Access to Capital

✓ Growing Local Businesses
✓ Financing Entrepreneurs
✓ Building Strong Economies

Developed by the

California Financial Opportunities Roundtable

Representing finance, impact investing, philanthropy, business, economic development, government and more.

August 2012

CalFOR

California Financial Opportunities Roundtable

The California Financial Opportunities Roundtable (CalFOR) is part of a statewide initiative supporting development of regional industry clusters to provide jobs, entrepreneurial opportunities, business growth, public and private sector investment in value-chain infrastructure and sustainable communities throughout California. Working with a wide array of partners, the goals of that project include:

- Innovation in Capital Markets and new sources of investment for projects and business growth.
- Expansion of regional food systems and associated value chain opportunities.
- Growth of biomass utilization, biofuels and renewable energy production.
- Development of region-specific industry clusters and related business networks.
- Improved Rural-Urban collaboration and related infrastructure deployment.

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Funding provided by a Rural Business Opportunity Grant from USDA Rural Development in partnership with the California Association of Resource Conservation & Development Councils.

FOREWORD

Forty-three Town Hall forums held throughout California offered many recommendations on what was needed to create jobs, grow our economy and develop sustainable communities. The report that resulted from those forums (www.rurdev.usda.gov/Reports/CA-JobsReport-Feb10.pdf) has led to much collaboration on various ways to implement solutions; among those was an ambitious proposal by the California Resource Conservation and Development Councils to support several regional industry clusters throughout California. As that project and the other efforts unfolded, there was a growing realization that improved economic development strategies and greater collaboration were not enough – finding ways to improve access to capital was a major roadblock that must be overcome.

In December 2011, eighty leaders from financial institutions, economic development organizations and government agencies gathered to explore how to improve access to capital for California's businesses and industry clusters. As participants dug deeper into the issues, it became clear that many options already exist to access capital but that most businesses, entrepreneurs and their advisors are often unaware of these resources – with that awareness, CalFOR's efforts shifted away from a policy exercise toward development of this guidebook. This guidebook and its recommendations are not exhaustive or exclusive and, given how fast the field is changing, will undoubtedly need revisions within the next year or so; however, this represents a good start toward a healthy capital ecosystem – one where businesses, communities and people can all thrive.

A major effort like this could not have been done without the support of many people, in particular the many very busy people who offered their time and expertise to CalFOR – both Roundtable members and volunteers who reviewed the document as it developed. Special thanks go to the California Association of Resource Conservation and Development Councils and their President, Valerie Klinefelter, for her extraordinary work on this project. Mere words cannot adequately express the appreciation owed to these people for their service to California – please thank them whenever you get a chance!

Publishing this guidebook is only the first step; next is to pursue implementation of the recommendations. Moving forward toward that goal, four key points must be kept in mind:

- **There is no single solution:** Our financial toolbox needs many different tools to serve our diverse economy and the capital ecosystem needs innovation, collaboration and focus on optimizing results.
- **It's not just about capital:** Developing competitive entrepreneurs and well-managed businesses along with adequate infrastructure and regional industry clusters are important to long-term success.
- **Scale:** New intermediaries should be regional to manage risk and keep transaction costs down; however, financial products are needed along the entire continuum from microfinance to large funds.
- **All stakeholders must be engaged**: Buy local and invest local initiatives can support regional economic development as can streamlined regulatory processes and triple-bottom-line approaches – the key is to find balance between competing needs and open opportunities for all to participate.

Success requires time, energy, ideas and capital from all Californians in this effort. Please join us!

Glenda Humiston
State Director, California
USDA Rural Development

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California Financial Opportunities Roundtable (CalFOR)

Participants listed by initial topics studied; working groups were organized to contain diverse knowledge.

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What is needed is a clear-eyed understanding that banks cannot be all things to all people. We should be more focused on the financing continuum, where different lenders work in different borrower segments based on financial readiness, loan sizes, and relative risk. The key is allocating capital and mentoring resources where they are most needed in bridging gaps as borrowers "graduate" up the continuum based on strengthened financial readiness.

Marc Nemanic, 3Core, May 2012

ACKNOWLEDGMENTS

As the former Mayor of a small, rural California community in Amador County, and current President of the California Association of Resource Conservation and Development Councils (CARC&DC), I am deeply aware of the many challenges facing our communities and the California economy. Resource Conservation and Development Councils are formed on a regional basis because we recognize that there is no single approach that can address the needs of varied regions and diverse industry clusters.

In October 2010, USDA Rural Development awarded a “Great Regions” Rural Business Opportunity Grant (RBOG) to Central Sierra Resource Conservation and Development Council (CSRC&D) to expand four regional economic-development related initiatives in different parts of California. Among other needs, the communities and businesses engaged in this Great Regions initiative consistently identified “access to capital” as a limiting factor in their efforts. This led to development of the California Financial Opportunities Roundtable (CalFOR) as a vital deliverable for the overall effort. Today, over 90 members, representing diverse organizations from throughout the state, have developed this guidebook and made commitments to support future CalFOR initiatives to implement recommendations within this document.

It is extremely heartening to see the many opportunities to leverage existing resources presented in this guidebook as well as the emphasis on developing strategies to better align investment capital with local business needs. Support from USDA Rural Development’s RBOG was crucial to make this effort materialize and the commitment of CalFOR members to future efforts is very promising – especially if all Californians will join in to exploit the opportunities highlighted here.

The leaders who served as Chairs of the original Working Groups, along with all participants of the CalFOR performed brilliantly. Thanks go to Carol Pranka, University of California at Berkeley, for her extensive research on these topics, and a special thanks to Dr. Glenda Humiston for her service as editor of this guidebook. When combined with other deliverables from the RBOG Great Regions initiative, the recommendations, explanations, and models provided in this guidebook will contribute to a growing array of tools and practices that will benefit all Californians.

Valerie Klinefelter, President
California Association of Resource Conservation and Development Councils

"We hear testimony every single week from bankers that come in here and tell us they have got money to lend, yet we have small businesses come in here every single week also tell us they can't get capital. We're trying to find a reason for them. What is the problem with this divide no one seems to cross?"

Chairman Sam Graves (R-MO), House Committee on Small Business Hearing, questioning Treasury Secretary Timothy Geithner, June 22, 2011

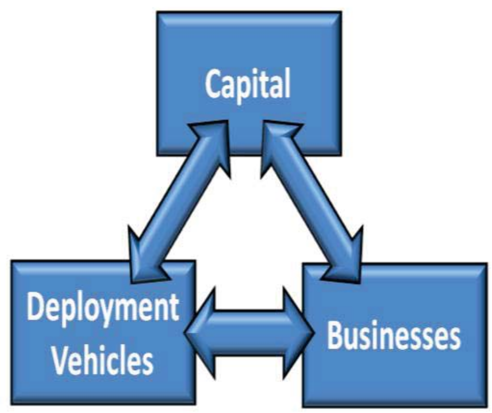
Introduction

Access to capital in today's financial environment is extremely fragmented – disconnects between resources and needs impede economic growth and community stability. The California Financial Opportunities Roundtable (CalFOR) organized to identify roadblocks and develop recommendations for leveraging existing resources and expanding opportunities for sustainable economic development, job growth and wealth creation – the result of those deliberations is this guidebook. Solutions range from micro-finance to new bonding authorities as well as innovations within traditional investment classes (debt, equity, venture capital, etc.); these can include Crowd-Funding, Mission-Related Investments, Local Investment Clubs, Public Benefit Corporations and other forms of "Impact Investing".[1]

The triangular model shown in Figure 1 illustrates the need to connect capital sources with businesses needing capital and vehicles (organizations) that would act as intermediaries to allocate and deploy capital to targeted businesses. Current impediments include:

- A mismatch between capital sources and small business needs: large funds need to deploy investment capital in large chunks – smaller investment opportunities are often below the threshold size that works for large funds.
- Misperception on quality of investment returns available from nonmetropolitan regions and low-tech industries: despite evidence to the contrary, most fund managers and investment advisors strongly believe that returns from these underserved markets will always underperform compared to metropolitan and high-tech firms.
- Lack of information on investment opportunities in: efficient mechanisms to match interested investors with qualified funds and investment opportunities are seriously lacking.

Figure 1



This guidebook represents current knowledge on a subject that is rapidly evolving. Innovative financial structures, advancements in investment instruments, new intermediaries, and evolving business structures will necessitate updates frequently; however, knowledge and tools are needed now to:

- Educate the public and economic development organizations on various means to access capital.
- Offer policy recommendations to improve existing structures and/or develop new tools.
- Define opportunities around which action teams can organize to stimulate implementation.

[1] Impact investing gives consideration to the social and environmental benefits that an investment may produce, Impact investors actively seek to create positive social returns – such as affordable housing, local food, environmental benefits, or regional economic growth – not just the financial return on investment (ROI). This differs from socially responsible investing which seeks to simply minimize investments in goods or services considered undesirable. An impact investor may take an active role mentoring the company and/or be engaged in activism related to the targeted sector.

California Financial Opportunities Roundtable

To accomplish this goal 80 leaders from various aspects of finance, foundations, government, small business, corporations and economic development sectors gathered in December 2011. Participants broke into seven work groups to study the issues and identify opportunities to as follows:

- **Traditional Financial Products:** strategies for banks, credit unions, investor-backed CD's, mutual funds, etc. to better align available investment capital (supply) with business need (demand) by cultivating local investors and building more efficient intermediation.
- **Emerging Funding Structures:** innovative intermediary platforms, such as crowd-funding, not-for-profit investment funds, local investment clubs, local stock exchanges, etc.
- **Direct-Investment Options:** means for individuals to invest directly in their business, place of employment or community, including preferred stock, self-directed IRAs, Individual Development Accounts, Direct Public Offerings, Cooperatives, and Employee Stock Ownership Plans.
- **Venture Capital, Angel, and Philanthropic:** improved means for high-net worth investors and foundations to invest in small/local businesses, regional industry clusters and targeted sectors.
- **Institutional Investors:** enable Public Bodies, Foundations and Corporations to increase investment in California's economy through more efficient intermediation options to value the additional economic activity generated by local investments in return on investment calculations.
- **Regional Investment Vehicles:** with most personal capital tied up in tax-advantaged retirement funds and growing demands to "bring our money home from Wall Street to Main Street" there is need for intermediaries that can serve as custodians for tax-advantaged funds from non-accredited investors that will be targeted to geographic regions and/or industry clusters.
- **Business Mentoring and Technical Assistance:** financial education and knowledge of best business practices can reduce financial risk to the lender, improve credit worthiness of borrowers and strengthen overall management of an enterprise.

Following the initial meeting of CalFOR, the groups utilized teleconferences and much editing via online forums to develop a first draft that was circulated for widespread review. Revisions and additions were incorporated into a final draft and reviewed by the full CalFOR membership for this publication.

Findings and Considerations

In the last decade, there has been increasing interest among large institutional investors and community development professionals about how private capital could – and perhaps should – be invested in a manner that provides community and environmental benefits, while still meeting financial objectives. Such concepts have been described as triple bottom line returns, socially responsible investments, green investments and/or mission-driven investments by foundations. Most recently, the term impact investing has gained ground among institutional investors as a means for representing the full range of investment policies that provide social, environmental and financial returns.

A key challenge to expanding impact investing is the lack of standardization by which financial institutions and investors can evaluate both the criteria of impact as well as the quality of business opportunities. According to the Milken Institute no new financial market has emerged in the last 30 years without considerable investment in developing the associated infrastructure that allows potential investors to access and assess information on firm and project finance characteristics, financial and economic performance, relationships and the institutional dynamics of asset managers.[2] Although

[2] Financial Innovations for Energy Infrastructure: The Grid, Renewables and Beyond, Milken Institute, Financial Innovations Lab Report, February 2010, http://www.milkeninstitute.org/pdf/ElectricGridLab.pdf

initiatives have been launched by community development organizations and foundations to bring together a national database, the existing information remains fragmented and often insufficient in size, scope, and/or format to make reliable calculations and analysis.

Figure 2

California's economic recovery and success in the post-recession economy is dependent upon seven key drivers: Capital, labor, business, philanthropy, infrastructure, consumers and government actions. Each driver has its unique characteristics as well as qualities that are shared in common. In addition, these drivers are inextricably linked within the overall economy – a weakness within any one of these drivers will affect the others.

CalFOR's preferred approach is to leverage existing resources and offer recommendations that create a more attractive investment environment, as opposed to mandating specific investment policies. These recommendations are consistent with the current fiduciary and portfolio construction realities of institutional investors, yet also offer insight on new opportunities from emerging financial structures. Considerations and discussion points include:

- Recommendations must provide for thriving communities, healthy environments and/or economic vitality of targeted regions, as well as financial returns and reflect best impact investment practices;
- Proposed models and recommendations must fit investment mandates and be scalable;
- Business deals must have appropriate risk profiles for the asset class;
- Models should be targeted to certain industries, subsectors, and/or firm sizes;
- While recommendations may focus on accessing institutional capital, crowdfunding or other new sources, they should not necessarily be exclusive of traditional retail bank participation;
- Recommendations should support long term and high quality deal flow;
- Recommendations should address how existing state and federal agencies, public and private philanthropy, corporations and others can be used to reduce risk, provide technical assistance, and bring additional money and resources into any deals;
- Investment strategies should align with targeted industry clusters; this includes but is not limited to new approaches to finance infrastructure with public-private partnerships, leverage value chain opportunities by improving information exchange and coordinating actors along the value chain;
- Public-private capital pools should improve coordination and prioritization of investments between local, state, federal and private entities.

To ensure that recommendations achieve the greatest possible return on investment, efforts to improve access to capital should also be aligned with existing and related economic development efforts. These actions include, but are not limited to:

Target Regional Industry Clusters:

The best way to create jobs is to grow them at home; however, the usual recipe of tax credits, R&D, training programs, and physical infrastructure is not sufficient, by itself, to spur such "organic" job creation. States need to cultivate their industry clusters – geographic concentrations of interconnected firms and supporting organizations. Properly designed, cluster strategies are a low-cost way to stimulate innovation, new-firm start-ups, and job creation by helping to link and align the many factors that influence firm and regional growth.[3]

Opportunities that can best exploit the potential for impact investing include increased demand for local/healthy foods, development of green energy and region-specific industry clusters. These sectors best utilize California's abundant natural resources, world class institutions and innovative citizens – they offer a foundation for jobs and economic development that will serve all Californians.

> "Because California is composed of distinctive regional economies, we must pursue regional economic recovery strategies that account for this diversity. This will require governance that is decentralized, regions that are encouraged to act, and local jurisdictions that collaborate with one another and the private sector. In this way, we can build thriving regions, which will lead to a thriving State, with economic recovery, fiscal health and widespread opportunity."
>
> *California Stewardship Network*

Implement a Statewide Economic Development Strategy:

Several initiatives (below) coordinated efforts to produce a statewide economic development strategy; this led to the California Can-Do Economic Summit on May 11, 2012 (www.caeconomy.org), dozens of volunteer "Champions" and the Governor's GoBiz[4] office pledging action on recommendations.

- The California Stewardship Network – a collaborative of 12 regions creating innovative solutions to the state's challenges – 2010 publication of a report on key shared values, vision, agenda and principles for kick-starting the state's economy: *Thriving Regions Lead to a Thriving State*.[5]
- Lt. Governor Gavin Newsom led a series of public forums which culminated in a report issued by the Brookings Institution and McKinsey and Associates titled *An Economic Growth and Competitiveness Agenda for California*.[6]
- Nicolas Berggruen Institute, an independent, non-partisan, think tank, convened the Think Long Committee to study the long-term economic development and governance needs of the state, culminating in the release their recommendations: *A Blueprint to Renew California.*[7]
- Leadership provided by California Forward – a nonpartisan, nonprofit organization working to bring government closer to the people and move the state in the right direction – forward.

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[3] Muro, M. and Fikri, K., "Job Creation on a Budget: How Regional Industry Clusters Can Add Jobs, Bolster Entrepreneurship, and Spark Innovation", Brookings – Rockefeller Project on State and Metropolitan Innovation, January 2011, http://www.brookings.edu/~/media/Files/rc/papers/2011/0119_clusters_muro/0119_clusters_muro.pdf

[4] In 2011 Assembly Bill 29, authored by Assembly Speaker John Perez, created the Governor's Office of Business and Economic Development (GO-Biz) to serve as a single point of contact within state government for economic development and job creation efforts. GO-Biz has programs designed to advance business development, assist with permit streamlining, provide small business assistance, encourage innovation and entrepreneurship, and promote international trade.

[5] California Stewardship Network, "Thriving Regions Lead to a Thriving State: A shared Agenda for Action", July 2010, http://www.castewardship.org/Artwork/ThrivingRegionsThrivingState.pdf

[6] Brookings Institution and McKinsey and Associates, *"An Economic Growth and Competitiveness Agenda for California*", Prepared for Lieutenant Governor Gavin Newsom, August 2011, http://www.ltg.ca.gov/docs/LGN_Econ_Agenda.pdf

[7] Nicolas Berggruen Institute**, "**A Blueprint to Renew California", Think Long Committee for California, 2011, http://berggruen.org/files/thinklong/2011/blueprint_to_renew_ca.pdf

Update Local Economic Development Strategies:

Traditionally, economic development has meant redevelopment, enterprise zones, business attraction and tax credits. Increasingly, various stakeholders are questioning the efficacy of such strategies to actually produce new jobs and/or needed tax revenues. A shift is needed to move from methods that may have worked for yesterday's economy to new, innovative and flexible methods that will work for today's realities. Economic development policies and programs need to embrace regional industry clusters, new forms of intermediaries, tactics that build value chains, economic gardening, smart growth, e-commerce, and – perhaps most of all – focus on supporting and promoting California's homegrown economy.

> Only 2% of annual state job gains can be attributed to business relocations; most jobs come from:
>
> - Expansion of existing businesses – 42%
> - Creation of new establishments – 56%.
>
> *Jed Kolko, Public Policy Institute of California, September 2010*

This means focusing investment, subsidies, favorable tax treatment and the many other economic development tools on California's locally-owned businesses. In particular, attention should be paid to assisting small business and start-ups – the source of most new jobs.[8] Self-employment is a labor market trend that grew 28% from 2003-2008; today, one in five workers is a "1099" free-agent.[9]

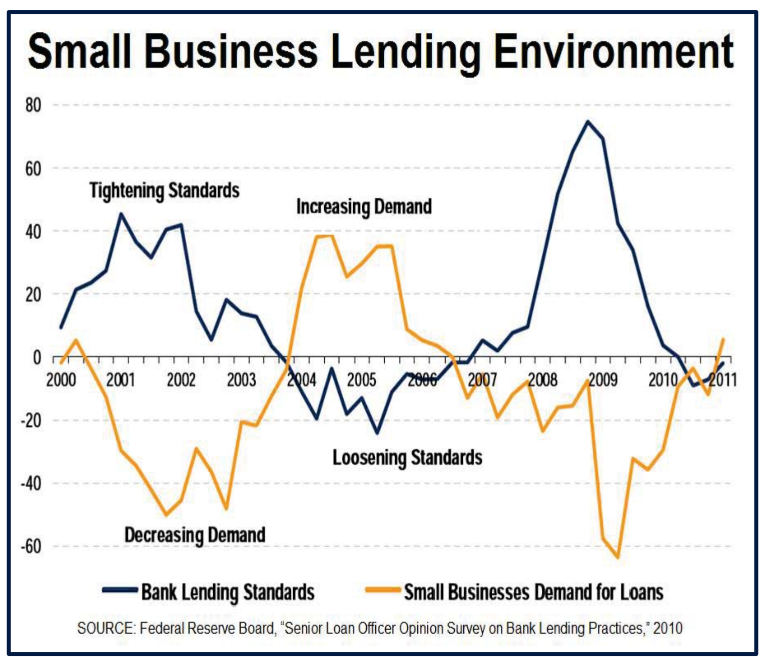
Focus on Small Business:

As the nation slowly emerges from trying economic times, it is difficult to overemphasize the contributions that entrepreneurs will play in creating jobs and expanding the economy. According to the Congressional Research Service, small firms[10] represent 99.7% of all employer firms, employ just over half of all private sector employees, pay 44% of total U.S. private payroll, and have generated 64% of net new jobs over the past 15 years.[11]

Clearly, any strategy to jump-start the economy must have a robust small business component that allows entrepreneurs to access capital and retain existing cash flow from operations in order to start, grow and expand their enterprises. However, with the U.S. facing the most severe economic crisis in more than 70 years, small businesses are confronted with a frozen lending market and limited access to the capital they need to survive and grow at this critical time.

A record 74.5% of banks reported tightening lending standards in the fourth quarter of 2008, with a record 92.7% reporting increased spreads on loans; although banks are no longer raising standards or spreads, as seen in Figure 3, they are not yet really lowering them either.[12]

Figure 3



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8 Kauffman Foundation, "The Importance of Startups in Job Creation and Job Destruction", July 2010.

9 U.S. Department of Labor, TEGL12-10; California Senate Office of Research

10 Defined as 500 or less employees

11 Congressional Research Service, Dilger, R. and Gonzales, O., "Small Business: Access to Capital and Job Creation", Report #40985, March 21, 2011

12 Federal Reserve Board, "April 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices," Washington, DC, http://www.federalreserve.gov/boarddocs/SnLoanSurvey/201005/default.htm

While larger firms must also deal with shifting standards and spreads they are not as dependent on bank lending as small businesses. Corporate bonds, commercial paper and the sale of stock can provide capital for larger enterprises – alternatives that smaller firms can rarely utilize. Policies and programs that reduce the cost of capital to small businesses while still managing risk for lending institutions will help. Along with this it is also important to ensure that program support for job creation is targeted for maximum benefit – increasingly this means expanding efforts aimed at micro-enterprise.

Support Micro-Enterprise:

The part played by truly small businesses in national and State economies is important and not yet well understood. Federal programs refer to "small" businesses as those with up to 500 employees – often with annual revenues of tens-of-millions of dollars – yet 88% of all of the businesses in the U.S. and California have five or fewer employees, employ more than 31 million people, generate $2.4 trillion in receipts and account for 17% of the U.S. GDP.[13] Such truly small businesses – those with five or fewer employees and less than one million dollars in annual revenues – are referred to as "micro-businesses".

According to data from the 2011 Venture Impact study,[14] companies originally backed by venture capital accounted for 11.9 million jobs and over $3.1 trillion in revenue in the U.S. With less than 3% of the money, micro-businesses employ more people than venture capital-backed firms, generate about 2/3 of the GDP and produce jobs for far less cost.

Table 1

	Micro Enterprise Development Organizations	Venture Capitalists
GDP Receipts / GDP Percent	$2.4 trillion / 17%	$3.1 trillion / 21%
Number of Organizations	696	492
Money Invested	$90 million loan volume $500 million MDO budgets	$22 billion invested
Businesses Assisted	221,000	2,749
Employment	33 million	11.9 million
Investment per Job Created	$18	$1,833

Currently there are about 4 million micro-businesses in California.[15] In December 2011, the California Association of Micro Enterprise Opportunity (CAMEO) surveyed its members on job creation in 2010, finding that the 21,000 businesses who received entrepreneurship training, business coaching and small loans created 38,000 new jobs and $1.3 billion in economic activity throughout California.

When micro-business owners receive small loans (under $50,000) combined with targeted technical assistance (e.g. market research, financial planning and/or management assistance) over 80% survive and thrive during the first three-to-five years; furthermore, they generally create two jobs in addition to the owner over 36 months.[16] Strengthening the micro-business sector will stimulate local economies and raise state revenues; public and private sector investment in this sector can reap large rewards.

[13] Data compiled by Association for Enterprise Opportunity; 2008 data from the U.S. Census Bureau released in July 2010.

[14] National Venture Capital Association, "The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy", Edition 6.0, 2011, www.nvca.org/index.php?option=com_content&view=article&id=255&Itemid=103

[15] California Association for Micro Economic Opportunity, www.microbiz.org/way-out-of-unemployment-build-your-own-business/

[16] CAMEO's Annual Member Surveys from 1999-2009

"If just **one in three** microbusinesses hired **one** additional employee, the U.S. would be at full employment."

Association for Enterprise Opportunity 2011 report on microbusinesses – *The Power of One in Three*[17] – shows how to create jobs and get America working again. Almost 90% of U.S. firms are microbusinesses.

	U.S.	California
Total Number of Businesses	28.5 million	3,531,760
Number of Microbusinesses	25.1 million	3,151,938
Percentage of Microbusiness	88%	89%[18]

Figure 4

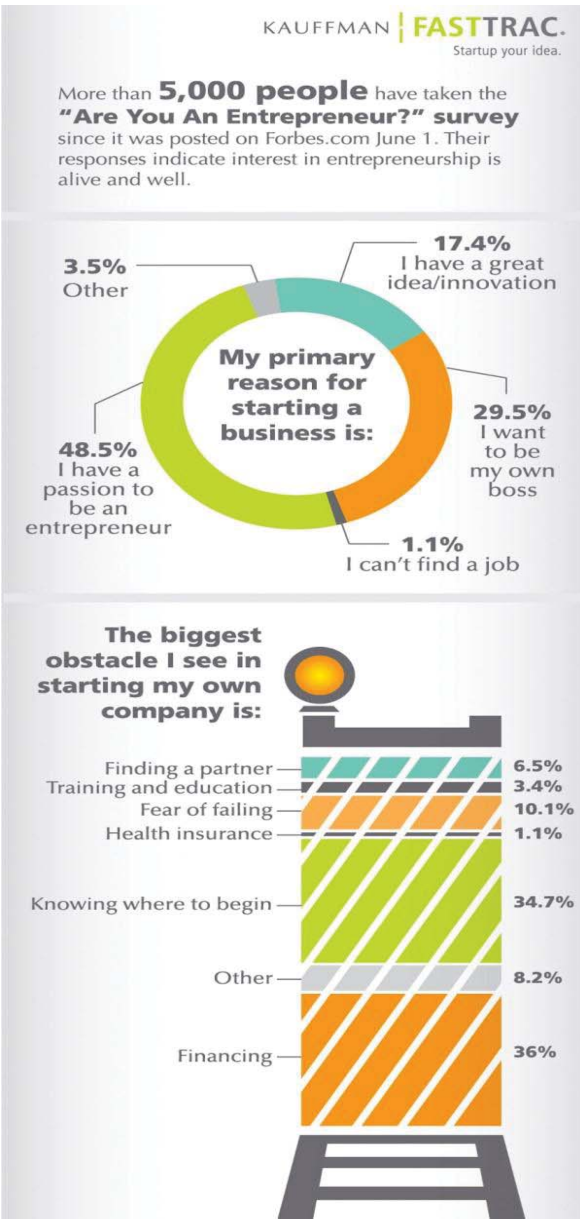
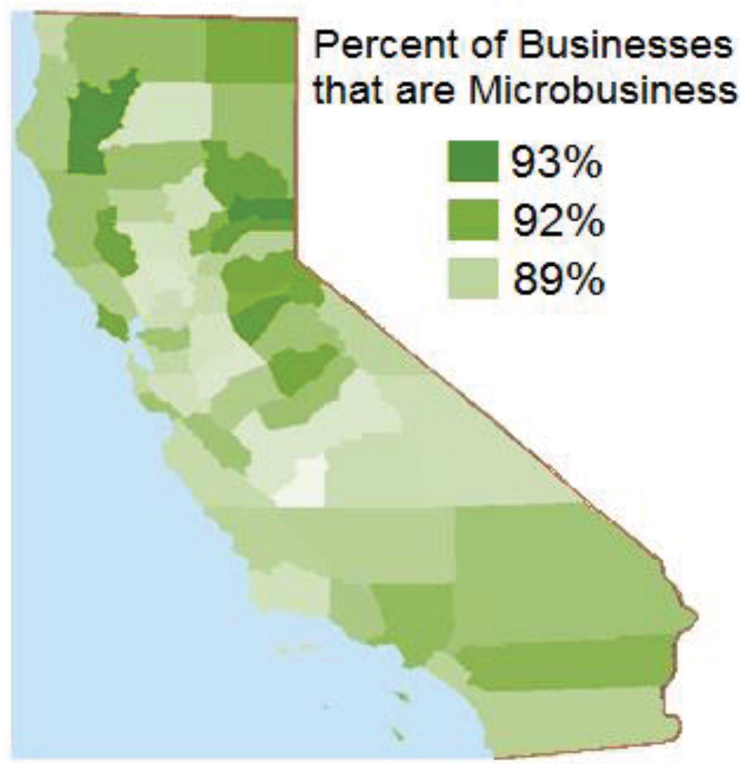


Figure 5



A recent survey on entrepreneurship showed very high interest from respondents to pursue their own business; however, accessing capital and figuring out how to get started remain challenges. Top responses to a question on "the biggest obstacle to starting my own company": 36% of aspiring founders cited financing, followed closely by "knowing where to begin" (34.7%).[19]

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[17] "The Power of One In Three: Creating Opportunities for All Americans to Bounce Back", 2011, Association for Enterprise Opportunity, http://www.aeoworks.org/pdf/one_in_three.pdf

[18] Association for Enterprise Opportunity, California Microbusiness Fact Sheet, 2012, http://www.aeoworks.org/pdf/states/Microbusiness_State_Factsheet-CA.pdf

[19] Forbes.com, "Would-be Entrepreneurs Cite Networking Skills, Business Acumen as Key Areas for Improvement in Kauffman FastTrac® Survey", PRWeb, June 27, 2012, http://www.kauffman.org/newsroom/would-be-entrepreneurs-cite-networking-skills-business-acumen-as-key-areas-for-improvement-in-kauffman-fasttrac-survey-on-forbes.aspx

Develop Effective Intermediaries:

The lack of mechanisms to connect capital and impact investment opportunities is caused in large part by an investment industry structured around the historical binary of philanthropy (for impact) and investment (for returns), with optimization around each independently. As a result, the market for impact investing activity lacks sufficient intermediation – whether it is clearinghouses, syndication facilities, independent third-party sources of information, or investment consultants.[20] As a result, search and transaction costs are high, with fragmented demand and supply, complex deals, and underdeveloped networks; as seen in table 2, several remedies must be pursued.

Efficient intermediation and infrastructure to facilitate transactions will be as essential to securing the growth of micro, small and mid-scale businesses as they were for high-growth firms and venture capital. As Sir Ronald Cohen, a venture capital pioneer in the U.K., notes, “It is true in the case of social investment as it has proved to be in that of venture capital and private equity that the supply of money creates its own demand and an increased flow of capital is therefore the starting point.”[21]

Table 2

LACK OF EFFICIENT INTERMEDIATION	LACK OF ENABLING INFRASTRUCTURE	LACK OF SUFFICIENT ABSORPTIVE CAPACITY
Unlock Latent Supply of Capital By Building Efficient INTERMEDIATION	**Build Enabling INFRASTRUCTURE for the Industry**	**Develop the ABSORPTIVE CAPACITY for Investment Capital**
A. Create industry-defining funds that can serve as beacons for how to address social or environmental issues	H. Set industry standards for social measurement	P. Support effective and scalable management capacity development approaches for entrepreneurs
B. Place substantial, risk-taking capital into catalytic finance structures	I. Lobby for specific policy/regulatory change	Q. Provide tools to support research and development for innovative, scalable models
C. Launch and grow dedicated impact investment banking capabilities	J. Develop an impact investing network to accelerate the industry	
D. “Pull” existing intermediaries into impact investing by making business commitments	K. Develop risk assessment tools	
E. Create investment clubs focused on specific themes	L. Coordinate development of a common language platform	
F. Support the development of backable fund managers	M. Create publicly available comprehensive benchmarking data	
G. Create financial products to increase accessibility	N. Integrate social and environmental factors into economic and finance theory	
	O. Launch a targeted public relations campaign to promote demonstrated successes	

[20] “Investing for Social & Environmental Impact”, Monitor Institute, January 2009, www.monitorinstitute.com/impactinvesting

[21] Ibid.

Improve Accessibility of Information:

The ability for an economy to grow effectively and efficiently is directly related to (a) the continuum of accessible financial products and services needed to support the infrastructure for growth, (b) the capacity of public and private entities, and (c) the ability to assess and respond to macro and external trends. The availability AND accessibility of information is a critical issue. Current fragmentation of information on financial resources, service providers, workshops, networks, trends, economic data, etc. conspires against building strong communities and sustainable regional economies.

While many economic development organizations (public and private) exist, limited operational scope and detachment from a broad continuum of relevant products and services can translate into inefficiencies. For many organizations, lack of staff and budget can challenge efforts to access a potentially broader product suite, leaving their customers without knowledge of the full range of available products/services.

One example of a "hub" of information is the Community Profiles created by the Community Affairs Office of the Federal Reserve Bank of San Francisco.[22] These describe local, state, regional and federal organizations/agencies, products and services provided, opportunities for private sector debt and equity, and contact information. Another is the "Tools for Business Success", which has done a commendable job of linking many existing sources; however, it also lacks many vital bits of information.

Improvements to these existing portals would allow for users to move beyond simply accessing local providers or websites with commonly available information – they could and should facilitate information exchange, business-to-business networking, access to demographic data, business trends, leakage analysis, relevant economic studies and reports, etc. This enhanced information portal would be useful to entrepreneurs, business owners, technical assistance providers, lenders, students and policy-makers.

A public/private consortium is needed to build and maintain a comprehensive database that links all relevant information at one source – giving users access to service providers while also expanding providers access to new resources and data. The consortium should also be responsible for establishing appropriate protocols to monitor accuracy, set standard definitions and terms, and establish formats for data submittal, and ensure that privacy rules and best practices are enforced at all times. The database should be easily accessible and intuitively user-friendly, preferably funded through a restricted endowment.

Information for California's small businesses and entrepreneurs offered as a service through local cities, counties, chambers of commerce, economic development agencies, workforce agencies, and small business development centers,. Learn about forms to comply with federal and state laws, loans and financing programs, how to market globally, disaster planning and, making sustainable business decisions, etc.

www.toolsforbusiness.info

The Smart Business Resource Center provides workforce services in Shasta and Trinity Counties with funding from the U.S. Department of Labor and the State of California. For 33 years the Center has provided quality services and investment of over $40 million dollars to the business community.

www.thesmartcenter.biz

The Economic Development Collaborative-Ventura County (EDC-VC) is the resource for companies of all sizes in Ventura County. Since 1996, EDC-VC promotes jobs and economic growth through consulting, workshops, loans, Manufacturing Outreach, and the G.E.T. Trade program.

www.edc-vc.com

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[22] http://www.frbsf.org/community/research/eas.html

How to Use this Guidebook

CalFOR participants embarked upon this project believing that much of what was required to improve access to capital would be policy changes and extensive development of new products and/or initiatives. While some areas of policy and regulation do need improvement and there is plenty of work for various stakeholders to implement various recommendations offered throughout this guidebook, the somewhat unexpected discovery was just how many different ways were already available and functioning to access capital that do not require difficult legislative campaigns or expensive development.

