



Fact Sheet

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10,000 Small Businesses Executive Summary

Goldman Sachs has an established track record through *10,000 Women* and other initiatives that bring together people, capital, and ideas to address social and economic challenges. Building on these efforts, Goldman Sachs is announcing *10,000 Small Businesses*, a \$500 million initiative that will unlock the growth and job-creation potential of 10,000 small businesses across the United States through greater access to business education, mentors and networks, and financial capital. It is based on the broadly held view of leading experts that a combination of education, capital, and support services best addresses the barriers to growth for small businesses.

The program includes:

Practical Business and Management Curriculum for Small Business Owners

10,000 Small Businesses will contribute \$200 million to program partners, including local community colleges, universities and other institutions, to provide scholarships predominantly to underserved small business owners and build educational capacity. A pragmatic, skills-based curriculum will include accounting, marketing, human resources management, and other practical business skills. Leading business schools will contribute to national curriculum development, which will be tailored by community colleges to address the specific needs of local business owners. Business schools will also work closely with community colleges to expand their capacity to educate small business owners by training faculty and sharing best practices. After an initial pilot year, we will explore opportunities to extend the reach of the initiative through an e-learning platform and by delivering the program in multiple languages.

Getting Capital Flowing to Small Businesses

Goldman Sachs will invest \$300 million through a combination of lending and philanthropic support to Community Development Financial Institutions (CDFIs). The investment will increase the amount of growth capital available to small business owners in disadvantaged communities and expand the capacity of the CDFIs to deliver enhanced technical assistance to small businesses. In addition, *10,000 Small Businesses* will provide technical assistance to graduates of the program to help them access other sources of capital.

Goldman Sachs will identify and work in partnership with CDFIs based on their track record and focus on small businesses, demonstrated success in lending, overall financial strength, and their organizational and strategic capacity to meet the program goals and to deploy the capital. Graduates of *10,000 Small Businesses* will be referred to CDFIs as a potential source of capital, technical assistance, and business advisory services.

Providing Critical Support Services for Small Businesses

Small business owners, particularly those operating in disadvantaged communities, often face challenges accessing mentoring, networking, and expert advice. While support services in each of these areas exist, the field is highly fragmented. A handful of pioneering programs, such as the Small Business Administration's (SBA) e200, InnerCity Entrepreneurs, and Pacific Community Ventures, have begun to integrate training with essential support services, but few have been able to achieve significant scale. These models demonstrate the value of the approach on which the *10,000 Small Businesses* initiative will build.

Participating business owners will have the opportunity to take advantage of support offered by community colleges and similar institutions, partner universities and business schools, and national organizations such as the National Federation of Independent Business, National Urban League, and United States Hispanic

Chamber of Commerce. Partner CDFIs, when possible, will also provide pre- and post-loan support services. As they have for *10,000 Women*, the people of Goldman Sachs will volunteer their time and professional skills to help in a variety of ways, including mentoring, guest lecturing, and serving on selection committees.

Advisory Council

10,000 Small Businesses will be guided by an Advisory Council co-chaired by Warren Buffett, Michael Porter of Harvard Business School, and Lloyd C. Blankfein, Chairman and CEO of The Goldman Sachs Group, Inc. The Advisory Council will assist in the development, execution, and evaluation of the program.

In addition to the co-chairs, founding Council members include:

- George Boggs, President and CEO, American Association of Community Colleges
- Dan Danner, President and CEO, National Federation of Independent Business
- Glenn Hubbard, Dean, Columbia Business School
- Robert Litan, Vice President for Research and Policy, Kauffman Foundation and Senior Fellow in Economic Studies at the Brookings Institution
- Marc H. Morial, President and CEO, National Urban League
- Javier Palomarez, President and CEO, United States Hispanic Chamber of Commerce
- Hilary Pennington, Director of Education, Postsecondary Success and Special Initiatives, Gates Foundation
- Thomas S. Robertson, Dean, The Wharton School of the University of Pennsylvania
- Leonard Schlesinger, President, Babson College
- Ellen Seidman, Vice President, National Policy and Partnership Development, ShoreBank Corp.
- David J. Skorton, President, Cornell University
- Margaret Spellings, Former Secretary of Education
- Thomas J. Tierney, Chairman and Co-Founder, The Bridgespan Group

Initial Partners

10,000 Small Businesses is working in partnership with community colleges and similar institutions in select disadvantaged communities to deliver the certificate program and provide additional wrap-around services. In addition, the initiative will work with a number of national and local partners to build the capacity of these community colleges to deliver targeted, locally relevant services at each site.

