ENTREPRENEURIAL ECOSYSTEMS

Funding Entrepreneurial Ecosystem Building

January 2020

Content Guide

Is there a venture model for funding eEcosystem building?

Short answer? No. Our experience across North America supports the view that our country does not really have viable venture models or funding strategies for entrepreneurial ecosystem building and entrepreneur-led development. While there are promising initiatives across the country, we have concluded that the entrepreneurship field and movement must find more robust and acceptable venture models and financing strategies for this all-important work.

The current state of economic development funding

Before we get into some innovative thinking about how we can provide funding for entrepreneurial ecosystem building, it might be informative to explore the state of community economic development funding in the United States. At e2 we offer the following five foundational realities as contextually important to our exploration of venture models for entrepreneurial ecosystem development:

1. Funding community economic development is ultimately a **local responsibility.**
2. Community economic development is **under-capitalized.**
3. Funding for development is often **fractured and unstable.**
4. **Government is disengaging and disinvesting** in community economic development.
5. Too much current funding is **misdirected.**

We explore each of our five foundational realities before moving into some ideas about how we can provide venture models and funding for entrepreneurship.

Local responsibility. Community economic development funding is a community responsibility in the United States. This is somewhat unique among mature and developed economies around the world where government – national and provincial -- provide often more robust and predictable community economic development funding. Most U.S. communities capitalize this work through commitments of private and public funding to stand up chambers of commerce, development corporations, main street programs, tourism and convention initiatives and the like. Local commitments vary widely, and distressed or disadvantaged communities often lack the capacity to adequately support development where it is needed most.

Under-capitalization. Local funding for community economic development, let alone entrepreneurial ecosystem building, is typically a challenge. Our experience working with communities throughout much of the continental United States documents a pattern of overall under-capitalization of development. New and reliable funding mechanisms or venture models are needed to ensure communities – both rich and poor – have the resources they need to do the work needed to ensure their own development and vitality. Funding for ecosystem building requires both robust and long-term commitments. Staffing and program resources, including gap financing funds, are essential if we are to stimulate and realize economic development impacts (e.g., more and better ventures, more and better jobs and expanded local tax bases).

Instability. Currently funding for community economic development including entrepreneur-led development is often fractured and unstable. Even in very rural landscapes there are multiple development groups (e.g., chambers of commerce, development corporations, main street programs, workforce development initiatives, visitor attraction bureaus and the list can go on and on) all competing for the same local resources and often in competition for available federal, state, regional, corporate and philanthropic dollars.

Funding System Bias

Recently Dell Gines, Senior Community Development Advisor, Federal Reserve Bank of Kansas City, and I were talking about funding ecosystem development. Our conversation shifted into the structural or system funding biases embedded in current U.S., state and local community economic development. The overwhelming bias is towards inter-state and community competition for relocating industries and businesses. The prime war chest tool is tax abatements and incentives.

Government disinvestment. Government spending – federal, state, regional and local – after booming growth beginning with the Great Recession, expanding dramatically with World War II and continuing expansion into the 1950s, 1960s, 1970s, peaked in the 1980s. The War on Poverty, the Appalachian Regional Commission, government funded regional development organizations, a nationwide system of small business development centers and the like all brought real funding to community economic development. Since the 1980s, concerns about large government and rising anti-government movements in the U.S. have effectively resulted in government spending contraction and dramatic disengagement and disinvestment in community economic development. Given challenged budgets and entitlements at all levels of government, funding for development has eroded significantly.

A Story from My Home State of Nebraska

In Nebraska our Legislature is starting a new session. Last year Nebraska's extensive incentives for business attraction were up for reauthorization. Legislative committees conducted performance reviews that raised real and legitimate questions about the prudence and effectiveness of both business attraction as a development strategy and as a motivator to relocate businesses and jobs to Nebraska. Reauthorization failed last year despite strong advocacy by the Governor, key legislative leaders, the Nebraska Chamber of Commerce and key development interests. This year's session is the last opportunity for reauthorization, or these incentives could lapse illustrating the evolving debate in Nebraska and elsewhere on where we should invest in community economic development.

Too much current funding is misdirected. Our final point is probably controversial. But, based on decades of experience, we have become convinced that too much of our limited community economic development funding is misdirected. Study after study has concluded that the vast majority of economic development funding is directed towards business attraction or moving businesses from one community or state to another. For America this is a very costly and a zero-sum economic development game. We need to spend a bit more time on this topic because in today's funding environment, it is unlikely that all our ecosystem building needs can come from new and innovative sources addressed later in this paper. The redirection of existing public and private economic development funding will be required. This means disinvesting in the attraction and relocation game and investing more heavily in entrepreneur-focused development.