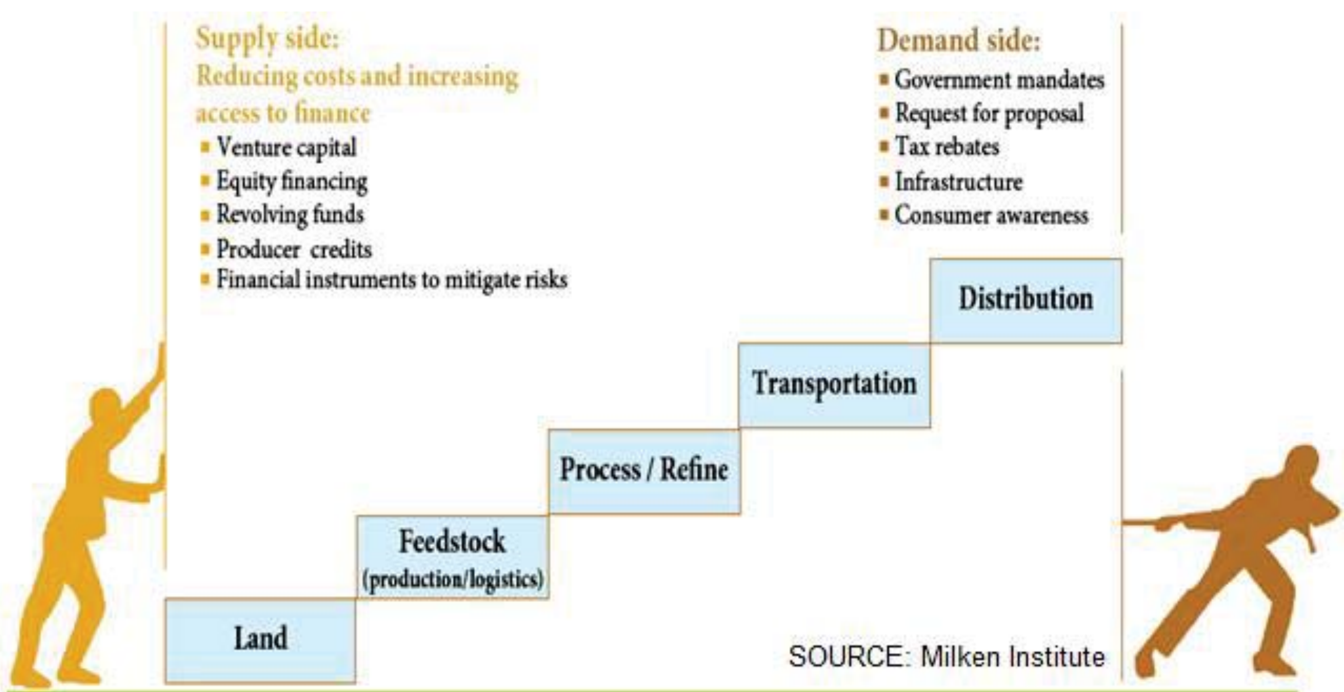
This guidebook will be useful to anyone seeking capital, as an educational tool for business-related workshops and for policy-makers seeking specific recommendations on how to improve economic development strategies, delivery of business services and regulations.

The bulk of this guidebook lays out basic information on those opportunities that will be immediately operative by existing businesses and aspiring entrepreneurs – 24 options in Chapter One. Chapter Two highlights new intermediaries and investment platforms as well as strategies that regions and communities can pursue; these offer exciting possibilities but will require substantial work to implement. Chapter three looks at improving how business services are delivered and is followed by an extensive list of resources and references.

In the following chapters, you will find clear, concise descriptions of the various tools and programs available along with specific examples of how they have been utilized and links to websites for in-depth information and/or applications. The information is organized as:

1. **Currently Available and Operational**
2. **Available With Substantial Work**
3. **Business Mentoring and Technical Assistance**
4. **List of Resources and References**

Figure 6



A 2012 study by Pepperdine University and Dun & Bradstreet Credibility Corp. asked small business owners their thoughts on best policy instruments to help spur U.S. job creation. The number one answer: "increased access to capital." Indeed, 49% said lack of bank loans restricted growth opportunities, and 37% said limited lending restricted their ability to make new hires.[23]

Capital Currently Available and Operational

Just as a toolbox has many different tools to serve varied needs, so must our financial toolbox offer options to fit the diverse range of California enterprise. In this section are information, examples and links to providers and other resources for financial tools that are already available and operating to facilitate access to capital. They include:

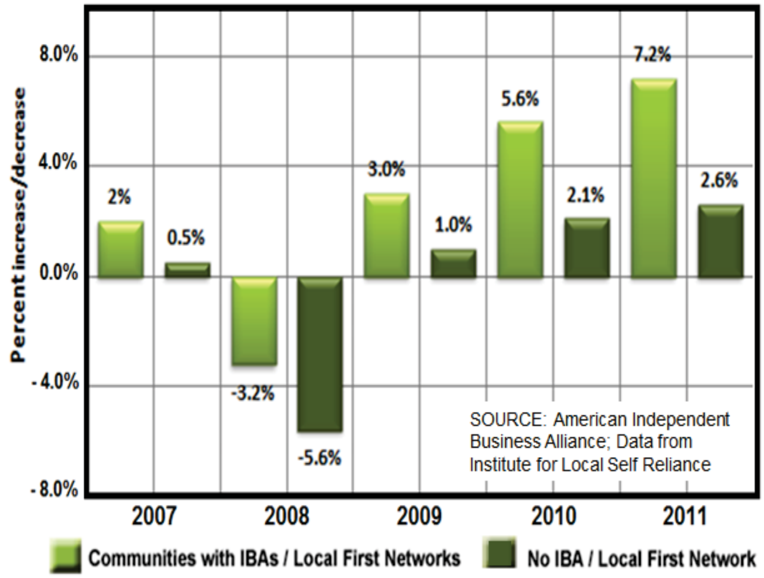
- **Buy Local**
- **Invest Local**
- **Community Development Financial Institutions**
- **Government, Institutions and Foundations**
- **Small Business Investment Companies**
- **Small Business Lending Fund**
- **Surety Bonds**
- **Tax-Exempt Industrial Development Bond**
- **California Organized Investment Network**
- **State Assistance Fund for Enterprise, Business and Industrial Development Corporation**
- **Revolving Loan Funds**
- **Community Reinvestment Act**
- **Cooperatives**
- **Employee Stock Ownership Plans**
- **Early State Funds: Angels & Venture Capital**
- **Direct Public Offerings**
- **Crowdfunding**
- **Friends and Family Securities**
- **Local Investment Clubs**
- **Lending Circles / Peer Lending**
- **Individual Development Accounts**
- **Sweat Equity**
- **Tax Increment Financing**
- **Self-Directed Individual Retirement Accounts**
- **Export Assistance and Financing**

[23] Paglia, J., "2012 Economic Forecast: Insights from Small and Mid-Sized Business Owners", Pepperdine Private Capital Markets Project, January 2012, http://bschool.pepperdine.edu/appliedresearch/research/pcmsurvey/content/ppcmp-2012.pdf

BUY LOCAL

One of the fastest, easiest and most effective ways to quickly get capital into the hands of California businesses is to expand their sales of goods and services. Programs that encourage consumers to "Buy Local" have been spreading rapidly and communities that implement this strategy report impressive results; independent businesses more than doubled in cities with a "Local First" network. A recent survey (Table 3) found locally-owned businesses in communities with an active "buy local" campaign run by a local business/citizen alliance saw revenues grow 7.2% in 2011, compared to 2.6% for those in areas without an alliance.[24]

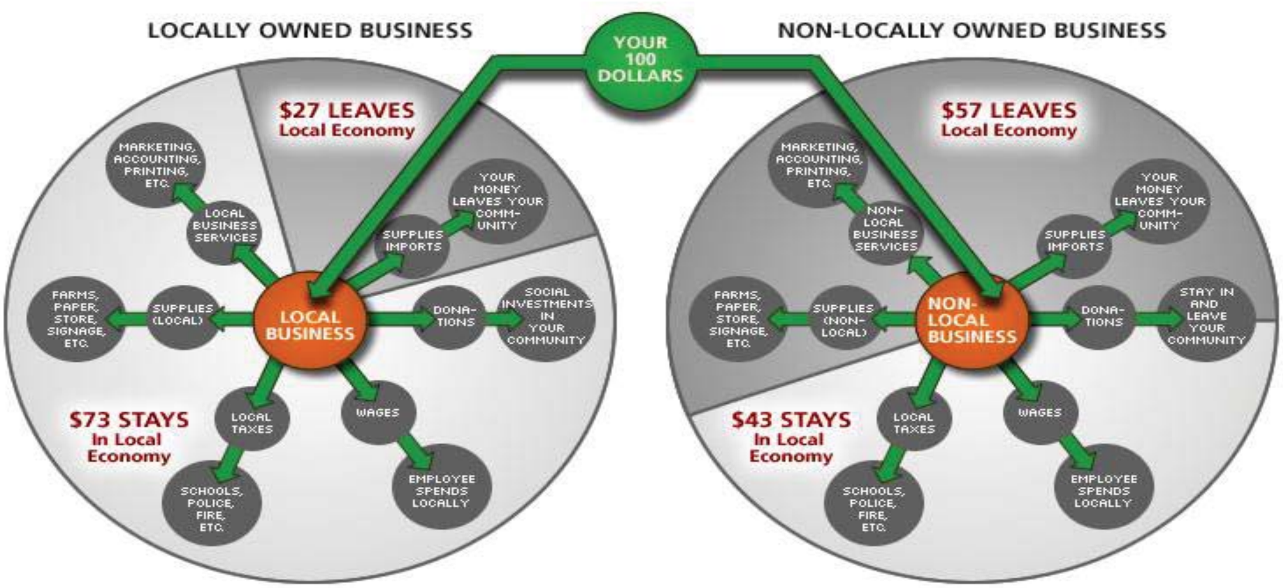
Table 3



<u>Organize "Buy Local" Initiatives</u>:

Dollars spent at locally-owned businesses are more likely to recirculate to other local suppliers. Economists call this a "multiplier effect," because it steers more jobs and sales-tax revenue into a community. As example, a recent retail diversity study of San Francisco and three Peninsula cities found that purchasing from locally owned stores created about 70% more local jobs, and 67% more overall local income per dollar spent. Shifting just 10% of purchases to local businesses would add nearly 1,300 new jobs and $200 million in economic activity to the cities studied.[25] Several recent studies have found multiplier benefits of local businesses to be up to three times those of non-local businesses.[26]

Figure 7



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[24] American Independent Business Alliance, "2011 Survey Results: A Decent Year for Indie Business Overall -- a Great Year for Those Involved in IBAs!", Newsletter, January 2012, www.amiba.net/news/2012/january

[25] Civic Economics, "The San Francisco Retail Diversity Study, May 2007

[26] Robinson, N., "Why Buy Local? An Assessment of the Economic Advantages of Shopping at Locally Owned Businesses", Michigan State University, Center for Community and Economic Development, September 2010, http://capitalarealocalfirst.com/, Additional Case Studies from Arizona, Hawaii, Maine, New York, and Wisconsin

Community Supported Businesses and Pre-Sales:

More businesses – bookstores, fisheries, manufacturing, etc. – are utilizing the model of Community Supported Agriculture (CSA)[27] to acquire new capital. "Pre-sales", gift books, and coupons allow a portion of the capital needed to bring a product to market to come from the ultimate consumer of that product. For example, a restaurant owner seeking funds to develop a new location sells subscriptions to 100 "members" who receive coupons for meals once the restaurant is open. Another example is a housing developer who pre-sells units in a development before units are ready to occupy.

Government and Institutional Procurement:

Large businesses and institutions are substantial purchasers of goods and services. Although price and service are top considerations, a firm's long-term health is closely tied to the health of the community in which they operate. This is true of for-profit firms such as banks, manufacturers, retailers, and service providers as well as non-profit institutions such as hospitals and educational institutions. Even more than the private sector, public sector institutions are in a prime position to capture benefits from the enhanced economic activity associated with local suppliers. Additional dollars recirculating in the local economy generate taxable transactions, employ local citizens, and promote economic vitality of the region.

Federal government policy is to "Buy American"; however, most goods and services procured come from large firms. New technologies and a push to support small, minority, women, and veteran owned businesses have opened up opportunities to serve federal procurement: SBA's Historically Underutilized Business Zones (HUBZone) program offers small businesses preferential access as does USDA's Office of Small and Disadvantaged Business Utilization.[28] Both provide guidance and technical assistance to participate in procurement activities.

April 2012: Sacramento City Council joins other California cities – Oakland, Los Angeles, San Francisco, and San Jose – in "local-preference", offering a 2% bidding advantage to local firms on contracts below $100,000. While not as large as the 10% preferences some cities offer local firms, it is a first step; buy-local advocates hope to increase the preference and also expand this to a regional approach.

Policy Recommendations:

- Improve procurement processes for local and/or small businesses, including unbundling services, requiring sub-contracting with small/local businesses, restricting competitive bidding for smaller contracts to small businesses, providing for additional consideration for small businesses in assessing contractor qualifications, and through small business advocacy and outreach.
- Go-Biz, CalFOR, and other stakeholders develop model policies supporting locally-owned business. Leadership and staff need to serve as catalysts and focus on delivering outcomes.

For More Information:

- American Independent Business Alliance — www.amiba.net
- Business Alliance for Local Living Economies — www.livingeconomies.org
- California Farm-to-School Program — www.cafarmtoschool.org
- Institute for Local Self-Reliance — www.ilsr.org
- SBA Historically Underutilized Business Zones (HUBZone) — www.sba.gov/hubzone
- USDA Office of Small and Disadvantaged Business Utilization — www.dm.usda.gov/osdbu

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[27] A model developed in Europe that took root in the U.S. in the early 1990's; CSA's allow consumers to share risk with the farmer by subscribing to purchase a mixed box of whatever the farm produces – reducing the need for loans to cover expenses.

[28] http://www.dm.usda.gov/smallbus/docs/2011-2012SubcontractingDirectory.pdf

INVEST LOCAL

More people are exploring options to invest in local businesses and community infrastructure. According to data in Statistical Abstract, sole proprietorships (the legal structures chosen by most first-stage small businesses) are nearly three times more profitable than C-corporations (the structures of choice for global businesses); concurrently, global trends like rising energy prices and the falling dollar, coupled with shifts in spending from goods to services, promises to expand the local business sector, since most services depend on direct, personal, and, ultimately, local relationships.[29]

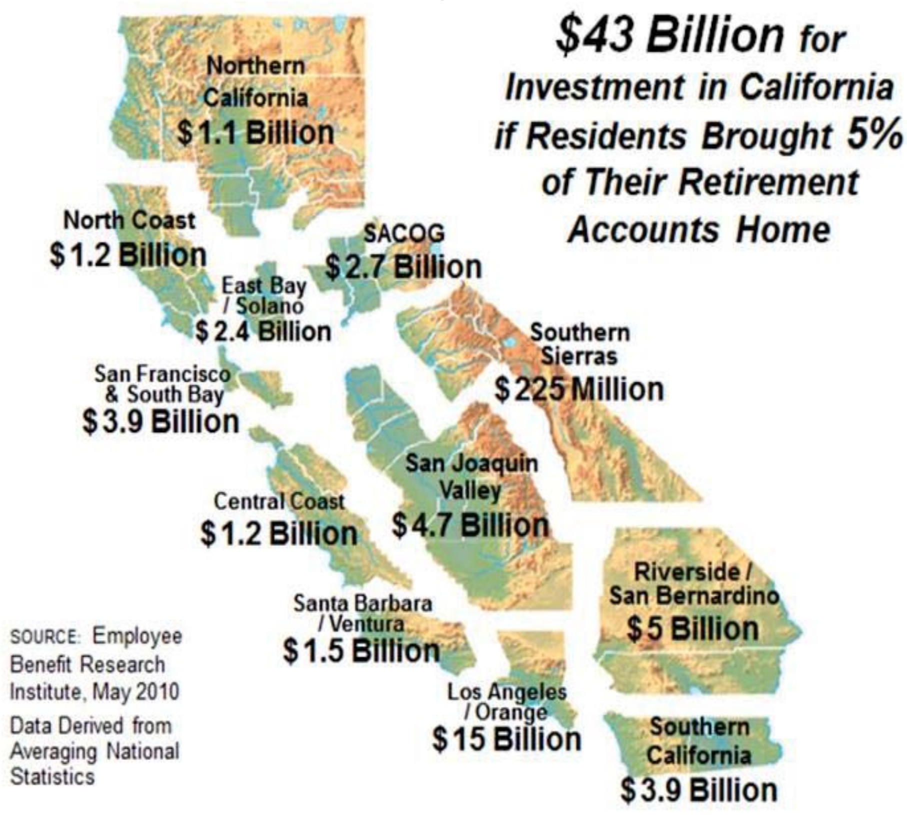
> "Americans' long-term savings in stocks, bonds, mutual funds, pension funds, and life insurance funds total about $30 trillion. But not even 1% of these savings touch local small business – even though roughly half the jobs and the output in the private economy come from these small businesses. People concerned with the poor returns from Wall Street and the devastating impacts of global companies on their communities need to find ways to invest in Main Street."
>
> Michael Shuman, 2012

Supporting this movement are studies showing that such investments provide a healthy return. For example, a study of 18,000 investments found no statistical difference between rural and metro regions measuring key variables: jobs created, type of industry, length of investment, exit type, or performance.[30] Despite this, current financial systems make it virtually impossible for local residents to invest in the businesses they patronize or the communities they live in.

Bringing more personal capital into play at the local level could have huge results. As example, California citizens collectively have approximately $859 billion[31] in retirement accounts – virtually all invested in Wall Street instruments. If 5% of these funds could be repatriated into local investments – about $43 billion shown in regional calculations here – much of local and regional concerns over access to capital could be relieved.

The primary challenges in pursuing this strategy are finding viable intermediaries and the resources necessary to launch "Invest Local" initiatives.

Figure 8



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29 Shuman, M., *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity*, Chelsea Green, 2012

30 Scruggs, P., Embree, W. and Wiltbank, R., "The Role of Equity Capital in Rural Communities", March 2010, http://www.yellowwood.org/The%20Role%20of%20Equity%20Capital%20in%20Rural%20Communities.pdf

31 Federal Reserve Bank, "Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2011", Statistical Release, September 16, 2011

Challenges to expanding local investing:

- Access to and availability of local investment capital.
- Availability of information and technical assistance.
- Lack of intermediaries to facilitate transactions.

Formed in 1995, The Mendocino County Economic Development and Financing Corporation enables the County, and its four incorporated cities, to partner with entrepreneurs by connecting money and ideas to create more sustainable prosperity in Mendocino County. It hosts an entrepreneurs mentoring group, business plan competition, certifies green businesses, and is currently carrying out a project to build a local meat processing facility.

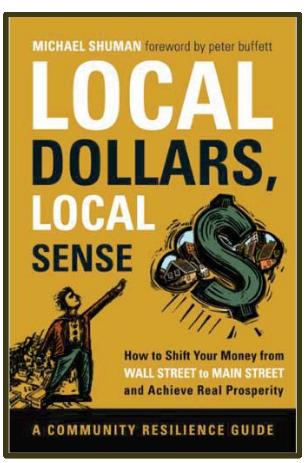
www.edfc.org

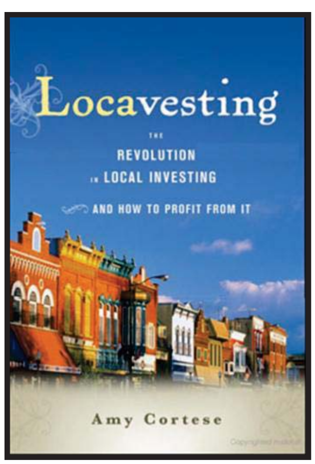
Policy Recommendations:

- Develop the intermediaries needed to connect investors with businesses and entrepreneurs – utilizing many of the tools and structures described in this handbook.
- Public and private stakeholders should provide funding, policy and other necessary support to:
  - Build Web portals matching investors with opportunities
  - Compile relevant data sets (e.g. economic data, demographics, employment, companies, etc.)
  - Organize outreach and related events (e.g. business plan competition)
  - Develop a toolkit and/or software for communities looking to support local investing.
  - Enable government and institutional investors (e.g. endowments, pensions, and other funds) to invest locally.

For More Information:

- *Locavesting: Revolution in Local Investing & How to Profit from it,* Amy Cortese, 2011
- *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street and Achieve Real Prosperity – A Community Resilience Guide* by Michael Shuman, 2012
- Business Alliance for Local and Living Economies: www.livingeconomies.org
- Locavesting: www.locavesting.com





The Case for Locavesting

Let's be clear. No one is suggesting that people rush out and sink all of their money into the local dry cleaner (and they're already very well financed, in my neighborhood at least, thanks to the Korean *kye* system, in which groups of Korean-Americans lend money to one another). Small businesses are risky, to be sure. Due diligence is definitely required, and not all ideas or entrepreneurs deserve to be funded.

Nor will local investing ever replace our current global financial system. It should be viewed as a complement – and a necessary one. As Leslie Christian, a Wall Street Veteran and social-impact investment fund manager, puts it:

> *"Ultimately, unless we have really strong local economies, we're not going to have a functioning global economy."*

There is a compelling investment case for small, private, community-rooted companies as a worthy and prudent asset class.

Amy Cortese, 2011

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

CDFIs fill a vital niche in the nation's financial services delivery system, complementing traditional lenders by offering services and products that traditional financial institutions do not offer, or do not offer to the types of customers that CDFIs serve, such as mortgage financing for low-income and first-time homebuyers, loans to nonprofit developers, community facilities, flexible underwriting for small business loans, and investments to start-up or expanding businesses, all coupled with technical assistance, advocacy and research.[32] It is important to note that in addition to the services that CDFIs currently provide, several recommendations in this handbook envision CDFIs in new intermediary roles.

CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as non-profit loan funds or community development corporations, or venture capital funds. In FY 2011, CDFIs nationally made over 16,000 loans or investments totaling over $1.2 billion and financed more than 5,000 small businesses, over 17,000 housing units, and creating more than 25,000 jobs. CDFI investors generally fall into five categories: 1) government, 2) depository institutions, 3) non-depository institutions, 4) individuals and 5) foundations. California currently has 88 certified CDFIs located throughout the state and several more seeking certification. Of the existing CDFIs, 42% serve both urban and rural areas, 24% serve rural communities only and 33% serve urban areas only (Full list with websites at: www.cdfi.org/uploads/stateprofiles/California.pdf).

The CDFI Fund was created in 1994 to promote economic revitalization and community development through investment in and assistance to CDFIs.[33] Less than 10% of all CDFI capital is provided by the CDFI Fund, but the federal dollars awarded by the CDFI Fund allow CDFIs to leverage billions more dollars from the private sector for development activities in low wealth communities across the nation. Over $150 million in CDFI awards have gone to California organizations since 1996.[34]

CDFIs work locally and many have long-term relationships with clients allowing them to deliver a wide range of products to meet the needs of their communities. These can be broken into five main sectors:

- **Microenterprise development** includes financing to businesses that have five or fewer employees and a maximum loan or investment of $35,000. This financing is typically for the start up or expansion of a business, working capital, and/or equipment purchase.
- **Business development** includes loans and equity investments to businesses that have more than five employees or financing needs greater than $35,000. This includes financing for expansion, working capital, equipment purchase/rental, or commercial real estate development.
- **Community services** target human and/or social service agencies, advocacy organizations, cultural facilities, religious organizations, health care providers, child care centers, and education providers that offer critical and much needed services to low-income people and communities.
- **Housing financing** includes 1) support to affordable housing developers for predevelopment, acquisition, construction, renovation, working capital, mortgages, and direct mortgage, and 2) lending to low-income individuals (rental housing, service-enriched housing, transitional housing).
- **Consumer finance** includes personal loans for health, education, emergency, debt-consolidation, transportation, and other consumer purposes. In many low-income communities, such services are provided not by mainstream lenders but by institutions that specialize in check cashing, payday lending, and wire transfers at predatory rates. CDFIs also provide non-financial consumer services, such as financial literacy training or programs that encourage savings.

When promoting economic development, CDFIs offer a more “customized” approach – allowing communities to innovate while attracting new investors to underserved communities. Such investors can

[32] CDFI Coalition, “The CDFI Fund: Promoting Economic and Community Development through CDFIs”, https://org2.democracyinaction.org/o/5172/images/CDFI%20General%20Fact%20Sheet.pdf

[33] The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative. http://www.cdfifund.gov/index.asp

[34] CDFI Coalition, “CDFIs in California”, http://cdfi.org/uploads/stateprofiles/California.pdf

have very different goals; disconnects between investors and CDFIs are just recently being identified, understood and addressed. For example, CDFIs are structuring securities to sell directly to investors; however, fee-based wealth mangers investing for their high-net-worth clients have different needs than mutual funds incorporating CDFIs into their portfolios. As is common in early innovation, these efforts are promising but they are fragmented, uneven and uncoordinated.[35]

Valley Economic Development Center

"Enrich communities by making economic dreams a reality". VEDC provides micro loans ($1,000 - $50,000) and small loans ($50,000 - $500,000) as well as SBA loans throughout California. VEDC has over 36 years' experience in providing affordable business services, direct financial assistance, entrepreneurial training and economic development. Over the past three years, VEDC's capital grew from $10 million to $25 million; they lent $25.8 million to 480 small and micro businesses – supporting the creation of 1,082 new jobs and 240 businesses.

www.vedc.org

Challenges to expanding utilization of CDFIs:

- Attracting capital from new investor sources.
- Lack of scale and operational efficiencies.
- Inadequate access to CDFIs in many rural locations.
- Lack of standardization in measurement of outcomes (both financial and nonfinancial); diverse investors have unique needs in reporting and outcomes.

Policy recommendations:

- Develop a comprehensive map of CDFIs in California with description of service territory, products and how to contact them; ensure this is maintained and easily available on a website along with tools to streamline underwriting and delivery of technical assistance.
- Work with various investor classes to create efficient intermediaries. Regional aggregators can diversify pools of loans geographically and by asset class, work with ratings agencies, and help service loans for those lenders who need it. Collaborate with foundations, government and conventional capital markets to enhance the credit of loan pools.
- Work with major banks, institutional lenders, private investors, and donor foundations to create loan loss reserve grants to augment CDFI balance sheets. Expand marketing of CDFIs to bring in new investment capital. CDFIs also should reach scale by more actively and deliberately pooling loans.
- Develop advocacy structure to affect positive policy change like the CDFI Bond Guarantee Program (CBGP), as a way to make increase access to capital.

For More Information:

- Calvert Social Investment Foundation http://www.calvertfoundation.org/
- CDFI Coalition http://www.cdfi.org
- CDFI Fund http://cdfifund.gov/
- Forum for Responsible Investing http://ussif.org/
- Opportunity Finance Network http://opportunityfinance.net

[35] Cates, Rosalie S., "How to increase Socially Responsible Investment in CDFIs", September 2011

LEVERAGING GOVERNMENT, INSTITUTIONS AND FOUNDATIONS

In an environment of limited local, state and federal resources, future economic development will hinge on industry's ability to leverage existing capital resources and to articulate precisely the extent to which those resources are achieving their intended goals. Unfortunately, there is no standard or centralized manner in which public or private resources are made available for the purposes of economic development. Accordingly, this lack of consistency complicates attempts to assess the viability of a given program or product in the hope of channeling funds in a manner that achieves the highest and best use.

Leveraging can achieve greater economic development success than through direct subsidies, loans, or investments. As example, a U.C. Davis report[36] indicates that every dollar the State of California spends on the Small Business Loan Guarantee Program (SBLG) results in $2 of tax contributions. In the depths of the 2008-09 "great recession" the SBLG program created about 2,500 new jobs and retained 13,000 while achieving admirable diversity in the distribution of this capital – 62% of the loans guaranteed through this program were to minority-owned businesses.[37] Furthermore, 95% of jobs in rural areas come from small businesses; a significant portion of small business loans originated in rural areas comes from sources that rely on such guarantee programs.[38]

Challenges to increasing leveraging:

Institutional investors deploy capital based on written investment policies. Asset managers may not stray from these mandates. Having a variety of definitions with different meanings limits the growth of impact investment strategies, inhibits the ability to demonstrate aggregate ROI for the sub-asset category, and can have the effect of lowering the overall quality of the social and environmental impact.

Policy recommendations:

- Go-Biz and CalFOR develop a working group of leading financial institutions (traditional and non-traditional), appropriate foundations and public agencies (local, state and federal) to review all sources of funds that could be restructured and leveraged to finance economic development activity using existing resources.
- A substantive portion of public and private funds targeting economic development should be provided through vehicles that can leverage those investments in the form of guarantees, collateralization,[39] etc.

COUNCIL on FOUNDATIONS

The Council on Foundations and USDA 2011 Agreement promises collaboration to:

- Improve quality of life of rural Americans
- Create new sources of rural wealth – leverage assets
- Partner in workforce investment strategies
- Develop innovative & sustainable means of collaborating
- Joint convenings, teleconferences and webinars to advance common work

USDA

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[36] Ted Bradshaw, "The Contribution of Small Business Loan Guarantees to Economic Development", Economic Development Quarterly, November 2002, 16:360-369

[37] Association of Financial Development Corporations

[38] California Association of MicroEnterprise Organizations

[39] Collateralization: The act where a borrower or a third party pledges an asset as recourse to the lender in the event that the borrower defaults on the initial loan. Collateralization of assets gives lenders a level of reassurance against default risk, which allows loans to be issued to individuals/companies with less than optimal credit history/debt rating. Businesses can also use collateralization for debt offerings. Such bonds may go into details as to the specific asset, such as equipment and/or property that is being pledged for the repayment of the bond offering in the event of default. The increased level of security offered to a bondholder typically means that the coupon rate offered on the bond will be lower as well.

- Expand activities of the eleven Financial Development Corporations already operating in California; three have the ability to provide agricultural financing, and one is just for energy financing.

- Support new efforts to increase capacity, including but not limited to:
  - California's CalCap[40] loan loss reserve program;
  - Loan-loss-reserve grant programs established by private banks[41]
  - Increased targeting of funds available from the Community Reinvestment Act[42]

<u>For More Information</u>:

• California Capital Access Program	www.treasurer.ca.gov/cpcfa/calcap.asp
• California Financial Development Corp.	www.bth.ca.gov/sblgp.htm
• California Small Business Loan Guarantee	www.bth.ca.gov/sblgp.htm
• Community Investment Network	www.communityinvestmentnetwork.org
• Golden State Investment Fund	www.gsif.com
• Start Up America Partnership	www.s.co
• USDA Rural Development	www.rurdev.usda.gov/CA-BCPrograms.html
• U.S. Small Business Administration	www.sba.gov

GOLDEN STATE INVESTMENT FUND

CalPERS California Initiative

California Public Employees' Retirement System (CalPERS) safeguards retirement benefits for over 1.6 million members and manages over $200 billion in assets. In 2001 the CalPERS Investment Committee approved the $1 billion California Initiative to invest in traditionally underserved areas. To track ancillary benefits CalPERS and Hamilton Lane engaged Pacific Community Ventures (PCV) to collect, analyze and report on the California Initiative's ancillary benefits. Since inception of the California Initiative, 445 companies have received approximately $1 billion of investment from CalPERS. Ancillary benefits include:

- 46% of companies are in areas traditionally underserved by institutional equity capital
- 45% have at least one woman officer
- 31% have at least one minority officer
- 51% of employees low-to-moderate income

STARTUP AMERICA PARTNERSHIP

The Startup America Partnership believes entrepreneurship and young companies growing creates jobs and is critical to the country's long term success. The Obama Administration and 50+ private-sector partners are collaborating to deliver more than $1 billion in value to 100,000 startups throughout the U.S. This includes:

- Expertise: training, mentors, advisors and accelerators
- Services: access to critical services at reduced costs
- Talent: assist with recruiting, training and retaining tip staff
- Trade: finding new customers and expansion into new markets
- Capital: facilitate access to capital

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[40] The California Capital Access Program (CalCAP or Program) encourages banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing.

[41] Bank of America's new microloan reserve grants were created specifically to help CDFIs and other nonprofit lenders meet the required reserve levels, and thereby access millions of dollars in new low-cost capital.

[42] The Community Reinvestment Act is intended to encourage depository institutions to help meet credit needs of communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations. It was enacted by the Congress in 1977 (12 U.S.C. 2901) and is implemented by Regulation BB (12 CFR 228). The regulation was substantially revised in May 1995 and updated again in August 2005, www.federalreserve.gov/communitydev/cra_about.htm

SMALL BUSINESS INVESTMENT COMPANY (SBIC)

The SBIC program, administered by the U.S. Small Business Administration (SBA), was created in 1958 to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations. The structure of the program is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses. The SBA does not invest directly in the small business but provides funding to qualified investment management firms with expertise in certain sectors or industries. No tax dollars are appropriated to fund SBIC debentures; the debentures are pooled periodically and sold to private investors as SBA Guaranteed Certificates.

Only companies defined by SBA as “small” are eligible for SBIC financing. Generally, the SBIC Program defines a company as “small” when its net worth is $18.0 million or less and its average after tax net income for the prior two years does not exceed $6.0 million. All of the company’s subsidiaries, parent companies and affiliates are considered in determining the size standard and for certain industries alternative size standards may apply. Details regarding regulatory size limitations are included in the Small Business Size Regulations.

SBICs may not invest in the following: other SBICs, finance and investment companies or finance-type leasing companies, unimproved real estate, companies with less than 51% of their assets and employees in the U.S., passive or casual businesses (those not engaged in a regular and continuous business operation), or companies which will use the proceeds to acquire farm land. SBICs may not provide funds for a small concern whose primary business activity is deemed contrary to the public interest.

