

Helping Small Businesses Grow

Core Competencies of the Nonprofit Technical Assistance Industry

**California Reinvestment Committee
Federal Reserve Bank of San Francisco**

A Report of the

Small Business Technical Assistance Task Force

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“You've got to be very careful if you don't know where you're going, because you might not get there.” Yogi Berra

“There is one thing stronger than all the armies in the world, and that is an idea whose time has come.” Victor Hugo

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HELPING SMALL BUSINESSES GROW

Executive Summary

This report is the work of a task force formed out of three regional California technical assistance forums sponsored in 1998 by the California Reinvestment Committee (CRC) and the Community Affairs unit of the Federal Reserve Bank of San Francisco. Bankers and economic development professionals attended these forums to improve ways in which financial institutions and technical assistance providers could jointly expand access to management training and credit for small businesses, which make up a large part of California's business sector. Forum participants agreed that attracting resources to the technical assistance industry, which provides services essential to the success of many small businesses, would require a task force be formed to identify high-quality products and services.

According to the California Trade and Commerce Agency, half of all employment in California is in small business. Further, ninety-eight percent of all California businesses are small businesses and, over the last several years, more new jobs were created in small businesses than in large businesses. The Agency reports that in 1997, more than 6.9 million workers were employed in business establishments with fewer than 100 workers. Clearly, small businesses drive America's economic engine and sustain the families of their owners and the neighborhoods in which they reside. Unfortunately, statistics show small businesses fail at a faster rate than larger ones.

California's smallest enterprises exhibit the same needs as larger ones, often with greater intensity and less power to resolve problems. Small businesses require capital, management support, mentoring and guidance, community-oriented financing options, and the power conferred by merchant and trade associations. They need these services at rates they can afford, and tailored to the specific needs of their size, growth rate, culture, and business type. When they get such support, they are as likely to prosper as larger ventures. When they do not, they are more likely to fail.

For more than a decade, technical assistance providers have been an almost invisible force helping small businesses to expand and fulfill their goals. The goal of this report is to support the continued expansion of the technical assistance industry and thereby strengthen small businesses and community economic development. The value of technical assistance is to build healthy businesses that result in better internal management and use of financial and human capital for businesses, and to increase employment in local neighborhoods. Technical assistance can dramatically improve the success of small businesses in low-income communities where capital is particularly scarce.

The goal of this report is to offer guidelines that can be useful to community organizations, business owners, financial institutions, and philanthropic foundations in identifying key aspects of technical assistance provision and organizational capacity. This report defines technical assistance providers as those organizations that provide appropriate business resources to entrepreneurs to start, stabilize and grow successful businesses. The technical assistance industry, for purposes of this report, includes only nonprofit, community-based organizations.

This report views technical assistance from a customer perspective by examining components of technical assistance plus products and services businesses need, and also from an organizational perspective by determining those performance measures that effectively address small business needs. These perspectives are intended to help in determining the most positive characteristics of proficient technical assistance providers and to help ensure technical assistance services are delivered appropriately to diverse business owners.

Few technical assistance providers offer all products and services described in this report and so small businesses usually rely on collaborations of regional organizations to meet their technical assistance needs. Technical assistance provider products and services generally include the following:

- Business readiness assessments
- Introductory management courses
- Business management training
- Consulting and counseling
- Networking and mentoring
- Loan packaging
- Resource and referral

The structure of technical assistance organizations can affect the success of service delivery, especially since this delivery needs to be appropriate to and successful for small business clients. Technical assistance provider structural considerations include geographic, linguistic, and cultural accessibility. Technical assistance provider organizational capacity should include the following:

- Clear goals and targeted outcomes
- Appropriate client services
- Staff expertise
- Client feedback
- Evaluation of qualitative and quantitative impact
- Up-to-date technology
- Accountability to clients and stakeholders

Organizations that offer some or all of these services and that are structured such that they can meet the needs of small businesses in their communities can help to increase opportunities for economic expansion in low-income communities and communities of color. In many communities, nonprofit technical assistance providers are already responding to local small business and community needs. Those that are successful and those striving to be successful need resources from public entities, financial institutions, philanthropic foundations and individuals to reach their goals. In return, strong and capable technical assistance providers can provide a more stable, growing business community that can exert a strong positive influence on surrounding neighborhoods and can provide measurable returns on investments.

This report makes recommendations for strengthening the technical assistance industry which include the following:

- Frequent referrals of potential clients between financial institutions and technical assistance providers.
- Identification of resources needed and the availability of these resources.
- Increased volunteer participation by funders in technical assistance provider activities.
- Creation of innovative loan products tailored to the needs of technical assistance provider clients.
- Trade association assistance in providing training and in identifying and teaching about best practices.