Lessons from Ontario and Canada

Over a decade ago when I was doing some work in Ontario, I discovered a comparative economic performance study that looked at Ontario and Toronto in Canada and Michigan and Detroit in the United States. This study documented that two very similar regions and cities had grown apart with Toronto and Ontario booming and Detroit and Michigan struggling. One of the factors cited by these authors was Canada's ban on relocation incentives within the country and Ontario and Toronto's differentiated economic development investment into workforce development, human talent attraction, infrastructure and business climate enhancements versus funding of relocation incentives.

From the first public funding for canals and toll roads in the 1700s to current investments in economic development today, the economic development field has retained a sort of "smoke and mirrors" reputation. When he was with the Kauffman Foundation, Jay Kane pursued a quest to bring more rigorous ROI (Return on Investment) analysis to the economic development field. Jay was convinced that objective ROI analysis would demonstrate that entrepreneurship development is a **better buy** for our economic development world. In fact, we have an entire bookshelf at e2 with research, analysis and studies supporting Jay's view.

Unfortunately, there are two powerful forces sustaining priority funding for business attraction, and not entrepreneurship:

- Tradition
- Crony Capitalism

The first force is **tradition**. The story goes that the first industrial attraction park in the U.S. was in Columbus, Nebraska in the 1940s. For 70 years, business attraction become the way we did development. It is rooted in our profession, culture and our economic development systems. Most local economic development job descriptions continue to prioritize business attraction. It will take smart and tenacious effort to replace the attraction tradition with an entrepreneurship one.

Any industry, business or investment group is generally willing to accept assistance when development groups, presidents, majors, governors, legislators and others are more than willing to provide them. Our current economic development efforts include "war chests," "relocation wars" and "being competitive"—with focus on how we can offer comparable inducements of incentives to beat other states and communities. This culture of incentives is a form of **crony capitalism**. These are special interests with big budgets and lobbyists who can craft policy that directs benefits to a few and at a disadvantage to the vast majority of American enterprises.

There is decreasing evidence, even from industry groups, that these incentives actually make the difference in relocation or expansion decisions. There are exceptions of course. And we would argue that there may be situations where inducements make sense and have a reasonable return on investment.

With this contextual introduction in mind, we now want to turn to some emerging ideas and experiences around alternative and innovative funding for entrepreneurial ecosystem building and entrepreneur-led development.

New thinking on funding ecosystem building

e2 has been a supporter, co-sponsor and participant of the Ewing Marion Kauffman Foundation's **ESHIP Summit – Entrepreneurs – Ecosystems - Economies**. The ESHIP Summits have co-created the **Entrepreneurial Ecosystem Building Playbook.** The latest Playbook is Draft 3.0. The ESHIP Summits moved from **discovery** (year 1), to **design** (year 2) and now **action** (year 3). The Playbook speaks to the critical question of *"How do we scale the impact of ecosystem of ecosystem builders?"* and identifies seven ESHP goals:

1. Inclusive Field
2. Collaborative Culture
3. Shared Vision
4. Connected Networks
5. Practical Metrics and Methods
6. Universal Support
7. Sustainable Work

All of these goals are foundational in our opinion. But this paper focuses on funding ecosystem building, which is dependent upon achieving **Goal 6 -- Universal Support** and specifically *"Expanding external stakeholder understanding of and support for ecosystem building."*

The entrepreneurial ecosystem building funding challenge. Under-capitalization and unstable funding are a huge barrier to successful, sustained and expanded entrepreneurial ecosystem building and entrepreneur-focused development. Entrepreneurship, as a development strategy, must be a 24/7/365 forever commitment. As is the case with any startup it takes time to test, learn and refine. Growth and scale of impact does not occur immediately. There must be starting points that over time take an ecosystem to scale with broad and impactful reach. Just as promising entrepreneurial venture startups can starve with inadequate and unstable funding, the same is true with ecosystem building. Who will make a long-term career choice when job insecurity is always just around the corner? Excellence and impact require smart and on-going robust funding.

We cannot succeed with our vision of entrepreneurial communities, states and country without finding solutions to funding our work.

We suggest an alternative, innovative three-point approach to a funding venture model for entrepreneurial ecosystem building:

Figure 1 –Three-Point Funding Strategy

Capital Campaigns	Leveraged Support	Entrepreneur Endowments
We believe serious consideration should be given to re-purposing an old fundraising technology used locally by economic development for decades – a fundraising capital campaign.	Capital campaign vision and commitments, coupled with endowments, can be used to ensure both ongoing and single-purpose government funding is secured and expanded.	Excluding the top 1% of household wealth holding, the single largest concentration of estate wealth is rooted with successful entrepreneurial families. The time is now to grow entrepreneurship endowments.

Source: e2 Entrepreneurial Ecosystems hosted by NetWork Kansas. January 2020.

It should be noted that this approach is primarily focused on raising and sustaining robust ecosystem support at the community or regional geographic level. Next, we explore this three-part funding approach in greater detail.