There are 28 licensed SBICs in operating in California today.[43] SBICs pursue investments in a broad range of industries and geographies. Some SBICs invest in a particular field or industry in which their management has expertise, while others invest more generally and some have limitations on what geography they will serve.

CVF Central Valley Fund
Gael Partners, LLC.

The Central Valley Fund ("CVF") is an SBIC providing private capital for small to mid-sized businesses in California's Central Valley. CVF's capital is used to finance later stage growth, strategic acquisitions, recapitalizations and ownership transitions. CVF provides the layer of a company’s capital structure between senior debt and common equity, often referred to as mezzanine capital. Mezzanine capital is attractive to business owners because it is typically less expensive than common equity, enables existing owners to maintain control, and is far less dilutive than common equity. CVF targets growing firms with at least $5 million in revenues and $1 million in cash flow and provides all portfolio companies with local personal attention.

The SBIC program currently offers its licensees access to debt capital with a 10-year maturity and semi-annual interest payments. The structure of this financing means that most SBICs focus primarily on providing small businesses with debt or debt with equity features. SBICs will typically focus on companies that are mature enough to make current interest payments on the investment so that, in turn, the SBIC can meet its interest obligations to the SBA.

<u>For More Information</u>:

- Small Business Investor Alliance: www.nasbic.org
- U.S. Small Business Administration: www.sba.gov/content/sbic-program-overview-2

[43] List of California SBICs: http://www.sba.gov/content/all-sbic-licensees-state#California

SMALL BUSINESS LENDING FUND (SBLF)

Part of the Small Business Jobs Act of 2010, the SBLF is a dedicated investment fund for lending to small businesses – providing capital to qualified community banks and community development loan funds (CDLFs) with assets less than $10 billion. Through the SBLF, participating lenders and small businesses work together to create jobs and promote economic growth in local communities. In total, the SBLF has already provided more than $4 billion to 332 community banks and CDLFs.

- Community banks: the SBLF is structured to encourage small business lending through a dividend or interest rate incentive structure. The initial rate payable on SBLF capital is, at most, 5%, and falls to 1% if a bank's small business lending increases by 10% or more.
- CDLFs: the SBLF is structured to encourage small business lending through access to low-cost capital and play a critical role in distressed communities across the country that lack access to mainstream financial services. CDLFs engage in activities ranging from offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics.

sblf small business lending fund

- Supports Main Street banks, community development loan funds and small businesses.
- Helps foster lending in local communities.
- Provides incentive for Main Street banks to increase their lending to small businesses.

For More Information (and a list of participating local banks):

www.treasury.gov/resource-center/sb-programs/Pages/Small-Business-Lending-Fund.aspx

SURETY BONDS

A surety bond is an agreement between a surety company and the owner of a project that a contract will be completed. Any federal construction contract valued at $100,000 or more requires a surety bond as a condition of contract award. Most state and municipal governments have similar requirements, as well as private entities. Many service contracts, and occasionally, supply contracts, also require surety bonds.

Any business, large or small, must apply for a bond with a surety company or an authorized agent. The business is then evaluated as part of an underwriting process that assesses such business attributes as character, capability and capacity. The purpose of underwriting is to gauge the likelihood that the contractor will successfully perform the contract. Contractors and purchasers take out surety bonds through third party bond providers. There are three types of surety bonds:

- **Bid Bond**: Guarantees that the bidder on a contract will enter into the contract and furnish the required payment and performance bonds if awarded the contract.
- **Payment Bond**: Guarantees suppliers/subcontractors will be paid for work performed per contract.
- **Performance Bond**: Guarantees that the contractor will perform the contract in accordance with its terms and conditions.

The Small Business Administration (SBA) can help you by providing a surety bond guarantee in less than two days. The links below explain the basics of surety bonds, why you may need one, and how SBA can help you obtain this important contract assurance.

- www.sba.gov/category/navigation-structure/loans-grants/bonds/surety-bonds

TAX-EXEMPT INDUSTRIAL DEVELOPMENT REVENUE BOND (IDB)

IDBs are tax-exempt securities issued up to $10 million by a governmental entity to provide money for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities for private companies. IDBs can be issued by the I-Bank, local Industrial Development Authorities, or by Joint Powers Authorities. The use of IDBs is governed by both federal and state laws and regulations and must meet public benefit criteria established by the California Debt Limit Allocation Committee, which include, among other things, the creation or retention of jobs.

The IDB financing process can generally be completed within 120 - 150 days. A financing team, which typically consists of an underwriter, bond counsel and financial advisor, will assist the applicant through each stage of the process. The following are some of the key requirements:

- The project using IDBs must be for the manufacturing, production or processing of tangible property. No more than 25% of bond proceeds can be applied to ancillary office, warehouse or other space.
- At least 95% of the bond proceeds must be spent on qualifying costs such as land, buildings, equipment and depreciable property; less than 25% of bond proceeds can be used to acquire land.
- Acquisition of existing manufacturing facilities can be financed if at least 15% of the amount used to purchase the facility is spent on rehabilitation of the building within a two-year period.
- IDBs cannot finance working capital or inventory.
- The capital expenditures for the project, when added to the company's other capital expenditures in the same public jurisdiction as the project for the three years immediately preceding and three years following the closing of the financing of the project, cannot exceed $20 million.

Benefits of IDB Financing:

- Low interest rates: generally 20% to 30% below comparable commercial alternatives.
- Long-term financing: longer than conventional financing, often up to 30 years.
- Funds can be used for construction and take-out financing for land, buildings and equipment.
- Assumable: IDBs are assumable if the business is sold to an entity engaged in a qualified use.
- No Prepayment Penalty.

For More Information:

- California Enterprise Development Authority: www.ceda.caled.org/
- California Infrastructure and Economic Development Bank: www.ibank.ca.gov/industrial_dev_bonds.htm
- California Industrial Development Financing Advisory Commission (CIDFAC): www.treasurer.ca.gov/cidfac

Alvarado Street Bakery, a wholesale bakery specializing in organic whole grain breads, and baked goods, received IDB financing to expand and double its food processing capacity. The company had outgrown its current space and was seeking to expand into larger industrial space to meet customer demand and create 20 new jobs. They purchased 68,000 square feet of industrial space, a 3,000 square foot freezer, and a new $1 million oven. The lower interest rates and longer term of IDB financing enabled Alvarado Street Bakery to undertake this expansion in order to meet the fast-paced market demands of the food service industry.

Total Project Cost: $11,525,000

- $8,500,000 Tax-Exempt IDBs
- $3,025,000 Company Funds

CALIFORNIA ORGANIZED INVESTMENT NETWORK (COIN)

Established in 1996, COIN leverages insurance company capital to fund investments that benefit California's environment, its low-to-moderate (LMI) income and rural communities – similar to the federal Community Reinvestment Act (CRA) that applies to the banking industry. Insurers that write premiums of $100 million or more in California annually are required to file a statement detailing annual goals for community development investments and community infrastructure investments.[44]

COIN employs investment officers within the California Department of Insurance to source, structure, analyze and qualify prospective and previous insurer investments. Between 1998 and 2008, insurers funded a total of $20 billion in COIN-qualified investments. Annually, the percentage of insurer investments through COIN has ranged from a low of 0% to a high of 9%. Programs include:

- **Bulletins**: Information on COIN qualified investments that are being proposed by community organizations. http://www.insurance.ca.gov/0250-insurers/0700-coin/InvestmentBulletins.cfm
- **Advice**: Assist insurers to source, structure, and fund investments that meet their policies, guidelines and market conditions, as well as COIN's mission.
- **Data Call**: Research on reported investments to verify their social and/or environmental impact.
- **CDFI Certification**: Eligibility to participate in COIN.
- **CDFI Tax Credit Program**: Each year, COIN allocates state tax credit of 20% on qualified investments. Between 1997 and 2011, the CDFI tax credit program received a total of $125 million of investment.

Swans Market – a $20 million mixed-use redevelopment in Oakland's historic district from insurer investments – created jobs, provided a fresh foods market and housing.

- 20 co-housing units and 18 LMI apartments.
- 6 vendors relocated from the Housewives Market.
- 4 office tenants and 17 retail/restaurant tenants
- Museum of Children's Art and Gift shop.

Policy recommendations:

With a more secure mandate, insurance companies, CDFIs, community organizations and COIN can be more innovative in funding investments that support the environmental and community development needs of California.

- Make the COIN a permanent investment program; COIN sunsets in 2014.
- Create an apportionment of up to 20% of annual tax credits to rural areas and investment of $1 million or less.
- Increase annual CDFI tax credits from $2 million to $10 million to meet the demand for tax credit investment opportunities.
- Collaborate with COIN, California Department of Insurance, insurers, environmental and community stakeholders to ensure alignment of investments with the geographic distribution of premiums.

For More Information:

- California Organized Investment Network: http://www.insurance.ca.gov/0250-insurers/0700-coin/

[44] California Insurance Code §926.3 (b)

STATE ASSISTANCE FUND for ENTERPRISE – BUSINESS and INDUSTRIAL DEVELOPMENT CORPORATION (SAFE-BIDCO)

For over 30 years, SAFE-BIDCO has helped California's small businesses as a non-traditional financing source for small businesses statewide, offering multiple loan programs (SBA, state guarantee, geographically-specific programs, etc.) that are specifically tailored for each individual business. Created by the legislature in 1981, SAFE-BIDCO is a non-deposit lender offering programs to enhance economic development, foster job creation, community growth, and industrial diversification through loan guarantees, direct loans, mentoring programs, and other services.[45]

The major differences between SAFE-BIDCO and traditional bank loan programs are the size of the loans (typically $100,000 to $300,000 – a segment not well served by the banking community) and the ability to look beyond just the numbers to the overall viability of a small business. In addition to credit ratings, they look at the people involved, the business plan, local business conditions and what the business will mean to the community at large. Current programs include:

- **California Loan Guarantee Program:** Similar to the SBA program, this Program works with local lenders to provide guarantees for loans and lines of credit.
- **SBA Loans:** SAFE-BIDCO is a direct lender for Small Business Administration (SBA) loan programs.
- **USDA Rural Loans:** provides direct loans or secondary financing for rural businesses.
- **Farm Loans:** up to $500,000 which can be used for equipment acquisition, working capital, harvest costs, the purchase of property, and operational costs.
- **Energy Efficiency Loans:** energy efficiency projects for small businesses, landlords, and non-profits.
- **Microloans:** $25,000 or under for small business.
- **Northern California Native American Loan Program:** finances Indian-owned small businesses on and off tribal property.
- **Lending services:** includes fund management, development of revolving loan funds, underwriting, mentoring, and strategies to market loan programs.

Ulia's Deli in Santa Rosa is a family-run small business with three generations working at the restaurant. Needing a small business loan in the $100-$200,000 range, the owners worked with SAFE-BIDCO. Things went well for the deli at first and then the recession hit, causing a quick 40% loss of their business. Because SAFE-BIDCO is not a traditional bank, they were able to look at the long-term viability of the business, understand pertinent local issues, the quality of the products, and the dedication of the family to making it work and was able to work with the owners to get beyond the hard times.

Policy Recommendations:

- Expand capacity of SAFE-BIDCO to extend services and loans throughout the state.
- Explore how loan underwriting standards utilized by SAFE-BIDCO might be utilized elsewhere.

For More Information:

- SAFE-BIDCO: www.safe-bidco.com

[45] Chapter 819, Statutes of 1980, (SB 16, Roberti) authorized creation of SAFEBIDCO to provide loans to small businesses engaged in manufacture or purchase of alternative energy equipment (defined as any device for producing or conserving energy which does not rely on fuels derived from oil, natural gas or nuclear fissionable materials). Chapter 1338, Statutes of 1986 (SB 1146, McCorquodale) expanded the scope of lending activities to include loans to minority-owned small businesses as well as small business export financing loans. Later legislation continued to expand programs into several new areas.

REVOLVING LOAN FUNDS (RLF)

A revolving loan fund (RLF) is a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing pool of money, utilizing interest and principal payments on old loans to issue new ones. While the majority of RLFs support local businesses, some target specific areas such as healthcare, minority business development, and environmental cleanup. Often the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. Successful RLF programs are built on sound interest rate practices and not perceived as free or easy sources of financing.

RLFs can be used for operating capital, acquisition of land or buildings, construction, landscape and property improvements, machinery and equipment. Durations vary; as example a loan for working capital may range from 3 to 5 years, while loans for equipment are up to 10 years and real estate loans may last 15 to 20 years. Loan amounts range from small ($1,000 to $10,000) to mid-sized ($25,000 to $75,000), with larger amounts available when the borrower has secured a substantial sum from private lenders.

Initial funding, or capitalization, of a RLF usually comes from a combination of public sources, such as the local, state, and federal governments, and private ones like financial institutions and philanthropic organizations. Most RLFs have at least one local public source for capitalization combined with other sources. If capitalization is exclusively local, the RLF may have greater flexibility in lending, as state and federal involvement tend to include restrictions that may not fit local business needs. State and local governments often use one or a combination of the following to capitalize an RLF: tax set-asides, general obligation bonds, legislative appropriations, annual dues from participating jurisdictions, and/or state lottery funds. The federal government is a common source of capitalization (EDA, HUD and USDA).

Inflation and/or high operating costs may erode the fund's capital base and require additional public investment to remain functional. Review committees must also carefully weigh which loans to make; for example, too many long-term loans could result in fewer new loans, slowing down the revolving mechanism and straining the fund.

Policy Recommendations:

Regions and/or communities organize RLFs as needed.

- Invite lenders and potential borrowers to participate in the design process loan review committee.
- Establish the purpose of the RLF – this should include a needs assessment.
- Promote the RLF and capitalize funds from grants, government programs and individual donations.

For More Information:

- California Communities Joint Powers Authority: http://www.cacommunities.org/
- Council of Development Finance Agencies: http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=rlffactsheet.html

Merced County Dairy RLF

Originally created by Prop 204 with $5 million – State Water Board RLF later added an additional $10 million – to finance wastewater improvements in dairies, including lagoon installations, pipelines, freestalls, flush systems, wastewater return systems, etc.

- Up to 15 years repayment
- 5.1% fixed interest rate
- $500,000 maximum per animal confinement facility
- $250,000 maximum for freestall installation/expansion per facility

www.co.merced.ca.us/index.aspx?NID=1240

COMMUNITY REINVESTMENT ACT (CRA)

The CRA encourages financial institutions to serve the credit needs of the communities where they have branches consistent with safe and sound banking practices. Financial institutions are examined periodically to ensure that they are meeting community credit needs. Large institutions are evaluated using three tests: the Lending, Service, and Investment Tests. Smaller institutions undergo more streamlined examinations.

Examiners evaluate factors such as the geographic and borrower distribution of lending, the location of branches, and community development finance. The federal regulators – Federal Reserve System (FRS), Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) – consider the results of CRA exams when banks apply to merge or acquire another institution. The results of the examination are also made public and are available online at www.FFIEC.gov.

The federal bank regulatory agencies consider loans, investments, and services to have a primary purpose of community development if they:

- Provide affordable housing for Low-Moderate Income (LMI) – 80% or below of area median income – individuals (single & multi-family).
- Target community services to LMI individuals.
- Promote economic development by financing small businesses or small farms.
- Revitalize or stabilize LMI geographies.

Banks are encouraged to create innovative products and services that are responsive to the needs of underserved communities because traditional products and services may not fit well with the needs and situations prevalent in those communities.

Large banks primarily rely on mechanisms of delivering financial products and services in large volumes. As such, they don't always have the ability to provide technical assistance, to guide a small business owner through the lending process, or to educate them on business planning and strategy.

The Community Reinvestment Act (CRA), enacted in 1977, has fostered access to financial services for low-and-moderate-income (LMI) communities across the country. Along with other antidiscrimination, consumer protection, and disclosure laws, the CRA remains today a key element of the regulatory framework, encouraging the provision of mortgage, small business, and other credit, investments, and financial services in LMI neighborhoods. Yet, since the passage of the act, the financial landscape has changed dramatically; there is a general consensus on the need to reexamine this important regulation in the context of financial modernization.

To tackle issues of CRA reform, the Federal Reserve Bank of Boston partnered with the Federal Reserve Bank of San Francisco in assembling a team of experts to share ideas, opinions, and research, including academics, current and former regulators, community development practitioners, and financial service industry representatives. They have various, and sometimes divergent views, but possess a common desire to improve the regulatory system to ensure access to financial services for all in a safe and sound way. Debate about solutions and proposals for reform are offered in this volume.

www.frbsf.org/publications/community/cra

As a result, and as published by the California Reinvestment Coalition[46] (CRC), these businesses (too often minority- or women-owned and in non-metropolitan markets) encounter much greater difficulties receiving conventional loans from banks than larger businesses or those in metropolitan markets.

The resources are available, the need is clearly defined, and the opportunities exist for the financial industry to implement innovative, effective and responsive CRA models that better serve small businesses.

Policy Recommendations:

- Support organizations that provide technical assistance to small businesses. Businesses often do not have the resources to get critical assistance to bolster their marketing, human resources, and other business components.
- Expand investment incentives to build the capacity of nonprofit community development corporations and financial institutions that offer more accessible credit to these critical businesses. This has been critical because large banks have reduced lending to smaller businesses and loans of $250,000 or less.
- Allow banks flexibility in small business loan underwriting and provide access to business loan denials where alternative lenders may be able to make the loan.
- Remove the metropolitan bias of the CRA by eliminating mention of “limited scope” CRA Assessment Areas in the regulation and mandating a balance between metro and non-metro markets in each exam.

CRA Focused on Specific Industry and/or Constituency

Rabobank NA implemented a $15 million small farm-focused CRA product by partnering technical assistance (TA) providers and lending intermediaries that can leverage additional funds to more effectively serve small farms throughout the state. This model results in greater capital flows, more growth, improved credit worthiness of the businesses, more jobs and reduced financial risk to the lender.

- TA - Los Kitos Produce, Inc., Valley Small Business Development Corp (VSBDC), California Coastal Rural Development Corp (CalCoastal), ALBA, etc. provide hands-on technical assistance in areas such as management practices, developing banking relationships, access to distribution and markets, etc.
- Lending - VSBDC and CalCoastal utilize Farm Service Agency guarantees to leverage the $15 million Rabobank investment to $150 million in farm loans.

For More Information:

- California Reinvestment Coalition — www.calreinvest.org
- Center for Responsible Lending — www.responsiblelending.org
- Consumer Financial Protection Bureau — www.consumerfinance.gov
- Federal Financial Institutions Examination Council — www.ffiec.gov/cra/default.htm
- National Community Reinvestment Coalition — www.community-wealth.org

[46] The California Reinvestment Coalition (CRC) advocates for the right of low-income communities and communities of color to have fair and equal access to banking and other financial services. CRC has a membership of close to 300 nonprofit organizations and public agencies across the state of California.

COOPERATIVES (Co-ops)

Cooperatives are formed for many different purposes; however, all are owned and democratically controlled by the people who use its products, supplies and/or services.[47] Net earnings are distributed on the basis of proportional use, or patronage, rather than on investment. Self-reliance and self-help are the hallmark of cooperatives as they address a multitude of shared needs:

- **Producers,** including farmers, foresters, ranchers, fishermen, artisans, or industrialists utilize the cooperative to purchase needed products or services and/or to market or process their goods jointly.
- **Workers** as diverse as bicycle repair, baking, and catalog sales use cooperatives to create employment, receive a share of the income and have more control over their work.
- **Consumer-owned** co-ops – such as food markets, credit unions, and health co-ops – facilitate better prices, unique goods and services, or meet cultural desires. Utility cooperatives provide electricity, telecommunications, and water service to communities not served by investor-owned utilities.
- **Private businesses or public entities** use a cooperative to gain purchasing power through bulk buying and to obtain products or services that they may not be able to obtain individually. They can share administration such as on-line or centralized reservation services to reduce overhead costs.

According to the National Cooperative Business Association, U.S. cooperatives account for more than $3 trillion in assets, over $500 billion in total revenue, $25 billion in wages and benefits, and nearly 1 million jobs.[48] In many ways, cooperatives are like other businesses – they range in size from the local corner store to large Fortune 500 companies – and are one of several impact investment options for like-minded individuals to collaborate on achieving a positive social, economic, or environmental impact. There are state and national statutes (including tax regulations) that apply specifically to cooperatives.

Challenges to expanding cooperatives:

- California Consumer Cooperative Corporations are currently subject to securities law requirements unless the aggregate investment of any member does not exceed $300. Securities registration for small cooperatives is costly and difficult; the $300 exemption is too low and does not factor inflation.[49]
- The California co-op statute is unclear about whether outside investors can have voting rights, making it very difficult for co-ops to attract outside capital.
- Limited Equity Housing Cooperatives (LEHC) offer home ownership opportunities for moderate and low income households; the model offers a cost effective and equitable way for these households to gain the benefits offered to traditional homeowners such as tax deduction, home security, and stabilization of house payment while allowing benefits to be passed on to subsequent heirs. Despite the advantages, few LEHCs have been developed over the past decade because many California statutes and regulations make it too cumbersome for them to be developed.

Policy Recommendations:

- Investment threshold for members should be increased to $800, with an automatic annual adjustment for inflation based on the Consumer Price Index (CPI).
- Develop amendments to HR 3677 – National Cooperative Development Act or other federal legislation to exempt state law(s) for start-up cooperatives for the first five years.
- Provide documentation to assist start-up cooperatives develop work-around based upon United Housing Foundation v. Forman (421 US 837, 1975) – benefits of membership outweigh investment.

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[47] USDA defines a cooperative as a user-owned, user-controlled business that distributes benefits on the basis of use.

[48] The Cooperative Impact: www.cdf.coop/the-cooperative-impact

[49] Baldwin, V., "*Legal Sourcebook for California Cooperatives: Start-up and Administration: A Legal Guide for Co-ops Incorporating and Operating under the California Consumer Cooperative Corporation Law",* Third Edition, Center for Cooperatives, University of California, Davis, http://sfp.ucdavis.edu/cooperatives/reports/vanbaldwin/intro.pdf

- California co-op statute should be clarified to allow that a co-op is permitted to allow an outside investor voting rights that are limited to being able to vote on the co-op's sale or dissolution.
- To meet the needs of effective cooperative growth and management, development and delivery of technical assistance and related resources should be expanded; this includes training a pool of professional cooperative business developers who can help communities start and expand co-ops.
- Regulations and Laws governing Limited Equity Housing Cooperatives should be eased to make the development of these cooperatives easier. The California Center for Cooperative Development (CCCD) is currently convening meetings with a Co-op Housing Advisory committee consisting of experts from around the state to develop recommendations to meet this objective.

Increase Public Awareness and Understanding of Cooperatives:

The CCCD provides training, resource materials, and networking opportunities to cooperatives and the general public. CCCD is currently working with partners to create new educational events, including a *"Grow Your Own Food Co-op"* program for California's underserved communities and a university-level co-op training course.

For More Information:

- California Center for Cooperative Development — www.cccd.coop
- Cooperative Development Foundation — www.cdf.coop
- National Cooperative Business Association — www.ncba.coop
- USDA Rural Development — www.rurdev.usda.gov/CA-BCPrograms.html

Figure 9

Growing Rural America

The CoBank mission is to serve as a dependable provider of credit to vital industries throughout rural America: cooperatives, agribusiness, water, communications and power. Through its "Growing Rural America" initiative, CoBank, in partnership with Farm Credit associations, cooperative developments centers, and those committed to the development of rural America, will help boost emerging and existing small agricultural cooperatives through innovative financing, business mentorship and training.

www.cobank.com

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

ESOPs were first created in Northern California in the mid-1900s and given a recognized statutory framework in 1974 with the implementation of ERISA (the Employee Retirement Income Security Act). They serve the purpose of allowing owners to share ownership interest in successful businesses while providing capital, liquidity, and tax efficiencies to the owner and corporate structure. ESOPs, in the right situation and when implemented properly, can provide several unique advantages including:

- An opportunity for employees to participate in a capital investment that has the potential to enhance their personal net worth over time without having to use their own cash.
- Significant employee ownership resulting in a secure retirement, which brings stability to the community and the families supported by the company.
- Substantial liquidity to the owner without the need to sell to an outside third-party that may not be interested in the corporation's investment in and impact on the local community.
- Expansion funds for the company allowing for both vertical and horizontal integration that would benefit the community, the employees, and the company.

ESOPs often provide a strong morale boost because employees now have a vested interest in the long-term success of the company – an added bonus is that they are allocated Company shares without having to make an outright purchase using their own assets. ESOPs can reduce the risk of an ownership transition because management will likely stay in place and operate the company as it has in the past. Other, more specific advantages include:

- ESOPs are the only tax-qualified plan that can borrow monies to acquire securities – cash flow is positively impacted since both interest and principal payments are tax deductible.
- A company can use a leveraged ESOP to reduce financing costs – the tax deductibility of both interest and principal reduces the relative cost of ownership transition using an ESOP when compared with other types of transition strategies.
- Opportunity for current shareholders to sell stock on a tax-free basis (C-Corporations only) – selling shareholders can defer capital gains when selling to an ESOP that owns 30% or more of the company on a post-transaction basis.

Today, there are roughly 11,000 ESOP companies and about 11 million employee participants in the United States. ESOP companies, as a whole and by industry, tend to outperform their non-ESOP peers (as noted in numerous studies).

Swanton Farms, a large organic fruit and vegetable grower/aggregator in Santa Cruz County, implemented an Employee Stock Ownership Plan in 2005. Contracts with a Whole Foods supplier allowed Swanton to award stock bonuses to a core group of key employees based on individual contribution as well as group success in meeting performance goals. Over time, this group is expected to own a substantial part of the business. Swanton markets strawberries, ollaliberries, artichokes, broccoli, and cauliflower in retail supermarkets and seven regional farmers markets. The CEO participates within a growers' Business and Entrepreneurship Group which tracks the success of this model.

- A 2008 study found increased company productivity and significantly greater retirement assets held by employees. The study also found that S-Corporation ESOP companies are a net contributor to the economy and federal tax receipts.[50]
- 2000 study found ESOPs increase employment, sales, and sales per employee by approximately 2.3% to 2.4% per year absent an ESOP.[51]
- 1998 study found that 74% of the ESOP companies remained independent operations while only 38% of comparison companies remained independent.[52]

Table 4

Difference in Post-ESOP to Pre-ESOP Performance	
Annual sales growth	+2.4%
Annual employment growth	+2.3%
Annual growth in sales per employee	+2.3%

Challenges to expanding ESOPs:

A key challenge to establishing an ESOP is the availability of financing. While corporate lending was challenging during the most recent recession, it can be particularly difficult when banks treat ESOPs with suspicion because of a lack of internal lending experience with or knowledge about ESOPs.

Policy Recommendations:

- Develop outreach and education to local banks, credit unions, and communities about the benefits of ESOPs.
- Encourage bank credit committees to take into consideration the positive aspects of being an ESOP company; ensure that ESOPs comply with explicit lending criteria and traditional cash flows and assets.
- Develop a loan guarantee program – SBA, USDA and/or other institutions – serving ESOPs.
- Allow employee benefits similar to that of 401(K) plans including borrowing against vested interests.
- Provide additional Internal Revenue Code §1042 incentives, in which a selling shareholder can defer capital gains, for owners that reinvested in local businesses.
- Reinstate IRS §133 loans (the provision whereby a lender can exclude 50% of the interest income from a loan used to purchase qualifying employer securities) to lower overall borrowing costs.
- Establish and support an organization that educates workers, owners, and communities of the benefits of employee ownership through meetings, publications, and other types of networking.[53]

For More Information:

- Beyster Institute — www.rady.ucsd.edu/beyster
- ESOP Association — www.esopassociation.org
- Employee-Owned S Corporations of America — www.esca.us
- National Center for Employee Ownership — www.nceo.org

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[50] Freeman, S., Knoll, M., "S Corp ESOP Legislation Benefits and Costs: Public Policy and Tax Analysis", University of Pennsylvania, July 2008, http://repository.upenn.edu/cgi/viewcontent.cgi?article=1003&context=od_working_papers

[51] Pugh, W., Oswald, S. & Jahera, J., "The effect of ESOP adoptions on corporate performance: Are there really performance changes?" *Managerial and Decision Economics*, 21(5): 167, 2000

[52] Blair, M., Kruse, D., and Blasi, J., "Is Employee Ownership an Unstable Form? Or a Stabilizing Force?", *The New Relationship: Human Capital in the American Corporation*. Brookings Institution, 2000

[53] Several states had these programs in the 1980s, and an analysis by my group found they increased the incidence of employee-ownership plans by about 25 to 35%. Subsequent budget cuts have left only Ohio, Vermont and Massachusetts with active programs to promote awareness of the benefits of employee ownership.

EARLY STAGE FUNDS: ANGEL INVESTORS & VENTURE CAPITAL

Early stage investment is a catalyst for job creation, innovation, technology advancement, international competitiveness and increased tax revenues. According to the 2011 Venture Impact study, produced by IHS Global Insight, originally venture-backed companies accounted for 11.9 million jobs and over $3.08 trillion in revenue in the United States.[54] Typically, early stage investors realizes a return on their investment when the company goes public (IPO) or is merged or purchased by another company (M&A). Early stage capital has two distinct but linked types of investors – angel investors and venture capitalists.

Early stage investments are high-risk and managed through careful portfolio risk management. It is estimated that 40% of angel and venture backed companies fail; 40% return moderate amounts of capital; and only 20% or less produce high returns.[55] It is the small percentage of high return deals that are most responsible for the industry consistently performing above the public markets.

The term "angel" refers to high net worth individuals who typically invest in startup companies in the early stages of growth and with a few exceptions prefer to invest locally. Angels are similar to venture capitalists in that they take a hands-on approach with all of their investments and actively work with entrepreneurial management teams in order to build great companies. Unlike venture capitalists, angels are individual investors who use their own money in funding and building young, innovative enterprises.

An angel group is a group of angel investors investing through a member-directed investment process. The actual investment direction process may vary considerably, but all members have input either through their individual decision to invest or as a member of the group to invest part of the group's fund. Angel organizations can range from an informal group of individuals who conduct cooperative due diligence to a group with paid management and committed investment funds. Angel groups typically have more resources than individual angels and play a more crucial role in funding young companies and are generally easier for entrepreneurs to find.

The angel investor market in 2011, following contractions in 2008 and 2009, continued the upward trend that began in 2010. Total investments in 2011 were $22.5 billion, an increase of 12.1% over 2010. A total of 66,230 entrepreneurial ventures received angel funding in 2011 and the number of active investors in 2011 was 318,480 individuals, a substantial growth of 20% from 2010.[2] The average investment was just under $340,000 and 90% were made within a half day's travel time of the investors' homes.

Venture capitalists, on the other hand, are professional investors who manage other investor's money and specialize in funding and building young, innovative enterprises. Venture capitalists are long-term investors who take a hands-on approach with all of their investments and actively work with entrepreneurial management teams in order to build great companies.

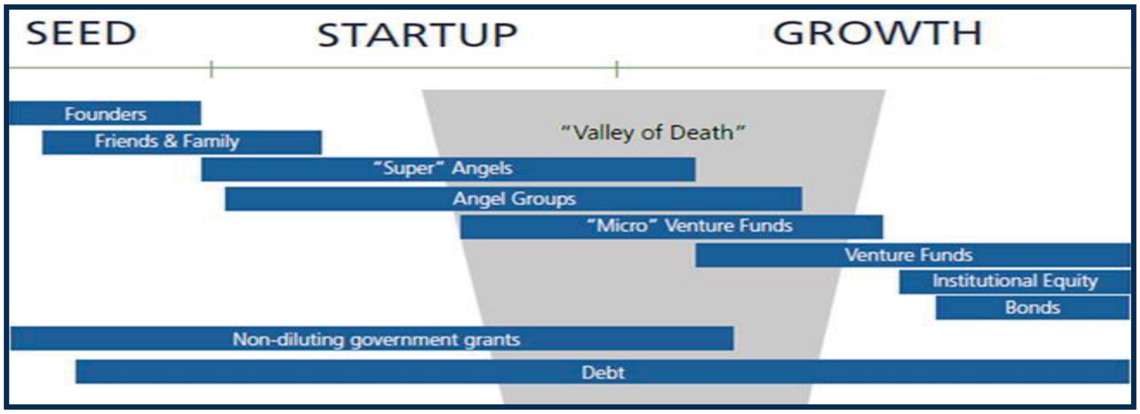
Most venture capital firms raise their funds from institutional investors, such as pension funds, insurance companies, endowments, foundations and high net worth individuals. The investors who invest in venture capital funds are referred to as "limited partners." Venture capitalists, who manage the fund, are referred to as "general partners." The general partners have a fiduciary responsibility to their limited partners. Venture capital funds typically operate on a passive investor model — the individual is not actively involved in the investment decision-making process.

[54] National Venture Capital Association, "The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy", www.nvca.org/index.php?option=com_content&view=article&id=255&Itemid=103

[55] Sohl, Jeffrey, "The Angel Investor Market in 2011: The Recovery Continues", Center for Venture Research, April 3, 2012, www.wsbe.unh.edu/sites/default/files/2011_analysis_report.pdf

Figure 10

Types of financing for various stages of company growth



Angels and venture capitalists invest mostly in young, private companies that have great potential for innovation and growth. The majority of early stage capital is invested in high technology companies including software, biotechnology, medical devices, media and entertainment, wireless communications, and networking. Recently, early stage investors are also investing in the clean technology sectors: renewable energy, environmental and sustainability technologies and power management. Many investors are increasingly interested in innovative companies within more traditional industries such as consumer products, manufacturing, healthcare, food and agriculture, business products and services.

Obtaining venture capital is substantially different from a loan with a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business. Venture capital is invested in exchange for an equity stake in the business. As a shareholder, a venture capitalist's return depends on the businesses growth and profitability; indicators include innovative technology, potential for rapid growth, management team, and well-developed business model. Return is earned when the venture capitalist "exits" by selling its shares when the business is sold to another owner – typically in 3-7 years. This need for high returns makes venture funding an expensive capital source for companies – most suitable for businesses having large up-front capital requirements, which cannot be financed by cheaper alternatives such as debt.