HELPING SMALL BUSINESS GROW

Overview

This report is the work of a task force formed out of three regional California technical assistance forums sponsored in 1998 by the California Reinvestment Committee (CRC) and the Community Affairs unit of the Federal Reserve Bank of San Francisco (see Appendix A for more information on these forums). Bankers and economic development professionals attended these forums to find ways financial institutions and technical assistance providers could jointly expand access to management training and credit for small businesses, which make up a large part of California's business sector. Forum participants agreed that attracting resources to the technical assistance industry, which provides services essential to the success of many small businesses, would require a task force be formed to identify high-quality products and services.

Financial institution lending to small businesses has expanded dramatically in recent years. However, even with this growth there are thousands of micro, very small and small businesses that have not yet gained access to credit from conventional financial institutions. These businesses include many that are located in low-income communities or are owned by women or people of color. Lack of capital can mean these businesses are unable to secure funding needed to improve operations or to hire consultants who can assist with business planning or securing funding. These businesses represent a potential market for financial institutions and other funders, but first may need technical assistance such as management or loan packaging assistance.

There are important reasons to focus on the needs of small businesses. According to the California Trade and Commerce Agency, half of all employment in California is by small businesses and, over the last several years, more new jobs were created in small businesses than in large businesses. The Agency reports that in 1997, more than 6.9 million workers were employed in business establishments with fewer than 100 workers. To say small businesses drive America's economic engine underestimates their impact, because they affect American life not only in the aggregate, but also in personal, local, and sociological ways. Small businesses sustain the families of their owners and the neighborhoods in which they reside. When small businesses succeed, they bring services and employment to their locales. When they fail, the impact jars their local economies. Unfortunately, statistics show that small businesses fail at a faster rate than larger businesses.

California's smallest enterprises exhibit the same needs as larger ones, often with greater intensity and less power to resolve problems. Small businesses require capital, management support, mentoring and guidance, community-oriented financing options, and the power conferred by peer associations. They need these services at rates they can afford and tailored to the specific needs of their size, growth rate, culture, and business type. When they get such support, they are as likely to prosper as larger ventures. When they do not, they are more likely to fail.

The needs of small and start-up businesses have created a management and technical assistance industry. Today, this industry includes for-profit consultants, not-for-profit economic development organizations, churches, professional and neighborhood associations, and financial institutions. As with all developing industries, nonprofit technical assistance providers began as a tremendously diverse group serving different community and business needs. Some of these organizations simply offered neighborhood business courses while others maintained incubation facilities. Regardless of structure, an advantage most technical assistance providers have had in supporting local businesses is their ability to be responsive to local needs, such as by working with diverse languages and cultures.

This report defines technical assistance providers as those nonprofit organizations that provide appropriate business resources to entrepreneurs to start, stabilize and grow successful businesses. Cash-poor small business owners can turn to nonprofit technical assistance providers for assistance in designing, managing or financing their businesses. These technical assistance providers are community-based organizations that assist current or potential business owners with planning, managing or financing their businesses.

The conceptual framework and definitional categories in this report do not necessarily represent all the actual or specific programs or organizations in the field. The products and services described are the most basic and common and are therefore likely to be included among the offerings of all technical assistance providers. It is unlikely that all products and services described in this report will be offered by any one technical assistance provider but more often by a network of providers in a geographic area. The products and services offered will depend on local needs and client demand.

Technical assistance providers are as diverse as the communities and businesses they serve and they all must seek to work with clients with varying levels of experience and should offer services that are appropriate to each client. Businesses that use nonprofit technical assistance providers vary in size, type, and time in business, but generally fall within certain categories that are illustrated in the following *Business Diversity Matrix*. This report will focus on core competencies for broadly defined groups of technical assistance in these categories.

Business Diversity Matrix¹

Business Type	Management	Employees	Sales	Capital Needs
Micro	Owner operated	0-5	\$10-250,000	<\$25,000
Very Small	Owner managed	6-10	\$250,001-1,000,000	<\$100,000
Small	Owner or professional Management	11-20	\$1,000,001-5,000,000	>\$100,000

¹ This is not the U.S. Small Business Administration definition of small business but is based on the experience of technical assistance providers involved in the task force and forums.

Technical assistance varies based on business and management type, numbers of employees, and size of revenues and capital needs. For purposes of this report, micro-businesses are generally considered to be sole proprietorships, with at most 5 employees and annual sales of less than \$250,000. Very small businesses are considered to be those managed by their owners, with more employees than micro-businesses, and with annual revenues that are over \$250,000 but less than \$1.0 million. Small businesses are considered to be those that may or may not be managed by their owners, have up to twenty employees, and have revenues over \$1.0 million but less than \$5 million.

The type of technical assistance needed by business owners is not necessarily related to business size or type of business. Businesses of the same size can have tremendously different training and resource needs depending on where they are in the business growth cycle. Technical assistance providers must be able to judge the specific needs of business clients based on complex sets of needs identified by these clients.

