

Five Ways to Jumpstart

Small Business Job Creation

A Seedco Policy Briefing
September 7, 2011

Small Business Hiring Can Help Solve Our Big Unemployment Problem

Here are five ways policy makers can help

Introduction

Job creation is on everyone's mind. Unemployment remains stubbornly high, while millions of under-employed Americans are working at wages that leave them struggling to support their families.

Recent job-creation figures have been well below the minimum growth rate needed to generate a broad economic recovery. Even record high corporate profits haven't translated into a wave of new jobs, as caution over consumer spending is preventing many large companies from hiring in the U.S.

Small businesses represent a singular opportunity in this troubled economy. Policy makers should recognize the crucial role small businesses must play in an economic recovery, as they are responsible for creating two out of every three new jobs in the U.S.ⁱ In fact, the Association for Enterprise Opportunity contends that if just one in three micro-businesses (those with fewer than five employees) hired one worker, the U.S. would achieve full employment.ⁱⁱ

The Obama Administration has committed to creating "public-private partnerships to support current entrepreneurs and spark a new generation of urban entrepreneurs" and launched a series of Urban Entrepreneurship Summits across the country this summerⁱⁱⁱ. Seedco and its community lending subsidiary Seedco Financial Services participated in summits held in Newark, N.J, New Orleans, La., and New York, N.Y.

With the right incentives and assistance, small businesses and budding entrepreneurs can play a critical role in sustaining and strengthening the economic recovery. **If we as a nation can nurture their growth and provide them with resources and assistance, we will create jobs, reduce unemployment, and transform our economy.**

Seedco works with small businesses to create jobs through Seedco Financial Services and by operating three NYC Business Solutions Centers under contract to the New York City Department of Small Business Services. This work has informed the following five policy recommendations for supporting small-business growth. These recommendations include actions that can be taken at the federal, state, and local level.

Five ways to boost small-business hiring

1. Increase utilization of Workforce Investment Act funding to serve small businesses and spur job creation

The federal Workforce Investment Act (WIA) of 1998 envisioned a more active role for the private sector in workforce development. However, today, WIA funds are rarely used to support small business expansion and hiring – with one notable exception. The New York City Department of Small Business Services funds a set of free services for entrepreneurs through NYC Business Solutions. New York City has made the most of systematically deploying WIA funds to assist small businesses and has had a strong impact in helping them grow and create jobs.

Many new entrepreneurs do not have formal training in business and lack the practical skills needed to launch and grow a business. And even many entrepreneurs with business backgrounds have difficulty navigating complex permit requirements or finding financing. NYC Business Solutions provides targeted technical assistance that builds practical skills – such as business plan writing and accounting – and helps entrepreneurs identify exactly what they need to succeed.

As the operator of three NYC Business Solutions Centers, Seedco helps entrepreneurs with business plans, provides instruction in business practices, connects them to free legal assistance, and provides information on licenses, permits, and business structure. In the past year, Seedco has helped more than 100 entrepreneurs launch businesses.

A key focus is providing access to capital to businesses that are unable to find financing in a tight credit market that shuts out many smaller firms. Seedco meets this need by matching a business to the most suitable loan program and in some cases, making loans itself through its subsidiary Seedco Financial Services. Seedco works with small business owners throughout the loan process to do whatever is necessary to help a business secure financing to fuel its expansion.

New York City's approach should be used more widely to help small companies and entrepreneurs. In this funding environment, we recognize that recommending additional WIA funding is not realistic. Instead, Congress should put mechanisms in place to incentivize states and municipalities to use WIA funds to support small business job creation. For example, states and localities could receive additional funds for every job created as a result of WIA dollars invested in a small business.

Existing funding can also be more strategically applied to maximize the job creation potential of smaller businesses. Using WIA funds to provide support services, consulting, and assistance accessing financing will help small businesses thrive, grow, and eventually, create more jobs.

2. Preserve funding for the Community Development Financial Institutions Fund

Community Development Financial Institutions (CDFIs) provide credit and financial services to underserved markets and populations. The Department of Treasury's CDFI Fund is a critical source of capital for CDFIs across the country, as CDFIs cannot raise equity from shareholders. With traditional lenders less willing to make loans to small businesses, CDFIs are a critical source of capital needed to maintain and create jobs.

In 2010, for example, Seedco Financial Services, a CDFI, issued \$15 million in loans to 91 small businesses and nonprofits that resulted in the creation of 550 new jobs and the retention of an additional 330 jobs that might have otherwise been lost. Seedco Financial has been lauded by the CDFI Fund for its approach to providing affordable capital and customized technical assistance to growth-oriented small businesses.

Despite the critical need it fills, funding for the CDFI Fund is at risk in Congress. The House of Representatives Committee on Appropriations has approved its version of the FY12 Financial Services Appropriation bill, which includes a substantial reduction for the CDFI Fund program, imposing a 20 percent cut from the previous year. This funding supports small businesses and is a key for decreasing unemployment.