Pacific Community Ventures (PCV) of San Francisco successfully sold Galaxy Desserts to a strategic acquirer – the first exit of a portfolio company for PCV Investment Partners III. Based in Richmond, California, Galaxy Desserts manufactures and markets all-natural single serving gourmet desserts and pastries. Since PCV's investment in 2007, Galaxy has grown from 123 to 163 employees, of which 81% are low-to-moderate income.

www.pacificcommunityventures.org

Because there are no public exchanges listing their securities, private companies meet venture capital firms and other private equity investors in several ways, including warm referrals from trusted sources and business contacts; investor symposia and summits where companies pitch directly to investor groups in face-to-face meetings. A variant known as "Speed Venturing" is akin to speed-dating for capital – the investor decides within ten minutes whether he wants a follow-up meeting. In addition, there are some private online networks that are emerging to provide additional opportunities to meet investors.

For More Information:

- Angel Capital Education Foundation: www.angelcapitaleducation.org
- Angel Investors Association: www.angelcapitalassociation.org
- Angel Resource Institute: www.angelresourceinstitute.org/listing-of-groups/#1
- Center for Venture Research: www.wsbe.unh.edu/cvr
- National Venture Capital Association: www.nvca.org

DIRECT PUBLIC OFFERINGS (DPOs)

A Direct Public Offering (DPO) is like an Initial Public Offering (IPO), except that the company sells its securities directly to the public rather than using an investment bank as an intermediary. A DPO is a generic term that means that the company can sell its securities to the public and there is no limit on the number of unaccredited investors. A DPO can involve several different legal compliance strategies. To do a DPO, a company needs to determine how it will comply with both state and federal securities law.

Assuming the entity will be able to comply with an exemption from federal registration requirements – usually the intrastate exemption or Rule 504 under Regulation D – the entity will need to apply for a qualification by permit to the California Department of Corporations. If the applicant receives the permit, it will be allowed to offer its securities to the public in California.

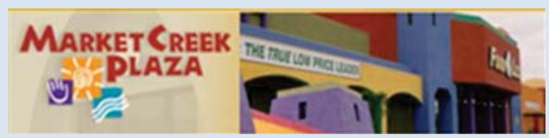
Challenges in Direct Public Offerings:

- **The application process generally requires a high level of sophistication and/or legal support:** Unless a company has the sophistication to prepare the application itself, it will need to hire legal counsel which can cost at least $25-$30,000. Most California businesses have no knowledge of securities law or the process for securing a permit to conduct a public offering.

- **The application process can take months to complete:** Even though the Department of Corporations generally responds to an application within six weeks, it often responds with additional questions. When the applicant submits a response to the questions, it can take months to receive a response, which is often in the form of more questions. It can easily take several months to secure a permit to conduct a DPO.

- **Investor suitability requirements severely limit the pool of potential investors**: Even if an application for qualification by permit is approved, it is highly unlikely that the offering will be open to any and all investors. Unless the company has several years of profitable operations, the California Department of Corporations will almost certainly impose "suitability requirements" for investors and may increase those requirements in the case of an investment it perceives as particularly risky. The most common suitability requirements include:

  The investor (including any spouse) must have, exclusive of homes, home furnishings and cars, either: (1) a minimum net worth of at least $75,000 and minimum gross income of $50,000 during the last tax year and (based on a good faith estimate) minimum gross income of $50,000 during the current tax year, or (2) in the alternative, a minimum net worth of $150,000. In either case, the investment cannot exceed 10% of the net worth of the investor.



The Jacobs Center for Neighborhood Innovation raised $500,000 in a DPO after six years of work, 40 drafts by a legal team, and three attempts to earn approval from the Department of Corporations. The 415 investors put in $200 to $10,000; proceeds were used to build a shopping center in a low income area of San Diego. In 2008 and 2009, Diamond Community Investors received a full 10% return on their investments.

www.jacobscenter.org

- **The definition of a security in California is extremely broad:** The definition of a security in California is so broad under the risk capital test created by the Silver Hills Country Club v. Sobieski case[56] that even sales of memberships, pre-sales, gift cards, etc. may require a permit. The lack of clarity on what constitutes a security in California is a major burden for entrepreneurs.

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[56] http://scocal.stanford.edu/opinion/silver-hills-country-club-v-sobieski-29868

- **It is illegal to pay “finders” to help find investors in California:** Companies that would like to pay a commission to people that help them find investors cannot legally do so unless the “finders” are licensed broker-dealers – this challenge applies in any securities offering, not just DPOs.

- **There is no clear legal way to create a web-based platform for the sale of DPO securities without a broker-dealer license.**

- **DPO investments can be illiquid because there is no platform for secondary trading.**

<u>Policy recommendations</u>:

- Reduce filing requirements, ease suitability requirements, expedite processing and lower fees for smaller offerings.

- Create an exemption from qualification for small offerings, for example a maximum raise of $500,000 and a maximum per investor of $1,000.

- Adopt a clearer definition of a security and/or provide clear guidance on what is not a security e.g. no-interest loans, gift cards for existing businesses, etc.

- Create exemptions from broker-dealer registration requirements for the sale of securities in a small offering pursuant to a qualification by permit.

- Create guidelines for web-based platforms offering sale of permitted securities.

- Work with a nonprofit organization to set up a platform for secondary trading of DPO securities under federal regulation ATS (Alternative Trading System).

- Provide education about DPOs – how to develop an offering, seek investors, resources available, etc. – including online templates and instructions.

Mendocino Brewing Company

Hopland, Calif.’s Mendocino Brewing Company raised $3.6 million in six months for a new brewery through word-of-mouth and cards placed in six-pack containers of ale. In addition, newspaper ads run in the food section of the newspaper every weekend for a couple of months caught the attention of investors.

Real Goods

Real Goods, a catalog direct marketing company selling alternative energy products, tapped its customers twice, raising $4.6 million through two direct offerings. In both offerings, several hundred thousand dollars had to be returned to investors subscribing after the maximum had been reached.

Zap Power Systems

ZapWorld.com, a California maker of electric bikes and scooters, raised $2.5 million with a Regulation A offering. Loyal customers invested in the socially responsible company. A company newsletter and website was used to pitch the deal, which took a year to organize and complete.

<u>More Information</u>:

- Community Resilience Organization: www.Resilience.org
- Springboard Innovation: www.springboardinnovation.org
- The Sustainable Economies Law Center: www.theselc.org
- Business Alliance for Local Living Economies: www.LivingEconomies.org

CROWDFUNDING

Crowdfunding[57] represents an opportunity for entrepreneurs to reach beyond their personal relationships to access capital. It is also a growing option for non-accredited investors seeking to finance businesses with products or missions, or personal life stories that they believe in. An investment may be as small as $10 on up to thousands of dollars. Internet crowdfunding platforms serve in part to minimize the transaction costs of such investments (e.g. Kickstarter, Symbid, IndieGoGo, Seedups, etc.). At this stage, investors do not receive cash back directly if the project they support is successful; instead they receive non-monetary returns that may include utilizing the products or services the new project delivers.

On April 5, 2012, President Obama signed the Jumpstart Our Business Startups (JOBS) Act.[58] This new law represents a significant change in the way access to capital and business formation is conducted in the U.S. The Securities and Exchange Commission (SEC) has until January 2013 to enact rules and specific guidance on how the law will be implemented; it opened up a website[59] to collect public comment to that end. The JOBS Act amends key sections of the Securities Exchange Act to achieve the following:

- Makes it legal for unaccredited investors to risk capital and invest directly, including equity or outright ownership, in for-profit businesses, subject to certain limitations.
    - the greater of $2,000 or 5% of the annual income or net worth of the investor, as applicable, if either the annual income or the net worth of the investor is less than $100,000; and
    - 10% of the annual income or net worth of the investor, as applicable, up to a maximum of $100,000, if either the annual income or net worth of the investor is $100,000 or more.
- Allows entrepreneurs to solicit and raise capital from all investors, including unaccredited investors, without registration to the SEC, subject to certain limitations.
    - The aggregate amount sold to all investors, including any amount sold in reliance on the exemption during the 12-month period preceding the date of the transaction, is not more than $1 million. There are reporting and reviewing requirements:
        - If raising up to $100,000, no external financial certification is required.
        - Between $100,001 and $ 500,000, an external auditor must “review” the financial reports.
        - $500,000 and up to the $1 million allowed with no registration to the SEC, an external full financial audit with certified financial statements will be required.
- Allows crowdfunding portals as legal intermediaries to conduct the investing and capital raising activities of said for-profit businesses and risk-taking unaccredited investors.

Crowdfunding has existed for a few years legally in the U.S. but only for “donation” and “pre-sales” models (Figure 12), where no capital is at risk and no money given by an individual to another is considered a security (i.e. it does not yield any financial return, ownership or title to anything, and there is no obligation to return any of the money whatsoever). What the JOBS Act allows is the use of this proven model to risk capital from willing individuals that seek a financial return, including ownership of the venture. Specifically, these are the conditions under which crowdfunding will be legal for an entrepreneur seeking funding without registering to the SEC:

- The crowdfunding portal or website must be registered with the SEC.

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[57] Crowdfunding (also called crowd financing or hyper funding) describes the collective cooperation of people who network and pool their money and/or other resources together, usually via the Internet, to support efforts initiated by other people or organizations. Crowdfunding has been used to accumulate resources for disaster relief, facilitate citizen journalism, connect artists with fans, support political campaigns, and to finance a startup company, movie, small business or free software.

[58] The JOBS Act (H.R. 3606) allows for a wider pool of smaller investors with fewer restrictions. Full text of the bill is at: http://thomas.loc.gov/cgi-bin/query/z?c112:H.R.3606:

[59] The JOBS Act includes provisions that require the SEC to undertake various initiatives, including rulemaking and studies touching on capital formation, disclosure and registration requirements within approximately 270 days from the enactment date. Members of the public interested in making their views known on these matters, even before official comment periods may be opened, are invited to submit those views via this link: www.sec.gov/spotlight/jobsactcomments.shtml

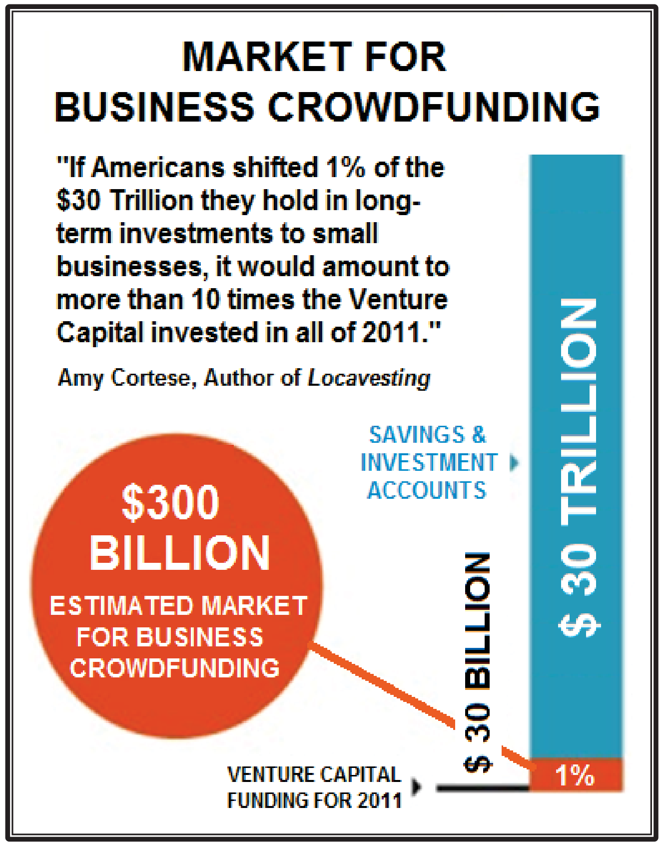
- The crowdfunding portal or website must allow due diligence by investors.
- The crowdfunding portal or website must comply with significant disclosure and reporting requirements, both to the SEC and the investors, as well as privacy rules.
- The crowdfunding portal or website must comply with rigid conflict of interest rules.

- Relaxes and reduces certain significant and costly reporting rules for what is called "emerging growth companies" looking for an opportunity to become public companies.
- Reduces reporting requirements and lowers transaction cost.

Challenges to fully using Crowdfunding:

- The larger the amount of at-risk capital sought by the entrepreneur, the bigger the challenge since the external financial review requirements could be a significant deterrent.
- Since the SEC was very vocally opposed to this law, it is expected that the regulations to be released will be stringent on reporting, which can become a costly proposition.
- Most crowdfunding platforms are open to all investors, even from abroad, and rely heavily on technology rather than local knowledge or community connections – this will make it difficult to support "Invest Local" initiatives.

Figure 11



Policy Recommendations:

- Establish a State Taskforce on crowdfunding; engage the industry/trade groups as well as diverse stakeholders (e.g. CAMEO, BALLE, ethnic and women's groups, SCORE, SBDC, Chambers of Commerce, professional associations, etc.) to develop policy on standards, risk management, accountability, platforms, and relevant topics.
- Ensure that California law fully enables crowdfunding to the extent possible.
- Collaborate with the crowdfunding portals to ensure that offerings can easily facilitate "Invest Local" initiatives and other efforts to more closely link investors with local businesses.

For More Information:

- AngelList: Network of Angel Investor: www.angel.co
- Crowdfunding Leadership Group: www.startupexemption.com/crowdfunding
- Crowdsourcing Industry Association: www.crowdsourcing.org/community/crowdfunding/7
- Mashable Business News: www.mashable.com/follow/topics/crowdfunding/
- Sustainable Economies Law Center: www.theselc.org
- Platforms: www.inc.com/magazine/201111/comparison-of-crowdfunding-websites.html

Figure 12


Three Models of
Crowdfunding
Crowdfunding is the process of raising very small investments from a large number of investors. The process has been facilitated by the development of crowdfunding websites.
OPPORTUNITY:
The opportunity for growth, new start-ups and entrepreneurs whose ideas never make it past the dinner table due to lack of funding is vast. The impact on local business is undoubtedly also going to produce more robust communities and cities where investors can now keep their money local.
PROBLEM
BANK
BIZ IDEA
Due to the economic downturn, banks consider small startup ventures as too risky.
TIGHT CREDIT
1 DONATION MODEL
Campaigns gather hundreds of small donations to achieve a financing goal (growth/expansion or start up). Donors choose their benefactors and feel good about contributing to an economic or artistic endeavor.
SOLUTIONS
No return for money given
BIZ IDEA
BIZ IDEA
2 REWARD MODEL
Supporters make a monetary contribution in return for a reward of some sort. The rewards can be wholly intangible, such as being identified publicly as a supporter, or a T-shirt.
Tangible or intangible reward
3 EQUITY MODEL
Investors receive an interest in the profits of the business that they are helping fund. A crowd funding exemption to SEC regulations has been signed into law. What impact will this have on Main Street?
BIZ IDEA
EXEMPTION GRANTED
Financial return
RESULTS
Main Street
NOW OPEN
More jobs, better community
Americans have $30 trillion dollars invested in securities — imagine if half of that went from Wall Street to Main Street. What could $15 trillion dollars do in our communities?
BALLE
Business Alliance for Local Living Economies

CALIFORNIA "FRIENDS AND FAMILY" SECURITIES OFFERING

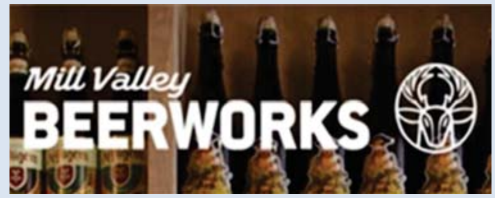
In California, it is possible to do a private securities offering without a great deal of regulatory compliance work. §25102(f) of the California Securities Code offers what is called "friends and family" funding (FFF). Using an exemption from general requirement for securities offerings to be registered, securities can be sold to an unlimited number of accredited investors (as well as company executives) and up to 35 unaccredited investors, as long as the unaccredited investors meet one of two requirements:

- Have a preexisting personal or business relationship with the company or its principals; or
- Have the ability to protect their interests due to their financial experience or the fact that they have experienced professional advisors.

"Preexisting Personal or Business Relationship":

The term includes any relationship consisting of personal or business contacts of a nature and duration such as would enable a reasonably prudent purchaser to be aware of the character, business acumen, and general business and financial circumstances of the person with whom such relationship exists. Unfortunately, there is not much guidance on what qualifies; interpretations of this requirement by California courts offer only that:

> *…the relationship described in the rule contemplates more than mere acquaintance…*
>
> *…the relationship must be of sufficient duration and nature that the offeror of a security has reason to believe the investor is able to assess the issuer's honesty and competence.*



Mill Valley Beerworks, a successful brew pub in Mill Valley, relied on the §25102(f) exemption to raise almost $200,000 in capital needed to open the business. The owners used a creative pitch to people they knew in their community: Sponsor one bottle of beer for $5,000 and receive a note paying 10% interest. In addition, for each beer bottle sponsored, the company donated $250 to a charity chosen by the investor.

"Financial Experience": This requirement is not well-defined. Courts have implied that qualifications such as prior investment experience in similar ventures, serving as a board director, operating a corporate enterprise, or a degree in business administration could be sufficient.

Other requirements:

- All purchasers must state in writing that they are purchasing for their own account and not for resale.
- The offering of the security may not be advertised to the public.
- A form must be filed online with Department of Corporations (www.corp.ca.gov/LOEN/default.asp).

IMPORTANT: Even if a firm complies with requirements of 25102(f); they must comply with federal securities law as well. If most of the business is done in California, all of the investors live in California, and the business is formed under California law, it should be eligible for the federal intrastate exemption; however, given the complexity of these regulations and lack of clarity provided by courts, it is always best to work with a qualified securities law expert to ensure compliance with all state and federal law.

For More Information:

- Corporation for Enterprise Development: www.cfed.org
- Opportunity Finance Network: www.opportunityfinance.net
- Sustainable Economies Law Center: www.theselc.org

LOCAL INVESTMENT CLUBS

An investment club is a group of people who pool their money to make investments; members study different investment options and the group decides to buy or sell based on a majority vote of members. Club meetings may be educational and each member may actively participate in investment decisions. If every member in an investment club actively participates in deciding what investments to make, the membership interests in the club would probably not be considered securities; however, if the club has any passive members, it may be issuing securities – relevant state and federal law should be reviewed.

Investment clubs are generally formed as general partnerships, but could also be formed as limited liability companies or limited liability partnerships (in states that allow them). While an investment club could incorporate, the double tax treatment on corporate distributions makes the corporate structure less desirable than a partnership. Typically, a general partnership does not generate any tax liability on its own; instead, any tax liability is passed through to members each year. Each of the different club types will have different legal requirements as well as different reporting requirement to the SEC.

Typically, investment clubs buy and sell common stocks, bonds and/or mutual funds. Recently, local investment clubs are exploring direct investments into local businesses. Perhaps the best known examples of this are local chapters of "Slow Money"; nationally, more than $19 million has been invested in 139 small food enterprises.[60] While Slow Money focuses on micro-loans to sustainable farm and food ventures, the model[61] is replicable in other sectors (i.e. green energy, Main Street, low-to-medium income, women-owned business, etc.).[62]

For More Information:

- Better Investing: www.betterinvesting.org/Public/SingleTabs/clubs/default.htm
- The Motley Fool: www.fool.com/investmentclub/investmentclub01.htm
- Slow Money: www.slowmoney.org/
- U.S. Securities and Exchange Commission: www.sec.gov/investor/pubs/invclub.htm

"The Slow Money movement is one of the top five trends in finance."
Entrepreneur Magazine

SLOWMONEY NORTHERN CALIFORNIA

In Northern California, nine regular participants in local Slow Money meetings have lent an aggregate of $40,000 to Soul Food Farm, a pasture chicken and egg producer. People's Grocery, Capay Valley Farm Shop, and Point Reyes Compost Company have all received financing.

www.slowmoneynocal.org

Royalty financing is an arrangement where investors provide capital to an enterprise with revenues approach or already profitable. The investors are repaid via a percentage of the gross revenues until the initial capital plus a premium determined in advance is returned. Royalty financing is a funding structure that has great potential for Slow Money projects for a number of reasons. 1) royalty financing does not entail ownership therefore the business owners do not lose equity, 2) investors have an interest in seeing the business succeed and can affect that through their buying habits, and 3) royalty financing is self-liquidating as the business continues profitability. Entrepreneurs looking for patient capital and investors looking for ways to support local businesses might find royalty financing very attractive.

[60] http://thegreendivas.com/2012/07/20/be-part-of-the-solution-join-the-slow-money-movement/

[61] Vangelisti, M., "Appropriate Funding Mechanisms for Slow Money Projects", 2011, http://slowmoneynocal.org/appropriate-funding-mechanisms-for-slow-money-projects

[62] Gunn, E., "How your startup could benefit from these funding sources in the coming year", December 28, 2010 http://www.entrepreneur.com/article/217795

LENDING CIRCLES / PEER LENDING

Lending circles have been utilized in many countries and cultures to support small scale development and business enterprises. A circle of friends, family members, or colleagues agree to act as a lender to each other. With this type of micro-financing, also known as peer lending, capital comes from the pooled resources of the different members of the lending circle. It may be supplemented or funded exclusively by additional resources external to the circle. A plan for use of funds and repayment will be developed, but analysis by members of the circle may be quite informal.

U.S. lending circles have often developed to include a micro-finance organization providing support such as: handling basic loan documentation and reporting payments to credit bureaus to assist participants in building or improving credit scores. These groups may also provide financial education, technical assistance, or guarantee a portion of the funds against default by members.

Maria, Juan, Sylvie, and Josh have a lending circle; each puts in $100 per month and they take turns getting $400 a month until everyone has had a turn. Maria needs $400 to buy equipment for her business. Juan needs supplies for school. Sylvie has credit card debt she is paying down. Josh is expecting a tax bill. With financial classes, they manage their money better and every payment made on time is reported to the credit bureau. Result: everyone gets and pays back a loan of $400 over the four months and all members see an average credit score increase of 49 points in just six months.

For More Information:

- Mission Asset Fund: www.lendingcircles.org/
- Web-based tools: www.lendfriend.com/ www.loanback.com/ www.lendingkarma.com/

INDIVIDUAL DEVELOPMENT ACCOUNTS (IDAs)

IDAs are special matched savings accounts designed to help families and individuals of modest means establish a pattern of regular saving and, ultimately, purchase a "productive asset" – something of value that will return long-term benefits. The saver joins a sponsored program – typically led by a non-profit organization but sometimes a governmental agency or credit union – attends financial literacy classes and makes monthly deposits into a special account. The sponsors match the participant's deposit by a predetermined ratio, usually between 1:1 and 7:1. Programs last two to three years.

Private donations to a non-profit can fund IDA matches and matching funds are often secured from private foundations or governmental dollars. IDAs have received significant bi-partisan support. Over 85,000 IDAs have been established nationally.

For More Information:

- Corporation for Enterprise Development: www.cfed.org/programs/idas/
- New America Foundation: www.assetsca.newamerica.net/

CALIFORNIA FARMLINK

California FarmLink IDA

Participants in FarmLink's IDA Program may use savings and match money for the purchase of farm equipment or for a down payment on farmland. FarmLink provides a 3:1 "savings match" to speed asset building – as participants puts up to $100 a month in a bank account, the IDA program matches up to $300 a month. After the two year program period, they have up to $9,600 to put towards the farm asset they saved for. Participants attend farm finance and money management workshops to develop the financial skills that are essential for long-term success.

www.californiafarmlink.org

SWEAT EQUITY

Sweat equity is an ownership interest, or increase in value, created as a direct result of work by the owner(s). It is a common method of building equity for entrepreneurs in the start-up phase when access to capital may be limited. Example: an entrepreneur has invested $100,000 and one year's labor in getting a new business off the ground when investors purchase a 25% stake in the business for $500,000. That places value at $2 million and the entrepreneur's share at $1.5 million. Subtracting the initial investment of $100,000, the entrepreneur's sweat equity now has a value of $1.4 million.

Less access to capital has forced many start-ups to become creative with cost-effective ways to attract and retain top-quality people and/or specialized services. Concurrently, recent economic trends have created a surplus of professionals, managers and business leaders seeking new opportunities. Sweat equity has long been acceptable compensation for consultants, lawyers, web developers and others providing occasional project work as well as entrepreneurs seeking to be part of a team on a new venture. Sweat Equity compensation can take several forms:

- **Ownership Shares:** skills and/or time may be exchanged for ownership shares in the business. The parties come to a mutual agreement on cash value of the services provided and a formula on how that will be exchanged for ownership shares.
- **Ownership Shares & Cash:** services exchanged for some ownership shares and cash; the cash portion may be deferred until an agreed upon milestone, such as a funding event.
- **Purchase Additional Shares:** talent providers may also have opportunity to purchase ownership shares with their own cash.

VERITABLE VEGETABLE

Launched in 1974 to bring affordable, nutritious food to coops and community stores, Veritable Vegetable (VV) is the nation's oldest distributor of certified organic produce. Today, VV has over 90 full time employees, $35+ million annual sales, buys from over 1,000 farms – always giving the best possible prices to farmers – and distributes food across California and the southwest 365 days per year. Originally structured as a cooperative, the company is now privately owned by four women – two of whom were founders – through debt and sweat equity.

Challenges to establishing Sweat Equity:

- Executives, consultants, and other service providers seeking sweat equity opportunities can have difficulty finding the entrepreneurs and/or firms that are a good fit and vice versa. Connections are usually sought through personal networks; this can be ineffective and time-consuming.
- Valuation of sweat equity can become a contentious issue when there are multiple owners in an enterprise, especially when they are performing different functions: an understanding of how sweat equity will be valued should be established at the outset or initial stage of any arrangement.

Policy Recommendations:

- Social media (e.g. LinkedIn, Facebook, etc.) and private services (e.g. Sweat Equity Connection) can facilitate parties networking; however, there is need for a neutral platform that could help California businesses, entrepreneurs and potential sweat equity partners find each other.

For More Information:

- BusinessFinance.Com: www.businessfinance.com/sweat-equity.htm
- LinkedIn Sweat Equity Army: www.linkedin.com/groups/Sweat-Equity-Army-4312277
- StartUpRoar Blog: www.startuproar.com/finance/sweat-equity/
- Sweat Equity Connection: www.sweatequityconnection.com

TAX INCREMENT FINANCING

Any California county, city, special district, school district or joint powers authority can establish a Contract Assessment District (CAD) which allows for financing of public improvements and services.[63]

CADs can be known by several names (e.g., Energy Financing Districts, Clean Energy Assessment Districts (CEAD), Special Tax Districts, etc.) and were first proposed by the City of Berkeley in 2007. CADs have received increasing attention as a mechanism for financing residential or commercial projects for energy efficiency, solar photovoltaic, or solar thermal systems. Recently, they have expanded into water conservation and have the potential to facilitate individual homeowners and/or businesses financing a wide array of improvements and/or services such as e-commerce, information technology, rainwater harvesting, etc.

Costs are repaid over a set number of years by an assessment on the property tax bill of only property owners who choose to participate in the program. The financing is secured with a lien on the property, and, like other taxes, is paid before other claims against the property in the case of foreclosure. There is little or no up-front cost to the property owner, and if the property is sold before the end of the repayment period, the new owner inherits both the repayment obligation and the financed improvements. **The taxes of residents who choose not to participate aren't affected.**

For property owners this model is a low-risk, high-benefit financial arrangement. It overcomes a key financial barrier – lack of upfront capital – and, unlike taking out an equity line of credit this financing program does not draw down a property owner's available credit line. The incremental tax payments are fixed for a set number of years at reasonable interest rates.

Property Assessed Clean Energy Program (PACE)

Rancho Cordova approved a PACE program for commercial property owners in May 2012 to facilitate special assessment financing for energy efficiency and water conservation projects that they repay annually through a voluntary special assessment on their property tax bill. California Economic Development Authority will establish the assessment district for the city and administer it through Figtree Energy Resource Company and its resource efficiency consulting partner, ConSol. Figtree provides PACE administration for jurisdictions throughout California.

For local government, the CAD model poses little to no liability or exposure to the general fund. A jurisdiction can implement programs with almost zero budget impact while helping meet its clean energy or climate change goals and lower residents' utility bills. Plus, if properly designed, these programs can drive local economic development by ensuring that local installers, construction companies and suppliers are integral partners in the program. Finally, this type of property-tax assessment financing structure is well known to local governments, and is considered an easy and trusted way to finance projects.

<u>For More Information</u>:

- Establishing Energy Efficiency & Renewable Energy Financing Districts for Local Governments

  www.climatechange.ca.gov/eaac/documents/member_materials/Fuller_Kunkel_and_Kammen-Guide_to_Establishing_EE_Renewable_Energy_Financing_Districts.pdf

[63] Chartered cities in California have long had authority to create their own local Special Improvement Districts. In the summer of 2008, the state legislature passed a new statewide law (AB811) that clarifies the authority for non-chartered California cities to create such districts under a land secured financing code. *Citation: 1 - Assembly Bill 811. Levine, Lloyd. Contractual assessments: energy efficiency Improvements. California Streets and Highways Code, California Legislation 2008*

SELF-DIRECTED INDIVIDUAL RETIREMENT ACCOUNTS (SD-IRA)

California citizens currently hold approximately $859 billion in retirement accounts; over 98% of that is invested in traditional brokerage accounts of stocks, bonds, mutual funds, and certificates of deposit.[64] For Wall Street investment firms and large banks, the fixed costs of underwriting and performing due diligence for small businesses – particularly in rural areas – can be prohibitive and have led to virtual abandonment of Main Street, small firms, rural areas and low-tech clusters by the financial sector. This lack of capital in communities and small businesses – coupled with research showing that investments in small and/or local businesses can provide returns as good as or better than Wall Street – have led to demands to "bring our money home from Wall Street" so that it can be utilized for local investment.

While the recently enacted Jumpstart Our Business Startups (JOBS) Act reduced some regulatory burdens on raising capital from local "unaccredited" investors,[65] it still does not fully enable most citizens to invest their capital in local businesses or regional industries. Since the Employee Retirement Income Security Act (ERISA) passed responsibility of retirement savings from employers to employees, the average person has much of his or her personal capital in either individual retirement arrangements[66] or employer-sponsored retirement plans (e.g. 401Ks). An IRA is a trust or custodial account; the "custodian" has legal responsibility for the possession of a client's securities or cash and placing them where directed. A custodian is not the same as an "administrator" and is not legally responsible for safekeeping the valuables being administrated – when an owner chooses an investment that loses value, the custodian is not liable for that loss. A custodian serves an IRA owner by:

- Maintaining the IRS tax-deferred status of the IRA or other retirement savings account.
- Following all guidelines and regulations to:
  - establish and fund the account or divest the asset once it is sold;
  - acquire and document each alternative asset;
  - maintain account activities such as dividend, interest, and expense payments, etc.;
  - report annual asset valuation and produce annual reports for tax filings;
  - execute distributions and payments on behalf of your retirement account.

Current regulations, such as those included in Internal Revenue Service (IRS) codes or ERISA make it difficult to utilize assets in traditional tax-advantaged accounts to invest in local businesses and communities. Typically, custodians[67] or trustees for such accounts limit investments to brokerage account offerings such as stocks, bonds, mutual funds, and certificates of deposit. Despite ERISA's "prudent man rule",[68] these investments may carry considerable risk (i.e. leveraged mutual funds, penny stocks, etc.), while investments with a better risk profile are unavailable to non-accredited investors.
§408 of the IRS Code permits individuals to use a self-directed IRA (SD-IRA) to direct investments into other assets (e.g. real estate, LLC's, or local business ventures). Rather than listing allowable

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[64] Federal Reserve Bank, "Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2011", Federal Reserve Statistical Release, September 16, 2011

[65] Under the Securities Act of 1933, a company that offers or sells its securities must register the securities with the SEC or find an exemption from the requirements, such as rules 505 and 506 of Regulation D whereby a company may sell its securities to "accredited investors" (in Rule 501 of Regulation D). See http://www.sec.gov/answers/accred.htm for further explanation.

[66] An Individual Retirement Arrangement (IRA), created in 1975, provides tax advantages for retirement savings in the U.S. The term encompasses an individual retirement account – a trust or custodial account set up for the exclusive benefit of taxpayers or their beneficiaries – and an individual retirement annuity, by which the taxpayers purchase an annuity contract or an endowment contract from a life insurance company.

[67] An IRA custodian must be a bank, credit union, trust company, savings and loan, or an entity that is licensed and regulated by the IRS as a "non-bank custodian".

[68] Requires that a trustee, investment manager of pension funds, treasurer of a city or county, or any fiduciary (a trusted agent) must only invest funds entrusted to him/her as would a person of prudence, i.e. with discretion, care and intelligence. Thus solid "blue chip" securities, secured loans, federally guaranteed mortgages, treasury certificates, and other conservative investments providing a reasonable return are within the prudent man rule. The rule is subjective, and some financial managers have put funds into speculative investments to achieve higher rates of return, which has resulted in bankruptcy and disaster for clients.

investments, the IRS code instead identifies which investments are not permitted.[69] Both traditional and Roth IRAs can be SD-IRAs; the owner controls the account and is responsible for making investment choices. Individuals can have more than one type of IRA as long as allowable annual contribution limits are not exceeded. In an effort to reduce fees, paperwork, and processing delays, some SD-IRA investors choose to employ a Limited Liability Company[70] (LLC) IRA structure. Although SD-IRAs offer one way to bring capital home for local investing, to ensure investment quality and appropriate risk management, SD-IRAs should be pursued only with assistance of trusted professionals.

Challenges utilizing SFD-IRAs:

- Set-up, maintenance, custodial fees can vary, and may be prohibitive.
- Account owner responsible for all due diligence and accounting.
- Policies of IRA custodian may not allow some investments preferred by account holder.

Policy Recommendations:

CalFOR should collaborate with eligible custodians to develop necessary structures and processes to ease utilization of SD-IRAs for local investing; create a guide for fiduciaries on various means to organize self-directed IRAs, Community Investment Note[71] products, as well as practical steps to evaluate and implement these and other sustainable, mission, or program-related investment options. Two options that should be researched and potentially established include:

- CDFIs with the capacity to serve as approved custodians for SD-IRAs should be identified or established to reduce fees, streamline processes, and create pro-local investment policies:
  - Research to identify potential territories of IRA custodians in the marketplace.
  - Create a pilot project in which the SD-IRA custodian hosts events (informational only, in-person or webinar) highlighting rural investment opportunities and SD-IRA basics.
  - An SD-IRA guide for those interested in supporting local businesses through their investments;

- Expand employer sponsored retirement plan offerings to include products that offer investors the opportunity to invest in local businesses and communities:

  ERISA requires plans to provide participants with plan information and provides fiduciary responsibilities for those who manage and control plan assets. Fiduciaries must act prudently and must diversify the plan's investments to minimize risk and may be unfamiliar with non-traditional investments or reluctant to approve them due to factors such as the perception of these investments as being limited by high risk or low return.
  - Create educational events and materials highlighting rural investment opportunities and opportunities for employer sponsored plans to participate.

