

# **An Evaluation of Effectiveness and Impact of the Massachusetts Growth Capital Corporation's Small Business Technical Assistance Grant Program**

## **Executive Summary**



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# Executive Summary

## Introduction

Massachusetts Growth Capital Corporation (MGCC) is a state quasi-public corporation working to foster job creation and economic development in the Commonwealth's Gateway Cities and low- and moderate-income communities (LMI) through supporting the startup, growth, and stabilization of small businesses, including women- and minority-owned businesses.

MGCC advances its mission through two core activities. First, it supplies loans to small businesses unable to access capital from conventional private lenders through a range of business credit products, including the Small Business Administration (SBA) Microloan Program. Its second activity is administering the state-funded Small Business Technical Assistance Grant Program (grant program) that provides operating grants and other resources to statewide, regional, and local nonprofit organizations to strengthen their capacity to deliver technical assistance, access to capital, and training to small businesses.

The grant program focuses on strengthening small business development capacity in Gateway Cities and in LMI communities and extending technical assistance and educational services to women, veteran, minority, low-income, and immigrant entrepreneurs who often face barriers to accessing business assistance. The program goals are to expand economic vitality, business ownership opportunities, and employment offerings in Massachusetts, especially in rural regions, Gateway Cities, and communities that have not shared in the strong economic performance within the Boston metropolitan region.

MGCC awards grants on an annual basis through a competitive Request for Proposal (RFP) process with the total available funding set by annual budget appropriations. An outside Review Committee reviews all grant applications and recommends grant recipients and award amounts to the MGCC board of directors for final approval.

MGCC provides services and resources beyond grants aimed at strengthening grantee capacity and effectiveness, sharing best practices and innovations across grantees, and building a statewide network of community-based small business development organizations. MGCC holds an annual convening of its grantees to share information and effective practices and to foster learning and new relationships. It also provides periodic training sessions on different issues and delivers information about resources and funding opportunities to grantees. In years when there is sufficient state funding, MGCC has added small supplemental grants targeted to specific uses that include: (1) expanded services to immigrant businesses; (2) mini grants for professional services to deliver specialized technical assistance to individual businesses, typically through private consultants and professionals; and (3) grantee program capacity building.

MGCC retained Mt. Auburn Associates to undertake an evaluation to address three core questions:

1. What are the grant program's outcomes and resulting economic development benefits?
2. What are critical lessons, best practices, and innovations from comparable programs in other states that can inform MGCC's program design and management?
3. What are opportunities, approaches, and strategies that MGCC can use to expand the program's impact and improve its effectiveness in advancing economic development, particularly in Massachusetts Gateway Cities and low-income communities?

The evaluators used a multifaceted methodology to gather the information and data needed to understand and measure program outcomes. The focus of this data collection and analysis was the 27 grantee organizations that received three or more years of MGCC grants between Fiscal Year 2014 and Fiscal Year 2018 (“core grantees”). This methodology included:

- a review of program documents, records, and an interview with the grant program manager to understand the grant program’s goals, policies, and processes;
- analysis of MGCC grantee reporting data provided in grantee annual reports;
- interviews with the executive director and/or technical assistance program manager at grantee organizations;
- a survey<sup>1</sup> of business clients assisted by grantees;
- focus groups with state and regional economic development and small business development practitioners; and
- best practice research on comparable technical assistance grant programs conducted through a web search, review of practitioner literature, and interviews with program managers.

## Program trends

**Funding:** Over the five-year period (FY 2014 to FY 2018), MGCC awarded \$5.6 million in grants. The overall program trend has been to provide smaller grants to more organizations, which has allowed MGCC to expand the types of programs funded and geographic areas served. In recent years, MGCC has awarded grants to programs targeting specific business sectors and that combine technical assistance with business financing. It also awarded more grants to programs serving Gateway Cities outside of the Boston region.

**Characteristics of the grantees:** Through the grant program, MGCC has supported organizations serving all regions of Massachusetts and representing different types of organizations and program approaches. Six grantees provided services on a statewide basis, while the geographic distribution of the remaining grantees was fairly even across the state’s regions. In terms of organizational type, MGCC has provided funding to a diverse set of nonprofit organizations that includes CDCs, certified CDFIs, chambers of commerce, and sectorally or demographically targeted groups. MGCC has provided the most funding to CDCs, which account for 46 percent of the grants it awarded from FY 2014 to FY 2017.