Capital campaigns - an economic development tradition

Since World War II when local economic development corporations matured in America, the use of capital campaigns provided serious funding and focus for development efforts. In previous decades, local development corporations undertook feasibility studies, strategy development and then launched capital campaigns to fund development efforts. Often these campaigns generated multi-year contribution pledges to create multi-million-dollar funds. Historically, these capital campaigns financed sophisticated business attraction strategies. However, given today's development opportunities (e.g., fewer opportunities for business attraction and more with entrepreneurship) capital campaigns can be used to capitalize entrepreneur-led strategies.

Moving from Dream to Reality

Development stage. The first step is to determine the **stage of development** of the initiative. Think of the stages of development as a continuum ranging from a great idea to a feasibility study to a fully developed initiative with strategy, detailed case statements and complete budget. The stage of development will determine what work is needed to move from great idea through a feasibility study to a fully implemented initiative.

Fundraising goal. With a fully developed project, there is detailed and solid financial information that can define the fundraising goal. However, if a community needs $3 million for a next- stage entrepreneurship initiative, consideration should be to set a higher goal for three purposes:

- likely unexpected contingencies
- opportunities discovered through implementation
- sustainability endowment

A new fundraising goal might look like the following under this expanded scenario:

- $3 million core budget based on the articulated strategy
- $500,000 for unexpected contingencies and opportunities
- $500,000 to create a permanent entrepreneurship endowment

Setting a $4 million campaign fundraising goal provides for a richer funding base. In this example the goal statement could be:

Our Goal is to Raise $4 million to support 4 years of work.

Campaign consultant. Communities have finite human and organizational capacity and expertise. Often there is merit in securing a campaign consultant. Every state has such consultants and some community foundations, through their non-profit service centers, offer such services at a below market cost. If a consultant is selected, they will bring a framework and process to help the community design a campaign. If the decision is NOT to hire a consultant, then the community must take on this role and address the following key organization capacity issues:

- Chairpersons
- Committee

- Supporting Group
- Charitable Qualified
- Fundraising Vehicle
- Funding for the Campaign
- Development of a Donor Profile
- Management
- Finances, etc.

Campaign stages. Each capital campaign is unique, but typically there are two distinct campaign stages:

Silent campaign. At a minimum, at least 50% of the envisioned fundraising goal should be raised through the non-public or **silent** campaign. Therefore, in our example of a $4 million goal, $2 million would be raised through the silent campaign. A typical gift profile might look like this:

- 1 Lead Gift of $500,000 = $500,000 or 25% of the Silent Campaign Goal
- 2 Anchor Gifts $250,000 each = $500,000 or 25% of the Silent Campaign Goal
- 5 Major Gifts of $100,000 each = $500,000 or 25% of the Silent Campaign Goal
- 10 Significant Gifts of $50,000 each = $500,000 or 25% of the Silent Campaign Goal

Public campaign. Bridging between the Silent and Public campaigns provides an opportunity where some or all of the silent gifts are used to challenge other donors during the public campaign. Challenges (set by the host organization and the collaborating partners) are fantastic public relations and motivators for broader community engagement, "We are half-way there! If we can match the challenge, we can make this happen!"

A typical public campaign gift profile might look like this:

- 3 Grants of $250,000 each = $750,000 from area private or community foundations.
- 50 Gifts of $10,000 each = $500,000
- 75 - $5,000 commitments = $375,000
- 150 - $1,000 commitments = $150,000
- 300 - $500 commitments = $150,000
- 500 - $100 commitments = $50,000
- Balance from smaller gifts from residents, businesses and fundraising events = $25,000

Foundation support. Often foundations including private, healthcare conversion and community foundations, want to see strong community support before committing funding. While area foundations can be commitment targets during a silent campaign, the case statement for support is stronger once the goal is approaching 50%. Approaching area foundations during a public campaign to make substantial funding commitments can create momentum motivating other contributors to step up and give. Most people, organizations and businesses want to be part of a successful community effort.

With smaller donors, community rooted capital campaigns may create “builder clubs” or “legacy societies” to encourage broad participation and constructive competition. Specific organizations like civic groups may set a mini goal competing with other civic organizations to see who can meet their goal first.

Campaign timeframe. Assuming at launch point you have a detailed project ready for fundraising, we suggest the following timeframe:

- First six months – Silent Campaign
- Next 12 months – Public Campaign*
- Initiative Launched!

*During the silent campaign, grant funders are approached, and wheels are set in motion to begin securing contingent grant commitments based on success with the silent and public portions of the campaign.

In this common scenario, we are looking at 4 years of hard and sustained work from start to finish.

All the *stuff*. Capital campaigns require lots of “stuff” or materials. If a campaign consultant is employed, they will have templates including tested language that can be used. With a go-it-alone approach, all of these materials will need to be developed and produced. In this case, we suggest that communities identify other area communities that have done similar projects, visit those communities, gather their materials and modify it for your campaign.