For More Information:

- Internal Revenue Service: www.irs.gov/retirement/index.html?navmenu=menu1
- Retirement Trust Association: www.self-directed-retirement.org/
- Self-Directed IRA Organization: www.selfdirectedira.org/

[69] Two types of investment are excluded by ERISA: 1) Life Insurance Contracts and 2) collectibles such as art, rugs, jewelry, etc.

[70] A limited liability company (LLC) is a flexible form of enterprise that blends elements of partnership and corporate structures and provides limited liability to its owners in the vast majority of U.S. jurisdictions. LLCs do not need to be organized for profit.

[71] The Community Investment Note is a financial product sold by Calvert Foundation that provides a convenient way for investors to earn a "triple bottom line" return: financial, social, and environmental.

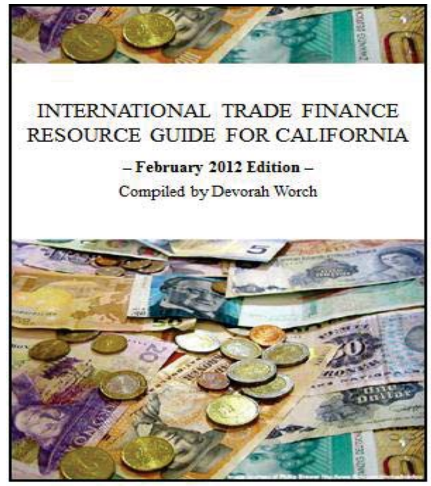
EXPORT ASSISTANCE AND FINANCING

California exports in 2011 were $159 Billion – up 11% from 2010 – with Mexico, Canada, China, Japan, and South Korea accounting for almost half of all California exports.[72] This is a growing and very important segment of the state's economy. Many small businesses think they are too small to compete in world markets, yet 97% of all exporters are small businesses and 70% of all exporters have fewer than 20 employees.[73] California businesses' high-quality, innovative goods and services, responsive customer service and sound business practices give them competitive advantages for exporting.[74] Supporting businesses entering export markets are an array of public and private resources; state programs include:

- California U.S. Export Assistance Centers, California Centers for International Trade Development (CITD) and Small Business Development Centers (SBDC) offer counseling, training and expertise on export options and locally available resources such as those shown to the right.[75]
- The California State Trade and Export Promotion (California STEP) project leverages a statewide network of state, federal, private and non-profit trade promotion organizations to increase the value of exports for small businesses and to increase the number of small businesses in California who export.

The federal government offers several types of financing programs:

- The National Export Initiative helps U.S. firms win foreign contracts, participate in trade shows and missions, receive export financing and learn new ways to sell products and services overseas. In 2011, President Obama set a goal to double the nation's exports by 2015 to increase U.S. jobs.
- **Export Development and Working Capital Financing**:
    - **SBA Export Working Capital Program:** Up to $5 million in working capital loans for pre-export financing of labor, materials and post-shipment of accounts receivable.
    - **Export-Import Bank Working Capital Guarantees:** Guarantees loans for finished products; raw materials, equipment, supplies, labor and overhead; letters of credit, performance bonds; and financing foreign receivables.
    - **SBA Export Express Program:** Offers small businesses up to $500,000 in export development financing to buy or produce goods or to provide services for export.
    - **USDA, Foreign Agricultural Service:** Underwrites letters of credit for food and agricultural products exported.



CalAgX training is funded by a USDA Specialty Crops Block Grant and California Department of Food and Agriculture; it assists all farmers, processors and marketers of California grown or processed crops to develop their business plan and resources to enter export markets. Topics consist of understanding financial and promotional assistance programs and responding to foreign sales inquiries, establishing trade networks, moving products overseas and resolving export barriers.

- Introduction to Food & Agriculture Exporting
- International Marketing
- Logistics & Documentation
- Negotiation & Cultural Aspects
- Financing Exports & Getting Paid
- Foreign Regulations & Legal Aspects

[72] http://www.census.gov/foreign-trade/statistics/state/data/ca.html

[73] http://www.sba.gov/content/sba-export-express-fact-sheet-small-businesses

[74] Moran, G., "10 Hot Export Markets for Small Businesses", February 22, 2012, http://www.entrepreneur.com/article/222861

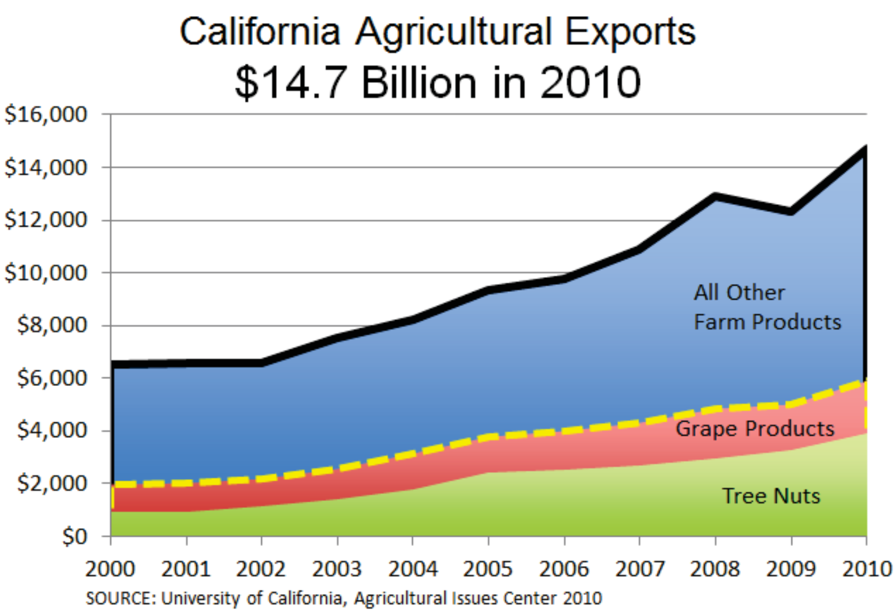
[75] https://sites.google.com/site/californiacitdnetwork/trade-toolbox/export-finance

- **Facilities Development Financing:** To acquire, construct, renovate, modernize, or expand facilities and equipment used to produce goods or services involved in international trade.
  - **SBA International Trade Loan Program:** Provides up to $5 million in financing to upgrade equipment and facilities to U.S. businesses preparing to engage in or already engaged in international trade, or are adversely affected by competition from imports with.

- **Financing for your International Buyers:** Enables U.S. businesses to assist their international buyers in locating financing to purchase U.S. goods and services. Financing may also be available for refurbished equipment, software, certain banking and legal fees and certain local costs and expenses.

- **Overseas Private Investment Corporation Investment Project Financing:** Large-scale projects that require large amounts of capital, such as infrastructure, telecommunications, power, water, housing, airports, hotels, high-tech, financial services, and natural resource extraction industries in developing countries and emerging markets.

Figure 13



In August 2008, Jeffrey Nash was in Los Angeles watching his granddaughters play soccer when he observed a mother bending over walking her baby. In that instant, Jeffrey visualized the design of the Juppy Baby Walker in his mind – a parent-assisted baby walker used to safely teach babies how to walk sooner while eliminating dangerous falls and adult back strain. Nash quickly sketched the idea by hand, had a prototype sewn and developed a connection with a Chinese manufacturer. With $35,000 in startup capital – $10,000 from his father and a friend and the rest came from his 401(k) – the Juppy Baby Walker was ready for retail in one frenzied month. The Juppy was featured on several hundred blogs for moms and used the internet to facilitate both domestic sales and exports to several countries.

<u>For More Information</u>:

- California Agricultural Export Training Program: www.fresnocitd.org/services/calagx
- California State Trade and Export Promotion: www.californiastep.org
- Global Trade Network: www.usgtn.net
- Green Export Enabler Program: www.greenexport.org
- Small Business Exporters Association: www.sbea.org
- TradePort: www.tradeport.org
- USDA Foreign Agriculture Service: www.fas.usda.gov/agx/exporter_assistance.asp
- U.S. Government programs: www.export.gov/finance/eg_main_018097.asp

"Politicians making deals with big banks in the halls of Congress won't help job creation. Economists theorizing on monetary flow won't help job creation. News anchors recycling dismal reports about the state of the economy won't help job creation. What will help create jobs? Real solutions that improve access to capital for Main Street businesses!"

Jeff Stibel, CEO, Dun & Bradstreet Credibility Corporation, April 10, 2012

Available With Substantial Work

These tools and structures are currently available and offer innovative ways to raise capital for small business as well as larger projects; however, these require a great deal of work and knowledge to organize and establish. They include:

- **California Community Capital Collaborative**
- **Connecting CDFIs to Socially Responsible Investors (SRI)**
- **California Specific Community Investment Note**
- **Public / Private Financing of Infrastructure**
- **Corporate Investment in Shared Value**
- **EB-5 Visa for Immigrant Investors**
- **Rural Business Investment Companies**
- **Private Equity Investments with Blended ROI**
- **Social Impact Bonds**
- **Community Currency and Time Banks**

CALIFORNIA COMMUNITY CAPITAL COLLABORATIVE

Institutional investors are mandated through fiduciary duty to undertake loyal and prudent actions on behalf of their beneficiaries; this generally means taking actions that result in risk adjusted returns, i.e. the higher the anticipated risk, the higher the expected return. With over $20 trillion in institutional investor capital in the U.S., they are prime, albeit largely untapped, partners for addressing community development and local empowerment priorities. Successful solutions to bridging the access to capital gaps for businesses located in historically underserved areas must recognize this basic framework and create innovative financial products that meet investor needs and local business development realities.

One option is to utilize financial and community intermediaries, such as public and private nonprofit entities, to mitigate and/or reduce risks; another is to develop alternative investment models that meet institutional investor return on investment expectations. The California Community Capital Collaborative (Collaborative) is a proposal for a new model that combines both options for serving businesses in under-served areas and offers a new frame for attracting institutional capital to fixed income products. Collaborative-sponsored funds would include CDFI initiated loans in the areas of small business, affordable housing, regional industry clusters, health centers, etc. These loans would be aggregated into a security and sold to investors with the proceeds being used to recapitalize the Collaborative.

Functionally, the model uses traditional investment vehicles that serve the fiduciary and portfolio construction needs of large-scale institutional investors while leveraging the skill sets and local knowledge of financial and community intermediaries. The model establishes new, and strengthens existing, relationships within California's community development network. By linking these players, the model brings new resources to small business today, as well as opening new capital streams to the emerging Generation X and Y entrepreneurs. Key design considerations include:

- A Collaborative structure that:
  - Leverages the ability of large and experienced CDFIs to support the deal flow necessary to support a strong, diverse and credit-worthy pipeline of small business loans;
  - Offers opportunities for smaller CDFIs to participate and benefit from increased capital and possible mentoring; and
  - Ensures that small businesses in all areas of the state have an opportunity to be served, including rural, inner city and other historically underserved areas.
- A structure that can be consistently applied by participating CDFIs that meets the following criteria:
  - The qualifying loan is eligible for credit enhancements;
  - The qualifying loan is attractive within a security; and
  - The qualifying loan meets the needs of small businesses in need of capital in low-income areas.
- A security structure that meets institutional investor needs to have:
  - Assets selected and managed in a manner consistent with the “sole benefit” standards as set forth in the California Constitution Article XVI, §17.
  - Assets selected through a comprehensive due diligence process and managed to meet appropriate risk-return parameters.
  - Collateral benefits above and beyond risk-adjusted return requirements, including social and environmental benefits that can be documented and reported to the investor on an annual basis.
- The annual collection and reporting of data about:
  - Loan recipients, deal flow, and the CDFIs receiving funding; and
  - Social and environmental impacts of loans on workers and low-income communities.

Challenges to Implementation:

While the model offers a compelling opportunity to leverage large-scale capital from institutional investors to increase the flow of capital to small businesses within California, there are challenges inherent in developing the new model. These challenges include:

- Traditional institutional fixed income asset managers must be educated and acculturated to CDFIs and how the model works in order for them to become willing to include these bonds, when appropriate, in their portfolios.
- Institutional investors must also be educated and acculturated to CDFIs so as to develop a demand among investors for the inclusion of these types of assets within their fixed income portfolios. Creating demand among their client base should increase the pressure among the asset managers to consider this asset type seriously.
- Not all CDFIs have the capacity to issue a $100 million bond and deploy that capital within short time frames which then necessitates collaboration and coordination among various CDFIs and other community stakeholders in order to execute this model.
- Initial capitalization of Collaborative loan funds will require a strong philanthropic partner that is interested in both innovative solutions and serving the business development needs of small businesses. Funding will also be needed for developing, monitoring and refining the model.

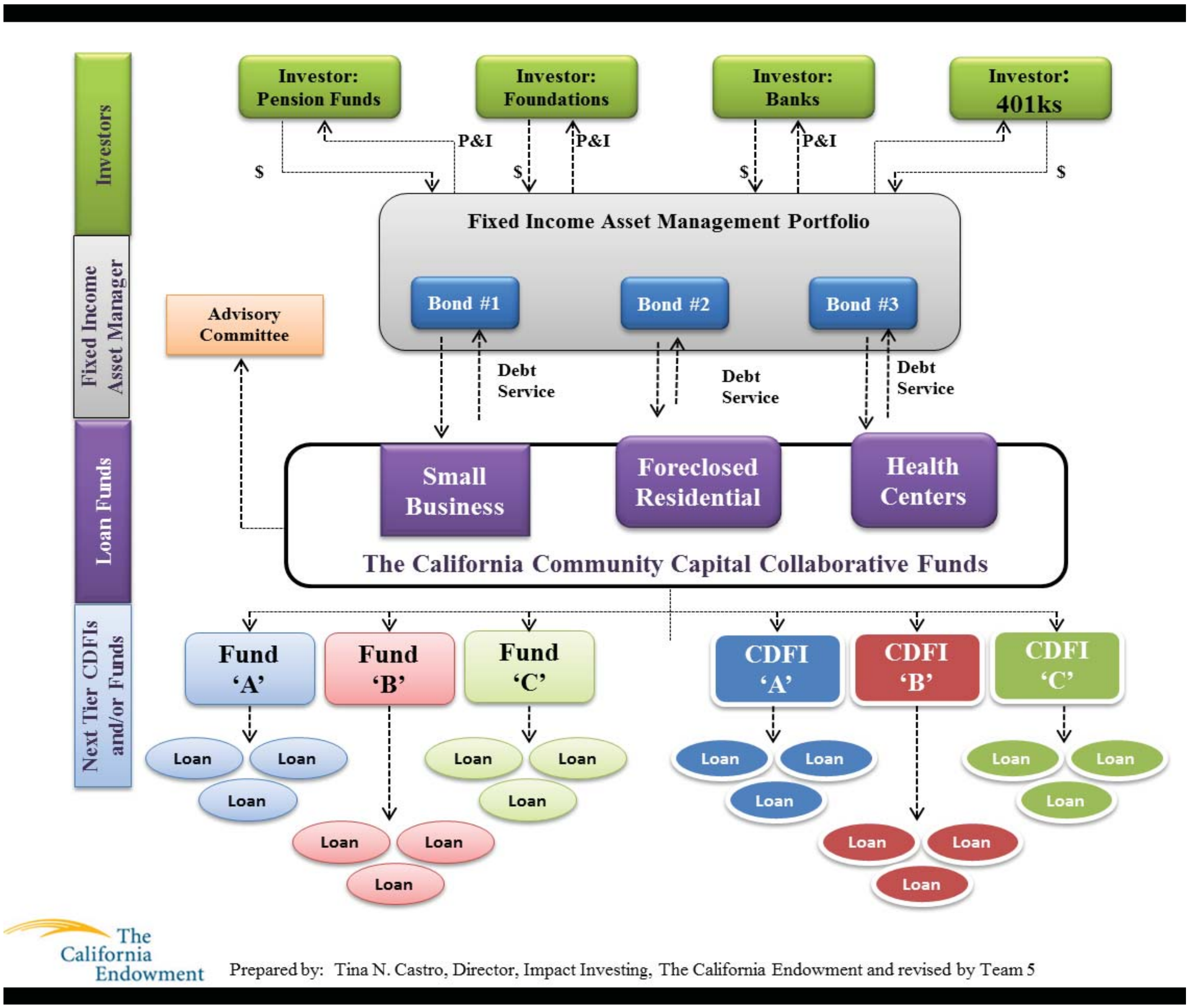
Policy and other Recommendations:

- CalFOR and GoBiz convene key state and federal agencies with expertise in small business lending, fixed income investment products and other stakeholders interested in exploring opportunities for leveraging state funds with institutional investment dollars. Among other stakeholders, include the California Infrastructure and Economic Development Bank to discuss how it could serve as a "master bond issuer" of securities backed by small business loans.
- CalPERS and CalSTRS currently offer credit enhancements for bonds; the State Treasurer and the Business, Transportation and Housing Agency offer small business loan credits enhancements through the California Capital Access Program and the California Small Business Loan Guarantee Program. While it is not clear that these government bodies can offer the credit enhancements directly, they could provide information on requirements for loan guarantees/loss reserves and the terms required by institutional investors related to fixed income investments in securitized loans.
- Organize a series of workshops for local and regional leaders interested in pursuing this model; provide detailed information on how the model works, resources required and steps necessary to build a working Capital Collaborative.
- Support efforts by the Small Business Development Centers, SCORE, Community Colleges and other technical service providers to provide information and business assistance to small businesses and serve as an important facilitator of qualified deal flow to participating CDFIs.

While this model is somewhat complex, the potential for an intermediary like this to improve access to capital and offer means for local investing initiatives is tremendous. The diagram on the following page (Figure 13) outlines structural details in a generic model while the following two pages (Figures 14-15) highlight details of an existing fund organized by the California Endowment as part of a Healthy Food Financing Initiative: the California FreshWorks Fund.

For More Information: Workshops will be offered in Fall 2012.

Figure 14



Green Boxes: The green boxes at the top of the illustration represent institutional investors including pension funds, foundations, banks and 401ks. These investors would invest their capital in the same fixed income asset management firms and funds they currently use and would expect to receive the same return they traditionally receive from these vehicles.

Grey Box: The grey box represents the traditional fixed income asset management portfolio comprised of a variety of bonds in which institutional investors invest. In this case, some of the bonds contained in this portfolio would include those issued by the Collaborative CDFIs within California.

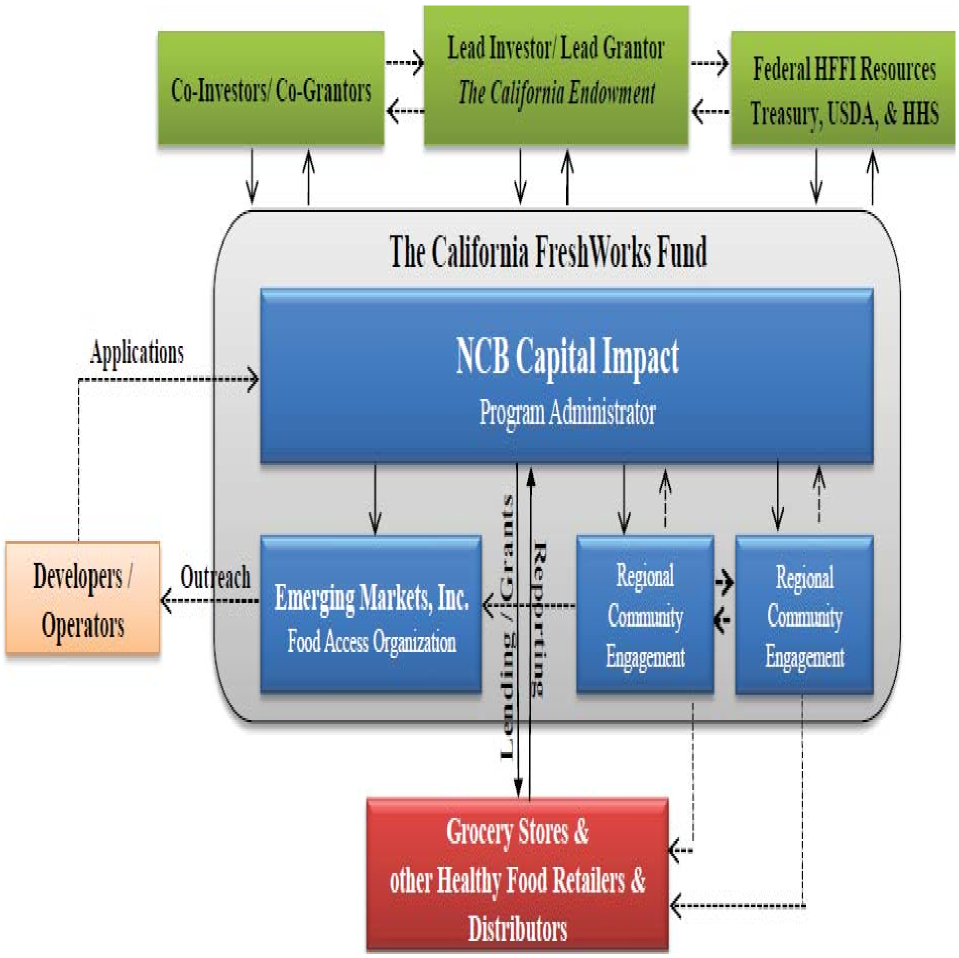
Purple Boxes: The purple boxes represent the Collaborative CDFIs within California that have the capacity to issue bonds of $50 to $100 million and manage and deploy that capital. The Collaborative could be formed through a joint partnership agreement or, more informally, through a memorandum of understanding. The Collaborative would be guided by an Advisory Committee and would be responsible for providing capital to both existing CDFI managed funds as well as directly to the next tier of CDFIs.

Multi-Colored Boxes/Circles: The multi-colored boxes represent both CDFI managed funds as well as the next tier of CDFIs that would be responsible for making the actual loans (represented by the circles) to the end borrowers - California small businesses.

FRESH WORKS
THE CALIFORNIA FRESHWORKS FUND
Healthy Food. Closer To Home.

The California FreshWorks Fund is a public-private partnership loan fund to finance grocery stores and other forms of fresh food retail and distribution in California's underserved communities. It is modeled after the Pennsylvania Fresh Food Financing Initiative and it has been developed to align with the National Healthy Food Financing Initiative. It was created specifically to incentivize healthy food retail in California food deserts; goals include increasing access to healthy food in underserved communities, encouraging economic development, and inspiring innovation in healthy food retailing.

Figure 15



The Fund provides a combination of loans and, in some limited cases, grants to grocers, distributors, etc. to overcome the high cost of entering food deserts and to support innovations in healthy food retailing. The Fund provides flexible capital to allow for longer break-evens so operators have an opportunity to generate the sales needed to cover expenses and be viable over the long run.

Current partners include investors such as The California Endowment, NCB Capital Impact, US Bank, Morgan Stanley, JPMorgan Chase, Bank of America, The Calvert Foundation, Kaiser Permanente, Dignity Health, Citibank, Charles Schwab, and Opportunity Finance Network; industry leaders such as Unified Grocers and California Grocers Assoc.; non-profit organizations such as PolicyLink, Community Health Councils, and Emerging Markets, Inc.; government bodies such as the State of California, USDA California Rural Development, and CRA/LA.

The FreshWorks Fund provides investors a way to participate through purchase of Calvert Foundation's Community Investment Note. This allows stakeholders to support healthy food access and economic development in underserved communities. Notes are available online, in brokerage accounts, and minimum Investments start as low as $20. Rate & Terms vary from 0.5% for 1 year to 1.0% for 3 years.

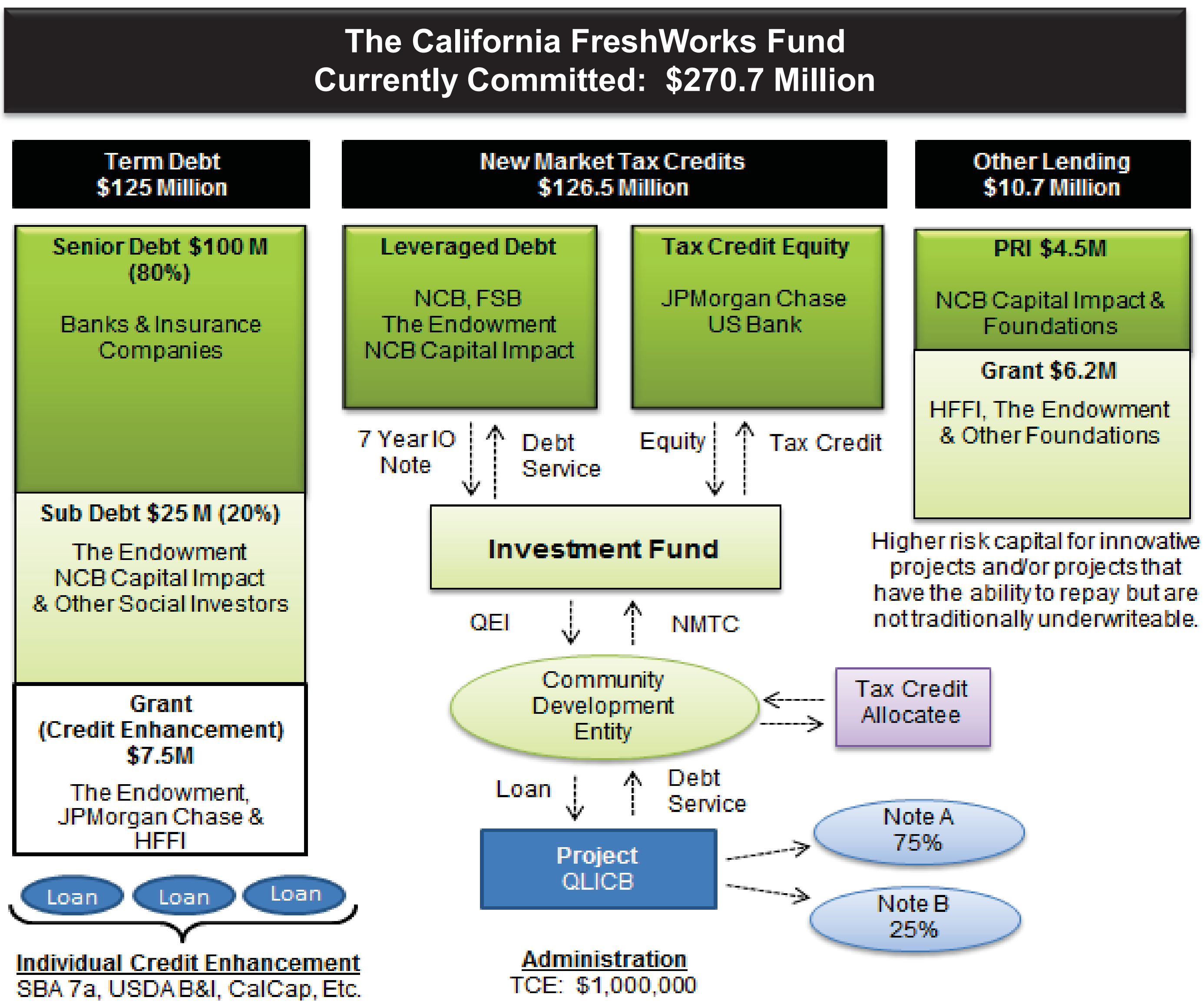
<u>For More Information</u>:

- California FreshWorks Fund: www.cafreshworks.com
- Calvert Foundation: www.calvertfoundation.org/healthyfood

While each and every fund will have different partners, sources of initial investment and will target different industries and/or regions, the California FreshWorks fund is an excellent example of how such a capital collaborative can be organized and funded. Specific benefits sought by FreshWorks include:

- **Access to Healthier Food:** In California, adults in neighborhoods with low access to healthy food options are 20% more likely to be obese than those with high access to healthy foods. Each year in California, obesity causes thousands of deaths and costs families, employers, the healthcare industry, and government more than $6 billion.
- **New Jobs:** More than 24 new jobs are created on average for every 10,000 square feet of retail grocery space. Typical grocery stores range in size from 20,000 to 50,000 square feet.
- **Improved Property Values:** An assessment of a similar initiative in Philadelphia found that home values increased by 4 to 7% in neighborhoods with new grocery stores. Grocery stores also typically serve as anchors to other commercial development.
- **Increased Tax Revenue:** Increased retail activity, employment, and property value leads to increased sales, income and property tax revenue, reducing pressures on state and local budgets.

Figure 16



CALIFORNIA SPECIFIC COMMUNITY INVESTMENT NOTE

A number of foundations and groups have developed Community Investment Note offerings through which retail investors and institutions can provide low cost-cost debt at a reasonable rates to CDFIs and other community organizations serving as financial intermediaries. These notes, available to accredited and unaccredited investors, provide local investors an opportunity to make a positive social impact by accepting a lower return – typically 0 to 3% – in exchange for a social dividend. The spread between the lower rate and what the CDFI earns on the investments helps to offset operating costs.

Calvert Foundation's Community Investment Notes (Notes) are the perhaps the best known and most widely used; these senior, general recourse obligations of the foundation, pay investors a below-market fixed interest rate in exchange for supporting the positive social impact generated by proceeds. These are invested in a diversified pool of high credit-quality non-profit financial intermediaries, federally insured community development banks, credit unions, affordable housing developers, marketable fixed income securities, microfinance institutions, cooperatives, and for-profit social enterprises.

Given the size and diversity of the California economy, a California-specific Community Investment Note is possible. Several CDFI's and non-profit groups (e.g. RSF Social Finance, Boston Community Capital, the Northern CA Community Loan Fund) have established funds for the benefit of local community ventures, but only the Calvert Foundation has successfully addressed the challenge of procuring a CUSIP [Committee on Uniform Securities Identification Procedures] number to facilitate electronic trading. Electronic trading allows Calvert Community Investment Notes to be sold in much the same way as stocks and bonds, providing investors a convenient way to make local California businesses and communities' part of their investment portfolio, particularly individual retirement arrangements (IRAs).

<u>Challenges to Development of California-specific Community Investment Notes</u>:

- Creation of an intermediary able and willing to overcome numerous upfront barriers – including a costly and lengthy process of gaining approval of state and federal securities regulators.
- Securities regulation is an ongoing expense, as are the transaction costs and due diligence expenses associated with each loan.
- Marginal costs in the retail securities market are substantial and push for scaling up.

<u>Policy Recommendations</u>:

- Public and private stakeholders should collaborate with relevant institutions to determine whether a California-specific Community Investment Note is viable and marketable. The replication of the Calvert Foundation model is a possible approach; however, policy interventions that would lower the cost of retail sales, (e.g. exemption from securities registration or subsidized transaction costs) or methods to lower the cost of capital (e.g. tax incentives) would also make the model more feasible.
- Partnering with the Calvert Foundation or another group already established in this arena to develop a California-specific Community Investment Note could save time, effort and money.

<u>For More Information</u>:

- Boston Community Capital www.bostoncommunitycapital.org
- Calvert Social Investment Foundation www.calvertfoundation.org
- New Hampshire Community Loan Fund www.communityloanfund.org
- Northern CA Community Loan Fund www.ncclf.org
- RSF Social Finance www.rsfsocialfinance.org

CONNECT CDFIs to SOCIALLY RESPONSIBLE INVESTORS (SRI)

CDFIs are accustomed to borrowing low-cost long-term funds, primarily from government, foundations, and banks. Funds available from all three of these sources are flat or decreasing. To counter this, CDFIs need to seek out SRIs as a source of new capital. SRIs actively seek community, environmental, and/or social impacts along with a financial return and are a growing force in the investment marketplace. CDFIs fit nearly perfectly into the increasingly important Community Investing portion of SRI, which directs investment to populations and places that are underserved by traditional financial services.

Challenges to Connecting CDFIs with SRIs:

- **Lack Awareness:** Clients don't ask; professionals don't recommend – thus almost 80% of community investment funds go to banks or credit unions.
- **Below Market Rate Return:** Lower financial return can make CDFI investment less attractive.
- **No Financial Incentives:** CDFIs offer no monetary compensation to investment professionals.
- **Unstructured Terms:** Unique CDFI investments require a sophisticated, motivated investor.
- **Higher Perceived Risk:** CDFI investments are not FDIC insured and lack diversification.
- **Lack of Liquidity:** In general, investors prefer liquidity so they choose shorter maturity dates.

Some CDFIs have successfully cured perceived problems; as example:

- Calvert Foundation has a regulated product, sold through conventional channels with fees.
- Coastal Enterprises and Calvert have standard fixed-income notes.
- RSF Social Finance offers a 90-day note as a standard option.
- Many CDFIs offer standardized investment documents with defined rate and term schedules.
- Many CDFIs enjoy track records of 100% repayment of investors.

Policy Recommendations:

- The CDFI sector should coordinate efforts to attract investors at a meaningful scale; if SRI as a new funding source is a priority, the report below provides a market-based framework that can be used to strategically assess the steps for CDFIs to assume their natural partnership with the SRI sector.
- CDFIs should continue to push for innovation in loan loss reserve practices and balance sheet management, and improvement in operational efficiencies.

