

San Francisco Chronicle

Microbusiness lenders emphasize job potential

More microbusiness lending could help enterprises grow, reduce unemployment rolls



Paul Chinn, The Chronicle

Jorge Flores works at Don Polvoron Bakery in Hayward. The business now employs nine people and hopes to grow.

By Carolyn Said

August 11, 2013

Jorge Flores whips up amazing edible concoctions with fondant and flour.

At Don Polvoron Bakery, his small family-owned business in Hayward, he crafts cakes and decorations that look like giant hamburgers, motorcycles, cameras, perfume bottles, even a hot-pink platform shoe.

Jorge and his brother Oscar Flores started Don Polvoron seven years ago with help from their parents. Its bread and pastries quickly found a receptive audience, and it soon expanded to lunch meals and a churro cart. Don Polvoron now has nine workers, including the Flores brothers.

"People keep asking, 'Why don't you open another place?' " he said. "I listen to customers and what they want."

Flores hopes to open a second branch in San Ramon or Pleasanton called Cake Factory, where he'll craft even fancier cakes, teach culinary classes and, of course, sell baked goods. He'd also hire several new workers to staff it.

But first, he needs a loan for the startup costs.

Job creators

That type of expansion is one that microbusiness experts say could fix the nation's persistent joblessness.

"If one in three Main Street microbusinesses hired just one employee, the country would be at full employment," said Connie Evans, CEO of the Association for Enterprise Opportunity, a Washington advocacy group for microbusinesses, which it defines as those with five or fewer employees. Such small concerns comprise the vast majority of all U.S. companies.

That calculation led to a publicity campaign, "One in Three," to raise awareness of how microbusiness expansion could address unemployment.



Paul Chinn, The Chronicle

Jorge Flores finishes a detail for a quinceañera cake. He and his brother Oscar plan a second shop specializing in fancy cakes.

"We know that small businesses are the backbone of the economy," said Premal Shah, president of San Francisco's Kiva.org, which makes crowdsourced microloans to entrepreneurs worldwide and is now piloting a zero-interest loan for small businesses in the U.S. and Kenya (see story on Page A1). "Over two-thirds of jobs created in the past five years have come from small businesses." Claudia Viek, CEO of Cameo, or California Association for Micro Enterprise Opportunities, a trade group in San Francisco that represents 88 organizations that provide training, business assistance and microlending to small businesses, broke down the numbers for the state. There are 4.3 million microbusinesses in California. If one-third added one worker, that would create 1.4 million jobs, basically eliminating unemployment. As of June, 1.59 million people were unemployed in the state, according to the Bureau of Labor Statistics.

Of course, adding jobs is easier said than done. Behind the scenes of the One in Three campaign, small-business advocates are working to craft new funding solutions to make its projections a reality.

"We want to find a way to make capital and services flow to these Main Street enterprises so they can thrive and grow and hire," Evans said. "What we discovered is that all businesses really need four things: capital, connections, confidence and capacity (the ability to grow and to understand finances). Our work is to make these four things more likely to flow to underserved entrepreneurs."

Her group has launched a new lending platform called TiltForward that helps match entrepreneurs to loans for up to \$150,000, with no collateral required. The loans, funded by foundation and corporate grants or by the Small Business Administration, range from six months to 18 months in duration with varying interest rates and are administered by local nonprofits that work with microbusinesses.

In California, Cameo is working to help nonprofit microbusiness-support groups make more loans. The issue isn't money - funds are available through the U.S. Treasury's community development fund and the SBA. It's bandwidth for the nonprofits administering the loans.

Tools for nonprofits

"We have two pilot projects under way with online platforms to help scale up microlending," Viek said. By handling back-office functions - underwriting, technical analysis and credit analysis - the platforms reduce overhead for the community development financial institutions that extend credit to small enterprises.



Paul Chinn, The Chronicle

Oscar Flores (left) makes cuernos, a Mexican sweet croissant, with his brother Jorge at Don Polvoron Bakery, their growing family business in Hayward.

"We expect (nonprofits in the pilot program) to increase their lending by at least 30 percent in the first year," Viek said. "Instead of sitting in their office waiting for applications to come in, they can be out finding qualified entrepreneurs in their communities who could really benefit from a loan."

Cameo is also working with Kiva.org on its crowdsourced microlending program for entrepreneurs.

"Crowdfunding has been a huge boon for accessing new sources of capital," Viek said.

Microloan programs seek to address the fact that fixed expenses for a \$5,000 loan can be just as high as those for a \$150,000 loan. Banks would prefer to make the bigger loans because they're more profitable. But many microenterprises don't need - and can't qualify for - large amounts. For them, a few thousand dollars can give a significant boost.

Advice for budding entrepreneurs is crucial as well. While the SBA says between 50 and 80 percent of new businesses fail within five years, it's a different story for those that get hands-on help.

"If a business gets coaching and training, and maybe a small loan, 80 percent make it through the first five years," Viek said. "A lot of entrepreneurs are not 'loan ready.' Our partners like Working Solutions (a community development financial institution in San Francisco) work with potential borrowers to educate them on the loan process and business basics."

Different options

Flores from Don Polvoron Bakery has been working with San Francisco's Renaissance Entrepreneurship Center on his growth projections and loan sourcing. Rather than a microloan, he's shooting for a larger amount, probably a bank loan, to cover his startup costs.

Rebekah Rachel-Moreno, owner of R&R Therapeutic Massage in Pleasant Hill, is a recent recipient of a microloan. After eight years as a massage therapist, she launched her own business this year, leasing a small space from a chiropractor.

She got a five-year, \$10,000 loan this spring that she'll use for advertising, equipment (a hot-stone pot, towel warmers, massage oil), and products like lotions and creams.

Free and low-cost classes that Rachel-Moreno took through a Small Business Development Center in Richmond addressed such issues as writing a business plan, handling financials and using social media for marketing.

"My goal is to build up my business to take over more of the rooms and to hire two or three more massage therapists" as independent contractors, she said. "I set goals every month for growth at a slow, steady pace and have met those goals every month. The classes did a great job helping me set my goals, and preparing me for the loan process."

Money to lend

For more information on loans to entrepreneurs:

Kiva: Microlender Kiva is piloting this program for small businesses to borrow crowdsourced funds. www.kivazip.org

Cameo: California Association for Micro Enterprise Opportunity is working with Kiva and other nonprofit microlenders to help small businesses borrow small amounts of money to start up, expand, and hire or retain employees. www.microbiz.org

One in Three campaign: The campaign offers resources and advice for small businesses. www.oneinthree.biz

Carolyn Said is a San Francisco Chronicle staff writer. E-mail: csaid@sfchronicle.com Twitter: [@csaid](https://twitter.com/csaid)