

# Supporting Economic Growth and Entrepreneurship

*A presentation to the  
Third Annual  
Iowa Community Philanthropy Academy  
March 21, 2006  
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## Innovative Strategies for Community Foundations



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Timeless values, enlightened leadership



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CENTRAL  
INITIATIVE**

# Who are we?

- Aspen Community Strategies Group (CSG)
  - A national think-tank that structures and contributes to focused learning supporting the innovation of organizations and funders working to achieve more widely shared and lasting prosperity in communities.
- West Central Initiative (WCI)
  - A rural community foundation that brings people and resources together to maintain and enhance the economic and social viability of nine rural counties in Minnesota.



# Our primary focus:

- Aspen CSG

- Rural development philanthropy
- Economic success of rural families
- Rural public and private policy

- WCI

- Economic Development
- Community Development
- Regional Planning
- Workforce Development
- Family Economic Success

# Innovative Strategies

## From the Simple to the Complex

- *...sticking Close to Familiar Territory*
  - Grantmaking Strategies
- *...venturing Farther from Home*
  - Lending Strategies
- *...exploring the Outer Reaches*
  - Equity Investments

# Grantmaking Strategies

*Building on what you know best*

## Five Grantmaking Strategies to Support Economic Growth

- Entrepreneurial Education
- Workforce Training
- Business Technical Assistance
- Community Economic Development
- Research and Feasibility Studies

# Entrepreneurial Education

Feeding the pipeline with new businesses

- Most common place to begin
- Focused on teaching entrepreneurial skills
- Many curricula available – (see [ruralship.org](http://ruralship.org))
- Common partners – Extension & colleges
- Scholarships vs. program support
- 501(c)(3) Purpose = Educational
  - No limits on whom you serve
  - No limits on what you teach

# Examples: Entrepreneurial Education Programs

- NxLevel Entrepreneurial Training
  - Pre-start-up basics
  - Business planning and feasibility analysisSupport: program underwriting  
Outcome: Go/No Go decision
- Small Business Management Program
  - Post-start-up management basics
  - Three-year self-directed curriculumSupport: Scholarships  
Outcome: improved odds of survival



# Workforce Training Grants

Building Productivity to Boost Economic Outcomes

- Powerful way to build business profitability
- Improves stability of jobs
- Increases worker pay
- Best when business driven
- 501(c)(3) purposes – educational and charitable
- Made through an intermediary or via expenditure authority

## Example: Workforce Training Grants

- Workforce 2020
    - Industry specific incumbent worker training
    - Technology or productivity systems (e.g. lean manufacturing)
- Support: Grant through intermediary with required employer match
- Outcomes: Improved wages (\$4:\$1 invested), better profits, job stability, global competitiveness.

# Business Technical Assistance

Removing roadblocks to success

- One-on-one consultation with an expert
- Common topics:
  - Finance -- Marketing -- Management – Sales --  
Technology – Loan Packaging
- 501(c)(3) purpose = educational – just at a more personal and in-depth level

## Example: Business Technical Assistance

- Small Business Development Center – Business Consulting Services
    - Financial analysis, marketing, business planning
    - Loan packaging
- Support: Program support to expand capacity & match federal funds
- Outcomes: Improved access to capital, improved profitability, increased sales, better Go/No Go decisions.

# Community Economic Development

Anything from infrastructure to direct subsidies

- Grantees = Units of Government
- “Normal Purposes” rule:
  - Grants for any activity commonly undertaken by a unit of government qualify as being for 501(c)(3) purposes – even if it isn’t otherwise charitable, educational, scientific or religious – so long as it is legal for the specific jurisdiction.
- Must be focused on a “class” of businesses not an individual endeavor or considered a pass-through
- Examples: blight reduction, site preparation, main-street marketing, tax abatement, free utilities...

# Examples: Community Economic Development

- Storefront Renovation
  - Grants to city for “blight removal”
  - Re-granted to mainstreet businesses to spruce up storefronts

Support: Grant to City

Outcomes: Capture of tourist dollars and more local shopping

- Demolition/Site Preparation
    - Grants to tear down dilapidated structure and prepare site for redevelopment
    - \$1.00 sale to business
- Support: Grant to City EDA
- Outcome: Business start-up or expansion.

# Research and Feasibility Studies

Useful but with limiting rules

- Research, especially feasibility studies are a common request.
- Falls under “Scientific” 501(c)(3) purposes
- Special rules on dissemination require equal access to the results/findings
- Not useful to provide a competitive advantage
- Most useful for site-specific issues

## Example: Research and Feasibility Studies

- Minnesota Wheat and Barley Growers Study
  - Feasibility study: value-added manufacturing opportunities.
  - Frozen bread dough identified.