For More Information:

- Connecting CDFIs to the SRI Community: A Triple Bottom Line Collaborative project: www.cdfifund.gov/what_we_do/resources/Connecting%20CDFIs%20to%20the%20Socially%20Responsible%20Investor%20Commun.pdf

Table 5

Degree Barrier Addressed: ● Low ◒ ○ ◓ ◎ High

	Awareness	Return	Incentives	Terms	Electronic	Risk	Liquidity	Investment Approach
Calvert Foundation	◎	◒	◎	◎	◎	◓	○	Calvert Note. Terms: 1-5 yrs, 0.5-2%. National retail and direct sales. Raised $200MM in 2009
Coastal Enterprises	◓	●	●	◎	●	●	◒	CEI Note. Terms: 3,5, & 7 yrs, 2-3.5%. Direct sales to accredited investors in Maine. Raised ~2MM in Year 1
Montana CDC	◒	●	●	◓	●	●	●	Promissory note. Terms: 2-3 yrs, 0-4%. MT sales only. Simple IRA. Capital campaign $2MM in SRI equity
New Hampshire CLF	◎	●	●	◎	●	●	●	Promissory note. Terms: 1-10 yrs, 2-5%. Sustained direct sales effort in NH only. Raises ~$2MM annually
RSF Social Finance	◓	◎	●	◎	●	◒	◎	RSF Note. Terms: 90 days, 2.55% 10-yr avg. Direct sales in 37 states. Raised ~ $5MM in 2009
NCIF Shade Fund*	◓	●	●	◎	○	●	●	Online peer-to-peer lending platform under development. *Results forecasted

PUBLIC / PRIVATE FINANCING OF INFRASTRUCTURE

World class infrastructure plays a key role in business attraction, as multinational corporations consistently rank the quality of infrastructure among their top four criteria in making investments. For smaller size businesses, the lack of quality infrastructure can cause competitive disadvantages due to the higher costs and timeframes for accessing external markets. While some countries have spent the last decade building modern infrastructure that allows products and services to flow through globally in an almost seamless manner, for most regions of the U.S., construction and rehabilitation of infrastructure has been very limited.

> The World Economic Forum's 2010-11 Global Competitiveness Report ranks U.S. infrastructure 23rd in the world – a drop from 7th place in 2000.

California has relied on numerous public sources to finance its infrastructure – primarily General Obligation and/or Revenue Bonds. However, public finance is insufficient to meet the growing need for infrastructure investment. Several key state programs utilize grants and loans, in addition to bonds, to address this gap. Three of the key programs include:

- California Infrastructure and Economic Development Bank helps finance local infrastructure projects and has issued over $30 billion in conduit revenue bonds since 2000.
- California Pollution Control Financing Authority with $2.68 billion in revenue bond authority
- USDA Rural Utility Service deploying $176 million in 2010

Institutional investors have responded to the U.S.'s infrastructure short fall by adopting new investment mandates to privately finance public infrastructure. The two largest public pension funds in California, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), have recently announced new or increased allocations to infrastructure.

For example, in the fall of 2011 CalPERS Board of Administration approved a motion that would allow up to $800 million to be invested in both public and private California infrastructure facilities over the next three years. Similarly, in 2010, CalSTRS developed an Infrastructure Investment program to that has committed more than $650 million to infrastructure investment in California and throughout the world. Both groups also provide credit enhancements for infrastructure bonds. Together, these multi-billion dollar commitments to infrastructure signal recognition of the strategic role that infrastructure investments can play in a pension portfolio.

<u>Challenges to expanding private sector financing of infrastructure</u>:

While California is in need of alternative sources of financing to meet its public infrastructure needs, currently there are numerous challenges to private institutional investment. First, investors need investment policies that accurately reflect risks associated with infrastructure development and management. Infrastructure, more than any other asset class, is inextricably linked to local, state and federal authority and requirements, which can change overnight or fail to be equitably enforced. In addition, public infrastructure carries a certain level of service expectation, regardless of cost, that investors must reflect within a projects business plan. Other challenges include:

- Restrictions on public financing sources: Public financing sources, such as tax-exempt bonds and federal grants, have restrictions on how third-parties can utilize the funds.
- Lack of dedicated revenue streams: Infrastructure facilities without a user fee or way to generate revenues to pay a return to investors are generally not suitable for private investment.
- Uncertainty around the public procurement process (PPP): The public sector must manage a transparent, efficient, and consistent process for offering contracts or concessions. In California, the

Public Infrastructure Advisory Commission ("PIAC"), established to manage the PPP, has limited mandate and generally does not adhere to a standard process.

Policy Recommendations:

Explore opportunities for infrastructure investment partnerships between pension funds and the public sector. Public pension funds are classified as state agencies, which may provide partnerships opportunities without impacting the use of public financing sources. The potential advantages offered by state agency status should be explored further.

- Review California Mello-Roos[76] laws to identify impediments and better ways to leverage Mello-Roos bonds to support infrastructure-related projects benefiting lower income areas.
- Engage the Public Utilities Commission on how power purchase agreements could be better designed to encourage infrastructure development that supports economic opportunities in lower income communities.
- Establish a state equivalent of the North American Development Bank to facilitate and finance infrastructure projects on both sides of the California and Mexico border region. Accessing private and institutional capital will likely require a strong pubic intermediary, such as the California Infrastructure and Economic Development Bank, to bring projects and financial partners together. Key projects to be considered include development of a modern border that provides for safe and efficient movement of people and goods, as well as the development of renewable energy facilities.

For More Information:

- Building California Infrastructure Choices and Strategy: www.lhc.ca.gov/studies/199/report199.pdf
- California Infrastructure and Economic Development Bank: www.ibank.ca.gov
- California Infrastructure Investment Overview: www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/invest/201109/item07c-01.pdf
- California Pollution Control Financing Authority: www.treasurer.ca.gov/cpcfa
- California Public Employees' Retirement System (CalPERS): www.calpers.ca.gov
- California State Teachers' Retirement System (CalSTRS): www.calstrs.com
- Funding Innovations for CA Infrastructure: www.taxpolicycenter.org/UploadedPDF/1000946_calif_infrastructure_sum.pdf
- Keston Institute for Public Finance and Infrastructure Policy: www.usc.edu/schools/price/keston
- USDA Rural Utility Service: www.usda.gov/rus

[76] Mello-Roos is a form of financing that can be used by cities, counties, and special districts (such as school districts). Mello-Roos Community Facilities Districts (CFDs) raise money through special taxes that must be approved by 2/3rds of the voters within the district. A CFD is formed to finance major improvements and services within the district which might include schools, roads, libraries, police and fire protection services, or ambulance services. The taxes are secured by a continuing lien and are levied annually against property within the district.

CORPORATE INVESTMENT IN SHARED VALUE

Until recently, corporate engagement in society has been viewed as a business cost, to be traded off against profitability. Increasingly, however, companies are realizing that by working toward "shared value" (Figure 16), they can benefit society and boost their bottom line at the same time. Firms depend on healthy and well-functioning societies to thrive; this strategy allows them to leverage their expertise, value chains, and influence to incorporate social issues into their core business strategies – benefitting both society and their own long-term competitiveness.[77]

Figure 17

Companies can create shared value in three basic ways:

- **Redefining value chains:** improve quality, quantity, cost, and reliability of inputs and distribution while simultaneously acting as a steward for natural resources, economic and social development.
- **Reconceiving products and services:** meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation.
- **Strengthening local clusters:** companies do not operate in isolation from their surroundings; to compete and thrive, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system.

Although the move toward shared value is evolutionary rather than revolutionary, it does represent a paradigm shift in how companies see themselves and their role in society. Firms as diverse as Dow Chemical, GE, Nestlé, Intercontinental Hotels Group and Chevron are adopting this approach; the three examples shown on the next page illustrate the various ways firms are seeking shared value.[78]

Private equity funds have also seen significant growth since 2000 in "double bottom line" funds explicitly seeking market-rate financial returns coupled with social impact. According to recent research, impact investing is poised for significant growth in 2012, with $4 billion in planned new investment. Specifically, 17 new funds have been created since 2000 with the explicit intent to invest for a dual purpose; this outpaces the growth of "financial first" funds (14 since 2000) and "impact first" funds (nine since 2000).[79]

Twice as many funds classified as double bottom line were formed post-2000 than pre-2000, demonstrating the growing conviction among funds and their investors that financial return and intentional social outcomes can be achieved concurrently.

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[77] For a more detailed discussion of shared value creation, see Porter, M.E., and Kramer, M.R., "Creating Shared Value," *Harvard Business Review*, January-February 2011

[78] Bockstette, V. and Stamp, M., "Creating Shared Value: A How-to Guide for the New Corporate (R)evolution**",** 2011, www.fsg.org/Portals/0/Uploads/Documents/PDF/Shared_Value_Guide.pdf

[79] Woelfel, T., Thornley, B., and Sirull, B., "Market for Social Impact: Investing by Private Equity Funds Stands at $4 Billion in the United States", INSIGHT at Pacific Community Ventures, July 2012, http://www.pacificcommunityventures.org/uploads/reports-and-publications/PCV_wp_v3.pdf

A similar approach is Corporate Social Responsibility (CSR), self-regulation that takes responsibility for company actions and impacts through actions on the environment, consumers, employees, communities, and stakeholders. A business case for CSR/Shared Value will rest on one or more of these arguments:

- **Human Resources:** Aids recruitment and retention of staff as well as increased morale.
- **Risk management:** Scandals or accidents can draw unwanted attention from regulators, courts, governments and media – a culture of 'doing the right thing' can reduce risks.
- **Brand differentiation:** In crowded markets, distinctive ethical values and/or a reputation for integrity can separate companies from the competition in the minds of consumers.
- **License to operate:** Corporations are keen to avoid taxation and/or regulations; substantive voluntary actions can persuade governments and the public that health, safety, diversity, or environmental standards are sufficient.

Challenges to implementing Shared Value:

- Most firms continue to view fiduciary duty to stakeholders to be the highest possible short-term return on investments – with social and/or environmental goals subordinate.
- It can be difficult to align large firms with local value chains and regional economic strategies.

Policy Recommendations:

- Encourage adoption of Benefit Corporations.[80]
- Facilitate opportunities for large firms to engage with regional economic development strategies.

For More Information:

- American Sustainable Business Council: www.asbcouncil.org
- As You Sow: www.asyousow.org
- CSRwire: www.csrwire.com
- Global Impact Investing Network: www.thegiin.org
- Social Investment Forum: www.ussif.org

Recycled aluminum is a vital raw material that avoids 9.5 tons of greenhouse emissions per ton of aluminum processed and saves on energy costs. Alcoa has invested millions in recycling facilities and led efforts to increase recycling of aluminum – adding 300,000 tons of recycled material to the supply chain (value: $500 million at 2010 prices) and less greenhouse gas emissions by 3.4 million metric tons annually (equal to 600,000 less cars). Alcoa uses marketing to increase recycling and spends $3.5 million to support community recycling organizations.

Created in a California garage in 1939, HP is now the largest technology company in the world with over 300,000 staff. In 2009 HP began to blur the lines between philanthropy and its core business strengths – rather than just give technology to worthy causes it now develops technology-based solutions to educational and health problems. HP's Learning Initiative for Entrepreneurs (HP LIFE) has delivered training in e-skills for over a half-million entrepreneurs from 47 countries – creating over 6,400 new small businesses and enabling others to increase operational efficiency – through technology.

Cisco Networking Academy builds competitive advantage through social engagement. This cloud-based initiative offers training in modern networking technologies through a partnership with educational institutions. Since 1997, Cisco has invested $350 million to create 10,000 academies in 165 countries, largely in underserved communities – over half of U.S. community colleges host an academy – inciting economic development in thousands of communities, adding skills to the workforce and increasing appeal of those areas as business locations. This provides Cisco with a skilled workforce in high-growth markets and creates the sophisticated customers the company needs to grow.

[80] AB 361, signed by Governor Brown on October 9, 2011 authorizes benefit corporations and permits existing corporations to become a benefit corporation. Such corporate bodies would seek not only financial return on investment but "...one or more specific public benefits…as an additional purpose of the corporation, including, without limitation, providing low-income or underserved individuals or communities with beneficial products or services, promoting economic opportunity for individuals or communities beyond the creation of jobs in the ordinary course of business, preserving the environment, and improving human health." http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_0351-0400/ab_361_bill_20111009_chaptered.html

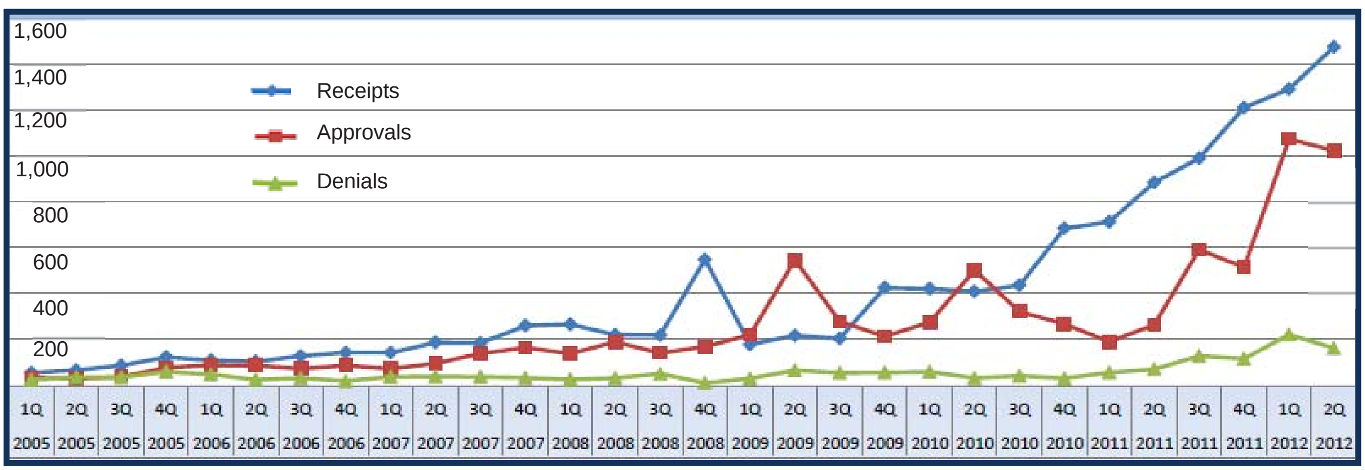
EB-5 VISA FOR IMMIGRANT INVESTORS

Administered by the U.S. Citizenship and Immigration Services (USCIS), the EB-5 program allows immigrants who can demonstrate that their investment created or preserved at least 10 U.S. jobs after two years to receive legal permanent residency along with their spouses and children. The minimum outlay mandated is $1 million, but immigrants can reduce that to $500,000 by investing in a regional center or establishing businesses in a Targeted Employment Area (TEA).

- A "Regional Center" focuses on investment at a specific geographic area within the U.S and seeks to promote economic growth through increased export sales, improved regional productivity, creation of new jobs, and increased domestic capital investment. Regional Centers typically leverage EB-5 investments with other sources of financing.
- USCIS defines a TEA as an area which, at the time of investment, is either rural or any area which has experienced unemployment of at least 150% of the national average rate.
- Capital Investment Requirements means cash, equipment, inventory, other tangible property, cash equivalents and indebtedness secured by assets owned by the EB-5 investor, who is personally and primarily liable and that the assets of the new commercial enterprise upon which the petition is based are not used to secure any of the indebtedness.

Established in 1990, the program had a slow start due to complexities of the program's administration. The recession and credit crunch combined with streamlining of procedures has dramatically boosted interest in the program – seen in figure 17. Although immigrants are allowed to establish businesses under the program, most prefer to invest in "regional centers" – public or private enterprises that are certified by the government to receive funds from EB-5 investors and that can count jobs indirectly created by the investment toward the ten required.

Figure 18: I-526 Receipts, Approvals and Denials FY2005-2012[81]



SOURCE: U.S. Citizenship and Immigration Services

The Association to Invest In the USA (IIUSA) estimates that since 2003, Regional Centers have invested well over $3.1 billion of foreign capital in the U.S. economy, creating well over 65,000 jobs for U.S. workers; when fully utilized EB-5 will contribute over $2 billion in foreign direct investment to the U.S. economy annually – creating and/or preserving a minimum of 40,000+ jobs for U.S. workers each year - at no cost to the American taxpayer.[82] Because of this, the EB-5 program has strong bipartisan support

[81] The I-526 petition is submitted by the immigrant investor to USCIS for review to confirm that that all the requirements of EB-5 are met, specifically that 1) the investment fund has been lawfully obtained; 2) conditions set forth have been complied with; and 3) the particular EB-5 project should create the minimum number of jobs required.
http://www.uscis.gov/USCIS/Resources/Reports%20and%20Studies/Immigration%20Forms%20Data/Employment-based/I526_I829_performancedata.pdf

[82] http://iiusablog.org/

in congress and is endorsed by the U.S. Conference of Mayors as well as both state and local government economic development entities, numerous industry groups and private sector project and business developers. IIUSA coordinates a coalition of over 350 organizations nationwide that supports immediate action for EB-5 Program reauthorization (which is due to expire on September 30, 2012).[83]

Policy Recommendations:

- Support efforts by USCIS to organize a team of private sector entrepreneurs and experts, working with USCIS personnel, to design and implement effective solutions to EB-5 administration issues. This initiative, "Entrepreneurs in Residence," will strengthen USCIS's collaboration with industries, at the policy, training, and officer level, while complying with all current Federal statutes and regulations.
- California economic development organizations should collaborate with IIUSA to support EB-5 reauthorization.
- California economic development organizations, working with CalFOR, Go-Biz, local governments and existing regional centers need to organize better means to identify and connect potential EB-5 Immigrant Investors with California businesses that are seeking capital; such a system needs to be easily searchable and web-based.

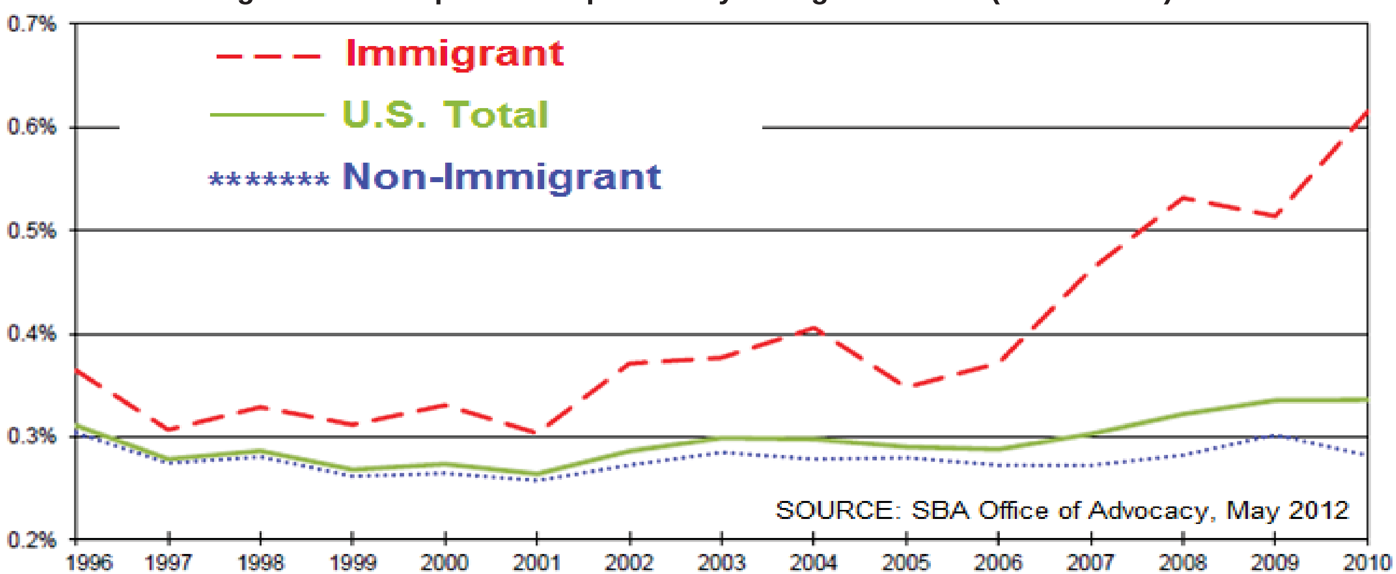
Natural Econometric Incorporated

Natural Econometric Inc. manages the California Wineries and Vineyards EB5 Immigrant Investors Regional Center

Approved in January 2009, this is one of over 50 regional centers serving California; with offices in San Mateo and Hong Kong, this Regional Center connects foreign investors with U.S. winery and vineyard owners who are seeking investment capital.

- Research, program administration and delivery of economic development initiatives need to focus more attention to and develop better understanding of the needs of immigrant entrepreneurs. As seen in figure 18,[84] this is a growth area that can well serve California's communities.

Figure 19: Entrepreneurship Rates by Immigrant Status (1996 – 2010)



For More Information:

- U.S. Citizenship and Immigration Services www.uscis.gov/**eb-5-investor**
- The Association to Invest In the USA: https://iiusa.org/

[83] http://iiusablog.org/wp-content/uploads/2012/07/IIUSA-EB5-reauth-support-sign-on-ltr-July2012-FINAL.pdf

[84] Fairlie, R., "Immigrant Entrepreneurs, Small Business Owners, and their Access to Financial Capital", May 2012, http://www.sba.gov/sites/default/files/rs396tot.pdf

RURAL BUSINESS INVESTMENT COMPANIES (RBIC's)

The 2002 Farm Bill authorized the Rural Business Investment Program (RBIP) to promote economic development and job creation in rural areas.[85] RBIP can enhance private equity and venture capital investment to small business enterprises similar to the Small Business Administration's SBIC program.[86] The 2008 Farm Bill amended provisions of the RBIP to increase its attractiveness (e.g. capping fees, allowing investment pools, increasing the RBIC's time frame to raise its capital requirements) and authorizing debenture guarantees backed by the federal government. In December 2011, USDA published an amended RBIP rule[87] with clarifications and authorizing establishment of new RBICs.

The RBIP does not supply direct project funding; it offers debt financing at lower interest rates than may prevail in the market. The debentures issued by an RBIC are pooled with other issues and sold to outside investors. The debentures typically have a term of ten years and are guaranteed for five years. Criteria include:

- At least 75% of RBIC's investments are in rural areas.
- Up to 10% of RBIC investments may be urban areas.
- That the business "primarily operates in a rural area".
- Over 50% of RBIC investments (measured both by number and dollars invested) must be in "smaller enterprises" (net worth less than $6 million and net income less than $2 million in the prior two years).
- Less than 50% of investments are in small businesses – about three times the size of "smaller" enterprises.

SBA's Small Business Investment Company (SBIC) Program was established in 1958 and has successfully channeled billions of dollars of growth capital to small businesses across the United States. SBICs provide financing to small businesses in industries ranging from manufacturing to life sciences. Due to the unique public-private partnership at the core of the program, no annual appropriations are required from Congress to fund SBICs. Fiscal year 2011 SBIC Deliverables include:

- The SBA issued $1.82 billion in new commitments to SBICs;
- $2.83 billion in financing dollars were invested in small businesses;
- 1,339 small businesses were financed, 34% of which were in low-to-moderate income areas or were minority- or women-owned businesses;
- 56,211 jobs created;
- ...all at ***ZERO*** cost to taxpayers.

RBIC's can also offer technical assistance and other valuable management advice to companies. The interest rates on government-guaranteed debt will likely be significantly lower than for debt instruments issued directly by the enterprise because the program would limit credit risk on the instruments.

Challenges for RBICs:

- The RBIP Program has been inactive since 2006; in 2012 USDA began accepting applications for non-leveraged RBICs. The challenge is to sustain adequate and consistent funding to operate RBIP.
- Lack of Understanding and Private Equity in Rural Underserved Markets: Technical assistance is needed to educate underserved markets on how to access equity financing – these markets are not familiar with this type of capital. This on-going issue is also a problem facing Native Americans on Indian Lands and Native Hawaiians (the majority of which live in rural, underserved markets).[88]

Policy recommendations:

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[85] Farm Security & Rural Investment Act of 2002, pp. 40-55, www.rurdev.usda.gov/rd/farmbill/2002/TitleVI.pdf

[86] U.S. Small Business Administration. "SBIC Program Overview", www.sba.gov/content/sbic-program-overview-0

[87] Rural Business Investment Program on SBA website at: http://www.sba.gov/category/lender-navigation/sba-loan-programs/rural-business-investment-program-rbip

[88] U.S. Department of Treasury, CDFI Fund, "The Report of The Native American Lending Study", (November 2001), pp. 31-38.

- **Seek reauthorization of RBIP in U.S. farm policy:** so that this potentially valuable tool can grow and that funding be secured so the program can be developed and implemented properly.

- **Identify RBIC's that understand and can actively finance and service the equity needs of small businesses located in underserved markets**.[89] Allow a non-profit entity or its subsidiary to be an eligible applicant as long as they meet the other RBIC qualifications (e.g. a qualified management team, venture capital financing experience, mission of investing in small enterprises that create wealth and jobs in rural areas). Once a potential RBIC has been identified, the RBIC Program should streamline or reduce the paperwork and review process by expediting the screening, evaluation and licensing of the application process.

"It is a myth that there aren't any good technology deals or other high growth opportunities in rural America…We have a successful track record of investing in rural Appalachia that spans more than thirty years, providing much needed capital to small businesses through Meritus Ventures and its affiliates." [89]

Fund Manager, Ray Moncrief

Meritus Ventures was approved in 2006 and is the only RBIC in the U.S. The $37 million venture capital fund produces respectable returns and provides operational assistance to its portfolio companies while creating wealth and jobs in rural areas of central and southern Appalachia and Arkansas.

As example, a potential RBIC in California may be an organization such as the Pacific Community Ventures (PCV), an innovative nonprofit organization, which is affiliated with three double bottom line investment funds. PVC provides capital and hands-on guidance to high growth California businesses that bring significant economic gains to low-to-moderate income employees as well as deliver exceptional financial returns to business owners and to our investors. By investing resources through both their nonprofit programs and funds, they are creating lasting economic and social change by increasing the number and quality of jobs provided to California's economically underserved areas.[90]

- **Increase Outreach and Promotion**: Promote a collaborative effort with both public and private equity partners to deliver technical assistance to teach small business enterprises in the underserved markets how to access equity capital sources.

As example of effective outreach and promotion, CalPERS has been an investment leader in California's underserved markets. Joncarlo Mark, formerly of the CalPERS Alternative Investment Management (Private Equity) Program, stated that entrepreneurs have come to more readily accept private equity. "It's hard (for them) to give up control to outside parties," says Mark, "but as a result of the ETI [Economically Targeted Investment] programs and the kind of outreach CalPERS and its partners have done, there is an improved acceptance among entrepreneurs in underserved markets of accepting third party money."[91]

For More Information:

- USDA Rural Development: www.rurdev.usda.gov/BCP_RBIP.html

- U.S Small Business Administration: www.sba.gov/category/lender-navigation/sba-loan-programs/rural-business-investment-program-rbip

[89] "DMG Productions to feature Meritus Ventures in Upcoming Episode of Business Update", August 14, 2012, http://www.dmgproductions.org/news/dmg-productions-to-feature-meritus-ventures-in-upcoming-episode-of-business-update/

[90] Pacific Community Ventures website at: http://www.pacificcommunityventures.org/equity-investing/.

[91] Giszpenc, N., "Financial Innovations Roundtable, Developing Practical Solutions to Scale up Integrated Community Development Strategies", "Public Pension Funds and Targeted Private Equity Investment: The CalPERS California Initiative" (2009), pp. 34-38.

PRIVATE EQUITY INVESTMENTS WITH BLENDED ROI

Equity investment models that could work for small businesses have been challenging to operationalize. One option is a blended fund approach[92] comprised of both institutional investors – generally requiring a high ROI – and funds provided through foundations and/or EB5 investment visa recipients that are dedicated to serving businesses in lower income communities (which may require zero ROI). ROI for the institutional investor could be met if sufficient moneys at zero or low interest could be blended.

One method for countering this challenge is to bring in additional public and nonprofit players to help lower the perceived risk of the neighborhood and business. Another is to identify alternative investment models that meet institutional investor ROI expectations.

Private Equity

Equity capital, also called patient capital, can be very important to the growth of company. In return for the funding, the investor usually receives 15% to 35% ownership of the company. In addition to capital, an equity investor also contributes business expertise. At the end of five to nine years, the equity investor expects the value of the company to have grown sufficiently to afford their position in the company to be bought out at a substantial profit.

<u>Challenges for Private Equity in Small Business</u>:

- Investors expect high financial rewards for investment in businesses perceived to be high risk.
- While public resources and expert local knowledge can compensate, the model is often too labor intensive to be scalable at a level necessary.
- Institutional investors have fiduciary duty to undertake prudent actions that result in risk adjusted returns – often a challenge to bringing investments to businesses in historically underserved areas.

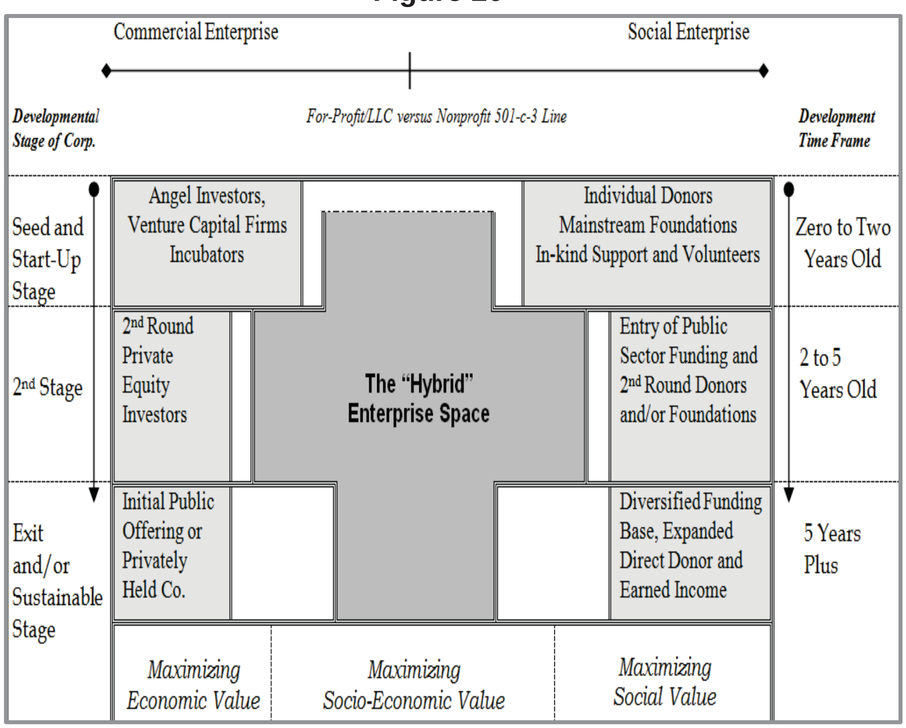
<u>Policy recommendations</u>:

- CalFOR and GoBiz arrange for meetings with large institutional investors and others that want to support small business in California and historically underserved areas. The purpose would be to increase awareness of complimentary public and private resources available and seek options to develop structures that can manage blended funds.

<u>For More Information</u>:

- Private Equity Growth Capital Council: www.pegcc.org

Figure 20[93]



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[92] Emerson, Jed "The Nature of Returns: A Social Capital Markets Inquiry into Elements of Investment and The Blended Value Proposition", Harvard Business School, Social Enterprise Series No. 17, 2000

[93] This diagram builds upon the work of J. Gregory Dees (John Gardner Professor, Graduate School of Business, Stanford University) presented in "The Social Enterprise Spectrum: Philanthropy to Commerce," 1996, Harvard University.

SOCIAL IMPACT BONDS (SIB)

SIBs are an innovative financing vehicle for social programs: instead of paying upfront for a prescribed set of services, SIBs allow government to fund approaches that work – without paying a dime if agreed-upon outcomes are not achieved. SIBs bring together government agencies, social service providers, and philanthropically minded financiers to achieve better results for people receiving social services and for the taxpayers funding those services. Simply put: government agencies define an outcome they want to accomplish and agree to pay an external organization a sum of money if the external organization achieves that outcome.

This is markedly different from normal funding arrangements for social programs, in which agencies typically commit to funding activities regardless of the outcome. SIBs require:

- Government to place few, if any, controls on the way that the external organization accomplishes the outcome
- A clearly defined population and clarity on what a "successful outcome" would be.
- Payments are contingent on achievement – inadequate results means no payment – risk is transferred from government to the external organization or its investors.

"Social Impact Bonds" and "Pay for Success" are sometimes used interchangeably; however, they are different – SIBs are a relatively narrow and truly innovative concept where payment from government is tied solely to outcomes and where government places few controls on the external organization. The term "Pay for Success" is used in looser ways to describe a variety of situations where government payments are linked to successful outcomes – such as performance contracts where bonus payments reward on-time delivery – yet specifications on methods, materials and/or management is prescribed.

<u>Challenges to using Social Impact Bonds</u>:

- Defining outcomes is difficult and may require skills that government agencies may not possess.
- Outcomes need to be objective and measurable; methodology used to determine this should be clearly specified. It may be necessary to appoint a third-party organization that determines whether the outcome has been achieved.
- Governments must establish an appropriate payment for desired outcome and resist the tendency to judge what they deem to be an acceptable return for investors.
- Government agencies need to be willing to cede power over how the external organization achieves the outcome – this requires considerable trust between partners.
- Funding promises must be firm: SIBs are multiyear arrangements and cannot be affected by whims of annual appropriations processes or changes in administration.
- SIBs "all or nothing" payments mean the external organization has an incentive to walk away if its efforts are falling short; mechanisms for an orderly termination of the contract are necessary and temptation to "bail out" external organizations by renegotiating agreements must be avoided.
- Benefits can accrue to different agencies and at different levels of government; this can create significant logistical challenges in government that may need to be overcome.

<u>For More Information</u>:

- Center for American Progress: www.americanprogress.org/issues/2011/02/pdf/social_impact_bonds.pdf
- Rockefeller Foundation: www.rockefellerfoundation.org/uploads/files/655fab01-83b9-49eb-b856-a1f61bc9e6ca-small.pdf

COMMUNITY CURRENCY AND TIME BANKS

A growing number of communities are developing some version of Community Currency.[94] In general: businesses and individuals form a network to print currency; shoppers buy it at a discount — say, 95 cents for $1 value — and spend the full value at stores that accept the currency. While business owners may lose money on some purchases due to discounts, they find that customers tend to give them more repeat business. Communities who try this program keep more money circulating in the local economy and, if run with strong leadership, can instill a sense of community pride that further aids in supporting small business efforts. California has over a dozen community currencies.

A variation of community currency is "Time Banking"[95]: reciprocal service exchange that uses units of time as currency. Time Bank members earn credit for each hour they spend offering services such as child care, legal assistance, language lessons, home repair, driving people to appointments and respite for caregivers, among other things. A Time Bank can theoretically be as simple as a pad of paper, but the system was originally intended to take advantage of computer databases for record keeping. As well as gaining credits, participating individuals can potentially gain confidence, social contact and skills through giving to others. Communities therefore use time banking as a tool to forge stronger intra-community connections and build social capital. There are 53 officially recognized Time Banks in the U.S.

