



California Association for
Micro Enterprise Opportunity

1 Hallidie Plaza, Suite 210
San Francisco, CA 94102
ph 415.992.4880
fax 415.445.9529
www.microbiz.org

HOMEGROWN ECONOMIES STRATEGY FOR JOB CREATION AND ECONOMIC GROWTH IN CALIFORNIA

How will California create jobs and move the economy on an upward trajectory?

Traditionally, economic development means redevelopment, enterprise zones, business attraction and tax credits. These efforts don't necessarily work. Most of the time they don't result in new net jobs, just a shuffling of the old and a loss of needed tax revenue. A shift is needed to move from old methods that may have worked for a different economy to a new innovative, creative and flexible method that will work for today's economy – a method that is based on creating jobs here in California, one based on homegrown economies.

Governor Brown can set a new vision for economic development in California, one that will harness our state's entrepreneurial spirit to create new businesses and grow new jobs by cultivating homegrown local business sectors. Rather than investing our scarce resources in attracting businesses from other states or by underwriting expansion of large corporations through tax breaks, California can tap its indigenous entrepreneurial resources, using existing programs and funding sources.

Following is a brief outline for *Homegrown Economies* that will result in sustainable job creation across our diverse communities, both urban and rural. The goal is to scale up what works, to add new methodologies and to involve new funding sources. This outline provides a strategic direction for the Governor to move state support and investment towards the locally owned small business sector.

The Vision: Start or expand 100,000 businesses that will create 300,000 jobs over the next three years and jumpstart the California economy.

THE STRATEGY:

- Use the Governor's influence to bring economic development in California into the 21st century
- Scale up business technical assistance for Micro Enterprises and gazelles (high growth potential businesses)
- Made in California



RATIONALE:

1. [Very small businesses](#) create all the new jobs.
2. Self- Employment is a labor market trend growing by 28% from 2003-2008 (US Dept. of Labor, [TEGL12-10](#); California [Senate Office of Research](#)); one in five workers is now a “[1099](#)” free-agent.
3. Some [95 percent of all job gains](#) in a year in an average state come from the expansion of existing businesses or the birth of new establishments
4. New job growth and losses come from [homegrown businesses](#).
5. Investment in locally owned businesses produces a better return on investment than tax incentivized business attraction. (See Michael Shuman’s book [Small-Mart Revolution](#) and his extensive publications on this subject.)
6. When small business owners receive small loans (under \$50,000) and targeted technical assistance (e.g. market research, financial planning and/or management assistance):
 - a) The average job creation for start- ups is two jobs in addition to the owner over 36 months. (CAMEO Annual Survey, Aspen Institute FIELD)
 - b) Eighty percent of client start-up businesses survive (and thrive) the first three-to-five years (CAMEO’s Annual Member Surveys from 1999-2009.)

THE GOVERNOR’S INFLUENCE

The Governor’s Office would promote this new direction throughout the state.

Business, Transportation, Housing Agency (BTH) and Economic Development: The Governor’s Office would appoint professionals to the BTH who support this direction and have the skills and experience to implement local development strategies. Given that we cannot at this time count on additional state revenues for this purpose, BTH staff will need to see their roles as program directors rather than technocrats, responsible for delivering outcomes rather than policies.

Small Business Loans: California is home to 25 qualified Community Development Financial Institutions (CDFI) that lend to small businesses and 11 state-funded Financial Development Corporations that offer loan guarantees and business technical assistance. Capacity is growing due to new efforts that include: SBA 7(a) loan guarantees available to non-profit CDFIs and California’s CalCap loan loss reserve program; Bank of America’s loan loss grants; and increased bank investing related to the Community Reinvestment Act, e.g. Chase and Goldman Sachs.

The Governor would use the influence of his office to encourage banks and insurance companies to increase investments in the small and micro-business sector, given the

additional security available through both the state and federal programs. Foundations also would be encouraged to 1) invest in banks that increase their lending and investment in distressed regions and 2) make program related investments in non-profit CDFIs that serve small businesses.