A Business Grows in Brooklyn

Gregory Iovine founded Subzero Insulation and Refrigeration Technologies, LLC in 2003. His company produces and installs custom refrigerated and insulated commercial truck and van liners.

By 2007, Mr. Iovine had won a lucrative contract with a prominent franchise that required all new franchisees to order their vehicles exclusively through Subzero. Even though Subzero was profitable, it faced cash flow problems due to lenient payment terms that favored large clients. The business was expanding so rapidly that payment on completed orders was insufficient to cover working capital needs for future orders.

Mr. Iovine tried to obtain a loan to finance his company's growth, but was unsuccessful doing so from traditional sources. A banker referred him to Seedco Financial Services, an alternative lender. The company was approved for a \$200,000 loan from Seedco Financial in 2008 and an almost \$80,000 loan in 2010.

Subzero has been able to double its business almost every year, and quadruple its workforce. The business has a long history of hiring from the economically disadvantaged neighborhood of Red Hook, where Mr. Iovine grew up.

One-on-One Assistance Helps Restaurant Open Early

The Washington Heights neighborhood in upper Manhattan isn't known for its healthy food options, but Alex Peralta is starting to change that. In January 2011, the Dominican Republic native opened Pick and Eat, the first all-natural restaurant in the neighborhood.

Running Pick and Eat is Mr. Peralta's full-time job, and has created approximately eight additional part- and full-time jobs.

Before opening, Mr. Peralta got free help from Seedco through the NYC Business Solutions, Washington Heights Center. Seedco connected him with the city's New Business Acceleration Team, which helped streamline the permitting, licensing, and inspection process. Mr. Peralta credits the team for enabling the restaurant to open two months earlier than expected.

Once open, Seedco helped Mr. Peralta expand into the catering market and leverage social media. He also recently completed a restaurant training course that helped him improve operations and generate new revenue. Business is steady, and he's optimistic about the future. "Right now, I think, is the greatest time to start a business," Mr. Peralta says.

3. Support immigrant entrepreneurs

As a nation we could do more to support the creation and expansion of immigrant-owned businesses, which are poised to be engines of economic growth. A 2008 report by the U.S. Small Business Administration shows that immigrants are 30 percent more likely than non-immigrants to start a new business.^{iv} Further, immigrant business owners make significant contributions to business income, generating \$67 billion of the \$577 billion total U.S. business income, as estimated from 2000 U.S. Census data.

Across the country, the number of immigrant-owned businesses has been growing rapidly. In New York City for example, immigrant-owned businesses have been an important source of employment in the communities Seedco serves, including Washington Heights, East Harlem, and Chinatown. These businesses create self-employment opportunities for the proprietor, as well as jobs for members of the community.

Seedco has found that immigrant-owned businesses require a variety of specialized services. They often face a number of barriers to success, including limited English proficiency, difficulty navigating government regulations and permits, trouble maintaining financial records, and reliance on expensive predatory lenders. Many lack contacts with the "mainstream" business community.

Recognizing these needs, New York City recently launched a new initiative to make it easier for immigrants to start businesses. The initiative includes a competition to develop innovative business plans; free business courses in Chinese, Korean, Spanish, and Russian; and a business expo to showcase locally based

immigrant food manufacturing businesses^v.

4. Expand the use of wage subsidies for small businesses

A range of wage subsidy efforts are in place around the country, in which employers receive subsidies that help defray the costs of a new employee for a period of time. Seedco has accessed wage subsidies in the past to encourage hiring among hard-to-serve populations. In 2010, Seedco used three different wage subsidy programs to help small businesses create at least 50 jobs. Without the subsidies, these positions would not have been financially feasible.

Seedco targeted businesses that were growing, making it more likely that they would be able to maintain those jobs after the subsidy period ended. For example, Five Guys Burgers and Fries, a quick serve restaurant franchise, used the wage subsidies to create more than 30 new jobs as it expanded across New York City. These jobs are still in place today, more than a year after the subsidies ended.

As President Obama unveils his jobs plan, reinstating funding for wage subsidies through the Temporary Assistance for Needy Families (TANF) program, the Workforce Investment Act, or other legislation should be a priority to encourage small-business job creation. For example, the Worker Opportunity Tax Credit (WOTC) is one such program that could be extended beyond its current expiration at the end of 2011. The WOTC is a federal tax credit to businesses that employ workers with employment barriers, including youth, disabled veterans, and TANF recipients.

Seedco can attest to the success of wage subsidies as an employer-side incentive to

hiring and job creation, and recommends a continued investment in this effective tool.