Recognition. Recognition is important, but there are at least two choices on how to proceed:

Egalitarian. We are seeing more situations where levels of giving are not being employed. Every gift is viewed as important. However even in these cases, the anchor contributor may have naming rights for the initiative and lesser contributors (major, significant, etc.) may have naming rights to programs within the initiative.

Levels of giving. Levels of giving recognition is more common, and these levels are tied to the size of the gift based on the gift profile developed for the campaign. Common names include platinum, gold, silver, etc. Again, as part of the community’s homework, we suggest visiting similar projects in area communities to look at their recognition approaches, names, etc. and selecting the concept that enjoys the greatest support.

e2 Insight

Over the years e2 has been involved in hundreds of capital campaigns with the largest being about $10 million. Every campaign is very different, and the concepts and techniques must be customized to the realities, opportunities and preferences of the community and their project. There are hundreds of significant tactical details that contribute to or limit success. Higher education and healthcare organizations are experts at capital campaigns. If a community cannot afford a consultant, consider engaging the CEO, CFO or development officer from the local college, hospital or care home. Chances are good they have been through this and may have professional training.

The next section of this paper focuses on endowment building for entrepreneurial ecosystems and its importance for communities to experience long-term and sustainable prosperity.

Entrepreneurship Endowments

What does community philanthropy and entrepreneurship have in common? e2's current thesis is that every community and region in North America can build their community development strategy to include both entrepreneur-led development and community philanthropy. Before we dive into entrepreneurial endowments let's take a side trip and explore our **Community Prosperity Framework**.

Community Prosperity Change Model

America, always the land of opportunity, has drawn people from across the globe with millions of new residents from Europe, Asia, Africa and the Americas. During and following World War II, the United States was among a few countries that were stronger. During the war we rapidly developed our industrial, economic, government and societal foundations. For the ensuing decades all the way into the 1980s we took prosperity for granted. But since the 1970s real earnings by the middle class have stagnated and poverty continues to remain. When compared to other countries upward mobility has eroded in the United States over the past four decades. Even in prosperous communities like my current hometown of Lincoln, Nebraska, nearly 50% of our children are food insecure.

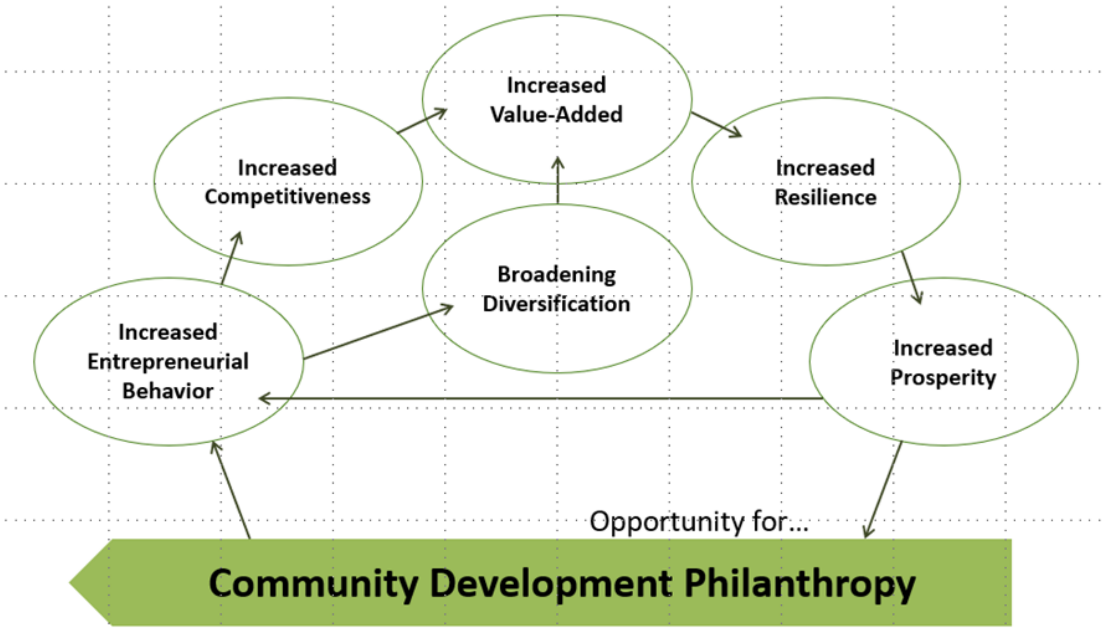
In e2's **Community Prosperity Development Framework** we challenge every community and region to aspire for greater and more broadly shared community prosperity. How can we create economies and communities where every resident has meaningful pathways to greater personal prosperity--not just the size of residents' estates, but a sense of belonging and where meaningful work is possible?