**Types of services provided:** Grantees provided training or classes that meet for a minimum of five hours that teach business skills that result in measurable status outcomes as well as one-on-one counseling that includes advising, advocacy, and/or intervention on behalf of an individual business client. Grantees served almost twice as many clients through one-on-one counseling than by training. Several grantees combine training and counseling with additional services, including a loan fund, accelerator programs, or operating a physical facility or workspace for a participating business. This can take the form of an incubator or coworking space.

**Use of grant funds:** There is a large range in the portion of grantees’ annual budget that MGCC grants funded: 33 percent (nine grantees) received 25 percent or less of their budget from MGCC grants; 48 percent (13 grantees) received 26 percent to 50 percent of their budget from MGCC grants; and 19 percent

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<sup>1</sup> See appendix in full report for survey methodology.

(five grantees) received 51 percent to 66 percent of their budget from MGCC grants. Interviews revealed that MGCC grants largely fund technical assistance staff salaries, underwrite core technical assistance capacities, and aid organizations in expanding their services and the geographic areas served.

**Number of clients served:** The 27 “core grantees” this study analyzed reported serving 5,736 clients from FY 2014 through FY 2017, averaging 1,434 clients per year. The annual number of clients almost doubled from 974 in FY 2014 to 1,796 in FY 2016 before declining to 1,568 in FY 2017, reflecting increases in the number of organizations funded and a decline in total program funding.

**Cost per client served:** As an indicator of program efficiency, the evaluators calculated the cost to MGCC per client served, which was lowest at \$533 and \$647 in FY 2017 and FY 2014, respectively, the years with the smallest level of grant funding. In the intervening years, the MGCC cost per client was closer to \$900, or 40 percent to 70 percent higher. This suggests that grantees were able to assist clients with less costly services or were able to secure other funds to address lower MGCC funding, or both.

**Types of businesses served:** Overall, grantees assisted comparable numbers of existing businesses and new businesses (pre-start-up and start-ups) at 2,741 and 2,589, respectively. This pattern was consistent over time, except for FY 2014 when existing business clients were 25 percent higher than new business clients. In terms of the type of business owner, underserved populations (women, minorities, immigrants, LMI individuals, and veterans) constituted over 60 percent of clients for all but one core grantee. Women and LMI individuals were the largest client segments among target populations, accounting for 62 percent and 68 percent, respectively, of target population served over the four-year period. Immigrant and non-native English speaking clients were one-third of target population clients.

## Outcomes

Clients assisted by MGCC core grantees generated the following business, employment, and community outcomes between FY 2014 and FY 2017:

- Grant program funding generated 1,258 new businesses, 1,642 total business expansions, and 1,425 enterprises stabilized (“positive business outcomes”).
- MGCC’s annual cost per positive business outcome was modest, averaging \$1,007 over the four years.
- The business survey results indicate that 27 percent of surveyed businesses started a business since receiving technical assistance and 18 percent went from start-up to an existing business, an indicator that the business expanded.
- The grant program has helped over 1,200 clients secure loans that totaled \$105.7 million over the four-year period.
- Clients added 2,854 jobs and retained 4,862 for a combined employment impact of 7,716, suggesting that technical assistance to existing businesses had a larger impact than the creation of new enterprises. The business survey provided evidence that employment outcomes are attributable to the technical assistance received. Almost half (44 percent) of surveyed businesses reported that the technical assistance directly resulted in increased employment.
- Grant program clients contributed to the physical improvement and revitalization of their communities. Over half of surveyed clients either reused an abandoned or vacant building,

improved the physical condition of their building, or improved the surrounding site or buildings. A small percentage of businesses (8 percent) indicated that their investments helped to attract additional businesses.

