The loan size ranges from microloans of \$1,000 up to loans of \$100,000, which fills a major lending gap in these communities. WMEF has partnered with the local CDCs so that it can penetrate local communities and reach the entrepreneurs it hopes to serve.

The local CDC can also, when it has capacity, provide some case management and technical assistance to the entrepreneur. This local/regional partnership is the key to WMEF’s success. Recently, WMEF has sought out new partnerships. WMEF has partnered with BankNorth branches in the area to provide information about WMEF’s loan funds on all letters of decline that BankNorth sends out to would-be borrowers. This exemplary partnership will help more entrepreneurs access the capital they need for their businesses.

- **Community Business Network (CBN)**

The Community Business Network is a collaborative effort among CDCs in Boston to offer technical assistance, training, and access to financing for small businesses in Boston. The major focus of CBN members is to provide intensive, one-on-one technical assistance to entrepreneurs within their service areas, a large percentage of which are low-income and/or minority. CBN was created in 1997 in response to a survey, which determined there were Boston neighborhoods where entrepreneurs were not being served. The concept behind CBN is to gather the resources of participating CDCs under a structure, which requires 3 full-time technical assistance providers and several part-time providers in various neighborhoods. Instead of 12 stand-alone programs that need funding and administering, network staff are able to fill these needs in just as many neighborhoods. In addition, expertise, resources, and language capacity are shared among staff so that entrepreneurs can access a broader range of services than any single organization could provide by itself.

CBN also partners with citywide and regional organizations such as the Small Business Development Center at UMASS, Accion, Jewish Vocational Services, The Dorchester Center for Adult Education, local banks, and other providers. Fundraising and administration have been allocated to a central office, and the groups share all funding based on a system that takes into account the amount of time dedicated to small business services and the quality of performance. CBN’s model has gained national recognition through the years for its ability to reach more entrepreneurs within their communities while maintaining the efficiency of a larger organization.

- **Southeast Economic Development Corp./Southeastern Business Network (SBN)**

The SBN is a less formal regional collaboration among local organizations including the Southeastern Economic Development Corp., the SBA, local community colleges, CDCs, training organizations, and loan funds in southeastern Massachusetts. The SBN was created three years ago to bring local organizations providing similar services in the region together to share their plans and coordinate their activities. The network has led to several regional collaborations on activities like entrepreneurship training and courses.

Instead of 12 stand-alone programs that need funding and administering, Community Business Network staff are able to fill these needs in just as many neighborhoods. Expertise, resources, and language capacity are shared among staff so that entrepreneurs can access a broader range of services than any single organization could provide by itself.

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It would be only a slight exaggeration to say that there is virtually no intentional coordination among these various agencies when it comes to serving local entrepreneurs. The needs of entrepreneurs cannot be met evenly by such a poorly coordinated system.

These models need to be strengthened and replicated in other regions. Overall, there should probably be six to ten regions across the state where regional organizations and networks are established to provide lending, training, and technical assistance services. These organizations or networks should be designed to allow for the sharing of staff resources and funding, to centralize certain activities (e.g., loan processing) and decentralize others (e.g., outreach into neighborhoods).

State Leadership

Right now, in Massachusetts, the following public agencies are involved in this field:

The **Department of Housing and Community Development (DHCD)**, a state agency, uses federal Community Development Block Grant (CDBG) resources to support small business/microenterprise lending and technical assistance programs sponsored by municipalities, CDCs, and others.

The **Commonwealth Corporation**, a state quasi-public entity, uses federal workforce development resources to support entrepreneurship training in some parts of the state for particular populations (federal law restricts who can be served with these funds). The agency also sponsors lending programs through the Trust and through a newly established micro lending program in northeastern Massachusetts.

MassDevelopment, a state quasi-public entity, provides an array of financing products to manufacturers, small business, nonprofits, and housing developers and has provided capital to local microenterprise funds on occasion.

The **Community Development Finance Corporation (CDFC)**, a state quasi-public entity, operates a small business lending and equity investment program geared toward inner-city and minority-owned firms.

The **Urban Initiative Fund** is a state program administered by CDFC that makes loans to minority-owned businesses.

The **State Office for Minority and Women Business Assistance (SOMWBA)** certifies businesses as being owned by women or minorities and helps such businesses obtain contracts to do business with the state.

The **U.S. Small Business Administration** offers lending, training, and technical assistance programs through banks, local governments, non-profit and for-profit organizations, and directly through its own office.

