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Northeast Entrepreneur Fund Helps Region Move Toward Self-Sufficiency

By Thomas D. Rowley

When it comes to helping entrepreneurs, the folks at the Northeast Entrepreneur Fund know what they are talking about—everyone on staff has been a business owner. Indeed, it's the first hiring criterion.

“We practice what we teach,” says Mary Matthews, president of the fund. “We, too, need to be entrepreneurial.”

And they are, tracing back to the organization's beginnings.

The fund, which operates in an 11-county, 24,000 square mile rural region of northeastern Minnesota and northwestern Wisconsin, began in response to a restructuring of the region's mining industry in the early 1980s that gutted both the sector (reducing employment by some 75 percent) and its suppliers (only one of seven family-owned tire suppliers remains today). The region's people, who had historically viewed themselves as employees rather than employers, began to see the need for creating their own jobs, their own destinies.

One of those people was Nick Smith, a retired attorney from Duluth, who wanted to create an equity fund to help the region pick itself up. With advice from ShoreBank, the country's oldest and largest community development bank, and funding from the Blandin Foundation, Minnesota's largest rural-based, private philanthropy, Smith founded both the Northeast Entrepreneur Fund and Northeast Ventures Corporation, one of the first community development venture capital funds in the country. Both launched in 1989.

Since that time, the fund has evolved as an organization, says Matthews. “We continue to try new things. Some have worked, some haven't. But we've never been afraid.”

According to Matthews, the fund started as a training organization that also made loans to people who simply could not get financing elsewhere. In 1995, however, the organization underwent a transformation when the board realized that the funding it received from various foundations would not be available forever. The fund would have to become self-sufficient. That, in turn, meant becoming more entrepreneurial, more business-like.

As a result, the fund became “more aggressive about lending” says Matthews. It also began to better market and sell its training products—now used by more than 60 organizations around the country. Together, interest payments on loans (made at market rate) and curriculum fees generate some 35 percent of the fund's revenues, the rest coming from foundations such as the Ford Foundation, Northwest Area Foundation, and Blandin, and community development block grant money from local municipalities.

The fund has also become more adept at partnering. Among other efforts, the fund is working with nine community colleges in the region that use the fund's curriculum. It is also working with a consortium of colleges known as the True North program to help match up regional entrepreneurs with companies who have work to be contracted out.

All of these efforts, says Matthews, have made the fund a better technical assistance provider.

And the numbers bear out her assertion: the survival rate of businesses helped by the Northeast Entrepreneur Fund is 85 percent after two years. The survival rate among its loan customers is nearly 100 percent.

Such high survival rates are not, says Matthews, indicative of the companies they serve. The fund targets low-income, minority entrepreneurs—people who tend to have relatively less to build on and relatively fewer opportunities for assistance. Indeed, when analyzing a loan application, the fund focuses first on the business plan and the person's ability, commitment, and experience, rather than on collateral. The fund calls this "character-based lending."

"We focus on opportunity for success first," says Matthews, "and the collateral and secondary sources of repayment later."

Rather, the high rate of survival is more a function of the kind and amount of work the fund does with its customers. "We serve some of the hardest folks," says Matthews, "but we do a lot of due diligence and ask a lot of questions and that helps people strengthen their plan."

As for numbers, the fund has made \$4.2 million in loans and helped some 700 businesses start or grow in its 11-county region. That translates to about 1700 jobs (a conservative estimate because those jobs were counted at the time the businesses started, stabilized or expanded rather than after the businesses grew or expanded.). According to Matthews, the actual number of jobs created or saved is several times more than that.

When asked for the keys to the fund's success, Matthews cites the entrepreneurial spirit of the organization, its partners, and a third, less tangible but no less real element: passion.

"It's critical," says Matthews, "to care about the place in which you're working and the issue. We're helping people look around and identify ways to make their own job work for themselves. Helping people understand the value of their place and make their own work there so that they don't have to move for a job."

"In an ideal world," she says, "we could create work for ourselves wherever we are and wherever we want to be."

With help from the Northeast Entrepreneur Fund, the world—at least the part of it served by the fund—is becoming more ideal every day.