

Request for City Council Committee Action from the Department of Community Planning & Economic Development

Date: January 18, 2011

To: Council Member Lisa Goodman, Community Development Committee
Council Member Betsy Hodges, Ways and Means/Budget Committee

Subject: Request for funding of the partnership with the African Development Center and the City of Minneapolis for the Alternative Financing Program for 2011 as part of the City's small business assistance programs.

Recommendation: City Council Recommendation: The CPED Director recommends that the City Council authorize an allocation of \$40,000 to the African Development Center (ADC) to extend the partnership on business loan activities in 2011.

Previous Directives: On December 13, 2006 City Council approved the partnership between the City of Minneapolis and the African Development Center and authorized the contract forming the Alternative Finance Program. Since 2007 the Business Finance staff on an annual basis has requested that the City Council approve the partnership arrangement with the ADC to operate the Alternative Finance Program.

Prepared by: Becky Shaw 673-5066

Approved by: Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Becky Shaw

Funding Source and Appropriation

Language Reviewed by Development Finance: _____

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____

Financial Impact

- Other financial impact: The \$40,000 has been appropriated in Fund 01SED (Small Business Finance) and is part of the CPED 2011 budget request.

Community Impact

- Neighborhood Notification: Activity is not neighborhood specific.

- City Goals: The AFLP program and partnership with ADC meets the cities goals to provide entrepreneurial opportunities for everyone where diversity will be welcome, respected and valued. It also meets the cities goal of creating a connected community where individuals live within walking distance of what they need.
- Sustainability Targets: Not applicable.
- Comprehensive Plan: Not applicable.
- Zoning Code: Not applicable.
- Living Wage/Business Subsidy Agreement Yes ____ No X Not applicable.
- Job Linkage Yes ____ No X Not applicable.

Supporting Information

The African Development Center (ADC), in cooperation with the City of Minneapolis Department of CPED, operates the Alternative Finance Program which was approved by City Council in December of 2006.

The Alternative Finance Program operated in partnership between ADC and CPED provides Sharia compliant funding to Muslim business owners in the City of Minneapolis. The program officially began in January of 2007. Because of its unique interest/usury stipulations, funding Sharia compliant programs is not an easy task. Conventional banks cannot lend due to upstream/downstream connections to interest. Most private parties simply do not have enough money to lend to friends and family. The partnership between CPED and ADC provides funding to entrepreneurs and established business owners which simply isn't available in other places right now. Since the beginning of the program, CPED and ADC have closed 54 loans for a total of \$1,019,815.94. Economically speaking, 2010 has proved to be a very difficult year for small business owners. Several businesses have struggled financially throughout the year just to keep doors open. Of the 54 loans CPED and ADC have closed from the inception of the program, 2% of the portfolio is in default. An additional 16% of the portfolio, or 9 business owners, are behind on payments, have been restructured, or are simply hoping for a better 2011. The Small Business Administration reports 2009 default rates to be right around 12%. CPED and ADC rates appear to be much lower than the population largely due to ADC's ability to be flexible and find workable solutions for its clients. Minneapolis business owners have remained hopeful and resilient. We have added two community clinics, a home grown manufacturing business, several grocers and retailers, restaurants and home health care assistance businesses to Minneapolis in 2010. The Alternative Finance program has assisted in retaining 21 jobs and created 8 new jobs this year alone.

ADC has an intensive and on-going technical assistance program for its borrowers. The small business programs help new and early stage businesses obtain capital and technical assistance they need to grow and prosper complete with courses, accountants and a computer training center. The program is set up to assist entrepreneurs. City staff is proposing to allocate \$40,000 as a grant to ADC so it can further leverage these funds with other funding sources. City funds will be used to provide guarantees for the alternative finance program, to provide support for programs operations including loan origination and servicing, and to provide technical assistance for loan recipients. The \$40,000 for support of ADC was included in CPED's 2011 budget in Fund 01SED – Small Business Finance.