## **Impacts on Massachusetts and regional small business ecosystem**

MGCC's grant program operates within a statewide small business development ecosystem, while program grantees participate in their regional ecosystems. MGCC has contributed to these state and regional ecosystems by actively encouraging partnerships and collaborations in program guidelines and applications; fostering connections among grantees through its convenings, introductions, and referrals; and providing direct grant funding for partnerships

The grant program has expanded small business technical assistance capacity and services in all regions of Massachusetts and has supported grantees' provision of the following ecosystem functions:

- outreach and expanded access to technical assistance and training;
- expansion of the supply of core business counseling and training services;
- addition of language and culturally appropriate services in some regions;
- expanded access to capital technical assistance and alternative credit sources; and
- availability of specialized accelerator programs and industry-specific technical assistance.

Despite these impacts, MGCC and the grant program are not well recognized and understood as a funding source and technical assistance resource beyond its own grantees and other state programs. Moreover, while considerable collaboration exists around serving clients and implementing programs, there are few regional efforts that convene diverse business development stakeholders to strengthen and improve the impact of the overall ecosystem.

Despite recent improvements and investments by the grant program, important gaps remain in many regional business development ecosystems. Major gaps reported by multiple grantees and identified through consultant interviews and focus groups include:

- The supply of business planning assistance, as many grantees indicated that the demand for this assistance exceeds their capacity and that of other providers.
- ESOL, non-English services, outreach, and services to some immigrant populations. This is a need for both regions with large immigrant populations and those with emerging populations and immigrant entrepreneurs.
- Specialized services including bookkeeping and accounting, local permitting, workforce training, and shared workspace are other gaps. The availability of specialized services, such as accounting and legal assistance, in languages other than English, is in particularly in short supply. Addressing the myriad permitting regulations and processes across many small communities is a key challenge in rural regions.
- There is a need for alternative credit outside of standard commercial underwriting standards and at non-predatory interest rates.
- Regional disparities exist in CDFI and alternative lending capacity with greater capacity in southern, eastern, and western Massachusetts.

- Accelerator programs targeting immigrant, low-income, and minority entrepreneurs are present in a small number of cities.
- The supply of and access to specialized industry-based technical assistance is limited to a few sectors such as food products, agriculture, and the creative economy.

## **Grantees' and businesses' perceptions of MGCC services**

All grantees found MGCC's financial and non-financial assistance valuable. The expanded capacity provided through MGCC grants resulted in multiple impacts across grantee organizations. By far, the most common impact was allowing organizations to serve more clients, reported by 15 organizations, or 60 percent of grantees. Four of these grantees indicated grants also allowed them to expand services to new types of clients, including immigrants, minority businesses, existing businesses, and types of producers. Several grantees with loan programs reported that MGCC funds resulted in making more direct loans (three) and achieving lower default rates from more intensive technical assistance to borrowers (two). A subset of grantees (six) indicated that MGCC funding was vital to sustaining their small business assistance program and servicing their core clients.

Grantees also found that MGCC's non-financial assistance had a positive impact on their operations. The most common types of assistance and their benefits were training around specific issues and skills (reported by nine grantees); referrals to specific resources and service providers (eight); improvement to their client tracking and outcome measurement (seven); networking and gaining information on best practices from other grantees (six); and advice, guidance, and mentoring from the grant program manager.

Business clients receiving technical assistance services had a very positive experience with MGCC grantees. Ninety-two percent of the surveyed business clients reported that they were very satisfied or somewhat satisfied with the business assistance provided, and more than 85 percent of survey respondents rated grantees as "Great or Good" in terms of the usefulness and clarity of materials provided, usefulness of assistance from organizations to which they were referred, the usefulness of assistance from a business consultant, the length of time to resolve a business problem, and the length of time to receive assistance.

## **Review of similar programs and best practices**

A review of other public sector small business and technical assistance programs revealed that most of these programs operate at the city level. Some interesting aspects and practices from these programs are:

- Annual funding for these city programs ranges from \$500,000 in Minneapolis to \$3 million in Washington, D.C., with programs funding 10 to 24 organizations. Federal community development block grants are a common funding source for city programs, sometimes supplemented with city appropriations.
- Minneapolis awards its contracts for services targeted to specific business stages with compensation tied to achieving specific business outcomes with private consultants and professional service firms used to fill gaps in specialized technical assistance.
- Portland has organized and marketed its program as a network of organizations that provides complementary services and cultural competencies and has created a customized reporting tool using Outcome Tracker software that all grantees use with online quarterly and annual reporting.
- The city of Boston created the Boston Main Streets Foundation to raise private sector funds to provide grants to nonprofit Main Street organizations.