Challenges for Community Currency:

- To be successful generally requires widespread use – the towns that have run successful programs have hundreds of small businesses that agree to accept the currency. Most attempts at creating "local dollars" fall through because they fail to achieve a critical mass of issuance and acceptance by businesses.
- Business owners who accept community currencies may have to create separate accounting methods to deal with different taxation guidelines, but this is often considered an acceptable tradeoff for increased business from local customers.

For More Information:

- International Journal of Community Currency Research: www.ijccr.net
- Yes Magazine: www.yesmagazine.org/new-economy/go-local
- GoLocal Card: www.thegolocalcard.com/index.php/national
- TimeBanks USA: www.timebanks.org
- New Economics Institute: www.neweconomicsinstitute.org

Launched in 2010, the Davis Dollar encourages community development and fuels local business. The dollars are currently accepted by more than 50 local businesses, including an acupuncture clinic, a law firm and various restaurants.

www.davisdollars.org

With over 150 Sonoma County businesses offering discounts, sales climbed from $14,000 in in April 2011 to $54,300 during April 2012. In July 2012, Community First Credit Union members will be able to use their credit union debit card as a GoLocal Rewards Card – growing users to 9,500.

http://sonomacounty.golocal.coop/

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[94] The global forum for research and analysis of community and complementary currencies: International Journal of Community Currency Research, http://ijccr.net/

[95] TimeBanks USA was founded in 1995 to nurture and expand a movement that promotes equality and builds caring community economies through inclusive exchange of time and talent. www.timebanks.org

Mentoring for small business owners and entrepreneurs is the business world's answer to the apprentice system for trades. While there are no set standards that must be met, or described skill sets to be tested, the business mentor provides insight on an ever-changing scope of challenges and issues. An issue with sales one week can be replaced with an inventory issue the next and an HR issue after that.

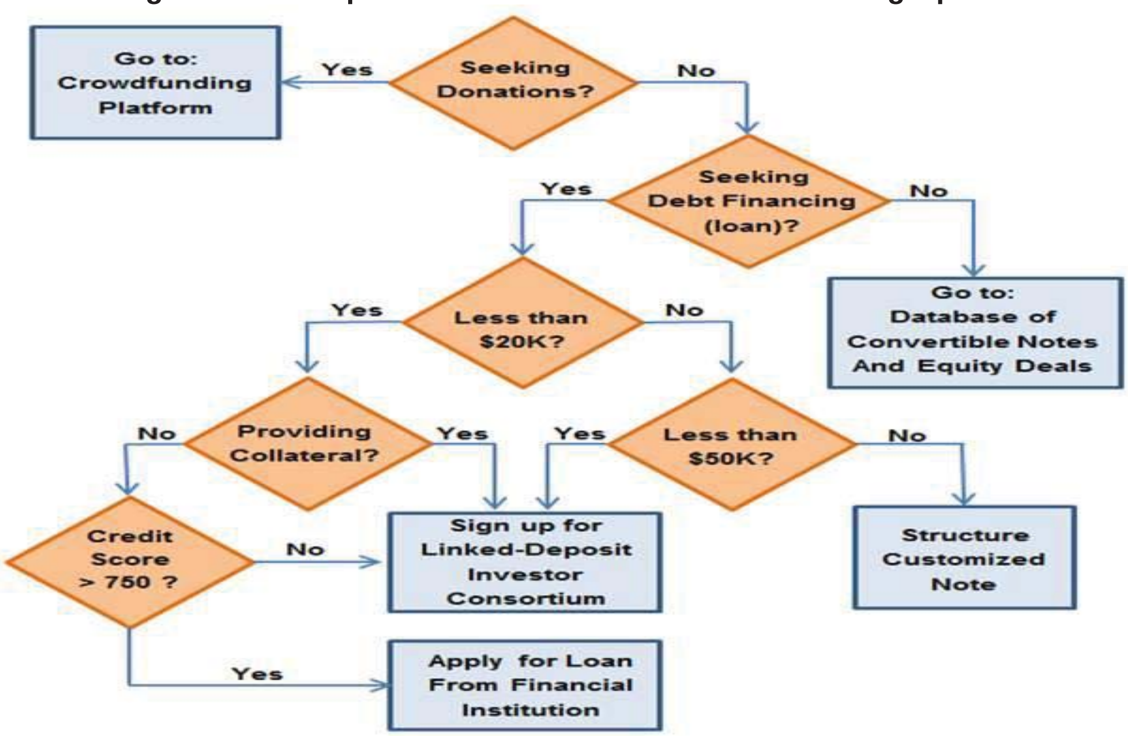
Mark Simpson, Founder and Coordinator
Institute of Entrepreneurship and Community Innovation

Business Mentoring and Technical Assistance

Financial education, access to essential information and knowledge of best business practices can reduce financial risk to the lender, improve credit worthiness of borrowers and strengthen overall management and growth of an enterprise. Improving access to knowledge and information will require new delivery arrangements, collaboration among existing service providers, increased funding targeted to produce measureable results and development of information clearinghouses. Recommendations are:

- **Technical Assistance with Mentoring/Coaching**
- **Collaborative Delivery Models**
- **Building Entrepreneurial Development Systems**
- **Due Diligence Checklist for Entrepreneurs**
- **Specialization-Driven Platforms**

Figure 21: Example of Decision Tree for Basic Financing Options



TECHNICAL ASSISTANCE WITH MENTORING & COACHING

In addition to the well-known challenges of finding and keeping skilled employees, accessing capital, optimizing information/communication technologies, and balancing work with home responsibilities, two pervasive roadblocks to success – cited in multiple research studies[96] – faced by micro, small and mid-market businesses include:

- Lack of access to business-related educational offerings and/or industry-specific training programs
- Inadequate networking opportunities and/or insufficient connections to suitable mentors

Similarly, the same research studies also noted challenges in the service delivery systems included:

- Fragmentation and lack of coordination among service providers
- Lack of entrepreneur and business sector voices in curriculum development
- Curriculum and delivery tends to be reactive, not proactive
- Delivery mechanisms are often underfunded and over-subscribed

Local and regional economic development corporations, Small Business Development Centers (SBDCs), SCORE (formerly known as the Service Corps of Retired Executives) and a wide array of other service providers reach about 220,000 entrepreneurs and small business operators per year at an average cost of less than twenty dollars per assisted individual[97]; however, this meets only a small fraction of the current need and these non-profits typically do not have the marketing budgets or operating funds to make their services known and available to more entrepreneurs and small business operators.

Regions, working with local communities and existing service providers, must be engaged in solutions to better serve businesses and opportunities for growth. Investment in organizations to increase their capacity and make the availability of their services more widely known would have a high return on investment. SCORE has found that some business management can be handled with workshops but the key has been one-on-one mentoring.[98] SCORE's delivery model looks at Market Segmentation, Target Marketing and methods to attract targets into a mentoring relationship.

W.K. Kellogg Foundation, as part of a national rural entrepreneurship initiative envisioned "creating a seamless, integrated partnership and a continuum of service providers within a region" combined with a "*depth-of-service*" that enhances a business' preparedness with coaching or mentoring.[99]

50% of small businesses fail in the first five years. The reason for this is essentially the founder's lack of business experience. According Gallup researchers "*Without a mentor an entrepreneur may find it difficult to access resources, build networks, and create partnerships that help the enterprise grow."* Gallup researchers conclude in their report: "There are tangible and intangible benefits of having a mentor…pairing an entrepreneur with a mentor increases confidence and self-awareness as well as enhancing business thinking and risk taking among the entrepreneurs."

Gallup World, November 25, 2011[79]

[96] Bohoney et al. 2011, Cates 2011, Colopinto 20111, Dabson 2010, Davis 2011, Douglas et al. 2011, Edgcomb et al. 2008, Goetz 2009, Heaton 2005, Markley et al. 2006, Markley 2011, Muro et al. 2011, Ratner 2010, Reynolds et al. 2008, RUPRI 2011, Swack et al. 2009, Wyckham et al. 2001

[97] Association for Enterprise Opportunity, "The Power of One-In-Three: Creating Opportunities for All Americans to Bounce Back", 2011, http://www.aeoworks.org/pdf/one_in_three.pdf

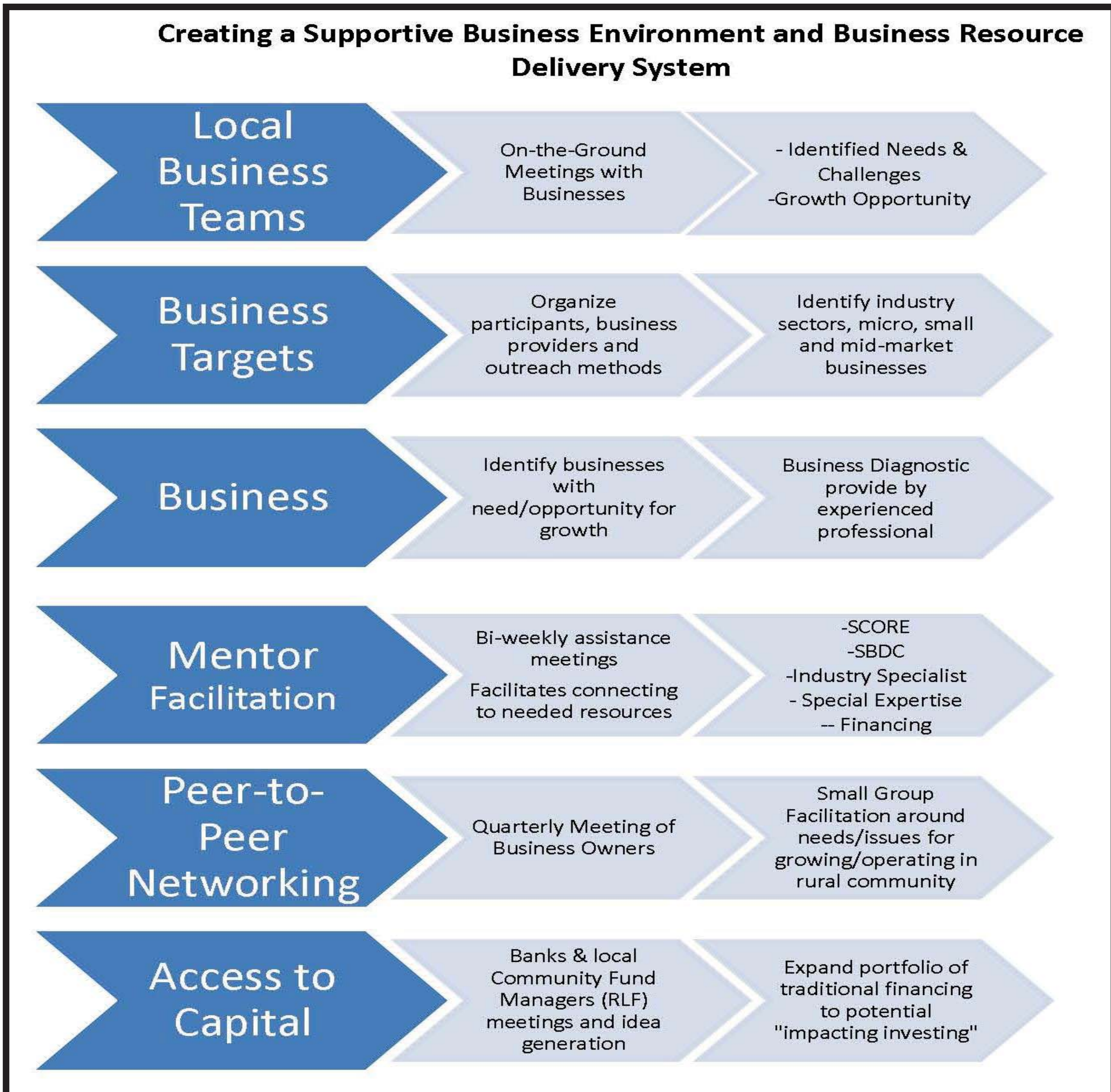
[98] Badal, S. and Srinivasan, R., "Mentor Support Key to Starting a Business", Gallup.Com, November 25, 2011, http://www.gallup.com/poll/150974/mentor-support-key-starting-business.aspx

[99] W.K. Kellogg Foundation, "Entrepreneurship Development Systems in Rural America: Final Lessons", July 2008, www.cfed.org/programs/kellogg

One example of a comprehensive business technical assistance program currently underway in the Northern Sierras is shown in figure 21.[100] The project includes several collaborators; objectives are:

- Identify specific businesses' obstacles and needs;
- Create a system to connect key businesses with resources;
- Provide consistent coaching and mentoring based on business goals/milestones and assessments;
- Work with resource providers and financial institutions to explore new forms of access to capital.

Figure 22



[100] Alliance for Workforce Development: Growing Rural Businesses in Lassen, Modoc, Plumas and Sierra Counties

COLLABORATIVE DELIVERY MODELS

Most areas have some access to a mix of local service providers – city/county offices, Community Colleges, Workforce Development, SBDCs, SCORE, nonprofits, etc. – combined with state-wide organizations such as CAMEO, University Extension, etc. Providers offer technical assistance, networking and training; may organize community collaboration on economic initiatives, support local revolving loans, etc. While some areas provide sophisticated business retention and expansion programs – consistent and collaborative outreach, direct interventions, technical assistance, specialized expertise and tracking of results – many communities lack easy or even adequate access to such programs.

Budget constraints and logistical challenges mean that individual organizations often cannot provide the full range of services needed by all businesses. There is need for collaborative models which can access expertise available throughout the state, but stay grounded at the local level, to leverage resources as well as improve overall service delivery. The goal should be efficiencies and "shared value" for all parties.

Challenges to Providing Business Services:

- Market needs can vary greatly (urban versus rural, technology versus manufacturing, etc.).
- Service providers are often forced into silos because of funding sources and/or capacity.
- Rural and low-income areas suffer lack of qualified mentors/coaches and reliable service.
- Federal funding requires 1:1 cash or in-kind match from state and local sources; the same may be required by private funders and be hard to gather.

Policy Recommendations:

- Develop collaborative delivery models based on local needs, capacity of existing organizations and integration of both local and out-of-area providers.
- Work with the California Resources and Training (CARAT) organization to further existing efforts to organize technical service providers.
- Expand use of technology to access expertise and reduce program delivery costs.

Butte County Business Incubator Program

Qualified companies are assessed for services needed and assigned a mentor. The client commits to goals, seeking new customers/markets, sell more products/services, and manage resources effectively. Consultants assist clients with expertise in strategic planning, marketing, graphic design, web development, sales, accounting, cash flow and preparation for financing. The program, operated by **3Core,** has served over 95 small and nascent businesses since 2003.

www.bcbip.org

For More Information:

- ANewAmerica: www.anewamerica.org/our-work/our-model
- Center for Rural Entrepreneurship: www.energizingentrepreneurs.org
- California SBDC: www.californiasbdc.org
- Corporation for Enterprise Development: www.cfed.org
- Edward Lowe Foundation: www.edwardlowe.org/tools-programs/roundtables/
- FIELD at The Aspen Institute: www.fieldus.org
- Kauffman Foundation: www.entrepreneurship.org
- U.S. Association for Small Business and Entrepreneurship: www.usasbe.org

Essential elements in collaborative, regional business technical assistance:

- A local/regional team to plan, identify resources and address issues, such as:
  - Who to include: leadership, providers, businesses, financial institutions, government, etc.
  - Realistic goals and timelines: what businesses to focus on and when.
  - Local expertise: availability, accessibility, cross-training for teams providing services.
  - Funding: existing service providers, grants, business sector in-kind offerings, etc.
  - Resources (local and out-of-area): expertise, research, engineering, business intelligence, etc.
  - Constraints: availability of information, access to capital, zoning, permitting, child care, etc.
  - Consistency: ensure ongoing “boots on the ground” to build relationship with local businesses.
  - Community involvement: link entrepreneurs and major industry clusters with local resources.
  - Participating lenders: micro-finance, government programs, revolving loan funds, etc.
  - Qualified Mentors: knowledgeable, ombudsman skills, networking connections, resources, etc.
  - Networking events and roundtables (e.g. Edward Lowe Foundation PeerSpectives System)
  - Monitoring: identify goals/results via outreach, surveys and debriefing providers and participants.
  - Samples of protocol agreements: integration of services, tracking, referring, etc.

North Coast Prosperity Network is an example of a seamless, integrated partnership with a continuum of service providers in the region. The network focuses on entrepreneurs as well as industry sectors.

www.northcoastprosperity.com

BUILDING ENTREPRENEURIAL DEVELOPMENT SYSTEMS (EDS) [101]

Some initiatives focus on bringing together all parties engaged in entrepreneurship development – creating a set of common goals, projects and practices among that group. In these approaches, the expectation is that if you fill service gaps within the region, market services more effectively, and improve coordination among these services, entrepreneurs will get more and better services – thus quickening the pace of entrepreneurial development and growth. This is referred to as the "big tent approach." or supply-side theory of change. It is represented, at least in the early stages of their work by the following two initiatives:

- **CORE (Connecting Oregon for Rural Entrepreneurship)** brought five distinct regional initiatives in Oregon together with newly created or expanded statewide services for rural entrepreneurs. Led by Rural Development Initiatives, a nonprofit leadership development organization with a rural focus, 29 partners organized in five area teams and statewide support committees to offer resources to the sites and work on state policy issues. Information at: http://fieldus.org/Publications/EDS08/EDS_2008CORECS.pdf
- **Empowering Business Spirit Business Initiative (EBS)** operates in four counties in northern New Mexico. Led by the Regional Development Corporation, an economic development nonprofit, EBS focused primary on creating "a seamless, integrated partnership and continuum of service providers within the region." More recently, it broadened its partners and moved to implement "enterprise facilitation" programs in each of its four counties. Information at: www.ncnmedd.com/empowering.html

Another approach is to agree on a methodology for how entrepreneurs or communities can be *brought into and moved through* a process of development; service providers then work together to jointly implement that methodology. This might be called the demand-side, or "transformational" theory of change approach to System construction; illustrated in these two examples:

- **Advantage Valley EDS** works in a 12-county region spanning part of West Virginia, Kentucky and Ohio. Led by Advantage Valley, Inc., a tri-state economic development organization. It brings together a large number of partners and offers:
  - A ***coaching and networking program*** using the proprietary Entrepreneurial League System® developed in partnership with Collaborative Strategies, Inc.; linked to a network of service providers;
  - A ***collaborative*** of institutions concerned with entrepreneurship education, policy and the development of additional services.
  - Information at: http://fieldus.org/Publications/EDS08/EDS_2008AdvantageValleyCS.pdf
- **HomeTown Competitiveness (HTC)** is working in a set of geographically dispersed rural counties and communities in Nebraska. HTC was formed prior to the Kellogg initiative by three nonprofits – the Nebraska Community Foundation, the Heartland Center for Leadership Development and the RUPRI Center for Rural Entrepreneurship. Together they developed a comprehensive rural economic development strategy that focuses on 1) leadership development, 2) youth engagement, 3) entrepreneurship, and 4) building community endowments. Information at: http://htccommunity.org/

Both approaches have helped illuminate lessons about how to construct an EDS; however, all the initiatives have also struggled to find their way. In reality, all the EDSs incorporated elements of both approaches as they evolved to meet needs and realities in the field. For example, sites that began with a transformational theory of entrepreneurial change used the EDS demonstration to add new partners and expand their policy activities. And some of the sites that focused initially on the "supply side" and a big tent approach have moved to incorporate more transformational methods for entrepreneur and/or community engagement.

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[101] Edgcomb, E., Klein, J., and Black, D., "Revitalizing Rural Economies through Entrepreneurship Development Systems", FIELD at the Aspen Institute, December 2008, http://fieldus.org/Projects/pdf/EDSspeech_11_08.pdf

DUE DILIGENCE CHECKLIST FOR ENTREPRENEURS:

General Background
- History of the company and any predecessors.
- Why are you in this business?
- What are company's short- and long-term objectives?
- What are your company's financial needs?
- What is your company's unique advantage?

Management and Human Resources
- Organizational chart.
- Who are Board of Directors and how active are they?
- Consultants (accountant, attorney, finance, etc.)?
- Are there gaps in the management team, explain?
- Are there anticipated management changes, explain?
- Resumes of key employees and management.
- Compensation of officers and key personnel.
- Key management references.
- Explain any employment contracts or agreements.
- Are there any confidentiality agreements, explain?
- SS# and address for guarantors (credit report).
- Number of employees.
- Do you have an employee handbook?
- What are your current and anticipated staffing needs?
- What labor market is needed for growth?

Products or Services Offered
- How will customers use your product or service?
- Benefit(s) customers get from your product/service?
- How does your product or service compare:
  - Price? Discounts?
  - Quality? Service?
  - Current method? Engineering?
  - Availability? Credit Terms?
- Is there patent, trademark or trade secret protection?
  - If so, who owns it? Is there a license?
- What factors affect demand for your product/service?
- List current and future products/services.

Market
- Is demand basic or created?
- Is the market mature?
- What are the trends in the industry?
- What is the geographic market?
- Is there an opportunity for exporting?
- Where is growth opportunity?
- How is your market segmented?

Customers (if they exist)
- Who are your customers, or who will they be?
- List five customers' names and phone numbers.
- Why are they or would they buy from you?
- Are there any long-term purchase agreements?
- Is there any trend among customers toward:
  - Manufacture of this product in their operations?
  - Purchasing substitute products?
  - Switching suppliers?

Competition
- Who are your major competitors?
- What is their unique advantage?
- Are they growing?
- How do they compare on key buying issues?
- What are their plans?
- How will they react?

Sales and Marketing
- What are your pre-contract sales costs?
- When is your sale closed?
- How much custom engineering is required?
- Any upgrade obligations? Are they clearly defined?
- Is your product/service well documented?
- Is support required on installation and/or operation?
- Direct sales force? Size? Cost? Effectiveness?
- Sales agents? How selected/compensated?
- What are your channels of distribution?
- What advertising and sales promotions are used?
- What is your sales forecast and justification?
- Who are your target markets?
- How is your product priced?
- What are your company's credit policies?

Operations
- Fixed assets, location and condition.
- Location and description of facilities.
  - Assessed and fair market value.
- List of your future facility and equipment needs.
- Explain your basic manufacturing process?
- How are procedures modified to improve efficiency?
- What system assures quality of product/service?
- What are your critical raw materials?
- Who are your critical suppliers, contracts?
- List five vendors with contact information.
- What factors might cause a delay in production?
- Status of inventory, including level and obsolescence.
- Who handles purchasing, and what is your system?
- How do you decide between make vs. buy?
- Do you have any other contractual obligations?

Financial Considerations
- Audited financial statements
- Capitalization Table
- Do you have any grants or opportunities for grants?
- Sales backlog information.
- Aging reports – both A/R and A/P (most recent).
- Company's tax I.D. #.
- What are projected financials, including cash flow?
- What are your sources and uses of funds?
- Is there a strong cost accounting system in place?
- Is your insurance coverage adequate?
- What is your tax liability and payment record?
- Quality of cost identification and control.
- What is your worst-case scenario?

Legal Matters
- Articles of Incorporation.
- Bylaws and Amendments.
- Minutes of Directors' and Shareholders' meetings.
- Certificates of Good Standing from regulatory bodies.
- Subsidiary listing.
- Contractual agreements.
- Stock Option Plan.
- Any current or anticipated litigation?
- Regulatory hurdles (e.g., FDA, EPA, animal use, clinical studies, GMP, ISO, etc.)
- Environmental regulation/violations (waste discharge, RCRA, OSHA, EPA)?
- Warranty and service guarantees.
- Do you have any product liability?

SPECIALIZATION-DRIVEN TRAINING PLATFORMS

Technical assistance and training that is built around specialization-driven platforms creates a better understanding in the specific field of endeavor, knowledge of associated value-chain and supply/demand factors – creating more capable entrepreneurs or improving current management. Specialization-driven platforms can be applied to any industry sector: food systems, hospitality, life sciences, manufacturing, etc. Curriculum should be structured around processes in the value chain – instead of isolated functions – be heavy in case studies and practical applications, interactive, and modular as well as bilingual.

Challenges to specialization-driven platforms:

- Lack of custom, integrated, curricula and certification programs addressing targeted regional industry cluster opportunities available for deployment.
- Shortage of qualified trainers, service providers and organizational structures in various programs.
- Lack of specific funding to support training programs.

Policy Recommendations:

- Expand collaboration among SBDCs, CSU, UC, and Community Colleges on specialization-driven platform curriculum and include other partners (e.g. USDA, ALBA, Green MBA Schools, National Restaurant Association, industry, non-profits, etc.) to develop certified baseline training programs and curriculum.
- Given high interest and statewide urban/rural opportunities: pilot concept with training programs for value-chain jobs in regional food systems (Much literature already exists – see example of Sustainable Food Business System Syllabus on next page). Lay groundwork to move into other sectors soon.
- Develop train-the-trainer programs to quickly certify qualified trainers from academia and the private sector.
- Connect and coordinate an alliance of institutions to create a flexible but structured, localized, responsible party in charge of arranging for a series of available facilities to host training programs.

In 2002, Salinas-based ALBA Organics was established as a licensed produce distributor to support the sales and training needs of beginning farmers as an essential component to their development and success as entrepreneurs. ALBA Organics provides farmer-vendors with vital technical assistance on crop planning, field production, post-harvest handling/packing, as well as the marketing for distribution to a variety of customers. The on-farm cooler, warehouse, and delivery infrastructure are major assets for both the farmers and the organization. *ALBA Organics* offers customers the opportunity to support small-scale, limited-resource and beginning farmers, many of whom are former farm workers, working to achieve economic success and sustainable livelihoods.

www.albafarmers.org

For More Information:

- ANewAmerica Green Businesses: www.anewamerica.org/our-work/green-business
- National Restaurant Association: http://conserve.restaurant.org/
- Northern California Regional Land Trust: www.landconservation.org
- Rural Community Assistance Corporation: www.rcac.org/
- Presidio, MBA Sustainable Management: www.presidioedu.org/programs/mba-sustainable-management

Example of Sustainable Food Business System Curriculum

The basic curriculum elements can be reconfigured to meet specific needs; however, an overall structure for the training program needs to cover core elements and utilize existing institutions.

- Structure syllabus around processes in the entire value chain, not isolated functions, for example:
  - Introduction and Overview of the Farm-to-Fork Food Value Chain.
  - Introduction to Sustainable Agriculture and Related Food Policy
  - Production and Logistics of Sustainable Food Systems
  - Marketing and Selling Sustainable Food Products and Services
  - Financing Food Value Chain Businesses
- The training program should be heavy in cases and practical applications, interactive, modular and – where possible and in demand – conducted in bilingual format.
- The educational ecosystem and delivery framework should balance specific skills training with interdisciplinary approaches and be offered in locations relevant to future business operations.
  - Establish agreements and/or contracts with established institutions.
  - Seek funding from federal grants, foundations, economic development initiatives and corporate interests to keep tuition affordable.

ASI AGRICULTURAL SUSTAINABILITY INSTITUTE AT UCDAVIS

New Major in Sustainable Agriculture and Food Systems

Students majoring in Sustainable Agriculture and Food Systems (SA&FS) focus on the social, economic and environmental aspects of food and agriculture - from farm to table and beyond. The program is designed to help students obtain a diversity of knowledge and skills, both in the classroom and through personal experiences both on and off campus. The major emphasizes development of practical skills that can be applied to a wide range of career opportunities in agriculture and food systems. All students will have direct experiences in food production activities through the applied production courses and through avenues such as internships. This may include working on farms or in food businesses, with government agencies or non-profit organizations.

www.asi.ucdavis.edu/students/about-major

Goldman Sachs 10,000 small businesses

This $500 million investment targets small businesses by providing access to training, capital, and business support services. Small businesses have generated 64% of net new jobs over the past 15 years, represent 99.7% of all employer firms and produce 13 times more patents per employee than large firms. Instructional materials were custom-made by Babson College and local community colleges host the program. Participants receive over 72 hours of rigorous comprehensive instruction with interactive workshops, teamwork exercises and homework. Goldman only works in cities where local officials and the business community fully support implementation. Graduates have improved business plans and receive financing from local CDFIs using funds from Goldman Sachs.

www.goldmansachs.com/10000smallbusinesses/

RESOURCES FOR TECHNICAL ASSISTANCE / MENTORING

www.albafarmers.org

The Agriculture and Land-Based Training Association (ALBA) advances economic viability, social equity and ecological land management among limited-resource and aspiring farmers. ALBA develops 1) human resources for tomorrow's farmers and sustainable agriculture leaders; 2) marketing alternatives for small-scale, limited-resource farmers; and 3) protection of natural resources.

www.allbusiness.com

AllBusiness.com has a comprehensive library of downloadable templates, presentations, training guides, quick-reference checklists, essential legal documents and business forms to meet real-world needs of entrepreneurs and small businesses. Bloggers offer knowledge in sales, marketing, human resources and technology; features show how real business owners and experts handle issues and challenges.

www.amiba.net

AMIBA provides comprehensive support and experience in designing and implementing effective "buy local" campaigns, both directly and by assisting other organizations. AMIBA also provides a range of outreach materials, including pre-printed posters, decals, pins and more, as well as free templates. Virtually all materials can be customized for your city, town business or organization.

www.angelresourceinstitute.org

Angel Resource Institute (ARI) provides information and research about angel investing, including analysis on trends, investment activity, impact, best practices, and measures of success. Full-day seminars and half-day workshops dig into aspects of the angel investment process, Webinars, podcasts, a quarterly newsletter about angel groups, best practice papers, guidance documents for angel group investment practices and the "Guidebook on Starting an Angel Organization in Your Community."

www.babson.edu

Babson College is the educator for Entrepreneurship of All Kinds™ -- all types and sizes, in established businesses as well as new ventures. Today, teams, divisions, and whole enterprises are striving to be more entrepreneurial – where collaboration complements top-down leadership. Babson College believes that thinking and acting entrepreneurially is more than just an inclination. Rather, it can be taught.

www.betterinvesting.org

Since 1951, BetterInvesting has helped over 5 million people become better, more informed investors – empowering them to build better financial futures for themselves and their families. Members build wealth through educational webinars, web-based mutual fund and stock tools, in-person learning events, publications, an active online community and software.

www.buildcalifornia.org

BECs support entrepreneurship and business development by bringing training and education to existing business owners and future entrepreneurs. Through collaborations and relationships with industry and the 112 California Community Colleges (CCC), BECs heighten awareness of entrepreneurship as a career path. The CCC Economic & Workforce Development Program (EWD) support local jobs and businesses across the state by improving local business competiveness and by training workers.

www.buzgate.org

BUZGate.org is an entrepreneurial education and resource community serving small and medium-sized businesses. Content promotes access to free government and nonprofit assistance and select business-to-business products and services tailored to driving venture startup, growth and profitability.

www.calgold.ca.gov

To assist you in finding the appropriate permitting information for your business, the CalGOLD database provides links and contact information that direct you to agencies that administer and issue business permits, licenses and registration requirements from all levels of government. Much of the information is specific to the type of business and its location in California.

www.caratnet.org

California Resources and Training (CARAT) is a non-profit founded in 1994 to integrate and build the capacity of the technical assistance industry in California. CARAT's focus has been on enhancing the quality of technical assistance throughout California. CARAT's intent is to assist in building capacity and encourage and stimulate partnerships between lending institutions and technical assistance providers.

www.californiasbdc.org

California Small Business Development Center (SBDC) Program provides small business owners and entrepreneurs with direct and personalized technical assistance through professional consulting, supplemented by low-cost or free seminars and conferences. These services are delivered throughout California via an extensive network of 35 SBDCs. According to a recent study SBDC clients experienced 6 times the sales growth, and created 13 times the jobs of average businesses.

www.californiastep.org

California State Trade and Export Promotion (California STEP) leverages a network of state, federal, private and non-profit trade promotion organizations to increase the number of small businesses in California who export. Managed by the California Community Colleges Centers for International Trade Development (CITD), STEP implement a range of export promotion programs (20 trade missions and activities for 2011-2012) serving multiple sectors, including: Information & Telecommunications, Green Technologies, Food and Agricultural Products, California Lifestyle Products, Water Technologies, Scientific Instrumentation, Transportation Equipment and Industrial Machinery.

www.entre-ed.org

Advocating entrepreneurship education as a lifelong learning process, the Consortium provides advocacy, leadership, networking, technical assistance, and resources nationally across all levels and disciplines of education, promoting quality practices and programs.

www.edwardlowe.org

Since 1985 the Edward Lowe Foundation champions entrepreneurship for economic growth and community development, conducts research, recognition and educational programs, delivered through entrepreneur support organization. Programs help entrepreneurs accelerate growth and communities create a supportive culture for entrepreneurs – a philosophy referred to as economic gardening.

www.entrepreneurship.org

The Ewing Marion Kauffman Foundation's free, online resource: Entrepreneurship.org features a vast array of content and resources to assist entrepreneurs, business mentors, policy makers, academics and investors through each phase of the entrepreneurial process. Content includes resources needed to launch a company, policies and research conducted regarding entrepreneurship from around the world.

www.pacificcommunityventures.org

Pacific Community Ventures creates jobs and economic opportunity in lower-income communities through direct support of small businesses and advocating for systemic change to increase investment in vulnerable communities. Through three core programs: Business Advising; Capital (3 private equity funds); and Research (InSight) PCV drives capital and resources to underserved markets. With social performance evaluation investors can earn competitive financial returns while generating social benefits.

www.rencenter.org

Renaissance Entrepreneurship Center works to empower and increase the entrepreneurial capacities of socially and economically diverse women and men, and thereby strengthen our communities through the creation of sustainable new businesses, new jobs, and the promotion of financial self-sufficiency.

www.energizingentrepreneurs.org

Center for Rural Entrepreneurship studies entrepreneurship and educates community leaders and policy makers about rural entrepreneurship through training, an electronic newsletter, development tools, and other mechanisms for learning in person and virtually. The Center also engages community leaders by bringing new models and new tools directly to rural leaders in a more hands-on, strategic approach.

www.rcac.org

Rural Community Assistance Corporation (RCAC) provides technical assistance, training and financing for rural communities. RCAC serves rural communities in 13 western states with a wide range of services: technical assistance, training for environmental infrastructure; affordable housing development; economic and leadership development; and community development finance.

www.score.org

Service Corps of Retired Executives (SCORE) is a nonprofit dedicated to helping small businesses get off the ground, grow and achieve their goals through education and mentorship. Because our work is supported by the U.S. Small Business Administration, and thanks to our network of 13,000+ volunteers, we have been able to deliver our services at no charge or at very low cost for almost 50 years.

www.teamca.org

TeamCalifornia is a private, non-profit membership-based corporation that brings together economic development organizations from across the state to market their communities for business investment and job creation. Members are important advocates and resources for business development – they know how to expedite projects and are invaluable sources of information for site location assistance.

www.toolsforbusiness.info

Information and services for small businesses and potential entrepreneurs offered as a service through local agencies, chambers of commerce, economic development agencies, SBDCs, workforce agencies, etc. Learn about forms needed to comply with federal and state laws, loans and financing programs, how to market globally, disaster planning and recovery, making sustainable business decisions, etc.

www.tradeport.org

TradePort is a repository of free information and resources for businesses involved in all aspects of global trade. Created in 1996, TradePort is supported by an alliance of public and private sector trade promotion service organizations in California that assist businesses and their foreign counterparts in bilateral trade and investment opportunities. TradePort's Global Trade Tutorial is designed to help exporters of all experience levels – whether you're thinking about getting involved in international trade or are already exporting – obtain a better understanding of how to succeed.

www.womenaccessingcapital.com

Women Accessing Capital provides information and resources to break down the barriers between your business and money. The national program is designed to educate women business owners on all steps of accessing capital, from understanding and evaluating funding sources, creating a strong application for capital, to maintaining and managing growth.

