



Bill Sands, former Western Bank chair, and Mike Temali, Neighborhood Development Center CEO

How can Minnesota best tap the energy, talent and job-creating potential of low-income entrepreneurs?

A Civic Caucus Focus on Human Capital Interview

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Present

Dave Broden (vice chair), Cicely Carr, Randy Johnson, Sallie Kemper (associate director), Dan Loritz (chair), Paul Ostrow, Bill Sands, Dana Schroeder (associate director), Clarence Shallbetter, Mike Temali, Teshite Wako.

Summary

According to the former chair of St. Paul's Western Bank, Bill Sands, society must foster entrepreneurship, because job creation is as important as having enough people in the workforce. To that end, the Neighborhood Development Center (NDC), a nonprofit located in St. Paul, was founded in 1993, after a University of Minnesota study found that there were a variety of active and potential entrepreneurs in St. Paul's Frogtown and Summit-University neighborhoods. Sands recounts that the NDC was the successor organization to the bank's own community development corporation, established in 1990.

The NDC developed a 20-week entrepreneurial class that has become a mainstay of the organization and has trained 4,700 people over the years. Participants in the classes must be low-income and are largely recent immigrants or nonimmigrant people of color. Sands notes that about 25 percent of the class participants go on to start businesses. As of 2012, there were 457 NDC-assisted businesses that employed nearly 2,300 people at an average wage of \$12 an hour.

In addition, NDC President Mike Temali says, the NDC offers micro loans and larger loans to finance small businesses that can't get loans at banks. It also offers continuing technical assistance to the

entrepreneurs it has trained. NDC focuses on four inner city neighborhoods in Minneapolis and St. Paul. Challenges for NDC, he notes, include finding effective ways to work in the suburbs, forging stronger connections with secondary and postsecondary educational institutions and increasing self-sustainable sources of funding.

Biographies

Bill Sands is former chair of Western Bank in St. Paul. He began his career in banking after spending four years in the Navy and completing a graduate degree. For more than 30 years, he led Western Bank, first as president and then as chair. He has provided leadership on groundbreaking efforts in low-income housing developments, small business development and nonprofit management.

Sands led the effort to create the Neighborhood Development Center (NDC), an organization that works to build support for small resident-owned businesses by providing extensive entrepreneur training. Since its inception, NDC has worked with eight ethnic communities in more than 25 low-income neighborhoods.

Sands has a bachelor of business degree in accounting from the University of Minnesota's School of Management, now the Carlson School of Management. He has an MBA degree from the Wharton School at the University of Pennsylvania.

Mihailo (Mike) Temali is founder, president and CEO of the Neighborhood Development Center (NDC), a nonprofit in St. Paul. NDC blends approaches of international micro-enterprise with domestic community development. In his role with NDC, Temali develops and manages NDC's network of partnerships, small business training, lending, technical assistance and business incubator development programs for inner city, low-income entrepreneurs. He developed the first-in-the-nation Islamically acceptable small business finance program.

NDC plays the lead role in development and management of six business incubators: Mercado Central, Midtown Global Market and Plaza Verde in Minneapolis and Frogtown Entrepreneur Center, Old Swedish Bank Building and Frogtown Square in St. Paul. Temali serves as chief manager of Midtown Global Market and as chair or co-chair of NDC's five other business incubators. In addition, he is chair of NEXUS Community Partners, University Dale Redevelopment Company and Northeast Dale-University LLC.

Temali has a bachelor's degree in sociology from Macalester College in St. Paul and a master's degree in public affairs from the Humphrey School of Public Affairs at the University of Minnesota.

Two other NDC staff members, Training Coordinator Cicely Carr and Chief Financial Officer and Trainer Teshite Wako, joined in the discussion.

Background

The Civic Caucus has released two recent statements on human capital: [one in September 2013](#) laying out the human capital challenges facing the state today and in coming years and [a follow-up paper in January 2015](#) offering recommendations for maintaining a high quality workforce in Minnesota. The Caucus interviewed Bill Sands and Mike Temali to learn about the work of the

Neighborhood Development Center in fostering entrepreneurs in low-income neighborhoods to create new businesses and new jobs.

Discussion

During the 1980s, federal legislation made it possible for banks to have community development corporations (CDCs); similar state legislation followed. According to former Western Bank chair Bill Sands, Western Bank created its own CDC in 1990, the Western Initiative for Neighborhood Development (WIND). WIND served inner-city neighborhoods in both Minneapolis and St. Paul.