Components of Technical Assistance

This report views technical assistance from a customer perspective by examining the components of technical assistance plus the products and services businesses need and also from an organizational perspective by determining those performance measures that effectively address small business needs. These perspectives are intended to help in determining the most positive characteristics of proficient technical assistance providers and to help ensure technical assistance services are delivered appropriately to diverse business owners.

Most professional groups associated with business development (legal, financial, and real estate) have established recognized credentials and rules that govern ethics and products and services offered. Since the technical assistance field is relatively young with few formal associations and no established credentials, this report will identify general characteristics of successful technical assistance programs.

Technical assistance provider organizations are changing. For example, some technical assistance providers developed out of social service agencies and have shifted their emphasis from social work support for individual clients to guidance to businesses. Others were formed as community development corporations that have expanded their programs to include technical assistance in response to demand. Regardless of organizational capacity or structure, successful technical assistance providers are those that are able to objectively advise their clients, even when this advice is contrary to the desires of business owners. For many organizations, this can represent a difficult transition from meeting immediate client needs to recommending decisions that are best for the future of each business.

Delivering technical assistance products and services appropriately to diverse client groups at an affordable price is a challenge for even the most efficient technical assistance provider. For example, in a 1997 California Reinvestment Committee (CRC) survey², technical assistance provider respondents reported that it took an average of 36 hours to prepare a business to apply for a loan. At an average rate of a little more than \$73 per hour, this amounted to a cost of \$2,634 to prepare each client to apply for a loan and this included, of course, clients that were unsuccessful in obtaining credit. And yet without this technical assistance, even businesses that are credit-worthy may have little chance of obtaining loans or equity if they are unable to package their information appropriately or if their owners are not aware of where to turn for funding. Technical assistance providers must seek sources of funding that can allow them to provide the levels of assistance needed to create credit-worthy borrowers. Financial institutions that would benefit from qualified referrals are likely sources to either provide grants to these technical assistance providers or to pay fees to technical assistance providers for qualified referrals.

² *New Small Business Lending Horizons*, California Reinvestment Committee, 1997 (see Appendix B for more information).

It is worth noting that not all technical assistance providers possess the capability to provide all the products and programs described in the following sections. The items listed in these two sections are intended to be goals that will be met through collaborations and as the industry matures. There are technical assistance providers that specialize in one or a few products in a manner that best meets the needs of their surrounding communities. Collaboration among several organizations may provide the best quality of technical assistance that is offered. Often organizations collaborate in a manner that complements and leverages the quality of technical assistance available. The reader must find models that work best for particular communities based on the diverse needs of each community.

Products and Services

Products and services offered by technical assistance providers vary depending on program design, method of product or service delivery, staff expertise, and client demand. The following products and services are not necessarily delivered in the order described nor do all technical assistance providers offer them. It is expected, however, that technical assistance providers operating within a local geographic area collectively would offer these services. That is, in some cases, program components may be delivered through a collaboration of several nonprofit organizations. Also, business cycle stage will determine any given business's need for specific products or services.

Basic technical assistance provider products and services generally include the following:

- Business readiness assessment
- Introductory management courses
- Business management training
- Consulting and counseling
- Networking and mentoring
- Loan packaging
- Resource and referral

Business Readiness Assessment

Technical assistance focused on the business owner and his or her management capacity.

Assessments are the technical assistance provider's first step in working with new businesses and are offered either as seminars or as one-on-one consulting. Assessments focus on potential business owners and their capacity to operate businesses. These assessments include self-assessments, business feasibility reviews, and readiness training, and are usually for micro businesses and sole proprietorships. Clients may be low-income individuals or people who have operated part-time or informal businesses but who lack formal business training or skills.

Introductory Management Courses

Courses and seminars to introduce business owners to general management concepts and approaches.

Introductory business planning and management courses help potential business owners assess the viability of their business concepts and prepare financial, marketing and operational projections. Preparation of pro forma financials often proves the viability of a business idea. This means that personal savings, and even funds from family and friends, may not be used up in a futile attempt to start a business.

Business Management Training

Training that focuses on specific management skills that are essential to successful business operation.

Business management training covers topics that are listed below in order of priority as identified by the CRC survey of technical assistance providers. It is important to note that some businesses secure capital before completing all training outlined below.

- Financial management assistance covering general accounting management such as financial planning, budgeting and cash flow analysis, bookkeeping, and accounts payable, accounts receivable, and inventory control.
- General management assistance critical to maintaining and improving cash flow and to managing operations.
- Marketing assistance to develop marketing plans and strategies for specific products including product definition, pricing, positioning, and vendor procurement.
- Human resources management to review recruitment, hiring and training of staff.

Consulting and Counseling

One-on-one consulting and/or counseling, including structured feedback.

