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On Small Business Powered by Capital Business

Government action needs to target microbusinesses

By [Claudia Viek](#), Published: February 3

Everyone says they want to help small businesses. President Obama took a major step toward that goal last month by adding the Small Business Administration (SBA) chief to his cabinet, and he also proposed merging the SBA with other agencies. But the president needs to go further. What very small and small businesses need most is access to capital and business assistance.

My organization, the California Association of Micro Enterprise Opportunity (CAMEO), works with small businesses in California and is a partner in the American Sustainable Business Council, which promotes sustainable economic development nationwide.

We promote entrepreneurship training programs (think mini-MBAs) and micro-lenders (lenders who provide business loans of less than \$50,000 each) that serve 21,000 of the smallest businesses of California, which we call microenterprises. The business owners of microenterprises range from the home-based consultant to the food truck owner to the early-stage tech start-up; from recent college graduates to boomers to disabled veterans; they include the underserved minorities, women and immigrants, as well as former white collar corporate staff.

Will the new cabinet position and proposed merger help these businesses? Perhaps. But, in all likelihood, they won't. SBA is too focused on helping larger businesses, possibly a reflection of Ms. Mills's background in venture capital. Moreover, the other agencies with which it would be merged, according to Obama's proposal, will pull it even further in the direction of supporting large businesses.

We believe the SBA has largely ignored the needs of micro-businesses in America — despite the importance of such business in creating good local jobs.

Access to capital is a place for the SBA to begin.

The SBA provides a 90 percent guarantee to financial institutions that provide loans and other credit to small businesses. When the SBA increased the limit on the size of the loans they would guarantee, the banks responded by making loans to businesses on the larger end of the spectrum — almost exclusively.

In addition, micro-businesses depend more on lines of credit than large loans. Lines of credit help medium and small businesses spend only what is needed for payroll and inventory. Owners can pay down the line of credit as money is earned. Yet banks are not extending lines of credit and, one major bank (Bank of America) is canceling these lines, even for solid businesses with steady financial performance. The banks claim the risk is too high, even though the SBA holds most of it.

The SBA should address this and make lines of credit more available to small and micro-businesses so they can grow. In addition, if banks won't lend to small businesses, then the SBA and others should support non-bank lenders like credit unions and community development finance institutions that do help micro-businesses.

Yet even if access to capital is improved, another crucial piece of the puzzle needs to be put in place. In my 25 years of experience, the first step to success for these locally grown and start-up micro-businesses is business assistance: training and mentoring for new entrepreneurs. Then the businesses are ready to get a loan and grow. We need to fund the programs that provide business assistance so that the business owners can put together a credit-worthy loan application. That means they need a business plan, cash flow projections, a viable business model and a marketing plan. When the businesses receive this assistance and have done the necessary preparation, they have an 80 percent chance of success — which means eight of 10 of these start-ups will hire at least two other employees.

Micro-business training programs have fought for crumbs in appropriations, compared with the programs that assist larger businesses. Last year, the small business community fought hard to keep funding for these programs from being slashed to zero.

America has more than 25 million microbusinesses in operation today. If one out of three of these hired just one incremental person, our unemployment problem would be solved! The SBA and Ms. Mills should focus on *all* small businesses, not just the biggest of the small. If they do, then America truly will be built to last.

Claudia Viek is chief executive officer of San Francisco-based [CAMEO — California Association for Micro Enterprise Opportunity](#), a statewide network of organizations that promotes economic opportunity through entrepreneurial training and microloans.



Viewpoints: Creating small businesses is a key job-generating strategy

By [Claudia Viek](#)

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The California state budget was passed with a 1 percent cut in the sales tax, with a hope for \$8.3 billion in unexpected revenue growth and without Republican support. Assembly Speaker John A. Pérez, D-Los Angeles, said, "We will continue to press the case for new revenues." Legislators should walk over to 19th and L, home to Ginger Elizabeth Chocolates, to learn one way that new revenues can be created that would receive bipartisan support.

Ginger Elizabeth Hahn always loved to cook and always wanted to be her own boss. When she was 16, she took a truffle class at Sacramento's Learning Exchange and was hooked. She was trained by some of the best. When it came time to start her own chocolate shop, she needed a loan guarantee and the business training to secure a bank loan. She found both with local microlender California Capital. She opened in 2008 and employs four full-time people in addition to supporting herself and her husband.

Strengthening very small businesses is a key job-generating strategy. While these businesses might be great at dishing up a meal or fixing your car, they might need help with a business plan or a loan guarantee if they are to grow and prosper.

The micro-business generally has fewer than five employees and less than \$50,000 in startup capital. They are everywhere you are – the organic tomato stand at the Saturday market, the home-based child care center, the technology service firm who fixes your crashed computer, your favorite neighborhood restaurant or food truck. These are local jobs that affect our local economies generally twice as much as a national chain.

In California, there are about 4 million very small businesses. If one out of every three businesses hired one employee, we would cut unemployment in half and our state's economy would recover. With California's unemployment rate hovering around 12 percent, supporting micro-enterprise is something we must do.