Initial partners include:

- American Association of Community Colleges
- Association of Community College Trustees
- Babson College
- United States Hispanic Chamber of Commerce
- Initiative for a Competitive Inner City
- LaGuardia Community College
- National Federation of Independent Business
- National Urban League
- The Amos Tuck School of Business Administration at Dartmouth College
- UCLA Anderson School of Management
- The Wharton School of the University of Pennsylvania

Background on 10,000 Small Businesses

I. Why Support Small Business Owners in Disadvantaged CommunitiesSmall businesses are the engines of employment and growth in the U.S. economy

The 2.2 million small businesses in the U.S. represent 45 percent of all employment and 65 percent of all new jobs during the past decade.¹ According to the Milken Institute, small businesses and “entrepreneurship drive economic innovation and job formation...Increases in both entrepreneurship and small business ownership are key policy and program development goals for fostering economic growth.”²

The connection between entrepreneurship and small business ownership is particularly salient for low- and moderate-income (LMI) communities, as Milken points out in *Entrepreneurship in Emerging Domestic Markets*: “Entrepreneurship may yield a double dividend in LMI communities. Many of the retail and service establishments available in higher-income (HI) areas, such as grocery stores, often are not available to LMI people because they tend not to be located in LMI places. Many LMI people face transportation challenges. Entrepreneurial activity not only provides income to the entrepreneurs and perhaps others in the community, but it also provides needed goods and services. The entrepreneurs themselves do not need to be LMI people for the community to profit from this double dividend, however. Benefits also arise from the location of entrepreneurial enterprises developed and operated by HI people, but located in LMI communities.”³

Racial and ethnic minorities, often a majority of the population in LMI areas, play a key role in using small businesses to generate jobs and economic growth. In analyzing the characteristics and trends of minority businesses, Ronald Langston, the National Director of the Minority Business Development Agency (MBDA), concluded: “Minority business enterprises are an engine of employment growth and economic expansion in America. As minority businesses grow in size, scale, and capacity, so does the American economy. With a fast growing minority population that will approach 50 percent of the nation’s population by 2050 and a highly competitive global market, America’s competitiveness will increasingly depend on the innovation and strength of minority business enterprises.”⁴

The potential is significant. This is perhaps best demonstrated by the Inner City 100, the Initiative for a Competitive Inner City’s (ICIC) annual list of the fastest growing firms located in inner cities across the U.S. Between 1999 and 2007, these firms created 63,000 net new jobs, compared to a net loss of 49,000 jobs by all other inner city firms. Even more, these high-growth firms:

- Hire nearly twice as many local inner city residents as other inner city firms, and six times the regional average,
- Are more likely to offer benefits than their inner city and U.S. peers, and
- Spend approximately twice as much of their total payroll annually on training as large corporations in the U.S.⁵

¹ U.S. Census Bureau, *Statistics of US Businesses, 2006 (Firms, Employment & Payroll) and 2002 (Revenue)*.

² James R. Barth, Glenn Yago and Betsy Zeidman, *April 2006, Barriers to Entrepreneurship in Emerging Domestic Markets: Analysis and Recommendations*. Milken Institute.

³ Kelly D. Edmiston, November 2007, “Entrepreneurship in Low- and Moderate-Income Communities,” In *Entrepreneurship in Emerging Domestic Markets: Barriers and Innovation*, edited by Glenn Yago, James R. Barth, and Betsy Zeidman, Milken Institute.

⁴ Minority Business Development Association, *March 2008, Characteristics of Minority Businesses and Entrepreneurs: An Analysis of the 2002 Survey of Business Owners*.

⁵ Dr. Michael Porter, 15 October 2009, “Growing Successful Inner City Businesses: Findings From A Decade of ICIC Data,” *Inner City Economic Forum Summit 2009*.

The objective of this initiative is to help thousands more small- and medium-sized businesses in LMI areas achieve this type of growth and impact. As Dr. Michael Porter, Founder and CEO, Initiative for a Competitive Inner City; and Bishop William Lawrence University Professor, Harvard Business School, stated, “A small number of rapidly growing firms can have a tremendous impact on inner city job creation and economic revitalization.”

The current recession has severely affected small businesses throughout the country

During the past year small businesses have struggled with falling sales and scarce credit. Analysis conducted by the National Federation of Independent Business (NFIB) indicates that more than 60 percent of all small businesses had decreased sales in each of the last 12 months.⁶ Business bankruptcies were up 52 percent during the first half of 2009 compared to the same period last year.⁷

Small businesses in low- and moderate-income areas face even greater challenges

The economic challenges faced by the entire country are especially acute in low- and moderate-income (LMI) areas. Research using data from the U.S. Census and the Department of City Planning in New York City, for example, indicates that even in better economic times, LMI areas have less than a third as many businesses as upper-income areas.⁸ They have limited access to traditional financial institutions and financing opportunities to help them stabilize or scale their businesses. CDFIs, which are mission-driven and promote community development, are able to assist these underserved businesses through extensive technical assistance and by engaging in a more customized under-writing.