Individual consulting is a personalized, one-on-one approach that complements seminar-style education by reinforcing learned concepts. Consulting usually includes personalized assistance in loan packaging, finance, and management. This customized training may also include advanced training in the aforementioned areas for established business owners.

Peer support networking and mentoring

Networking among existing and future business owners.

Peer support networking allows owners to learn from others' experiences in a small group setting. It is an in-depth, hands-on form of learning and is particularly useful for operations and marketing training. Small group networking is useful for addressing specific problems entrepreneurs may be facing and promotes strategic alliances, collaboration, and economies of scale. Although technical assistance providers often provide peer support and networking, this phase is sometimes managed by the entrepreneurs themselves. Local chambers of commerce, merchant associations or trade associations may support networking.

Loan Packaging

Assisting entrepreneurs to obtain credit.

Loan packaging assistance includes an assessment of the creditworthiness and financing needs of small business owners. This is a critical business building block regardless of business size. Technical assistance providers help articulate strengths, complete loan applications, and identify potential credit or equity sources.

Resource and Referral

Referring entrepreneurs to additional sources of support.

All technical assistance providers offer referral services to other programs and information sources because most providers do not have all the resources needed at one site. Financial and educational resources include colleges, business programs, financial institutions, and other technical assistance providers that can open additional avenues to business success not available directly from a particular provider. These could include mentoring programs or industry-specific technical assistance. Resources and referrals are especially important when businesses are in trouble.

Post-Loan Support

Assisting business owners after obtaining credit.

Post-loan support is the monitoring of finances and operations to assist borrowers in repaying loans and managing business growth. This form of technical assistance can be delivered through counseling, topical workshops, peer networks, and mentoring, and is intended to address problems before they become serious. Monitoring and support can be critical factors in keeping loan losses low and in sustaining businesses over time. For example, as businesses grow through access to new capital, specific management assistance may be needed and identified through post-loan support. Some intermediaries offer this service to lenders on a-fee-for-service basis.

Organizational Performance Measures

The following section focuses on performance measures of technical assistance organizations. While not all nonprofit technical assistance providers demonstrate all of these performance goals, they should strive to address each of the following over time:

- Clear goals and targeted outcomes
- Appropriate client services
- Staff expertise
- Client feedback
- Evaluation of qualitative and quantitative impact
- Up-to-date technology
- Accountability to clients and supporters

Clear Goals and Targeted Outcomes

In order to create successful technical assistance programs, technical assistance providers should set clear goals and targeted outcomes. Establishing goals and targeting outcomes requires that technical assistance providers first clearly define their missions and set attainable objectives. Setting objectives may involve writing annual board and staff strategic plans, for example. Clearly defined goals will allow technical assistance providers to properly plan and assess their own performance. Methodologies should be developed to track performance to show the benefits of services provided and to evaluate the impact of services on small business clients.

Appropriate Client Services

Technical assistance providers should develop and implement programs that are responsive to clients in a given community, such as establishing multilingual services for non-English speaking clients or developing cultural sensitivity and awareness. Other examples of community-specific services may include child-care assistance for clients, special access programs for low-income entrepreneurs, or credit counseling services.

Staff Expertise

Qualified staff is essential to technical assistance provider success in delivering services to small business clients. Formal staff training is also crucial and generally is available at trade association conferences. Staff should have adequate community awareness, education, experience, and training to make appropriate referrals, assess client needs, and/or provide hands-on operational assistance.

Client Feedback for Program Evaluation

Technical assistance providers can use a variety of methods to solicit client feedback, such as short surveys following training or counseling courses and programs. Other methods may include feedback forms, verbal assessments, regular follow-up, and advice from community advisory boards. Advisory boards can also be used to evaluate programs from community perspectives.

Evaluation of Quantitative Impact

Technical assistance providers should establish methods for ongoing measurement of the impact of their services on their clientele. Quantitative measures may include tracking numbers of participants, numbers of classes taken, numbers of counseling sessions, ages of businesses counseled, new capital injections received, surveys on public expenditures and numbers of jobs created. These quantitative measurements need to be coupled with qualitative measures to ensure thorough analyses.

Evaluation of Qualitative Impact

Qualitative measures may include comparative evaluation of client feedback plus should include some determination of ongoing public benefit, such as identification of specific community enhancements which would include improved and thriving business districts, improvement in the quality of the lives of technical assistance clients or success in meeting diverse business owner needs.

Up-to-date Technology

The use of technology adds to the efficiency and effectiveness of technical assistance organizations. Computers enhance staff ability to complete market analyses and to perform market research, financial analyses, and strategic planning. Technology helps in assessing community needs and in developing appropriate programs to serve targeted constituents. Finally, the use of technology is critical in tracking and evaluating the impact of services delivered.