RESOURCES FOR BUSINESS RESEARCH AND DATA

www.usasbe.org

USASBE is the largest independent, professional, academic organization in the world dedicated to advancing the discipline of entrepreneurship – with over 1,000 members from universities and colleges, for-profit businesses, nonprofit organizations, and the public sector. USASBE is a community that works to enhance understanding of the phenomenon of entrepreneurship and to identify best practices in how to teach entrepreneurial principles and facilitate the creation and growth of for-profit and social ventures.

www.rady.ucsd.edu/beyster

Beyster Institute at UC San Diego's Rady School of Management advances understanding of employee ownership as an effective and responsible business model. We focus on education, research and consulting – serving companies interested in employee ownership business strategy, owners looking to transition out of their companies and professional advisers serving clients seeking employee ownership.

www.CapitalInstitute.org

Capital Institute is a non-partisan, transdisciplinary Collaborative Space, founded in 2009 to explore and effect economic transition to a more just, resilient, and sustainable way of living through transformation of finance. A network of trans-disciplinary experts, innovative investment practitioners and financial institutions, and sustainability-conscious businesses, focus on the intersection of sustainability and finance engages with practitioners of working, scalable, transformational models that support this emergent system through our "Field Guide to Investing in a Resilient Economy" project and developing resource materials and teaching methodologies that will form the basis for "sustainable finance".

www.carsratingsystem.net

CARS was launched in 2004 to promote performance as a primary criterion determining flow of capital through CDFIs and to standardization of information and industry-wide performance standards. Ratings include an assessment of impact performance, financial strength, performance and are based on five years of historical performance and cover a projected three-year period with annual updates in subsequent years.

www.communityinvestmentnetwork.org

Community Investment Network is a national information resource for individuals and organizations working to create, rejuvenate and maintain healthy communities in the U.S. and other countries. This Web-based resource contains news, research data, information, perspectives, and opinions related to all aspects of community development, community-based investment and the advancement of social and economic justice. The Network is available at no cost to community development leadership, civic leaders, public officials, journalists, researchers, public policymakers, funders, and others.

www.compete.org

Council on Competitiveness is a non-partisan and non-governmental organization consisting of CEOs, university presidents, and labor leaders working to ensure U.S. prosperity. The Council convenes top private and public sector leaders to address America's long-term competitiveness challenges; generates innovative public policy solutions, galvanizing our unique coalition to translate ideas into action; and measures U.S. performance in the global marketplace to identify key obstacles and opportunities.

CSRwire® The Corporate Social Responsibility Newswire

www.csrwire.com

CSRwire is the leading source of corporate social responsibility and sustainability news, reports, events and information. Members include Corporations, NGOs, Agencies, Universities and other Organizations interested in communicating corporate citizenship, sustainability, philanthropy and socially responsible initiatives to CSRwire's global audience and participating in our influential member community.

FIELD at the Aspen Institute

www.fieldus.org

Since its inception, FIELD has worked with more than 100 U.S.-based microenterprise programs on various research and demonstration projects. FIELD's core activities include a comprehensive review of the industry that involved gathering and analyzing data on both program operations and client experiences, as part of the report: *Opening Opportunities, Building Ownership: Fulfilling the Promise of Microenterprise in the United States.* Additional activities include: Funding learning and innovation; Evaluating new ideas and approaches; Building infrastructure; and sharing knowledge.

FS insight

www.fsinsight.org

FSinsight is a global platform where top scholars, policy makers and members of the business community can share knowledge of and experience with finance and sustainability – the latest ideas and developments on financing the transition towards a sustainable economy. Sustainability and finance are important issues on the (political) world agenda. Many scientists and people in the field have accumulated knowledge, insight and experience in these areas. FSinsight gathers this information in a neatly arranged way and makes it accessible to anybody with a professional interest in the subject.

GEM Global Entrepreneurship Monitor

www.gemconsortium.org

The Global Entrepreneurship Monitor (GEM) is an annual assessment of the entrepreneurial activity, aspirations and attitudes of individuals across a wide range of countries. Initiated in 1999 by the London Business School and Babson College, nearly 100 'National Teams' from around the world participate in the project. Unlike data sets that measure newer and smaller firms, GEM studies, at the grassroots level, the behavior of individuals with respect to starting and managing a business. This provides a detailed picture of entrepreneurial activity and potential policies to enhance the level of entrepreneurial activity.

GIIN
GLOBAL IMPACT INVESTING NETWORK

www.thegiin.org

Global Impact Investing Network (GIIN) is a 501(c)3 nonprofit organization dedicated to increasing the scale and effectiveness of impact investing made with the intention of generating measurable social and environmental impact alongside a financial return. The GIIN addresses systemic barriers to effective impact investing by building critical infrastructure and developing activities, education, and research that attract more investment capital to poverty alleviation and environmental solutions.

IMPACTASSETS
INVEST WITH MEANING

www.impactassets.org

A nonprofit financial services company offering investment options and knowledge resources to enable philanthropists, asset owners and other stewards of capital to make sound investment decisions that advance social or environmental change. ImpactAssets partners with impact investment funds, metrics organizations and others to highlight the field's best firms, organizations and most promising initiatives. ImpactAssets currently administers $60 million, building toward a long-term goal of $1 billion in assets.

ILSR INSTITUTE FOR Local Self-Reliance

www.ilsr.org

Since 1974, ILSR has championed local self-reliance, a strategy that underscores the need for humanly scaled institutions and economies and the widest possible distribution of ownership. ILSR's mission is to identify and design the new rules necessary to channel entrepreneurial energy, investment capital and scientific genius toward the creation of a global village and a globe of villages.

Ewing Marion KAUFFMAN Foundation

www.kauffman.org

The Ewing Marion Kauffman Foundation was established in the mid-1960s and is among the thirty largest foundations in the United States with an asset base of approximately $2 billion. The vision is to foster "a society of economically independent individuals who are engaged citizens, contributing to the improvement of their communities. Grant making and operations focus on two areas: advancing entrepreneurship and improving the education of children and youth. We carry out our mission through four programmatic areas: Entrepreneurship, Advancing Innovation, Education, and Research and Policy.

University of Southern California
KESTON
INSTITUTE for PUBLIC FINANCE and INFRASTRUCTURE POLICY

www.usc.edu/schools/price/keston

Keston Institute at the University of Southern California seeks to actively address the economic policy, financial, demographic and other dimensions of public infrastructure development in California. The purpose is the identification, research and dissemination of the most imaginative infrastructure strategies for the range of infrastructure challenges facing California as we enter the 21st century. The Institute focuses on transportation, water, power, environment and related municipal public works; its work supports formulation of infrastructure policies and practices that will improve the livability of California.

www.nceo.org

NCEO is a private, nonprofit membership and research organization that provides accurate, unbiased information on employee stock ownership plans (ESOPs), equity compensation plans, and ownership culture. We are the main publisher and research source in the field, hold dozens of Webinars and in-person meetings annually, and provide services to our thousands of members and others.

www.newamerica.net

New America Foundation is a nonprofit, nonpartisan public policy institute that invests in new thinkers and new ideas to address the next generation of challenges facing the U.S. – shortened job tenures, longer life spans, mobile capital, financial imbalances and rising inequality. With emphasis on big ideas, impartial analysis and pragmatic solutions, New America invests in individuals to communicate to wide and influential audiences, change policy and bring new ideas and debates to the fore.

www.bschool.pepperdine.edu/privatecapital

Pepperdine Private Capital Markets Project at the Graziadio School of Business and Management is the first comprehensive, on-going investigation of the major private capital market segments trying to understand the true cost of private capital across market types and investment expectations of private business owners – providing lenders, investors and businesses data for optimal investment decisions.

www.planetwork.net

Founded in 1998, PLANETWORK explores how the creative application of digital tools – visualization technologies, software and the Internet, among others – can open new possibilities for positive global change. PLANETWORK operates as a convening organization, gathering people from a wide variety of disciplines – science, technology, activism, business and the arts.

www.resilience.org

Resilience.org is a clearinghouse of information and news, interviews, excerpts, and resources to complement the four-part series of Community Resilience. ***Communities,*** because the most effective ways to work for the future we want are grounded in *local* relationships – with our families and neighbors, with the ecological resources that sustain us, and with the public institutions through which we govern ourselves. ***Resilience,*** because the complex economic, energy, and environmental challenges we face require *responses* that recognize vulnerabilities, build capacities, and adapt to unpredictable changes.

www.theselc.org

Sustainable Economies Law Center (SELC) facilitates sustainable, localized, and just economies through legal research, professional training, resource development, and education about practices such as Cooperatives, Community-supported enterprises, Barter, Local currencies, Social enterprise, Microlending, Local investing and more. SELC provides training and convenes special working groups.

RESOURCES FOR FINANCING

California Association for Micro Enterprise Opportunity

www.microbiz.org

CAMEO is the voice for Micro Enterprise in California, offering resources and building capacity for its member organizations – over 160 lenders, training programs, job creators, agencies and individuals dedicated to furthering Micro Enterprise development in California. CAMEO's promotes economic opportunity and community well-being through Micro Enterprise development. Our members provide entrepreneurs with financing, technical assistance and business management training.

CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY
a CALED organization

www.ceda.caled.org

CALED established the California Enterprise Development Authority (CEDA), a Joint Powers Authority, to address gaps in Economic Development financing. CEDA issues industrial development bonds for small to medium sized California manufacturers and 501(c)3 bonds to non-profit organizations. Both IDB's and 501(c)3 bonds help provide low cost financing for acquisition, construction and expansion.

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

www.treasurer.ca.gov/cidfac

Tax-exempt, industrial development bonds (IDBs) are an important tool for local communities to grow their economies and provide good-paying jobs. CIDFAC operates the state's IDB and empowerment zone bond financing programs. In 2008, the IDB approval process was streamlined: applicants can now receive financing approval and tax-exempt IDB allocation at a single CIDFAC meeting.

California Infrastructure and Economic Development Bank
"Financing Facilities That Build Communities"

www.ibank.ca.gov

California Infrastructure and Economic Development Bank (I-Bank) was created in 1994 with broad authority to issue tax-exempt and taxable revenue bonds, provide credit enhancements, financing to public agencies, acquire or lease facilities, and leverage state and federal funds. Programs include the Infrastructure State Revolving Fund Program, 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt Facility Revenue Bond Program and Governmental Bond Program.

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

www.treasurer.ca.gov/cpcfa/calcap.asp

California Capital Access Program (CalCAP) encourages banks and other financial institutions to make loans to small businesses that have difficulty obtaining financing. CalCAP is a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults. By participating in CalCAP, lenders have a proven financing mechanism to meet financing needs of California's small businesses.

www.cdfifund.gov

The CDFI Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to CDFIs. Since 1994, the CDFI Fund has awarded over $1.3 billion to CDFIs, community development organizations, and financial institutions through the CDFI Program, the Bank Enterprise Awards program, the Native American CDFI Assistance program, the Capital Magnet Fund, and the Financial Education and Counseling Pilot Program. In addition, the CDFI Fund has allocated $33 billion in tax credit authority to community development entities through the New Markets Tax Credit Program.

www.export.gov/finance

U.S. government programs to help U.S. businesses finance export transactions and related operations include: 1) Financing of working capital and foreign buyers of U.S. products; 2) Insurance and risk mitigation policies cover export transactions and overseas investments such as losses for non-payment, currency inconvertibility, asset expropriation and political violence; and 3) Grants to U.S. firms to conduct feasibility studies on infrastructure projects and to train the foreign business community and government officials on U.S. business practices, regulatory reform and other economic development activities.

www.exim.gov/smallbusiness

Global Access for Small Business is an initiative of the Export-Import Bank of the U.S. dedicated to increasing the number of small businesses exporting goods and services to maintain and create U.S. jobs. Global Access is being supported by a wide variety of business, financial and government partners and is part of President Obama's National Export Initiative. In January 2011, the initiative was launched by the Export-Import Bank, Commerce Department, U.S. Trade Representative, Small Business Administration, U.S. Chamber of Commerce, National Association of Manufacturers, and several lenders.

www.usgtn.net

Global Trade Network (GTN) offers resources to make exporting products and/or services to foreign customers simple and profitable, especially for small or mid-size company that has never tried selling overseas before. GTN connects you to a local U.S. Commercial Service International Trade Specialist for one-on-one assistance, helps with overseas marketing, locates foreign agents/distributors/customers; provides financing resources, and more.

www.gsif.com

Golden State Investment Fund manages $500 million of capital dedicated to investing in private equity opportunities focused in California. As part of CalPERS' California Initiative, the Golden State Investment Fund seeks to generate superior returns while generating ancillary benefits within California.

www.investorscircle.net

Investors' Circle is a network of 150 angel investors, venture capitalists, foundations and family offices that are using private capital to promote the transition to a sustainable economy.

www.keiretsuforum.com

Keiretsu Forum is the world's largest angel investor network with 850 accredited investor members in 21 chapters on 3 continents. Since its founding in 2000, members have invested over $260m in companies in technology, consumer products, healthcare/life sciences, real estate and other segments with high growth potential. Members collaborate in due diligence, but make individual investment decisions in the range of $250k-$2m. Keiretsu Forum's community is strengthened through education on angel investing, as well as charitable giving – members have donated over $1m to over 100 non-profit organizations.

www.ncif.org

National Community Investment Fund is a non-profit, private equity trust that invests in banks, thrifts and credit unions that generate both financial and social returns. These Community Development Banking Institutions (CDBIs) may be located in urban, rural or Native American markets and must focus a substantial part of its business on low- to moderate-income people or communities. Since 1998, CDBIs have generated over $4.9 billion in development lending – over 100,778 loans directed to LMI borrowers.

www.s.co

Startup America Partnership is a collaboration of the Obama Administration and 50+ private-sector partners to deliver over $1 billion in value – free software, consulting and legal services – to 100,000 startups over the next three years as well as sources of capital. Once startups apply and become a Startup America Firm, they can access and manage these resources through a personalized dashboard.

www.sweatequityconnection.com

Matching early stage businesses with co-founders, managers, and consultants seeking a portion of their compensation in equity. Sweat Equity provides start-ups with a great opportunity to reduce cash burn rates and offer employees an entry into equity ownership of a company on the ground floor.

www.rurdev.usda.gov/CA

USDA Rural Development (RD) is committed to improving the economy and quality of life in rural America. Programs support public facilities, water and sewer systems, electric, telephone service housing, health clinics, and emergency facilities. RD promotes economic development by loans to businesses through banks, credit unions and community-managed lending pools. RD offers technical assistance to help cooperatives get started and communities undertake empowerment programs.

www.eda.gov

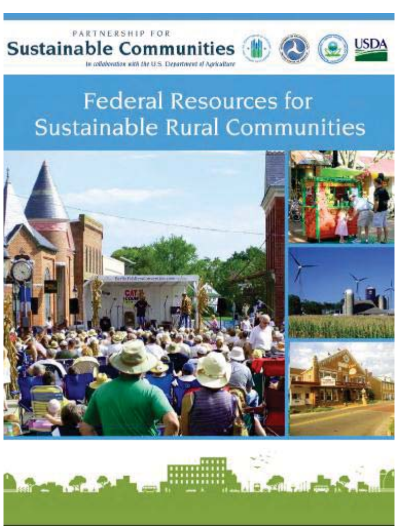
U.S. Economic Development Administration (EDA) investment policy is designed to establish sustainable job growth and durable regional economies throughout the U.S by building on two key economic drivers - innovation and regional collaboration. Regions are the centers of competition in the new global economy; those that work to leverage resources and use their strengths will fare better than those that do not.

www.sba.gov

U.S. Small Business Administration (SBA) was created in 1953 to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to strengthen the overall economy of our nation. SBA delivers millions of loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses. SBA provides assistances primarily through Business Financing, Technical Assistance & Training, Government Contracting and Advocacy.

http://portal.hud.gov

U.S. Housing and Urban Development's Community Development Block Grant (CDBG) program works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments' tackle serious challenges facing their communities.



Federal Resources for Sustainable Rural Communities is a guide to programs from the Partnership for Sustainable Communities and the U.S. Department of Agriculture that rural communities can use to promote economic competitiveness, protect healthy environments, and enhance quality of life.

www.sustainablecommunities.gov/pdf/federal_resources_rural.pdf

RESOURCES FOR NETWORKING AND POLICY DEVELOPMENT

American Made Alliance **www.americanmadealliance.org**

American Made Alliance is a 501(c)(6) trade association advocating for American craft artists. Through its campaigns, projects, and partnerships, the American Made Alliance strives to inform public policy and trade legislation. In addition, the association seeks to define for presidential candidates and others a national agenda that supports and benefits all who depend on the creative arts for their livelihood.

American Sustainable Business Council **www.asbcouncil.org**

ASBC is a growing network of over 100,000 businesses and 300,000 business executives, owners, investors, and others seeking sustainable and socially-responsible business as well as the development of strong local Main Street economies. We research and communicate to businesses, policy makers, and the media how a sustainable economy based on broad prosperity is good for business and good for America. ASBC provides a platform that enables businesses and business associations to engage executives, owners, investors, entrepreneurs, and other business professionals in the public debate.

anewamerica **www.anewamerica.org**

Promotes long-term economic empowerment of new Americans - new citizens, immigrants, and refugees - and encourages their full participation in the political, social and cultural growth of America. New families owning small businesses contribute to the economic health of their communities by building assets – a home, retirement funds, and college mutual funds – for the long-term sustainability of families and communities; and by leadership in local government and on boards of community organizations.

AS YOU SOW **www.asyousow.org**

Founded in 1992, As You Sow promotes corporate social responsibility through advocacy, coalition building, and innovative legal strategies. As investor representatives, we communicate directly with corporate executives to collaboratively develop and implement business models that reduce risk, benefit brand reputation, and protect long term shareholder value while also bringing positive change for the environment and human rights. We build coalitions with socially responsible investors, pension funds, labor groups, foundations, and faith-based investor communities. Through proactive dialogue, these coalitions encourage companies to reform policies and practices, file shareholder resolutions and reach out to investors, media outlets, and proxy analysts to advocate for change.

AEO Association for EnterpriseOpportunity [THE VOICE OF MICROENTERPRISE] **www.aeoworks.org**

AEO supports underserved entrepreneurs in starting, stabilizing and establishing businesses and to foster greater understanding of the importance of strong and effective microenterprise initiatives to the U.S. economy. AEO represents policy interests of its members, facilitates interactions among small entrepreneurs and organizations that help them succeed and is a source of important industry data.

https://iiusa.org/

Association to Invest In the USA (IIUSA) is a industry trade association of active EB-5 Regional Centers, attorneys, financial advisers, economists, brokers, consultants, and related service providers. Regional Centers are private corporations or local agencies designated by the U.S. to allow foreign investors to invest capital in local economies to create U.S. jobs. IIUSA educates about EB-5 investments, represents Regional Centers and facilitates efforts to address administrative, regulatory and legislative issues.

www.livingeconomies.org

BALLE is a fast growing network of socially responsible businesses – over 80 community networks in 30 U.S. states and Canadian provinces representing over 22,000 independent business members. BALLE believes local, independent businesses are change agents, prepared to take on the challenges of the 21st century with agility, sense of place, and relationship-based approaches. More than employers and profit-makers; they are neighbors, community builders and the starting point for social innovation.

www.businessforsharedprosperity.org

Business for Shared Prosperity (BSP) is a network of forward-thinking business owners, executives and investors committed to building enduring economic progress on a strong foundation of opportunity, equity and innovation. BSP supports public policies and business practices that reduce inequality, promote innovation, entrepreneurship, sustainability, and rebuild our nation's infrastructure for long-term success.

www.caib.net

Since 1967, the California Association of Independent Business, Inc. (CAIB*)* has provided government leaders with information regarding the impact of legislation on small businesses and the economy. CAIB is a non-partisan, non-political association comprised of thousands of small business people throughout the state. CAIB testifies in legislative hearings and produces reports for policy leaders in Sacramento.

www.caled.org

CALED is the premier statewide professional economic development organization dedicated to advancing its members' ability to achieve excellence in delivering economic development services to their communities and business clients. CALED's membership includes public and private organizations and individuals involved in economic development: the business of creating and retaining jobs.

www.cwib.ca.gov

The California Workforce Investment Board (State Board) assists the Governor in setting policy in workforce development. Board members are appointed by the Governor and represent the many facets of workforce development - business, labor, public education, higher education, economic development, youth activities, employment and training, as well as the Legislature.

www.cdbanks.org

Community Development Bankers Association (CDBA) was formed in 2001 and serves as the national trade association for about half of the community development banking industry. Community development Banks serve as financial institutions that provide access to capital and banking services to low and moderate income communities who are often left unserved or underserved by the traditional banking sector. We advocate on behalf of this industry and educate federal policy makers on the unique needs and uncommon circumstances under which CD banks operate.

www.californiafsa.org

California Financial Services Association is a non-profit trade association representing major national and international corporations and independent lenders with operations in the State of California to provide a broad range of financial services, including consumer and commercial loans, retail installment financing, automobile and mobile home financing, home purchase and home equity loans, credit cards, and lines of credit. Our knowledgeable lobbyists, a committee of legal counselors and public relations experts acts as liaisons between the finance industry and decision-makers in California.

www.calreinvest.org

California Reinvestment Coalition (CRC) advocates for the right of low-income communities and communities of color to have fair and equal access to banking and other financial services. CRC has a membership of close to 300 nonprofit organizations and public agencies across the state of California.

www.csba.com

CSBA is a volunteer-driven, nonprofit, non-partisan organization that makes its mission to provide small business with a meaningful voice in state and federal governments. CSBA was founded as an outgrowth of the 1980 White House Conference on Small Business and administers "Buy California Small Business First" to educate consumers, businesses and their employees, elected officials and government agencies and their staff about the positive impacts of doing business with California Small Businesses First.

www.castewardship.org

California Stewardship Network works to develop innovative regional solutions to the state's most pressing economic, environmental, and community challenges. These solutions require "breakthrough innovation" driven by a "new generation" of civic entrepreneurs – diverse regional teams composed of both established and emerging leaders. Civic entrepreneurs mobilize teams and collaborate across boundaries; they come from all walks of life – from the business, public, labor, and non-profit sectors -- and focus on stewardship, collaboration, and innovative solutions.

www.calvertfoundation.org

Calvert Foundation's mission is to maximize the flow of capital to disadvantaged communities to create a more equitable and sustainable society. Offering innovative financial products and services, we make it possible for everyday people, not just institutions, to participate in financial instruments that directly serve communities. It's a win-win: lifting people out of poverty by an investment that earns a financial return.

www.responsiblelending.org

Center for Responsible Lending is a nonprofit, non-partisan organization working to protect homeownership and family wealth by fighting predatory lending practices. Our focus is consumer lending: primarily mortgages, payday loans, credit cards, bank overdrafts and auto loans. Since 2002, we have studied and fought against lending abuses that strip billions of dollars from American families.

www.ceres.org

Ceres mobilizes a powerful network of investors, companies, business leadership and public interest groups to accelerate and expand adoption of sustainable business practices to build a thriving, sustainable global economy. In addition to working with investors in the Ceres Coalition, Ceres directs the Investor Network on Climate Risk (INCR), a network of 100 leading investors collectively managing more than $10 trillion in assets.

www.cfa.com

Founded in 1944, CFA has nearly 300 member companies and 16 chapters located throughout the U.S., Mexico and Canada – a diverse collection of lending institutions that range from international banks to independent entrepreneurial finance companies. CFA offers current information on legislation and court decisions relating to asset-based financial services, improvements in legal and operational procedures employed by the industry, public outreach on function and significance of asset-based financial services.

http://ccmag.net/

Community Currency is an online magazine ran by people working to enhance the complementary currency movement and encourage its growth into new communities. We publish articles helpful to designers and implementers of community currencies, utilizing a broad volunteer base.

www.cdvca.org

Community Development Venture Capital Alliance (CDVCA) is the network for this growing field of investing – equity capital to businesses in underinvested markets, seeking market-rate financial returns aligned with the creation of good jobs, wealth, and entrepreneurial capacity. CDVCA combines advocacy, education, communications, and best-practice dissemination through conferences and workshops as well as consulting services to funds.

www.cfed.org

Corporation for Enterprise Development (CFED) is a national nonprofit dedicated to expanding economic opportunity for low-income families and communities. CFED uses a "think-do-invest" approach grounded in community practice, public policy and private markets. We explore ideas and practices that help families and communities more fully participate in the mainstream economy. We gather funding partners, local practitioners and policymakers to carry out demonstration programs in communities nationwide. We find investors and policy advocates for ideas that might bring about large scale change.

www.cdfa.net

Council of Development Finance Agencies is comprised of 300 public, private and non-profit development entities that provide or otherwise support economic development financing programs, including tax-exempt and taxable bonds, credit enhancement programs, and direct debt and equity investments. The Council provides a number of avenues for assisting the development finance industry including education, advocacy, research, resources and networking.

www.esca.us

ESCA speaks exclusively for employee-owned S corporations ("S ESOPs"). Since 1998, ESCA's membership has grown to more than 134,000 employee-owners in virtually every state in the nation. ESCA members engage in a broad spectrum of business activities and are a variety of sizes – from 25 person businesses to companies with 9,000+ employee-owners – committed to expanding the S corporation ESOP structure so that more working Americans can become employee-owners.

www.esopassociation.org

Employee Stock Ownership Plan (ESOP) Association, founded in 1978, is a national non-profit membership organization with serving approximately 2,500 ESOP companies, professionals with a commitment to ESOPs, and companies considering the implementation of an ESOP. The Association is devoted to promoting laws before Congress and regulatory agencies that govern ESOPs and providing its members with expert educational ESOP programming and information is its main focuses.

www.cdcu.coop

Established in 1974 by a coalition of credit union leaders dedicated to revitalizing low-income communities, the Federation of Community Development Credit Unions seeks to strengthen those credit unions that serve low-income, urban and rural communities nationwide -- known as "community development credit unions," or CDCUs -- by advocating for and providing financial, technical, educational and human resources to our member CDCUs.

www.GreenAmerica.org

Green America is a not-for-profit membership organization founded in 1982 – formerly known as "Co-op America" – to harness the strength of consumers, investors, workers, and business leaders and the marketplace to create a socially just and environmentally sustainable society.

www.greeneconomy.org

Green Economy Think Tank convenes leaders to catalyze ideas into action to grow the green economy through forums, events, and conferences throughout the country. Our events bring together thought leaders from public and private sectors, and engage them to lead in evolving innovations, actions and ideas to further economic growth while maintaining the vision for a better world for future generations.

www.mainstreetproject.org

Main Street Project envisions communities where everyone has the opportunity to participate fully and equally – regardless of culture, place, economic or immigration status. We work to increase access to resources, share knowledge and build power in order to transform systems that perpetuate inequities. The Rural Enterprise Center – a program of the Main Street Project – focuses on enterprise development by supporting infrastructure, systems, resources and programs that rural entrepreneurs need to succeed.

www.nlbwa.org

National Latina Business Women's Association's mission since 1998 has been to promote, develop and support the rapid growth of Latina business owners, professionals and their families. The national organization supports local chapters to deliver programs and services enabling more representation, visibility, and business development, networking and mentoring opportunities for Latinas and their families in the world of business and at the executive level throughout the country.

www.lendingcircles.org

The Lending Circles program is not "culturally-sensitive," it's cultural. People around the world use informal lending circles when they can't or don't feel comfortable using banks. Mission Asset Fund combines this age-old tradition with credit reporting. Now individuals can join a Lending Circle, get a loan, financial tools, and build their credit at the same time.

www.mainstreetmatters.us

Main Street Matters (MSM) focuses on job creation, new forms of capital investment and solving the foreclosure crisis. When it comes to job creation, Main Street and small business is the only thing that matters! Small businesses currently account for more than 50% of all the existing jobs in America, more than big business and all governments combined. MSM offers reports and opportunities to collaborate with various initiatives working to strengthen our main streets and small businesses.

MISSION INVESTORS EXCHANGE

www.missioninvestors.org

Mission Investors Exchange is where philanthropic innovators exchange ideas, tools, and experiences to increase the impact of their capital. Launched in May 2012, more than 200 foundations and mission investing organizations use program-related and mission-related investing as a strategy to accomplish philanthropic goals. Affiliates work in partnership with foundations to aggregate and deploy capital.

www.nasvf.org

National Association of Seed & Venture Funds (NASVF) began in 1993 as practitioners seeking best models to encourage capital formation in their states, particularly for new technology ventures, and has grown to an international membership organization that advocates for the growth of seed and early-stage innovation capita – connecting venture capital with regional economic development.

www.ncrc.org

National Community Reinvestment Coalition (NCRC) was formed in 1990 to develop and harness the collective energies of community reinvestment organizations across the country to increase the flow of private capital into traditionally underserved communities. NCRC has more than 600 community-based organizations that promote access to basic banking services, create and sustain affordable housing, job development and vibrant communities for America's working families. Our members include community reinvestment organizations, community development corporations; local and state government agencies; faith-based institutions; community organizing and civil rights groups; minority and women-owned business associations as well as local and social service providers from across the nation.

www.ncba.coop

National Cooperative Business Association is the nation's oldest and largest membership association, representing cooperatives of all types and in all industries. We are democratically organized and operate according to internationally recognized cooperative principles. NCBA provides a strong, unified voice on Capitol Hill, and diligently works with lawmakers to enact cooperative-friendly legislation. NCBA offers a variety of programs and services to connect you to other co-ops; affording you many opportunities to develop partnerships that help attract and maintain your membership while growing your business.

www.nfib.com

National Federation of Independent Business (NFIB) is a nonprofit, nonpartisan organization founded in 1943 representing small and independent businesses in all 50 states. NFIB's mission is to promote and protect the right of our members to own, operate and grow their businesses. NFIB also gives its members a power in the marketplace. By pooling the purchasing power of its members, the National Federation of Independent Business gives members access to many business products and services at discounted costs as well as timely information designed to help small businesses succeed.

www.nvca.org

National Venture Capital Association (NVCA) empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community's preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its 400 plus members through a full range of professional services.

www.naaonline.org

Founded in 1999, the New America Alliance (NAA) believes American Latino business leaders have a responsibility to building forms of capital most crucial to Latino progress – economic capital, political capital, human capital and the practice of philanthropy. Over 100 prominent American Latino entrepreneurs and business leaders have committed substantial financial resources to the organization, time and access to their networks. Members promote Latino leadership in entrepreneurship, corporate America, and public service; increase access to capital; and develop future Latino business leaders.

www.opportunityfinance.net

Opportunity Finance Network (OFN), the leading network of private financial institutions, creates growth that is good for communities, investors, individuals, and the economy. Members of OFN are community development financial institutions (CDFIs) that deliver responsible lending to help low-wealth and low-income communities join the economic mainstream.

www.pegcc.org

Private Equity Growth Capital Council (PEGCC) is an association of firms committed to developing long-term value by superior investment returns to pension plans, university endowments, charitable foundations and other investors. PEGCC engages policy makers, the media, and other stakeholders by developing information on the contribution of private equity and growth capital in the economy and by advocating policies for responsible investment, access to capital, economic growth and job creation.

www.rcrcnet.org

Rural Council of Rural County (RCRC) works with its member counties to improve the ability of small, rural California county government to provide services by reducing state and federal mandates and promoting a greater understanding among policy makers about the unique challenges that face California's small population counties. RCRC provides the rural county perspective on land use, water and natural resources, housing, transportation, wildfire protection policies, and health and human services, among others during legislative and regulatory representation.

www.sbea.org

Small Business Exporters Association (SBEA) is a non-partisan, non-profit industry association of companies dedicated to promoting the creation and growth of small and mid-size business exporters in the U.S. SBEA encourages the exchange of ideas and information on reducing the barriers to trade for small business and serves as the international trade arm of the National Small Business Association (NSBA). NSBA is the nation's oldest non-profit advocacy organization for small business, serving over 150,000 companies of which 20,000 export.

www.nasbic.org

Small Business Investor Alliance ("SBIA") is the premier organization of lower middle market private equity funds and investors for more than 50 years. Our members provide vital capital to small and medium sized businesses nationwide, resulting in economic growth and job creation. The SBIA's mission is to provide member funds advocacy with federal regulators and on Capitol Hill, networking opportunities, and educational programming.

www.ussif.org

Social Investment Forum (SIF) includes professionals, firms, institutions and organizations advancing investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. Members are investment management firms, mutual funds, researchers, financial advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, and foundations.

www.springboardinnovation.org

Springboard Innovation was formed in 2004 to nurture community-led change by engaging people across diverse sectors, resulting in innovations for enormous social good. We increase the potential for innovative solutions through four core strategies: Teach, Convene, Fund, and Build.

www.timebanks.org

TimeBanks USA was founded in 1995 to expand a movement that promotes equality and builds caring community economies through inclusive exchange of time and talent. We work with TimeBank leaders across the U.S. and internationally to strengthen and use TimeBanks to achieve wide-ranging goals such as social justice, bridges between diverse communities, and local ecological sustainability.

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