- Maryland uses 1.5 percent of the proceeds from video lottery terminals to provide grants to “fund managers” to provide loans and investments to small, minority-, and women-owned businesses with half of the funds targeted to firms located near the state’s six casinos.
- New York State’s Entrepreneurial Assistance Program has created a network of 24 Entrepreneurial Assistance Centers operated by either a nonprofit, community college or a Board of Cooperative Educational Services (BOCES) with an emphasis on minority- and women-owned businesses.

## Key findings

The Small Business Technical Assistance Grant Program is an important part of Massachusetts’ small business development system that expands local capacity to serve small enterprises, particularly historically underserved populations and communities, and is a cost-effective state policy tool to generate business and to assist with job creation and retention. Key program impacts that emerge from this evaluation are:

- The grant program builds the core capacity of nonprofit organizations to help start and grow small businesses by increasing the number of entrepreneurs they can serve and their geographic coverage.
- The program is advancing its mission of serving disadvantaged entrepreneurs with barriers to business ownership and capital with 89 percent of its clients in these target populations.
- Grantees’ technical assistance services generated over 4,200 positive business outcomes that have resulted in the creation and retention of over 7,000 jobs from FY 2014 through FY 2017.
- The client survey provides strong evidence that the reported business and job outcomes are the result of grantee technical assistance.
- The grant program is an efficient use of resources with modest average annual costs in the past four years: \$755 per client served, \$853 per target population client served, \$1,007 positive business outcome, and \$565 per job created or retained. These costs compare favorably to other economic development tools that the Aspen Institute assessed.
- Grantees view MGCC’s administration of the grant program quite positively.
- Grantees view MGCC program staff as accessible and helpful in understanding and addressing program and contract requirements.
- Grantees value the convening, training, and referrals that MGCC provides and cite tangible benefits from this assistance such as increased visibility for their program, access to new services and loan sources for their clients, improved staff underwriting skills, and improvement to services and processes.

Several additional findings are important for MGCC to consider as it looks to sustain and improve the program’s impact:

- There is considerable variation across grantees in their effectiveness in serving different populations, program scale, impacts, and cost-effectiveness.
- Nonprofit programs focused on target populations achieved greater scale of impact at the lowest cost per client served, while the current set of sector-based nonprofit organizations generated the lowest number of business and employment outcomes at the highest per client cost to MGCC.

- Significant gaps exist within and across regions in the strength of their small business ecosystem and the breadth of core ecosystem function. MGCC can take this into account in how it awards grant program funds.
- Access to specialized technical assistance, both related to specific industries and business disciplines (e.g., law, accounting, and technology), remains a key gap across regions.

## Recommendations

The grant program has a unique role in the Massachusetts small business development system, and its continuation with adequate funding is important to maintaining and strengthening the system and expanding access to services in rural areas, in Gateway Cities, and for disadvantaged populations. In addition to working to sustain the program, MGCC can implement the following actions and policies to enhance the program’s impact and work with other stakeholders to build a more effective and equitable small business development system across Massachusetts’ regions:

- ✓ **Diversify and expand funding for the program.**
- ✓ **Use grants more intentionally to strengthen regional ecosystems and to ensure that the full breadth of functions and capacities exists in all major regions.**

In addition to how it deploys the existing grant program, MGCC can undertake additional actions to advance these goals:

- ✓ **Establish a strategy for building sector-based and specialized technical assistance. The sector strategy should identify and target sectors that strongly align with MGCC and state economic development goals, which may lead to a different focus than the current emphasis on arts and food-related sectors.**
- ✓ **Play a leadership and convening role to strengthen the state’s small business development system and advance greater knowledge, coordination, and alignment of efforts.**
- ✓ **Work with grantees and other stakeholders to create an agenda to better leverage college and university resources to support small business development for target populations, low-income communities, and Gateway Cities.**
- ✓ **Improve the current grant program system and grantee capacity for reporting on program outputs and outcomes.**
- ✓ **Revisit with grantees the best timing for the RFP and grant award process.**