Accountability to Clients and Supporters

Gaining perspective and ensuring responsiveness to community and business needs is essential to the success of nonprofit technical assistance organizations. A combination of the above measures can ensure accountability to clients, the community, and funders, and can provide technical assistance organizations with outside perspectives on their performance. Perspective and ability to change are important components of successful technical assistance programs.

Recommendations for Building the Technical Assistance Industry and Fostering Partnerships

Task force recommendations include the following as steps in building the technical assistance industry and in fostering partnerships with financial institutions and other funding resources:

- **Referrals:** Financial institutions should refer those businesses whose loan applications they have denied to local technical assistance providers. One resource is the list of technical assistance providers in the 1999 companion publication to this report titled *Small Business Technical Assistance Providers in California* (see Appendix C for a list of those technical assistance providers listed in this publication). Referrals can benefit business owners by offering credit access opportunities and by developing positive business relationships between financial institutions and technical assistance providers. Technical assistance providers should actively solicit funder participation and create referral programs to ensure clients are working with financial institutions with loan products that are appropriate for each client.
- **Resources:** Funders should identify special grant-making or volunteer opportunities with measurable outcomes as additional ways to add resources to build the capacity of the technical assistance industry.
- **Volunteer Participation:** Involvement of financial institution staff on nonprofit boards of directors of technical assistance providers would enhance the technical assistance provider's expertise and provide access for financial institution staff to potential clients.
- **Loan Innovation:** Financial institutions should work with technical assistance providers to develop safe-and-sound but flexible bank loan underwriting pilot programs for small businesses. These pilots could serve as research and development opportunities for financial institutions.
- **Trade Associations:** Established economic development trade associations should advance discussions of guidelines for technical assistance provision through teaching best practices and training programs.

Conclusion

The goal of this report is to identify key components of technical assistance products and services as well as organizational components that contribute to building stronger technical assistance providers and to provide clearer principles for this growing industry. The information in this report is intended to help open new areas of support for the technical assistance industry as it increases the number of competent successful businesses and provides better clients for banks.

For more than a decade, technical assistance providers have been an almost invisible force helping small businesses to expand and fulfill their goals. The goal of this report is to support the continued expansion of the technical assistance industry and thereby strengthen small business and community economic development, including especially minority-, disabled- and women-owned businesses. The value of technical assistance is to build healthy businesses that result in better internal management and use of financial and human capital as well as increased employment for neighborhoods. This can have singularly dramatic consequences for low-income communities where capital is particularly scarce.

Technical assistance protects investments since business clients have time and money invested in their business operations and financial institutions and foundations have funds and human resources invested in these businesses. By supporting high-quality technical assistance, return on investment increases as business owners are better educated and creditworthy. Local communities also receive economic and environmental benefits from these educated and resourceful business owners.

APPENDIX A

Executive Summary and Recommendation to Form Small Business Technical Assistance Task Force, from *Sustainable Economic Development*, a publication of the Community Affairs unit of the Federal Reserve Bank of San Francisco and the California Reinvestment Committee

Sustainable economic development requires a healthy small business sector and to be successful, small businesses need access to capital.* Unfortunately, a credit gap can exist between banks and small businesses when small business entrepreneurs lack the traditional credit history and business experience judged by banks as necessary to be “bankable.” Without access to mainstream financial services, many of these small business entrepreneurs must turn to family or friends for funds or rely on expensive credit card debt.

Partnerships between banks and technical assistance providers (technical assistance providers) can help close the gap between small business entrepreneurs and banks. technical assistance providers provide critical financial training and services to small business entrepreneurs to help them strengthen their business capacity. After receiving technical assistance provider services and training, many small business entrepreneurs successfully apply for mainstream financial products and no longer need to rely on family and friends or credit card debt.

Bank/technical assistance provider partnerships are critical to helping small business entrepreneurs make the transition to using mainstream financial products and services. technical assistance providers refer clients to banks who are familiar with the quality and type of technical assistance the clients have received. The banks can then structure loans appropriate for the unique needs of these small business entrepreneurs.

In the past several years, the California Reinvestment Committee (CRC) has conducted research regarding the critical role bank/technical assistance provider partnerships play in successful economic development. In a recent study, CRC documented the “value added” benefits banks and small business owners gain from small business technical assistance. Based on the results of this study and other research by its Economic Development Committee, CRC approached the Community Affairs unit (CAU) of the Federal Reserve Bank of San Francisco (FRBSF) to suggest hosting technical assistance forums. During these forums, banks and technical assistance providers would talk face-to-face about the challenges of working with each other and would strategize about how to work more effectively together.

CAU is responsible for helping banks meet the credit needs of small business owners as required by the Community Reinvestment Act (CRA) and consequently was a logical and interested partner for these forums. In its role as “neutral convener,” CAU can bring multiple players “to the table” to discuss differences and can play an instrumental role in improving bank/technical assistance provider partnerships.