Public Education Campaign: The Governor would embark on a statewide tour of regions where homegrown economies are thriving. The Governor would hold a conference to showcase effective programs and solutions. He would convene major financial institutions, corporations and foundations to support this new direction.

The Lieutenant Governor's Office could also be invited to promote this policy, particularly given the present Lieutenant Governor Newsom's background as a successful small businessman.

SCALE UP BUSINESS ASSISTANCE

Self-Employment Support through Workforce Investment: The State Workforce Investment Board (WIB) should carve out 5% of Workforce Investment Act (WIA) funding that California receives from the Department of Labor (DOL) to help the unemployed become self-employed.¹ The Governor would apply for new DOL Workforce Innovation Funds and deploy them to give incentives to local WIBs to partner with the 100 Micro Enterprise development organizations and Small Business Development Centers that offer the training and technical assistance that new entrepreneurs need to succeed.

Market Research with Results: [Economic gardening](#) is an alternative economic development model based on the idea that entrepreneurs drive economies and jobs are created by supporting existing companies in a community. Economic gardening connects entrepreneurs to resources, encouraging the development of essential infrastructure and providing entrepreneurs with needed information. Economic gardening initiatives provide local entrepreneurs with access to competitive intelligence on markets, customers and competitors that is comparable to the resources customarily only available to large firms. Following are several examples of existing programs:

- [MarketLink](#) - Since 2006, Oregon Micro Enterprise Network (OMEN) has provided sophisticated market research services to disadvantaged entrepreneurs statewide through MarketLink. Based on market research principles utilized by Fortune 500 companies, MarketLink provides microentrepreneurs access to the same customized market research tools and services that many large-scale companies enjoy. This research helps entrepreneurs find and reach their desired customer base, tap into new markets and make informed business decisions by identifying trends within their respective industries.

¹ DOL report estimates that [5% of unemployed could be self-employed](#) with appropriate training and support. In CA this comes to 120,000 potential entrepreneurs. If just 40% are successful, 48,000 new businesses would start and create jobs.

- The [Center for Economic Development](#) at California State University Chico offers customized data and targeted consulting to locales committed to local business and job creation.
- [Inner City Advisors](#) identifies high potential businesses and provides intensive training and technical assistance to spur growth and increase jobs and contracts that will benefit inner city residents. Based in Oakland, they are currently expanding to more locations in California.

MADE IN CALIFORNIA

Regional Clusters: California would coordinate how inputs are utilized and combined to drive regional economies. [Regional industry clusters](#) are synergistic regional concentrations of firms and related networks and participants in particular fields. For example, the USDA Rural Development Office is developing a value chain for agriculture in four regions by convening all of the players, looking at the existing resources and helping to fill the gaps. This process discovered that California ranchers ship cattle out of state for slaughter and cold storage was scarce. And two mini-industries were born, mobile slaughterhouses for getting local grass fed beef processed to meet local demand and cold storage facilities to save on increasing energy prices.

Locally Made: California would embrace a philosophy of 'made in California'. "When needs are met locally by [locally owned enterprises](#), people have greater control over their lives, money is recycled in the community rather than leaking off into the global financial casino, jobs are more secure, economies are more stable, and there are the means and the incentives to protect the environment and to build the relationships of mutual trust and responsibility that are the foundation of community."

In a study of [San Francisco consumer behavior](#), the Business Alliance for Local Living Economies (BALLE) research found that diverting 10% of purchases from national chain stores to locally owned businesses would, each year, create 1,300 new jobs and yield nearly \$200 million in incremental economic activity. A cheesemaker in Humboldt County says that if his neighbors buy a hunk of cheese every two weeks, he can create four new jobs. Think of the possibilities if the cheesemaker grows and has help from a MarketLink-type program to promote export of his cheese. Examples of local economic efforts: SFMade, Made in Humboldt.