Support: Grant - repayment provision if built elsewhere.

Outcome: Idea “stolen.”  
Project built in Georgia.  
Repayment forgiven.
- Kaddatz Hotel
  - Feasibility study of converting decrepit historic hotel for artist lofts and commercial space.

Support: Grant to arts organization

Outcome: Successful redevelopment – lofts completely full, commercial space still vacant but project cash-flows

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# Loan Programs

***Yes, they are legal!  
(if done right)***

# Community Foundation Lending Basics

...or how to stay legal

- Loans must have a charitable purpose:
  - Creating jobs in economically distressed areas
  - Creating/retaining/improving jobs for low-moderate income workers
  - Diversifying the local economy to promote economic stability
  - Critical community services (e.g. healthcare, groceries)

# Community Foundation Lending Basics

...more on staying legal

- Rates and terms must reflect charitable intent
  - Below market rates for the risk incurred
  - Must fill a “financing gap”
- Reasonable expectation of repayment
  - Due diligence
  - Collateral (not up to bank standards)
- Appropriate servicing and collection
  - Firm but appropriate to your charitable purpose

# Three types of loans

Different tools for different situations

- Revolving Loan Funds
- Micro Loans
- Forgivable Loans

# Revolving Loan Funds

A sustainable and effective tool for economic growth

- Usually \$5,000 and up
- “Gap” loans (e.g. 60/30/10)
- Subordinate collateral
- Interest and fees can cover admin costs and loan losses
- May be capitalized by government grants
- Banks and utilities like to give to support these funds

## Example Revolving Loan Fund Loan

- BTD Manufacturing
  - Two equipment loans 1987 & 1991: \$40k & \$50k
  - Approximately 30% of each project
  - Allowed company to expand much more quickly than if they had saved up the full downpayment.

Outcome: Opened new markets and facilitated rapid growth of company from 20 workers in 1987 to 350 today. Company is now a significant donor to WCI and has set up an endowed corporate foundation in WCI's structure.

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# Micro-Loans

A great tool for new business formation

- Small loans – usually up to \$5,000
- May not have a participating bank
- Often riskier than larger loans - but with less to lose
- More costly to administer than larger loans
- Technical assistance is a must!
- Some grant programs exist to help capitalize micro-loan programs

## Example: Micro Loan

- Embroidery shop

- Small loan to buy embroidery machine
- Bank unwilling to participate without 100% iron-clad collateral

Outcome: Initially employed three people, now more than 20 plus very nice income for entrepreneur,

- Welding Service

- Small loan to buy mobile welding rig to mount on pickup truck.
- Pickup truck as collateral

Outcome: Good income for entrepreneur and a service needed by area farmers.



# Forgivable loans

When charitable and business purposes collide

- Loans structured to convince a business to undertake a charitable purpose
- The use of the loan funds directly enables the charitable benefit
- The value of the charitable benefit is estimated and is forgiven over time as long as the business continues to meet the charitable purpose

## Example Forgivable Loan

- Childcare Forgivable Loan Program
  - Loans up to \$2,000 forgiven over 24 months for families starting childcare businesses that pledged to accept TANF subsidized families
  - Monthly loan coupon certifying service to TANF families or accompanying loan payment

Charitable purpose: supporting workforce participation of low-income families

Outcome: Created 500 childcare openings - 20% filled by TANF recipients

# Equity Investments

*Big benefits –  
but not for the faint-hearted!*

# What are Equity Investments?

- Purchase of an ownership (stock or partnership) interest in a company.
- You get repaid if the company prospers.
- Exit strategy and timetable.
- No guarantees!

# What are the benefits and drawbacks?

- Benefits

- Company gets “patient capital”.
- Equity investment leverages more loan dollars.
- If successful, your returns can be much greater than with a loan.
- Especially useful for high-tech start-ups.

- Drawbacks

- Exit strategy may not work.
- Far more “due diligence” than with loans & more complex paperwork.
- Small deal flow – therefore hard to diversify portfolio.
- Must keep on top of deals on an ongoing basis.

# Examples

## Two models for equity investment

- Angel investor networks
  - You buy into a network of experienced equity investors.
  - Pool of funds from many sources reduces risk for all.
  - Allows more diversified portfolio.
  - Volume allows you to support more expertise at lower cost.
- Direct investment
  - You select the deals yourself and do your own due diligence.
  - May hire outside experts to help.
  - Higher risk but more control.
  - Diversification and “deal flow” are hard to attain in rural areas.

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**And finally...**



***...questions?***