Together, CAU and CRC hosted a series of “Small Business Technical Assistance Forums”

* For the purposes of this report, a small business is defined as a business with gross annual revenues of \$1 million or less.

(Forums) throughout the state of California. These Forums brought banks and technical assistance providers together to discuss the problems they face when working with each other. At these Forums, banks and technical assistance providers identified the following five major areas that need improvement:

- Bank/technical assistance provider communication
- Performance measures/benchmarks for technical assistance provider products and services
- Financial product development
- technical assistance provider funding sources
- Regulatory incentives

After discussing common concerns and debating controversial issues, banks and technical assistance providers spoke openly about what they needed and expected from each other. Based on the results of the Forums, the following steps are recommended for developing effective bank/technical assistance provider partnerships. These steps will ensure that the results of the Forums have a direct impact on how banks and technical assistance providers work together. Both CAU and CRC could help implement.

- Bank/technical assistance provider communication
CAU and CRC should host workshops and develop resource guides that improve the flow of information between banks and technical assistance providers. This exchange of information would increase bank and technical assistance provider knowledge of clients, resources, and business needs and would build the foundation for more productive local and regional partnerships.
- Benchmarks for success for technical assistance provider products and services
CAU and CRC should spearhead a task force to study performance measures and benchmarks used to measure technical assistance provider products and services. Such measures and benchmarks would provide identifiable measures of success for technical assistance provider products and services and raise the professional standards for banks and technical assistance providers.
- Financial product development
CAU and CRC should educate banks, technical assistance providers, and small business entrepreneurs about safe and sound financial products that have flexible underwriting standards and are tailored to the needs of technical assistance provider clients.
- technical assistance providers funding sources
CAU and CRC should research different funding strategies and host informational seminars to educate technical assistance providers on how to increase and diversify their funding sources.

- Regulatory incentives

CAU and CRC should work with the Federal Financial Institutions Examination Council (FFIEC) and FRBSF compliance staff to clearly define how banks receive credit under the CRA for working with technical assistance providers. Such clarification would improve regulatory incentives for banks to partner with technical assistance providers.

To assist in the implementation of these recommendations, CAU, CRC, and/or others involved in the Forums could host a series of follow-up “Small Business Technical Assistance Action Summits” (Summits) in 1999. At these Summits, CAU and CRC should provide additional training could be provided on the multiple topics addressed in the recommendations and present information on funding strategies, regulatory incentives, etc. The task force formed to address technical assistance provider quality could also report its findings. Most importantly, these Summits would allow banks and technical assistance providers to evaluate their progress since the Forums and to decide what future action is needed.

With the support of CAU, CRC, and those involved in the Forums, banks and technical assistance providers can take the critical next steps in establishing “best practices” for bank/technical assistance provider partnerships. With these partnerships, banks and technical assistance providers will help build a solid foundation for the technical assistance industry and Support sustainable economic development in our communities.

Summary of Recommendations

Recommendation One

Increase bank and technical assistance provider knowledge of clients, resources, and business needs by improving the flow of information between banks and technical assistance providers

Recommendation Two (see next page*)

Develop identifiable measures of success for technical assistance provider products and services by establishing performance measures and benchmarks

Recommendation Three

Educate bankers, technical assistance providers, and community members about safe and sound financial products that are responsive to borrowers’ needs

Recommendation Four

Develop adequate and on-going funding for technical assistance providers by increasing and diversifying technical assistance provider funding sources

Recommendation Five

Improve regulatory incentives for banks to partner with technical assistance providers by clearly defining how banks receive credit under the CRA for working with these providers.

***Recommendation for Establishment of Task Force**

Develop identifiable measures of success for technical assistance provider products and services

Long-term Objective

Develop performance measures and benchmarks for technical assistance provider products and services

Short-Term Strategy

- Organize task force to study how to measure technical assistance provider quality.

Key Issues for Implementation

- Developing accepted performance measures/benchmarks would improve the quality and professionalism of technical assistance providers.
- Attempts at evaluating technical assistance providers should focus on capacity rather than quality.
- Given the diverse nature of technical assistance providers, it will be difficult to reach consensus on performance measures/benchmarks.
- Banks can use performance measures/benchmarks as initial screening tools but they will still need to do their own due diligence.
- What happens to technical assistance providers that do not meet the performance measures/benchmarks?
- Regulators should also be consulted in terms of safety and soundness, fair lending, and CRA compliance.
- In addition to developing benchmarks, develop a series of technical assistance provider training or regional technical assistance provider curricula. Technical assistance providers that participate in the training could list the training in their brochures and in the technical assistance provider directory.
- Ask banks to be involved, both financially and in an advisory role, in developing the training/curricula. Such buy-in would give more credence to the training programs.