The LMI areas in which these business owners live and operate significantly limit their opportunities for economic success. Research from the Milken Institute highlights how insufficient financial resources, educational attainment, language and technical skills, work experience, and role models impede the ability of business owners to build and grow their own enterprise.⁹ According to Professor Porter, the 100 largest inner cities lost nearly 50,000 jobs between 1998 and 2007 while the surrounding metropolitan regions added 6.7 million jobs. As he and the ICIC note, external factors comprise only a small portion of the challenges underserved urban businesses face—regional economic performance accounts for less than 10 percent of inner city performance.¹⁰

II. Why Deliver Through Community Colleges and Similar Institutions

“A diverse chorus of researchers, employers, philanthropies, state and local officials, and now the president himself, articulates the importance of raising national educational attainment for achieving broad-based economic growth and strengthening the middle class. Community colleges will be critical to any such effort. These two-year public institutions are present in most every U.S. community, enrolling 45 percent of the nation’s college student population, and even higher shares of students of color and those from lower-income backgrounds. The education and training they provide help to fill important labor market needs, including some in the economy’s fastest-growing occupations.”

Brookings Institution¹¹

⁶ NFIB *Small Business Economic Trends*, October 2009. William C. Dunkelberg and Holly Wade.

⁷ Christine Dugas, 1 July 2009, “Business bankruptcies up 240% since 2006; Most are the small firms our economy relies on for recovery.” USA Today.

⁸ Goldman Sachs research.

⁹ Zoltan J. Acs and Kadri Kallas, 2007, “State of Literature on Low-Income Small to Medium-Size Enterprises and Entrepreneurship in Low-Income Communities,” In *Entrepreneurship in Emerging Domestic Markets: Barriers and Innovation*, edited by Glenn Yago, James R. Barth, and Betsy Zeidman, The Milken Institute.

¹⁰ Michael Porter, 15 October 2009, “Growing Successful Inner City Businesses: Findings From a Decade of ICIC Data.”

¹¹ Sara Goldrick-Rab, Douglas N. Harris, Christopher Mazzeo, and Gregory Kienzi, May 2009, Transforming America’s Community Colleges: A Federal Policy Proposal to Expand Opportunity and Promote Economic Prosperity, *Brookings*.

“Strengthening the U.S. educational system is a long-term project, and the full results will likely not be seen for a decade or more, when today’s students enter the labor force. But its importance cannot be overstated – education will drive productivity growth, national competitiveness, improved living standards and lower income inequality.”¹²

Goldman Sachs Global Markets Institute

Community colleges and similar institutions are at the center of economic development

In July 2009, the President’s Council of Economic Advisers stated that “in many respects, community colleges are the epicenter of the U.S. post-high school education and training system...They can be nimble allies of employers and other workforce partners in providing customized training that is specific to the needs of a particular employer or industry.”¹³

This is particularly true for urban and LMI areas. In a May 2009 report titled *Transforming America’s Community Colleges*, Brookings argued that “community colleges are among the most metropolitan of our nation’s educational institutions, drawing most of their students from their local areas, and graduating those same students into the regional labor market...*The route to higher national educational attainment and economic advancement for all runs in part through these metropolitan institutions.* By improving their ability to serve their students better, the federal government would enhance not just metropolitan performance, but generate greater prosperity for the nation as a whole.”

Community colleges disproportionately serve low-income and minority students

Community colleges and similar institutions are committed to education and career training for low-income individuals—35 percent of their students are minorities; 39 percent are first-generation college students.¹⁴ In addition, they have experience educating adult, part-time students who, like business owners, must balance educational opportunities and work obligations.

The U.S. Department of Education’s *National Postsecondary Student Aid Study* found that low-income students represent 10-20% more of the student body at community colleges than at four-year institutions. According to the American Association of Community Colleges, community colleges are also the primary providers of post-secondary education for minorities, educating 46% of black undergraduates and 55% of Hispanic undergraduates.

Non-credit programming, a core component of educational offerings at community colleges, is geared toward non-traditional students. According to the American Association of Community Colleges, 44% of community college students are on the non-credit side (5M of 11.5M students). Community colleges regularly develop customized training programs, while very few leading universities deliver this kind of programming and those that do have a higher cost structure.

Furthermore, community colleges have experience working with employed students. Brookings notes that over half of all community college students are employed, versus 37% at 4-year institutions. Eighty-three percent of part-time community college students are employed, according to the American Association of Community Colleges.

¹² Sandra Lawson and Amy C. Semaya, 2009, “Learn More, Earn More: Getting Ahead in America,” Goldman Sachs Global Markets Institute.

¹³ Council of Economic Advisers, July 2009, Preparing the Workers of Today for the Jobs of Tomorrow, Executive Office of the President.

¹⁴ American Association of Community Colleges, January 2008, “Community Colleges Fast Facts.”