Small Business Development Centers (SBDC) is a university-based business counseling program funded by the Small Business Administration, with state funds and local match dollars from the university host.

The **U.S. Department of Agriculture** funds micro lending by some organizations in rural areas.

Local municipalities often use their CDBG resources to fund small business/microenterprise lending and technical assistance.

Each of these agencies and programs can point to much success. Many businesses have been served. Much good has been done. However, it would be only a slight exaggeration to say that there is virtually no intentional coordination among these various agencies when it comes to serving local entrepreneurs. While such a loose system can allow for

great diversity, innovation, and flexibility, it can also create problems of access, cost, sustainability, and ultimately, effectiveness. More importantly, the needs of entrepreneurs cannot be met evenly by such a poorly coordinated system.

We need leadership from the state. Governor Romney should appoint one person or one agency presumably within the Department of Economic Development to lead this effort. Given that most of the funding available for these activities now comes from the federal government (virtually all state funding has been eliminated in the past two years), the state will have to live with the various constraints placed upon these funds. CDBG, CDFI, SBA, WIA and other government programs each target distinct populations and are administered by different agencies. Still, by appointing a person to lead this effort, these different funding streams can be leveraged for more impact. A modest state appropriation of about \$1 million to \$2 million would allow the state to make even better use of these federal resources, by ensuring that we can meet federal match requirements and by providing the flexible funding needed to fill the gaps created by federal funding silos.

Existing organizations need to collaborate. The Romney administration should work with local and regional organizations to develop a specific strategy for each region of the state. Local capacity, needs, and context vary so much across the state that a one-size fits all solution will not work. Each region will need to figure out its own path. However, each region should partner local community-based organizations with regional organization(s) or networks as described above. Such an effort is already fairly well established in certain areas, in particular western Massachusetts, but should be implemented throughout the state.

Massachusetts needs training and certification for practitioners. The state also needs an independent, statewide system for training and certifying both individuals and organizations working in this field. For example, the Citizens Housing and Planning Association operates a certification program for homebuyer counseling programs. A similar program could be developed for this field. We also need a program to train and credential loan officers, technical assistance providers, and classroom instructors. The Pioneer Institute's nascent efforts in this regard are most welcome and should be enormously useful to the field.

Massachusetts needs a strong trade association to represent practitioners. Finally, the state needs a viable and strong trade association to represent the practitioners in the field. The Massachusetts Entrepreneurship Opportunity Network (MEON) can be an important voice for practitioners, working on policy issues that impact both the delivery system and entrepreneurs. MEON can be an important partner for the Romney administration, banks, the Pioneer Institute, and other statewide players to help establish the system described above. Success requires the support and buy-in from local practitioners, and MEON gives them a crucial voice in this process.

As these initiatives are implemented, the state can deploy whatever resources it has available from federal and state sources. These resources should be deployed with the following goals in mind: (1) to maximize the leverage of private sector and federal funding, (2) to ensure broad access to the system for all entrepreneurs, but with a focus on inner-city, rural, and disadvantaged communities, and (3) to reward high-performing organizations. Chronic low performers, at any level in the system, should be de-funded and new organizations recruited to provide those services more effectively.

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Massachusetts has a tradition of parochialism and turf battles that creates barriers to any system based on collaboration and networks. Some state agencies, municipal governments, and non-profits will have to relinquish total control over certain programs and in some cases downsize their own activities.

Once these basic building blocks are in place, Massachusetts can then explore further enhancements and efficiencies. Uniform software systems could be implemented to facilitate data collection and reporting. Experts in particular industries or sectors could be hired and deployed throughout the system. Back office operations could be consolidated for further cost efficiencies. The possibilities are endless, once there is a coordinated, efficient system in place.

COSTS AND BENEFITS

We believe that the state could implement this system for about \$1 million to \$2 million per year in state funding. This would fund the state office designated to lead this effort and provide sufficient funding to offer modest grants to local and regional non-profits. These grants would provide the flexible funding needed to leverage federal and private funds, fill gaps created by strict federal requirements, and give the state the resources it needs to ensure quality control throughout the system.

The benefits of such a system would be enormous. According to a study published by the International Labour Organization, the return on investment nationwide for small business development has been estimated between \$2.06 and \$2.72 for every dollar invested.⁷ Equally important, such a system would leverage more federal funding, in particular funding from the CDFI fund and the SBA, and more private financing from banks and other lenders. Strengthening locally owned businesses will also create jobs for local residents, stabilize communities, reduce crime in local business districts, and create positive role models for young people. And, these businesses can provide important supports for larger businesses and thereby the entire regional economy.