In 2009, members of the California Association for Micro Enterprise Opportunity, or CAMEO, served 21,000 businesses with training, technical assistance and loans. These firms, which were



largely startups, brought 42,000 new jobs into California's economy. The businesses created a total of \$1.5 billion in economic activity – raising state revenues, decreasing demand for government services and putting more money into local economies.

Businesses are successful when they receive business coaching and assistance with writing a business plan, preparing a cash flow statement, market research and packaging a loan. Business owners that have gone through training programs and receive technical assistance have an 80 percent success rate vs. the 80 percent failure rate of small businesses that don't seek help. Also, CAMEO member clients who start their own businesses on average create two jobs in addition to their own, over a three- to five-year period.

Providing technical assistance is the most cost-effective way to create a job. The "CAMEO" cost of creating a job averages \$1,000 to \$3,000 a job. That's cheap when you consider that a public works infrastructure project costs \$50,000 a job.

Recently, my organization along with our national colleagues managed to pull off a miracle in Congress. We were able to persuade a Republican-led Appropriations Committee to allocate twice as much federal money to business training and coaching to very small businesses than the president had requested.

Supporting small, homegrown businesses with technical assistance is a rare nonpartisan issue. It's a proven job creator. We must make it integral to our state's economic development policy. We believe that Gov. Jerry Brown also can receive needed bipartisan support if he focuses on supporting local small-business development. We invite Brown to take a trade junket in California, meet these business owners, and catch the entrepreneurial spirit that will reboot our economy.

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Microfinance groups help small businesses grow

[Tom Abate, Chronicle Staff Writer](#)

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Three years ago, Loretta Nguyen took a business training class and scraped together several thousand dollars to start silk screening T-shirts and hoodies that she initially sold at street fairs and over the Web.



Recently Nguyen moved her firm, Fiftyseven-thirtythree, into a storefront on Piedmont Avenue in Oakland, illustrating how microlending and training programs deliver great bang-per-buck when it comes to job creation, advocates say.

"I learned so much about how to put my plan into action," said Nguyen, 33, who took a training course through the Women's Initiative for Self-Employment, a Bay Area nonprofit that is one of a network of microfinance organizations that help people start businesses.

The Women's Initiative recently looked back at 2,600 clients who took 10 or more hours of business training between 2004 and 2008, and discovered that they had created 2,244 jobs - for themselves or for others - at a cost of a little over \$4,000 per job.

Hard work

About 15 percent of Women's Initiative clients also take out small loans in addition to training, but many graduates, like Nguyen, choose businesses that can grow through hard work.

At a time when job creation is a national priority, microfinance organizations are being recognized for the efficiency with which they channel expertise and funds toward individuals with the self-discipline to become self-employed.

"We've been around for 20 or 30 years, but I think our time has emerged," said Claudia Viek, chief executive of the California Association for Micro Enterprise Opportunity, the San Francisco umbrella group representing 92 training and financing organizations statewide.

Viek said that for every 100 clients who take entrepreneurial training classes, a little over half actually start businesses and, of these, 80 percent make it through the first three to five years.

The U.S. microfinance movement earned kudos in March when the Aspen Institute, a think tank in Washington, released a study of 240 clients who had received loans and training from 35 groups nationwide between 2002 and 2007.

Study coordinator Elaine Edgcomb said Aspen found that the average client more than doubled their revenue - from \$103,000 to \$243,000 - while the average number of employees went from 2.1 to 5.6 within five years.

Many microfinance groups are also federally designated community development finance institutions - not banks, but nonprofit organizations chartered to lend money to borrowers without enough profit to support bank lending, such as making small-business loans of less than \$50,000.

Eric Weaver, chief executive of Opportunity Fund, a community development lender in San Jose, said microfinance groups have been hit hard by the recession. Banks - which enjoy federal incentives to work with community development lenders - have been more reluctant to put money into risky loans to new businesses, at a time when most firms are struggling to stay afloat.

"We had defaults in the high teens," Weaver said. "We've never been there before."

Capital infusion

At this crucial juncture, Bank of America has stepped in to give microfinance lenders a capital infusion.

Dan Letendre, who runs Bank of America's nationwide community development lending operation from his office in San Francisco, said eligible microlenders can borrow extremely cheap money from the Small Business Administration and, in rural areas, from the U.S. Department of Agriculture. They can use these federal funds to make microloans and provide the training that can make a big difference in outcomes.

But to access that federal cash, many microlenders must post a 15 percent loss reserve - setting aside \$150,000 of their own funds to borrow \$1 million from the feds.

Realizing that microlenders were leaving badly needed funds unused because they couldn't meet this requirement, Bank of America is awarding up to \$10 million in grants that qualified groups can use as a loss reserve. Letendre said the grants will enable microlenders to borrow and loan up to \$100 million from the federal agencies.

'Big help'

"This is going to be a big help," said Jacob Singer, chief executive of Oakland Business Development Corp., which made about 60 loans last year averaging \$33,000.

The impact of this microfinance and training movement is evidenced by the success of entrepreneurs like Nguyen, who now works with her boyfriend and two part-time employees who do sales and sewing.

Bank of America estimates that its \$10 million grant could end up drawing enough money into microfinancing groups to help roughly 8,000 businesses create as many as 28,000 jobs over the next several years.

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