

THE NEXT AMERICA | ECONOMIC EMPOWERMENT

The Nonprofit That Gives Broke Entrepreneurs a Chance

To revitalize inner-city neighborhoods, Minnesota's Neighborhood Development Center backs aspiring business owners who already live there.



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When Haiyen Vang and her husband, Neeson, decided to open a clothing store, they were beyond broke. At age 22, they were GED-holders with one Wal-Mart job between them, a toddler at home, and a baby on the way. They had bad credit, and were barely making payments on an asbestos-ridden house on the north side of Minneapolis.

There was no way they would have qualified for a small-business loan from a major bank. But they found a partner in the Neighborhood Development Center, a nonprofit that has been taking risks on low-wealth entrepreneurs in the Twin Cities since 1993. Through entrepreneurship training, small-business loans, and real-estate projects, NDC helps locals create jobs for themselves and others—and revitalize their own neighborhoods.

“NDC just saw a potential,” Haiyen Vang says. “Even though we had bad credit, we were young, they still gave us a chance.” Ten years after enrolling in an NDC entrepreneurship course, she and her husband own a chain of six discount clothing stores, employ about 26 people, and are planning to franchise nationally. The Clearance Rack is one of about 500 NDC-assisted businesses currently operating in the Twin Cities area.

The Vangs are both children of Southeast Asian refugees. Although Haiyen was born in Vietnam, she pronounces “Minnesota” with the soft “o” common in the upper Midwest and projects a very American optimism. She’s the kind of person who, when unemployed and visibly pregnant, decides to start working on a business plan. “It had always been a dream of ours, and even our parents” to own a business, she says.

In most communities, especially low-income neighborhoods, people often run informal businesses to make money on the side. That might mean cutting hair in their living room or fixing neighbors’ cars. “There is just this huge untapped resource,” says Mihailo Temali, founder and chief executive officer of NDC.

It can be incredibly difficult for low-wealth entrepreneurs to start a formal business. Most importantly, they need capital. But when people don’t have any assets, they can’t invest in their business idea themselves and can’t qualify for bank loans, either. Research cited by the Small Business Administration’s Office of Advocacy also suggests that minority business owners are more likely to be denied credit than whites, even after controlling for credit scores, personal wealth, and business revenues.

Would-be entrepreneurs who don’t have much education, don’t have any small business owners in their family or friend groups, or are new to the United States can also be held back because they have no idea where to begin. Cultural and language barriers can make it more difficult to ask for help.

NDC addresses all these challenges, starting with education. Partner organizations—usually groups that serve a particular neighborhood or ethnic community—host classes and recruit



students. NDC-trained instructors teach the courses, which last 20 weeks, cost low-income students \$100, and are currently offered in five languages.

So far, NDC has trained more than 4,400 people. Almost all students earn much less than the area's median income, and most have either a high school or associate's degree. Eighty-four percent of alumni are nonwhite.

Wendy Hines, the trained accountant who taught Haiyen's class, walks students through the nuts and bolts of starting a business. She covers all the logistics, from picking a location to applying for a federal tax-identification number. She also dispenses advice: Try not to quit your day job until your new business is profitable. Only hire family and friends you'll be able to manage as employees.

About one in five students who complete NDC's training decide to take the next step. "A lot of people say they want to start a business, but they don't understand the work that's involved," Hines says. And not all alumni who do start a business are still operating a decade later.

But alumni who do want to proceed can also apply to NDC for a small business loan. NDC's lending team looks carefully at each applicant's finances and business plan, and also uses former instructors as character references. As Haiyen's instructor, Hines could tell her colleagues that Haiyen had worked hard in class, that she was committed to her idea, and that she and her husband had years of retail experience between them.

An NDC loan allowed the Vangs to open their first store near the south Minneapolis neighborhood where Haiyen grew up. Their initial plan was to offer a 3-for-\$10 deal on clothing for the whole family. Haiyen filled the shelves with overstock items. Neeson worked the overnight shift at Wal-Mart so he could work in the store during the day. Often, the Vang's young children would spend the day in the store with them.

The Vangs soon realized that they'd set prices far too low, and that they were stocking too many one-off items. So they evolved. They now charge \$10 or less per item, and only offer women's clothing, shoes, and accessories. When they needed advice, they'd call the small-business consultants at NDC.

Ten years later, The Clearance Rack serves customers all over the city—African-American and Hispanic women in one neighborhood, Nigerian and Liberian immigrants in another, Hmong women in a third. "Every single one of our storefronts was vacant for years before we set up," Haiyen says, even a location inside a mall. The Vangs have been able to purchase a much nicer house in a much nicer neighborhood.

Lending to borrowers who have nothing but a plan to set up shop in a low-income neighborhood sounds like madness. "You couldn't really create a higher-risk portfolio," Temali says. But NDC's default rate is just 5 percent, because the organization surrounds entrepreneurs with support from day one.

NDC calculates that every new business it helps launch eventually puts \$100,000 back into the local economy each year, through paying rent, property taxes, and business expenses. As well as encouraging entrepreneurs to set up shop locally, NDC also invests in real-estate projects that turn blighted, landmark buildings into safe spaces for small businesses to operate.

"NDC assisted us, but then at the same time, we helped ourselves," Haiyen says. She sees franchising the business as a way to pass on the opportunity of business ownership to other entrepreneurs like her. "It's just amazing how the cycle just repeats. And it gets bigger and better every time," she says.