Clean Energy Development: California should continue to honor its role as a leader in the clean energy industry and resist any efforts to roll back or weaken groundbreaking policies such as AB32. During the recession, the clean energy economy [grew by five percent](#). [California leads the country](#) in the number of clean energy jobs, businesses and patents generated, and accounts for over two-thirds of U.S. venture capital investment in clean technology. Clean energy expected to become the [world's third largest industrial sector by 2020](#). The opportunities inherent in this sector are too big to be ignored.

Many proposals have been put forth to develop and strengthen the clean energy economy. The Governor would promote policies such as the “Making It in California, by Californians” suggestions by the [California Apollo Alliance](#).

Another effort the state could undertake is to support business incubation in this sector, such as Central Valley Business Incubator’s WET Center (a CAMEO member.)

- [Water, Energy & Technology \(WET\) Center](#): Home to the Claude Laval Water and Energy Technology Incubator and the testing facilities of the International Center for Water Technology (ICWT), the WET Center provides an entryway for entrepreneurs, innovators and established and start-up businesses to accelerate commercialization, product and business launch and/or the development of practical application of new technologies.

POTENTIAL SOURCES OF SUPPORT

An estimated \$53 million in currently available funding could be deployed for each of three years to carry out the Homegrown Economies development strategy – for a total of \$159 million to create or grow 100,000 businesses that would create 300,000 jobs over this period.

- 15% of all WIA funds to the State WIB are at the discretion of the Governor, \$73 million in 2010-11; future amounts depend on WIA funding levels. An estimated \$5 million in discretionary funds are available in 2012 through new Workforce Innovation Grants;
- \$500,000 from the current BTH and General Services budgets allocated to GoED;
- [\\$20 million from tax savings](#) by ending Enterprise Zone tax credits (See page 8, line 4 of Table 2);
- Repurpose \$10 million from Redevelopment for economic development (an allowable use); and
- Private Corporation and Foundations: The current level of private sector support for Micro Enterprise development (not including colleges and universities) is estimated to be \$17 million. This amount could be doubled with appropriate incentives and encouragement from the Governor’s Office e.g. tax incentives for supporting small business assistance in distressed regions, such as the Central Valley.

FIRST STEPS TO A HOMEGROWN ECONOMY

Governor Brown’s Homegrown Trade Tour

To kick off his initiative, as soon as possible the Governor will plan one-day tours of five regions in the State. Each one will showcase the range of local businesses that create jobs and bring innovative products or services into the marketplace. For example, in the Bay Area, he will visit Revolution Foods, SFMade and La Cocina, this last a kitchen incubator that serves low income Latinas and generated the gourmet food truck trend. All three represent the range of entrepreneurship talent in this region and effective

business technical assistance. In the Central Valley he will visit the WET incubator that develops clean water technologies, Ramirez Recycling and a small, Hmong family farm that grows organic strawberries. In Humboldt County he will tour an organic beef ranch, one of the emerging wineries and A-1 Signs.

This tour will demonstrate the State's commitment to job growth through small business and entrepreneurship and generate enthusiasm—and public support -- for a new, fresh direction that builds on the natural competitive advantages of California.

Homegrown in California Conference

This conference will convene a wide range of practitioners who successfully cultivate small business creation and growth. Some of these organizations are noted in the strategies section above. It also will showcase the newest thinking and research supporting the Homegrown Economy approach as the best way to achieve sustainable economic development. Tremendous talent and inspiration are found in entrepreneurs who work in every sector - from health care to manufacturing, from family farms to gourmet street vendors. The conference will engage policy makers, funders, investors, and local governments to celebrate California's special brand of entrepreneurship. It will promote the Governor's role in setting a new and dynamic direction with a focus on job creation and building the tax base through start-ups and growing businesses.

Financial Institutions Summit

The Governor will convene a meeting to present his Homegrown Economy policy direction to banks, insurance companies and major foundations operating in California. At that time he will present opportunities for them to contribute to this initiative as well as explore incentives for investing in distressed communities which have experienced deterioration of credit and business equity. He will show how, by working together with small and micro-business assistance and lending programs, corporations and foundations can restore the vitality of these communities, which will ultimately benefit their businesses and the State's tax base.