The Alternative Finance Program over the past three years has seasoned into an important financing tool for entrepreneurs wanting to start or expand a business while staying true to their religious beliefs. The City's partnership with the African Development Center has truly fostered a number of immigrant success stories. Some examples from 2010:

- The City closed on a \$10,000 AFP Loan for the Dur Dur Clothing Store at 2910 Pillsbury Ave. S. Dur Dur Clothing is a retail business that started in 2006 specializing in imported children’s clothing and holiday apparel. In 2007, Mrs. Mohamed made use of a \$5,000 AFP Loan for the purchase of a cash register, new shelving and women’s clothing. She has been an excellent loan client, paying her first loan in full. In 2010 she took out a second AFP Loan to expand her business to include men’s clothing and an upgrade to the ATM machine. The ADC participated in the financing with a matching \$10,000.
- The City closed on a \$10,000 AFP Loan for Global Clothing and Accessories located at 2910 Pillsbury Ave. S. in participation with a \$10,000 loan from the ADC. Global Clothing and Accessories was opened in 2004 in the Karmel Mall by Shukri Gedi. She sells high quality household products, accessories and clothing from around the world. Shukri Gedi was the very first applicant to close a loan through the City’s AFP in 2007. Her business continues to grow steadily and she serves as a role model for other immigrant women facing the difficulties of starting their own small business. The additional financing will help meet the strong needs of her business.
- The City closed on a \$20,000 AFP Loan for Sadia Hot Sauce located at 2214 Central Ave. N.E. in participation with a \$20,000 loan from the ADC. Sadia’s produces and sells East African organic gourmet sauces and now sells product at 14 farmer’s markets and various food co-ops. Mrs. Korad “Sadia” Abdi, the owner has requested financing to purchase equipment to expand her operations and fund new marketing measures. Sadia Hot Sauce also received technical assistance from ADC funded in part by a Great Streets Grant.

Alternative Finance Program

PORTFOLIO SUMMARY

Total # of Loans to Date: 54	Total Loans Outstanding: 51
Total \$ Loaned to Date: \$1,019,815.94	Total \$ Outstanding: \$678,624.19
Total # of Loans Defaulted: 1	Total \$ Amount on Watch List: \$84,740.06
Total \$ Amount Written Off: \$64,583.35	Total # of Loans Paid Off: 5
Default Rate: 2%	Total \$ Private Invest: \$1,193,000
\$1.17 of Private Investment for every \$1.00 of Public Funds – Not Including Owner’s Equity.	

Small Business Loans Closed for the Period of January 1, 2010 through December 31, 2010 Under the City's Partnership with the ADC

<u>Project/Address</u>	<u>Loan Amount</u>	<u>Date Closed</u>	<u>Ward</u>	<u>Neighborhood</u>
Dur Dur Clothing Store 2910 Pillsbury Avenue	\$10,000.00	4/15/2010	6	Whittier
University Halal Meat Market 1900 University Ave NE	\$25,000.00	4/16/2010	3	Bottineau
Basim Store 2910 Pillsbury Ave	\$6,500.00	7/08/2010	6	Whittier
Global Clothing & Accessories 2910 Pillsbury Ave	\$10,000.00	7/08/2010	6	Whittier
G & L Furniture 318 Lake St W	\$25,000.00	7/08/2010	6	Whittier
Cedar Lake Clinic 3005 Cedar Ave	\$25,000.00	7/08/2010	6	Whittier
Ladan Fashion 2910 Pillsbury Ave	\$5,000.00	9/09/2010	6	Whittier
Sadia Hot Sauce 2218 Central Ave NE	\$20,000.00	9/08/2010	1	Holland
Diamond Mills 201 Lake St W	\$50,000.00	10/13/2010	10	Lyndale
Minnesota Food Grocery 201 Lake St W	\$50,000.00	10/13/2010	6	Lyndale
Hiiraan Limo and Taxi 1502 Franklin Ave E	\$2,500.00	10/13/2010	6	Stevens Square/ Loring Heights
Dalab Jewelry and Fashion 416 Cedar Ave S	\$3,500.00	11/17/2010	2	Cedar-Riverside/ West Bank
Royal Transportation 2110 Nicollet Ave	\$14,000.00	11/17/2010	6	Whittier
Hijaz Clothing & Merchandise 912 24 th St E	\$4,000.00	11/17/2010	6	Ventura Village
TOTAL:	<u>\$250,500.00</u>			



Alternative Financing Program Report January 18, 2011.