In 1988, Sands said, St. Paul's Planning District 8, the Summit University area, commissioned a study by the University of Minnesota's Center for Urban and Regional Affairs (CURA) that found that 11 percent of the households in the area were running home-based businesses to supplement their income. The study also found that these entrepreneurs would be willing to expand their businesses and create more jobs if they had access to training, technical assistance and loan funds.

The discovery of a variety of entrepreneurs in the neighborhood was the catalyst to start the Neighborhood Development Center (NDC) in 1993 as its own nonprofit organization outside the bank. Sands said the organization had to move out of the bank because it had grown and the bank could no longer support it.

The NDC developed a 20-week entrepreneurial class that has become a mainstay of the organization. From 1993 through 2014, the NDC has trained 4,693 people in its entrepreneurial classes. The classes are limited to 10 people, who meet both as a group and individually with the instructor. "They develop a business plan and NDC works with them, offering loan funds and technical assistance for as long as they want help," Sands said. Sometimes a class has as many as 30 applicants.

Each 20-week program costs about \$10,000 to put on and the NDC offers 20 such programs a year. Each participant is charged \$100 for the classes to get "some skin in the game," Temali said.

On average, Sands said, about 25 percent of the participants start a business. "When these people are successful, it generates income, stabilizes the neighborhood, reduces crime, strengthens families and helps people's self-esteem," Sands said.

Participants in the entrepreneurial classes must be low-income and are largely recent immigrants or nonimmigrant people of color. NDC President and CEO Mike Temali noted that 40 percent of the participants are recent immigrants, 40 percent are African American, 16 percent are white and four percent are Native American. All are low-income, about half extremely low-income.

"We need these folks for the regional and state economy," Temali said.

There's not much of a statistical difference in the outcomes between immigrants and nonimmigrants served by the NDC. "Immigrants seem to carry with them the quality of being entrepreneurial because of the way they got here," Temali said. "But the method we've developed of holding training classes out in people's neighborhoods and then offering customized lending and

ongoing technical assistance to keep participants in business has been very successful with both groups."

"The idea," he continued, "is that the energy exists in all these communities. We reach into the communities through partnerships with community-based organizations that promote us through networks within their neighborhoods. They try to pull these folks out of the woodwork." He said people are sometimes nervous that their business or business idea was in the underground economy. They're nervous about taking the class and that they don't speak English. "Yet they have all this talent," he said.

As examples of community partnerships, Temali noted the NDC has worked for many years with the Northside Residents Redevelopment Council in North Minneapolis. In Eden Prairie, NDC works with a Somali organization, the New American Academy. And the Center works with the Hmong Village on the East Side of St. Paul. "People trust those community organizations," he said. "Because we partner with them, people will take the classes, because they understand that we're not from Immigration Services or from the regulatory agencies of the city."

NDC participants have a variety of business ideas. The NDC does not give people their business ideas, Temali said. People must have a business idea when they come into the class. NDC Training Coordinator Cicely Carr offered these examples of recent participants' business ideas: (1) teaching Somali women how to swim; (2) a variety of restaurant ideas; (3) a concierge service; (4) cleaning businesses; (5) construction businesses; (6) food products or catering; and (7) home health care. Temali said the biggest businesses are in the food industry. He noted that a \$3 million tortilla plant in South Minneapolis that NDC helped start is now adding another line at the plant. He stated that NDC works only with for-profit businesses.

When NDC works with the immigrant population in the entrepreneurial classes, the trainer must be someone who speaks their language, whether that's Spanish, Somali, Oromo or Hmong. Entrepreneurship classes are offered in those four languages and in English. Because of that, Carr said, language is not a barrier for new immigrants in the classes. She noted that NDC has also translated its written curriculum into Spanish and Somali. There are also multicultural classes for nonimmigrants.

Temali noted that NDC does not teach English as a second language as part of its training. "That has to be provided elsewhere in the community," he said. "We get folks started in their own language. But we certainly encourage them to learn English. We want people to move up the ladder in the business community."

During the classes, participants each write a business plan. Carr said the plan includes a financial statement, a profit-and-loss statement, the business mission, the demographics of the market and what kind of marketing the business will do. "By the time the class is over, we'd like them to have a business plan ready, but we'll still work with them if they're close," she said. "Sometimes life gets in the way and people come back years later to finish."