APPENDIX B

Executive Summary, from *New Small Business Lending Horizons*, a publication of the California Reinvestment Committee

Financial institutions have the opportunity to create a broader partnership that expands their small business lending to new horizons, communities and businesses. Banks can both increase profits through expanded business lending and augment their community development credit under the Community Reinvestment Act (CRA) through strengthening and making more systematic their partnerships with technical assistance (technical assistance) providers and business development intermediaries. These technical assistance providers and intermediaries add significant value to bank lending but have limited capacity due to insufficient support and compensation from financial institutions and other funding sources. Expanded business lending will mean a healthier economic climate for California communities and substantial interest income for financial institutions.

Background

In the last few years, the number of small business loans to minority-, women- and disabled-owned businesses from commercial banks has increased dramatically. Financial institutions clearly recognize the significant new profit center, worth tens of billions of dollars in loans and billions of dollars in profit, represented by such loans. Many of these loans are to businesses that were nurtured by nonprofit business intermediaries and incubators and sent out into the world strengthened by technical assistance from these same organizations.

This increase in lending is in part an outgrowth of the Community Reinvestment Act (CRA) which requires banks to meet the credit needs in which they are chartered. It responds to pressure from CRA advocates (such as the California Reinvestment Committee), economic development practitioners, and others who saw that small businesses needing loans of less than \$50,000 did not have equal access to lending products. Financial institutions also recognized that this is a significant market segment and sought profitable approaches to credit allocation.

Potential Market

Yet another monumental business loan market still sits untouched at the horizon of conventional bank lending. It is a pool of thousands of small businesses that do not have immaculate credit and therefore do not pass bank computerized credit scoring tests. Many of these businesses are owned by people of color, disabled people or women who lacked sufficient initial investment capital to start their businesses and therefore had to borrow heavily against their credit cards, home equity, and from family and friends. California is home to thousands of very small businesses (less than five employees) that together employ almost eight million workers. It is the home for nearly one-third of all Latino-owned businesses and more than one of every ten African American-owned businesses nationally. These and other growing small businesses are the core of an expanding California economy and have tremendous untapped value as bank customers.

Extending credit to these businesses could be a vast profit-center for financial institutions, but such businesses cannot be “bankable” without more technical assistance than is currently available. Partnerships between financial institutions and nonprofit business development intermediaries can help create a new credit market and open this vast new pool of borrowers. These are the types of investments and loans described as community development investments and loans in the CRA regulations. Business development intermediaries already assist businesses with business planning, loan documentation and other management needs. A study by the Federal Reserve Bank of Chicago states that such technical assistance programs “help mitigate risk and profitability concerns.” However, intermediaries are dramatically underfunded and need greater support from financial institutions in the form of fees for service, charitable giving, investments, and low interest loan commitments to release the potential of this new market.

Limited Capacity

The capacity limitations of nonprofit business development intermediaries are also the limits of business development in California communities. It is rare that businesses situated in low income communities or communities of color have sufficient resources to pay the full cost of business assistance. So, the focus of this report is to identify the key role that these intermediaries can play in a partnership that supplies additional capital and resources to increase their capacity to assist small and minority-owned businesses. This capital can be in the form of charitable grants, fees for loans purchased by conventional lenders, low interest loans to intermediaries or other support mechanisms. Support for business development intermediaries also fits the requirements of the lending, service and investment tests of the Community Reinvestment Act regulations.

The California Reinvestment Committee (CRC) has surveyed 249 technical assistance providers and held a Technical Assistance Summit with thirty key California intermediaries to review and refine these issues. The research found that intermediaries mainly assist small businesses, usually in the retail or service sector. Most providers work one-on-one with their clients assisting them with business planning, management issues, or loan packaging. CRC survey respondents reported that it took an average of 36 hours assistance to prepare a business to obtain a loan. At an average rate of a little more than \$73 per hour, this amounted to a cost of \$2,634 to prepare a client to obtain a loan and, of course, not all clients are successful in obtaining credit. It should be remembered that the business that receives assistance from an intermediary has already been denied credit by a financial institution and is likely to have an uneven credit history. Without this sort of technical assistance, these businesses have little chance of obtaining a loan. Although the technical assistance provider’s goal is for their clients to receive loans, very few technical assistance providers receive fee income or philanthropic grants from the financial institutions which approve the business loans and benefit from the interest income.

Recommendations

CRC's Economic Development Committee has drawn on California's nonprofit technical assistance providers and business development intermediaries to identify the forms of collaboration that can expand opportunities for small and minority-owned businesses and thereby create profit centers for financial institutions. The recommendations follow:

- Increase the amount and availability of fees paid by banks to business development intermediaries and technical assistance providers for successful loan packaging.
- Increase charitable grants to expand the operating capacity of nonprofit technical assistance providers and intermediaries.
- Expand support for post-loan technical assistance to ensure continuing business stability of borrowers and credit enhancement for banks.
- Make equity investments in nonprofit business development intermediaries to expand the flexibility and scope of their operations.
- Expand below-market interest rate loan pool support from financial institutions or bank consortium to intermediaries.