Community Prosperity Defined. Every community should aspire to being prosperous. Our operational definition of community prosperity includes certain critical attributes such as:

Robust – Sustainable – Widely Shared – Opportunities for Mobility – Inclusive

Community prosperity can be measured but it is also like art or a beautiful sunrise…you feel it when you experience it.

These two communities could be just a short drive from each other. The first picture conveys a powerful image of a distressed community. Run-down building, no activity and the kind of street where you are unlikely to stop and get out of your car. The second picture conveys an image of a place where you want to stop, walk around and maybe even live there. There are all sorts of metrics we can use to measure community and resident prosperity. But images like these two create a deeper meaning of community vibrancy. The following illustration provides e2's **Community Prosperity Change Model** or theory:



Our communities exist in an increasingly competitive and inter-connected global market economy and society. Traditional industries like agriculture, manufacturing, energy and the like continue to be very important today. But often these legacy industries can no longer ensure robust and sustained community prosperity.

If the goal is increased community prosperity, then e2 would suggest the stimulus is increasing entrepreneurial behavior in communities and regions. When entrepreneurial behavior is grown among business, civic and social entrepreneurs, a sequence of very important outcomes occur with increased impact over time:

Increasing Competitiveness – Broadening Diversity – Rising Value-Added

When increasing competitiveness, broadening diversification and rising value-added within economies and societies combine, community resiliency deepens. In today's dynamic economic environment, resiliency is foundational to sustained community prosperity.

Resiliency Defined. Resiliency is the ability of a person, family, organization, community or environment to respond and recover when it is seriously stressed due to an economic recession or climate event like a tornado or wildfire. Serious damage is done, but the ability to recover is embedded in resiliency. Resilient people, organizations and communities typically come back stronger and better when stressed.

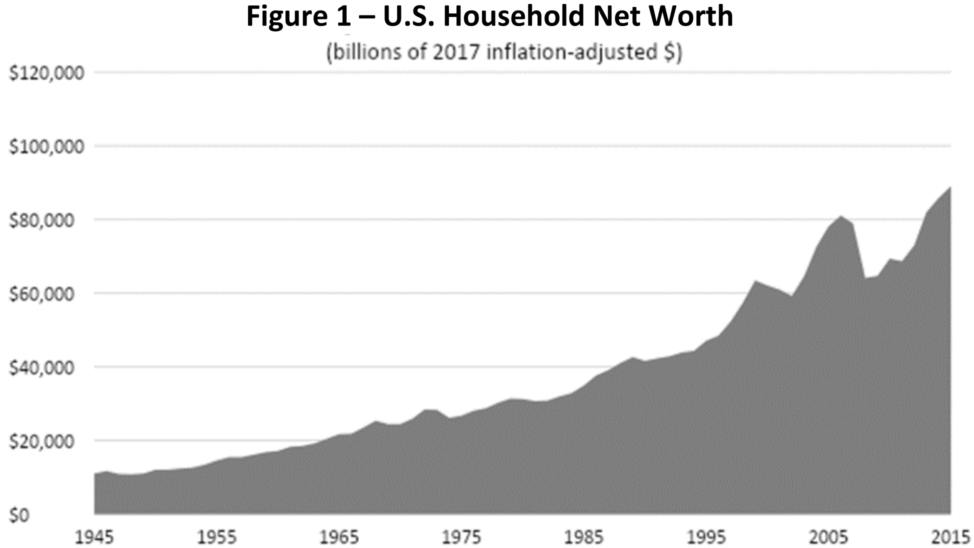
Prosperous communities create wealth in the form of leadership, organizations, foundations, tax bases and the personal wealth of residents. When wealth is created, there is the opportunity for forward giving. There is a powerful "potential" connection between successful local entrepreneurs, philanthropy and the ability to secure robust and sustainable funding for entrepreneur-led development and entrepreneurial ecosystem building.

The Entrepreneur Connection – Wealth Creators and Donors

America has a long and rich history of entrepreneurship. Entrepreneurs use innovative technologies and ideas to create commercial opportunities that generate and create wealth for themselves, their investors, employees and communities. This creative process is replicated in communities large and small across the United States.

The following graph illustrates U.S. household current net worth (i.e., assets less liabilities) from 1945 to 2015. Since 2015 there has been rapid wealth growth among American households. This grow is largely concentrated in the top 1% and top 10%. But as the Great Recession Recovery has continued and deepened, we are now seeing wealth being built by middle-income households and even those in the bottom 50% of wealth-holding households.