Government can't do the same things a nonprofit can; it takes a partnership. In response to an interviewer's comment that cities have a hard time being proactive in the same way as NDC, Temali said most of the people NDC assists wouldn't feel comfortable going downtown and into a

government building. He noted that Minneapolis, St. Paul and the state fund the NDC to some extent. "Government can certainly help both fund and also shape the work we do," he said. He noted that the federal government's Small Business Administration has been an active partner with NDC.

The state, Temali said, has an urban initiative fund through the Department of Employment and Economic Development (DEED) that has been a good tool for NDC to use for lending. "We've made hundreds of loans with their money," he said. And he noted that the City of Minneapolis has a strong small business loan program that charges two percent interest and partners with organizations like NDC.

"Minneapolis is doing a lot of good things," he said. "The regulatory side is certainly endlessly daunting. Our staff is trained to help guide and negotiate on both sides of the equation. Recent immigrants don't comprehend all the regulations, say, for food safety."

Minnesota must foster entrepreneurship, because job creation is just as important as having enough people in the workforce. Sands and Temali cautioned that in our legitimate concern for the sufficiency of human capital in coming years we should not lose sight of the ongoing need for creating new opportunities for employment.

The state has stunning gaps between whites and minorities for wealth and income, incarceration, educational outcomes and other areas. Temali said the U.S. does a lot more for immigrants than some other countries. "But we have a lot further to go and not just for immigrants," he said. "It's also for African Americans and Native Americans, who are a major answer to the challenge of where the workforce is going to come from in the future. I'd argue that they're here, but they're not succeeding enough in the K-12 system and in postsecondary education. They're being left behind."

"But I do believe policymakers are slowly getting around to facing that our tremendous racial disparities in the state must be worked on at all levels from cradle to grave," he said. An interviewer commented that addressing human capital development is the best way and the most effective way to close those gaps.

NDC uses a neighborhood impact strategy. " We work in neighborhoods where people start their businesses and they in turn get more involved and more influential in their neighborhoods and their schools," Sands said. This results in stronger, healthier neighborhoods, he added.

A 2013 Wilder Research evaluation of NDC shows its impact on the community:

- As of 2012, there were 457 NDC-assisted businesses that employed 2,285 people at an average wage of \$12 an hour. That figure does not include the business owners.
- The employees come primarily from the neighborhoods of the businesses.
- Employees of NDC-assisted businesses pay approximately \$2.2 million in state income taxes annually.
- These 457 NDC-assisted businesses contribute more than \$3.2 million in state income taxes annually.

- NDC assists an average of 267 entrepreneurs each year.
- The estimated ratio of dollars returned to the neighborhood per dollar of NDC spending is 28:1.

As of 2012, there were 65 NDC-assisted businesses in the Frogtown neighborhood alone (within a one-mile radius of the intersection of Dale and University) and they employed 576 people, with a \$5 million payroll.

The Wilder evaluation analyzed NDC's program costs:

- Cost per job developed was \$4,941. "That is a pretty cost-effective number for job creation," Temali said.
- Cost per entrepreneur served was \$4,230.
- Cost per current business served was \$24,706.

NDC spending has a high rate of return on investment. A 2009 return-on-investment (ROI) analysis by Peter Heegaard concluded that NDC spending has an annual ROI of 65 percent in terms of taxes paid by the NDC-assisted businesses and their employees.

There is a multiplier effect of 2.4 for every job created by NDC's entrepreneurs. That means, Temali explained, that for every one job NDC's entrepreneurs create, 2.4 more jobs are created by that one employee spending his or her money. A consultant for the St. Paul Foundation calculated the multiplier.

NDC's heaviest focus is in four neighborhoods in Minneapolis and St. Paul. Those neighborhoods include, in Minneapolis, the near North Side; the Phillips, Powderhorn and Central neighborhoods; and in St. Paul, the Frogtown and Summit-University neighborhoods and the East Side. "We dedicate 80 percent of our resources to those four neighborhoods," Temali said.

NDC has three big business incubators in South Minneapolis: the Midtown Global Market, Mercado Central and Plaza Verde. "That's been a huge concentration of our work," he said. NDC bought, redeveloped, owns, and manages the buildings and trains, finances and continues to provide technical assistance to the tenants in the buildings.

Temali said NDC is now switching its concentration more to the East Side of St. Paul and the Northside of Minneapolis, because the Center has had less impact there. "We want to ramp those programs up," he said.