5. Target assistance to businesses in high-growth sectors

In today's resource-constrained environment, services to small businesses can have a big impact in high-growth sectors such as technology, green, and healthcare. For example, Seedco has helped launch a number of sustainable green businesses. This diverse group includes a residential cleaning company that uses eco-friendly supplies, a company that collects cooking oil from restaurants for processing into biodiesel, and a firm that designs and installs green roofs on buildings. What these companies have in common is they have added or retained jobs during the toughest economy in our lifetimes, with the help of affordable financing and targeted technical assistance.

Businesses in high-growth sectors have unique opportunities through incentives and increased investment opportunities that they often do not understand how to access. Seedco sponsors conferences and workshops in addition to providing one-on-one assistance to help businesses in these high-growth areas understand and navigate the opportunities available to them. Since 2010 Seedco has hosted more than 200 businesses at events detailing incentives, lending opportunities, and equity financing opportunities specifically for green and technology-related business.

Seedco plans to further extend this specialized and targeted assistance to the healthcare sector as well. The better we can communicate opportunities available to businesses in high-growth sectors, the better

positioned entrepreneurs are to answer demand and create new jobs

Conclusion

Small businesses should be a significant part of the U.S. jobs agenda. Seedco's recommendations are by no means an exhaustive list of all that can be done to help small businesses. Rather, they are five specific approaches that we have found to create the environment needed for small business growth and hiring. By taking these recommendations into consideration—as well those of others who work in the small business sphere—we can spark a new era of growth for America's small businesses and economic opportunity for its workers.

New Jobs in the Green Sector

Powersmith Home Energy Solutions conducts home energy audits and works to make homes more comfortable and energy-efficient. After its launch in 2010, Powersmith took advantage of local energy incentives for homeowners. The increased demand led to a backlog of work without enough staff to complete it.

The company's chief financial officer, Paul Levine, knew that with financing, he could pay for equipment for additional work crews. But Powersmith did not have enough cash in reserve for all upfront costs. Levine turned to NYC Business Solutions, a free set of services offered by the New York City Department of Small Business Services (SBS).

The Upper Manhattan Business Solutions Center, operated by Seedco under contract to SBS, connected Levine to a lender with a program designed accommodate the equipment needs of start-ups. A series of loans from the same lender enabled Levine to meet ongoing equipment needs as the company expanded.

Seedco also connected Powersmith with training for its employees, enabling the company to promote from within and open new spots for more staff. **In less than a year of operations, Powersmith has created 25 jobs and is on track to create 30 by the end of 2011.**

Seedco, Small Businesses and Job Creation

Seedco is a national nonprofit organization that works to advance economic opportunity for people, businesses, and communities in need. A cornerstone of Seedco's approach to workforce and economic development is to address the demand side of job creation. This means not only helping job seekers find employment, but also actively working to create jobs by providing financing and technical assistance to businesses in areas of great economic need.

Seedco works one-one one with small businesses and entrepreneurs in two primary ways:

- **By providing small business financing.** Seedco Financial Services is a national Community Development Financial Institution (CDFI) that provides financing and technical assistance to small business owners and nonprofits in high-need communities in New York, Alabama, and Louisiana. In 2010 alone, financing from Seedco Financial was credited with **creating 550 new jobs and saving an additional 330 jobs that might have otherwise been lost.**
- **By providing comprehensive services to small businesses.** Seedco's Community Entrepreneurship team provides services to start-up and existing businesses in New York City. Working mainly with small and medium-sized businesses (fewer than 125 employees), the team provides free courses, advice, and assistance accessing legal and financing services to entrepreneurs. They also provide needs assessments, help with recruitment, business planning, training in bookkeeping, guidance on government incentives and assistance in licensing. In all, Seedco has provided assistance to more than 6,000 small businesses.

ⁱ "How important are small businesses to the U.S. economy?" U.S. Small Business Administration. Accessed August 2, 2011. <http://www.sba.gov/advocacy/7495/8420>

ⁱⁱ Association for Enterprise Opportunity: "The Power of One in Three: Creating Opportunities for all Americans to bounce back," May 2011. Available at: http://www.aeoworks.org/pdf/one_in_three.pdf

ⁱⁱⁱ "White House Urban Entrepreneurship Summit." The White House Blog. May 31, 2011. Available at: <http://m.whitehouse.gov/blog/2011/05/31/white-house-urban-entrepreneurship-summit>

^{iv} U.S. Small Business Administration, Office of Advocacy: "Immigrant-Owned Businesses Contribution to the Economy Detailed in New Report," November 2008. Available at: <http://archive.sba.gov/advo/press/08-32.html>

^v New York City Economic Development Corporation: "Mayor Bloomberg Announces Three New Steps to Make It Easier For Immigrant-Owned Businesses to Start And Grow in New York City," March 3, 2011. Available at: <http://www.nycedc.com/PressRoom/PressReleases/Pages/MayorBloombergAnnouncesThreeNewSteps.aspx>