Figure 1 – U.S. Household Net Worth

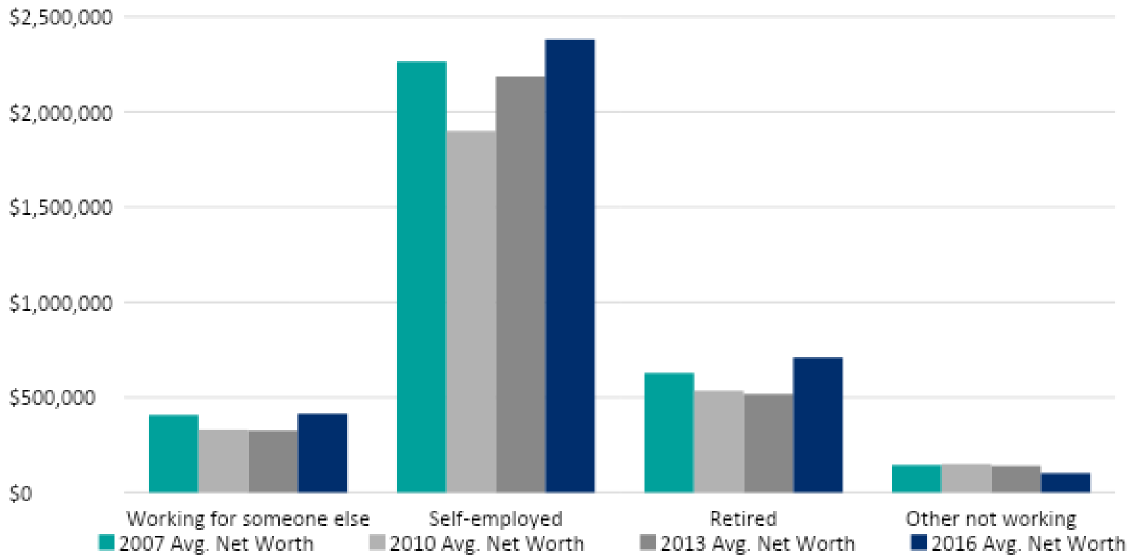


Source: *Financial Accounts of the United States*, Table B.1 – Derivation of U.S. Net Worth. Washington, D.C.: Board of Governors of the Federal Reserve System. Third Quarter, 2017.

Household wealth is created in many ways from hard-working professionals to those with assets that generate returns (e.g., leased farm ground, rental prosperities, stocks, etc.) to business ownership. According the Federal Reserve's *Survey of Consumer Finance* periodic survey, **the single greatest pathway today to personal wealth is through entrepreneurship.**

Figure 2 highlights the average net worth by work status. Compared to those working for someone else and even retired, “self-employment” or entrepreneurship is significantly higher. On average, entrepreneurs have personal net worth of nearly $2.5 million. This places entrepreneurs in the top 5% of American households by wealth.

Figure 2 – Average Net Worth by Work Status



Source: *Survey of Consumer Finance*

The potential connections are significant…

1. We have successful entrepreneurial families in every community across America.
2. These families have significant wealth capacity.
3. Very often they are rooted and love their hometowns.
4. They represent potential endowment donors and impact investors.
5. Their passion is entrepreneurship and they often care about supporting newer generations of entrepreneurs.

Hypothetical Community Scenarios

*What if we focus on a micr*opolitan area community with 25,000 residents in America’s heartland? Over the years there have been hundreds of successful entrepreneurial families. They are engaged and committed to their communities. Chances are good these families have supported community philanthropic activities like their church, favorite nonprofits and their community foundation.

What if 25 of these entrepreneurial families were asked to come together to capitalize a fund within their community foundation to support entrepreneur-led development and ecosystem building? Say each of these families commits to contributing $50,000 over five years to start this fund thus creating $250,000 per year or $1.25 million over five years. Say 50% of these funds or $625,000 (e.g., $125,000 per year) was made available to support this work and the balance was placed in a dedicated endowment. $125,000 could capitalize an important start to a very robust entrepreneurship strategy leveraging other funding from government, education and regional development organizations.

At the end of five years the "entrepreneurship endowment" would have over $660,490 capable of generating nearly $30,000 per year, and it would be forever inflation protected. Over a generation, even without further contributions, this endowment would grow to over $1 million and have generated over $800,000 in initiative support.

Figure 3 – Entrepreneurship Endowment Illustration

Year	New Gifts	Return	Payout	Fund Balance
1	$125,000	$8,750	$5,625	$128,125
2	$125,000	$8,969	$5,766	$256,328
3	$125,000	$17,943	$11,535	$387,736
4	$125,000	$27,142	$17,448	$522,430
5	$125,000	$36,570	$23,509	$660,490
6	$0	$46,234	$29,722	$677,003
7	$0	$47,390	$30,465	$693,928
8	$0	$48,575	$31,227	$711,276
9	$0	$49,789	$32,007	$729,058
10	$0	$51,034	$32,808	$747,284
11	$0	$52,310	$33,628	$765,966
12	$0	$53,618	$34,468	$785,116
13	$0	$54,958	$35,330	$804,744
14	$0	$56,332	$36,213	$824,862
15	$0	$57,740	$37,119	$845,484
16	$0	$59,184	$38,047	$866,621
17	$0	$60,663	$38,998	$888,286
18	$0	$62,180	$39,973	$910,493
19	$0	$63,735	$40,972	$933,256
20	$0	$65,328	$41,997	$956,587
21	$0	$66,961	$43,046	$980,502
22	$0	$68,635	$44,123	$1,005,014
23	$0	$70,351	$45,226	$1,030,140
24	$0	$72,110	$46,356	$1,055,893
25	$0	$73,913	$47,515	$1,082,291
Cumulative Payout			**$823,123**	