Working in the suburbs has been more challenging. Temali said NDC is doing some training in Brooklyn Park, but "we've struggled with suburban work, because we're very place-based. We know how the places work in the inner city, because we're from there. You have a Lake Street and Chicago or a University and Dale. You don't have that in Eden Prairie or in Brooklyn Park. A lot of our approach has been to concentrate the outcomes physically so they become catalytic and visually impressive. Twenty or 30 Latino businesses at Lake Street and Chicago pop out at people and they see that Latinos can be business owners, employers and taxpayers. It's harder to figure out how to do that in Eden Prairie, Brooklyn Center or Brooklyn Park."

People coming through the NDC entrepreneurial training classes are trying to provide for their families. Chief Financial Officer and Trainer Teshite Wako said many people trained through NDC have hired family members in their businesses, providing jobs and security for them. "The family is a major conduit to the jobs," observed an interviewer.

NDC has decided to start working in other major cities. Sands said Temali is now doing the same work with an agency in Detroit.

NDC has recently become a satellite Small Business Development Center (SBDC) through the Small Business Administration (SBA). The SBDCs are financed through a partnership of SBA federal funding, state and local government funding, and private-sector resources. NDC uses SBA money for microloans of \$25,000 or less and for larger loans up to \$250,000. The microloans can be as small as \$500, Temali said.

Connections between NDC and educational institutions are only sporadic. Temali said those connections are not as institutionalized as NDC would like. He said the entrepreneurial training course has been certified by Metro State University, so graduates of the course can earn credit there. NDC has taught its classes in Brooklyn Park in conjunction with North Hennepin Community College. Temali has been trying to get St. Paul College to consider a joint operation in NDC's next real estate project at the corner of University and Dale. "Their demographics are so similar that we could be a good feeder system for them," he said, noting that in NDC's entrepreneurial classes, trainers try to educate the participants about community colleges and to demystify them.

NDC doesn't currently go into high schools to speak about entrepreneurship. But Temali raised the possibility of creating a cadre of speakers of the entrepreneurs themselves to speak to young people. "Our entrepreneurs are great speakers," he said. "It would be very powerful. If you're an entrepreneur, you're a born schmoozer. And there's something inherently appealing about entrepreneurs to kids who don't like school so much."

NDC has four main sources of income:

1) Earned income, which comes from fee-for-service contracts with the cities of St.

Paul and Minneapolis and with Hennepin County, from interest on loans and from property management fees;

2) Individual contributions;

3) Corporations and foundations, the largest source of income; and

4) Government revenue, a small source of income.

"We see great potential for earned income and individual contributions to grow and to move us toward self-sufficiency to support our mission," Wako said.

Temali said NDC's public sources of income, including the fee-for-service contracts, amount to 17 or 18 percent of the total budget. He noted that NDC is asking the Legislature for \$1 million to shore up the incubators, start a new one and to go to rural Minnesota to teach capacity-building.

NDC has an operating budget of \$2.5 million. It has a very diverse workforce of 25 employees, Sands said. Temali pointed out that each of NDC's six business incubators has its own budget. The Global Market alone has a \$1 million operating budget.

NDC's loan funds are set off separately, he said. They come from grants or loans from foundations. "Foundations are looking more and more at lending money to groups like ours," Temali said. "They call it program-related investment, or PRI. The St. Paul Foundation's \$1 million loan comes with a 1½ percent interest rate and we have to guarantee they'll get their money back. They couple the PRI loan with a \$300,000 grant. We put \$100,000 of that into a loan loss reserve."

One hundred percent of the businesses NDC finances are nonbankable. "If somebody can get a loan from a bank, we'll bring them to a bank," Temali said. In the last two years, he said, NDC's loan loss has been five or six percent. Historically, it's been more like eight percent. "It's starting to come down lower, because we're starting to make larger loans and none of them have become problematic yet," he said.

NDC is a Community Development Financial Institute (CDFI) and has received some U.S. Treasury funds to capitalize its loan fund. Opportunity Finance Network, an association of CDFIs, has developed a bank examiner operation that has recently examined, but not yet reported on, NDC's operations. Temali said the Center expects a low ranking on the safety and soundness measure, since it focuses on "high-risk, low-income, inner-city, Mom-and-Pop deals." There is also a mission impact measure.

People who own businesses are seen as leaders in their community. "People respect them," Temali said. "We need these entrepreneurs to channel that respect to get on the board of the PTA or their church and to use the management skills they're learning in their businesses in a positive way as community leaders. To ask that of these low-income people brings tears to their eyes. Nobody's ever asked them to be leaders and they've never before thought of themselves that way." The process becomes transformative not only for the individual but for the family and the community as well.