The CRC Economic Development Committee's goal is to work with representatives of financial institutions to develop a variety of collaborations that expand technical assistance capacity and bank profitability. This plan will foster partnerships of community, financial institutions and public agencies to expand the economic vitality of California communities and their small business sector.

APPENDIX C

Overview and list of Organizations, from *Small Business Technical Assistance Providers in California*, a publication of the Community Affairs Unit of Federal Reserve Bank of San Francisco, May 1999

Overview

The Community Affairs Unit of the Federal Reserve Bank of San Francisco is proud to introduce *Small Business Technical Assistance Providers in California*. The purpose of this directory is to inform financial institutions about economic development assistance organizations in California and about opportunities for involvement.

The mission of the Community Affairs Unit of the Federal Reserve Bank of San Francisco is to provide banks and bank holding companies with information on appropriate programs to help them meet their community development needs. To further this mission, the Unit co-hosted, with the California Reinvestment Committee, a series of workshops in 1998 that brought together California small business technical assistance providers and bankers to identify issues and solutions to meeting the credit needs of small businesses in California.

Recommendations from these workshops were included in a publication titled *Sustainable Economic Development: Developing Effective Partnerships between Banks and Technical Assistance Providers*. Among the recommendations in this publication was publication of this directory.

The information included in this directory is based on written responses received and is presented as it appeared in questionnaires completed by various small business technical assistance providers throughout California. The Federal Reserve Bank of San Francisco does not guarantee the validity or accuracy of the enclosed information nor does it endorse or support any one particular program. Rather, it is recommended that financial institutions perform further investigation to determine appropriate involvement according to their particular resources and capabilities. Also, this directory does not represent a complete list of California providers, but only those organizations that received and responded to the Community Affairs questionnaire. Finally, it should not be assumed that all opportunities listed herein necessarily qualify for consideration under the Community Reinvestment Act. Community Affairs staff are available to assist in determining if specific activities qualify for consideration under the regulation.

List of Organizations, from *Small Business Technical Assistance Providers in California*

Accion San Diego

Adams Avenue Business Association

Asian Pacific Revolving Loan Fund Of Los Angeles

Atlantic Community Economic Development Corporation

Bay Area Development Company

Bay Area Entrepreneur Association

Brotherhood Business Development & Capital Fund

Business Resource & Action Center

Calexico Community Action Council

California Business Incubation Network

California Capital Small Business Development Corporation

California Manufacturing Technology Center

California Office Of Small Business

California Pollution Control Financing Authority

California Resources And Training

California Small Business Development Center

Calstart

Career Training Institute, Inc.

Cdc Small Business Finance Corporation

Center For Cooperatives, University Of California

Charo Community Development Corporation

City Of Berkeley Office Of Economic Development

City Of Hesperia Economic Development Department

Comunidades Federal Credit Union

East Bay Asian Local Development Corporation

Eastern Los Angeles County Small Business Development Center

Economic & Employment Development Center

Ed>Net--California Community Colleges Economic Development Network

Fresno Certified Development Corporation

Greater Sacramento Certified Development Corporation

Interfaith Service Bureau Microenterprise Assistance Program

Keystone Community Ventures

Korean Youth & Community Center

Lenders For Community Development

Long Beach Area Certified Development Corporation

Los Angeles Business Development Corporation

Los Angeles County Community Development Commission

Los Angeles Urban League Ron Brown Business Center

Low Income Housing Fund

Napa Valley College Small Business Development Center

National Center For American Indian Enterprise Development

Neighborhood Opportunities Corporation

Oakland Advisors

Oakland Business Development Corporation

Oakland Community Housing, Inc.

Oakland Small Business Growth Center

Pace Business Development Center

Pacific Coast Regional Small Business Development Corporation

Palm Springs Community Redevelopment Agency

Regional Environmental Business Resource & Assistance Center

Renaissance Entrepreneurship Center

San Diego Community College Auxiliary Organization

San Francisco Chamber Of Commerce

Service Disabled Veterans Business Association

Sierra College Small Business Development Center

Small Business Development Center-Glendale

South Bay Economic Development Partnership

South Of Market Foundation

Stanislaus County Economic Development Corporation

State Assistance Fund For Enterprise, Business And Industrial Development Corporation

United States Small Business Administration

University Of Southern California Business Expansion Network

Valley Sierra Small Business Development Center

Valley Small Business Development Corporation

Vermont-Slauson Economic Development Corporation

West Company

Women's Initiative For Self Employment

Ywca Of The Midpeninsula