Of course, through close collaboration with this community's foundation and business families, additional gifts would be made. Once a donor has given to a capital campaign and evidence of impact is demonstrated, many donors will provide for larger gifts as part of their estate plans. Our second scenario illustrates what is possible when this dynamic occurs over time:

Figure 4 – Revised Entrepreneurship Endowment Illustration

Year	New Gifts	Return	Payout	Fund Balance
1	$125,000	$8,750	$5,625	$128,125
2	$125,000	$8,969	$5,766	$256,328
3	$125,000	$17,943	$11,535	$387,736
4	$125,000	$27,142	$17,448	$522,430
5	$125,000	$36,570	$23,509	$660,490
6	$1,000,000	$46,234	$29,722	$1,677,003
7	$0	$117,390	$75,465	$1,718,928
8	$0	$120,325	$77,352	$1,761,901
9	$1,500,000	$123,333	$79,286	$3,305,949
10	$0	$231,416	$148,768	$3,388,597
11	$0	$237,202	$152,487	$3,473,312
12	$750,000	$243,132	$156,299	$4,310,145
13	$0	$301,710	$193,957	$4,417,899
14	$0	$309,253	$198,805	$4,528,346
15	$250,000	$316,984	$203,776	$4,891,555
16	$0	$342,409	$220,120	$5,013,844
17	$100,000	$350,969	$225,623	$5,239,190
18	$0	$366,743	$235,764	$5,370,169
19	$3,000,000	$375,912	$241,658	$8,504,424
20	$0	$595,310	$382,699	$8,717,034
21	$0	$610,192	$392,267	$8,934,960
22	$1,500,000	$625,447	$402,073	$10,658,334
23	$0	$746,083	$479,625	$10,924,792
24	$200,000	$764,735	$491,616	$11,397,912
25	$0	$797,854	$512,906	$11,682,860
Cumulative Payout			**$4,964,148**	

These two scenarios assume an average annual growth rate of 7% and an average annual payout rate of 4.5%.

With just eight estate gifts the overall endowment grows to nearly $12 million generating nearly $5 million in payout over the generational period of 25 years. The annual sustainable support to this community's entrepreneurship initiative grows from about $24,000 in year five to over one-half million per year by year 25.

Finally, we must use our commitments to build a capital campaign (near to mid-term funding) and endowments (long-term and permanent funding) to leverage traditional economic development funding sources into supporting entrepreneurship. Our next stop is focused on this leverage part of the strategy.

Leveraging traditional economic funding to entrepreneurship

Traditional economic development funding sources most often focused on business attraction and maybe workforce development. These funding commitments are part of our economic development DNA. We have to be determined in making the case to these traditional economic funding stakeholders (e.g., government entities, banks, utilities and major employers) to begin shifting funding to higher ROI economic development, which is entrepreneurship. Leveraging support requires a three-part approach:

1. **Documenting the trade-off ROI of attraction versus entrepreneurship.** There is momentum in continuing to support what you have been supporting in the past. There are relationships and peer pressure. Traditional development based on attraction may be what funding stakeholder know. Without attacking attraction as a strategy (it may still make sense as part of a community's development portfolio), it is important to educate around the comparable ROI (return on investment) trade-offs of traditional development versus entrepreneurship.

2. **Providing matching funds.** Change embodies risk. Risk can contribute to staying the course where the unknown and unproved is perceived to be riskier than continuing to do what is not really working anymore. Matching funds reduce risk perceptions. Others are taking risks and they are committed. That dynamic provides leverage and can crack open the door to change and shifting funding priorities. The proposed capital campaign coupled with the prospect of permanent endowments provides powerful matching funds and leverage.

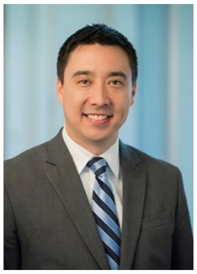
3. **Ensuring there is a smart and compelling investment game plan.** Like with any promising entrepreneurial venture it is important to have a smart vision and game plan. Like with ventures the plan is important, but the people behind the plan are even more important. The processing of visioning and conducting a sound capital campaign can ensure you have the right stuff to make a compelling case.

Ultimately repurposing some or all of the existing economic development funding to support entrepreneurship ensures that over time this becomes the primary way a community or region fulfills its commitment to ensuring a competitive economy and prosperous future.