OBSTACLES

There are many obstacles that must be overcome to implement these recommendations:

Federal funding constraints. There are several federal programs that provide funding for this work, but each one comes with restrictions that make it hard to combine resources. Federal programs target specific geographic areas or populations. Other programs are directed at particular types of institutions. It will take creativity and leadership to overcome these funding silos.

State fiscal crisis. While we don't see a need for substantial state funding, we do think a modest appropriation is necessary to achieve our goals. However, even a small, new appropriation will be difficult to achieve during the current state fiscal crisis.

History of parochialism in Massachusetts. Massachusetts has a tradition of parochialism and turf battles that creates barriers to any system based on collaboration and networks. Some state agencies, municipal governments, and non-profits will have to relinquish total control over certain programs and in some cases downsize their own activities. In other cases, agencies will have to expand beyond their traditional service areas and establish partnerships with various parties. This may conflict with the desire among some to operate independently.

⁷ John Elf, *The Role of Micro Enterprise Development in the United States*, International Labour Organization, March 2001.

Collaboration takes time and money. Collaborations like those described above yield substantial benefits. However, they do require the investment of time and money to establish and manage. This is one place where flexible state funding can be critical because federal funds are not often available to support this work. All stakeholders in the system also have to make the time commitment to support these collaborations and partnerships.

Small business development does not generate big headlines. Small business development is critical to the economy, but it does not generate the media coverage and political benefits that come from larger economic development projects. Building a convention center or attracting the Democratic National Convention can create economic benefits and political benefits. Small business development may ultimately do more to create sustainable and equitable economic growth, but it will get less notice because each business is small.

REPLICATION: MODELS FROM OTHER STATES

Other states face similar challenges to promoting entrepreneurship through a coordinated statewide system. Our three-tiered system is replicable in any state where there are existing community-based organizations or a nascent effort to create community-based organizations to support the growth and development of small businesses. Several states have seen significant success in engaging state government in small business development efforts. Montana and Nebraska provide two examples of what is happening in other states.

- **Regional Loan Fund Support in Montana**

Montana has one of the oldest programs that combines state efforts with those of local community development organizations to provide support on a regional level for small business development. Montana is broken into 10 different regions, each with several community-based organizations. The state government allocates funds each year through the Department of Commerce to provide lending capital to community-based organizations in each of the regions. The Department of Commerce also provides oversight and ongoing evaluation of each program's performance.⁸

- **Formation of a Statewide Intermediary in Nebraska**

Several years ago, when community-based organizations in Nebraska lobbied the state government for a statewide body to support microenterprise, they modeled their efforts on the success of Montana. The result was the Nebraska Microenterprise Partnership Fund, a certified CDFI, which allocates grants to organizations that support microenterprise throughout the state. The Partnership Fund is an independent non-profit organization made up of bank and local representatives. The Partnership uses state funds to leverage additional funding from other resources to maximize the amount of grants allocated to organizations.⁹ Grants are rewarded through a performance-based system, and decisions are made by an investment committee. As a result of the Partnership Fund's success, additional resources have been funneled through the state and into local microenterprise programs.

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⁸ See http://www.commerce.state.mt.us/BRD/BRD_MBFP.html.

⁹ The legislation that created the Partnership Fund allowed the Department of Economic Development to contract the administration of the organization to a statewide non-profit, which would then be able to leverage private dollars using state funds. See <http://www.nebbiz.org> for more information.

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Because of the bipartisan support behind the legislation in both Montana and Nebraska, these structures have remained in place through a shift in political parties. These successful statewide initiatives highlight the potential for bringing together Massachusetts state government and community-based programs to enhance the support of small business development in the Commonwealth.

ABOUT THE AUTHORS

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Joseph Kriesberg is the President of the Massachusetts Association of Community Development Corporations (MACDC). Mr. Kriesberg is responsible for all aspects of the agency's operations, including its advocacy work with public and private sector entities, its capacity building work with CDCs, and all internal operations. During his tenure as Vice President, Mr. Kriesberg led the association's legislative advocacy work. He helped to pass the 1998 Insurance Industry Community Investment Act and the Affordable Housing Trust Fund. Mr. Kriesberg has a B.A. from Binghamton University (New York State) and a J.D. degree from Northeastern University in Boston and is a member of the Massachusetts Bar.

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