Lessons from Hutchinson and Reno County, Kansas

There is a very interesting story emerging from Hutchinson and Reno County, Kansas. A group of local visionaries working with some development stakeholders and the Hutchinson Community Foundation are beginning to put this very strategy into play. Stay tuned as we continue to monitor and capture this promising game plan from the Sunflower State.

The power of entrepreneurial ecosystem building



Andy Stoll, Senior Program Officer, Entrepreneurship, Ewing Marion Kauffman Foundation is known to say, ***"Entrepreneurial talent is universal. Entrepreneurial ecosystems are not."***

Andy's observation is spot on in our opinion. The same can be said for students and educational systems, talented artists and the list goes on. A collection of resources and programs is not sufficient to empower transformative change. Ecosystems create dynamic and healthy environments that can stimulate more entrepreneurial behavior and grow a pipeline of successful entrepreneurs. But high impact ecosystems don't just happen. They must be grown requiring serious commitment and investment.

And Victor Hwang, formerly with the Kauffman Foundation, makes the case for entrepreneurial ecosystems in his book series, The Rainforest. If we want to growth entrepreneurial people, communities, regions and nations – we must invest in ecosystem building. The national conversations stemming from the Kauffman ESHIP Summits not only identify paths forward in building stronger and more vibrant entrepreneurial ecosystems but point out key challenges.

One of the greatest challenges facing ecosystem building and more dynamic and prosperous communities, is the lack of funding for ecosystem builders and building. Often there is funding for programs, resources and capital. But finding robust and reliable funding for ecosystem building has proven very challenging.

Ecosystem building takes staffing and patient and sustained funding.

e2 believes community philanthropy is an answer by adopting a three-point approach to a funding venture model for entrepreneurial ecosystem building.

Additional resources

A New Domain for Place-Rooted Foundations: Economic Development Philanthropy
This paper originally appeared in the September 2016 *The Foundation Review* special issue, "The Future of Community," and was co-authored by the Center for Rural Entrepreneurship's Deborah Markley and Don Macke and the Aspen Institute's Janet Topolsky, Travis Green and Kristin Feierabend. In it they assert that economic development philanthropy is a new domain for place-rooted foundations and that foundations have an important role to play in this development. They also provide insights into what it will take to build a movement of place-rooted foundations to embrace social entrepreneurship and advance an economy that works.

e2 Sustainability Guide. This resource is a bit dated, but it contains useful insights and resources. Consider this guide a supplement to this paper.

Entrepreneurship and Community Development: What Matters and Why?
An essay written by Thomas S. Lyons for *Community Development.*

Kauffman Playbook 3.0
The Kauffman Foundation's guide to entrepreneurial ecosystem building.

Philanthropy and Community Building in the 21st Century (5-part series):
Don Macke shares his perspectives from the field in this article series written in 2017 for the Center for Rural Entrepreneurship newsletter:

1. Intro
2. America's Transfer of Wealth Opportunity
3. Entrepreneurs and American Wealth
4. Realizing Broadly Shared Prosperity in America
5. Wealth Trends and Implications for Philanthropy

How e2 Can Help

e2 Entrepreneurial Ecosystems can help communities increase prosperity through entrepreneur-focused economic development and ecosystem building through:

- **Mentoring.** We mentor and coach new practitioners seeking to pursue entrepreneur-led development. We provide advice and support for building entrepreneurial ecosystem strategies that work.
- **Analytics Support.** E2 helps communities and regions understand their entrepreneurial potential through research. Please view a sampling of our research tools at: https://www.energizingentrepreneurs.org/solutions/start.html
- **Fostering the eMovement.** We support the national entrepreneurship movement along with our partners including the **Federal Reserve Bank of Kansas City**, **SourceLink**, **Edward Lowe Foundation**, **Kauffman Foundation**, and **NetWork Kansas**. Together, we continue to advance the foundational ideas of building entrepreneurial ecosystems and entrepreneurship-led economic development.

Our emerging vision includes the following solutions:

- **e2 Institutes.** Explore our new generation of e2 Institutes where teams come together, learn from each other and explore the expanded world of strategies, tactics and resources needed in entrepreneurial ecosystem development work.
- **National e2 Resource Network.** e2 offers a resource network capable of connecting those seeking help with those who can help across North America.

e2 Entrepreneurial Ecosystems (formerly the Center for Rural Entrepreneurship) is led by Don Macke, who has more than 40 years of community economic development and policy experience. We have a national team of practitioners, both inside and outside e2, who bring research, coaching, incubation, market intelligence and other expertise to this work.

Questions & More Information

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The mission of **e2 Entrepreneurial Ecosystems** is to help communities and regions connect, learn, and share best practices for building sustainable entrepreneurial ecosystems across North America. With more than 25 years of field experience, particularly in rural America, e2 is the preferred resource for communities of all sizes wanting to pursue prosperity.

To learn more about e2, go to www.energizingentrepreneurs.org.

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