Momentum is building around investing in community colleges as a solution

Community colleges currently face a variety of challenges, including increasingly limited funding—per-student funding decreased nearly six percent from 2002 to 2006. However, a number of significant efforts have begun to address these issues. The Obama administration is focusing on community colleges, “one of America’s underappreciated assets.” The American Graduation Initiative, proposed by President Obama in July, is seeking \$12B to add five million additional community college graduates by 2020.

Philanthropic investment in community colleges is also increasing. The Bill and Melinda Gates Foundation has recently refocused its education strategy to double the number of people who earn a postsecondary degree or certificate—“meaningful credentials with value in the workplace and labor market.” Many of the Gates Foundation’s efforts are focused specifically on helping community colleges and similar institutions meet this objective. According to Hilary Pennington, Director of Education, Postsecondary Success and Special Initiatives:

“There’s never been a more important time to help these [low-income] students break down the barriers that slow or prevent their educational success and ultimately their economic security.”

Gates has chosen this focus based on substantial research that postsecondary education is “the critical pathway to leading individuals and their families out of poverty.” Gates notes that by 2014 more than half of all new jobs will require more than a high school diploma, and 22 of the 30 fastest-growing career fields will require some postsecondary education. Serving millions annually, community colleges are well positioned to provide the education that is critical to create these jobs of the future.

In conjunction with the Gates Foundation, Achieving the Dream (backed by over \$74M over eight years from the Lumina Foundation) is also working to strengthen the community college system by shifting to a focus on student outcomes. Achieving the Dream links education through community colleges directly with the nation’s economic strength and competitiveness, finding that increasing a state or the country’s average level of schooling by one year can increase economic growth by 5 to 15 %.¹⁵ According to the coalition:

“Americans turn to community colleges to provide education that leads to greater economic opportunity and improved quality of life. This work is becoming more critical—and more challenging—as we strive to maintain a sound, competitive economy and a well-functioning democracy.”¹⁶

III. Why Provide Capital to Community Development Financial Institutions (CDFIs)

“The \$300 million this program is investing in CDFIs will make a significant impact on CDFI financing for small businesses, particularly now. This is the largest single-source pool of capital dedicated to CDFI small business financing.”

Mark Pinsky, President and CEO, Opportunity Finance Network

The majority of small business financing is provided by commercial banks and other depository institutions.¹⁷ However, many community-based businesses are unable to obtain credit from traditional sources and rely on CDFIs to fill the financing gap. CDFIs are specialized financial institutions that work in market niches that are

¹⁵Carnevale, Anthony P., and Desrochers, Donna M. (July 2004). “Why Learning? The Value of Higher Education to Society and the Individual,” in Keeping America’s Promise, Education Commission of the States and the League for Innovation in the Community College.

¹⁶ Achieving the Dream Fact Sheet (July 2006), “Community Colleges: Challenges and Benefits.”

¹⁷ Small businesses are generally defined by the Small Business Administration (“SBA”) as those having 500 employees or less in manufacturing industries and \$7mm annual revenue or less in service industries.

underserved by traditional financial institutions. They provide a unique range of financial products and services in economically distressed target markets, including technical assistance, commercial loans, and investments to small start-up or expanding businesses in low-income areas.¹⁸ Underserved small businesses rely on CDFIs to access capital and technical assistance.

IV. Selection Criteria

Selection criteria for the scholarship program for owners of small- and medium-sized businesses will be based on criteria of comparable successful programs and tailored to the specific community in which the *10,000 Small Businesses* program operates. Broad characteristics of business owners targeted include, but are not limited to:

- Business revenues between \$150,000 and \$4M in most recent fiscal year
- At least four full-time employees
- Business in operation for at least two years
- Business model that could scale to create more jobs
- Predominantly in underserved markets

The selection criteria used by CDFIs to select small businesses for financing will vary by loan product and program, but will generally be based on sound underwriting criteria.

Measuring success

Goldman Sachs is committed to achieving and measuring results. Just as with *10,000 Women*, the firm will hold this initiative to the highest standards of measurement and evaluation and strive to produce meaningful change by expanding economic opportunity for business owners and their employees in disadvantaged areas. The measurement system will track business revenue and job growth, as well as other indicators of success. This commitment to rigorous monitoring and evaluation will ensure accountability and transparency, and drive a process of continuous learning and improvement.

Built on experience

Model programs such as Goldman Sachs' *10,000 Women* initiative, SBA's e200, and ICIC's IC100 illustrate the power of delivering integrated services to help small businesses create jobs locally.

Goldman Sachs' *10,000 Women* program clearly demonstrates the power of high quality business education linked with the provision of critical support services and access to capital. A rigorous yet practical and readily applicable curriculum that provides much needed business skills predominantly to underserved small business owners is proving of enormous value: graduates of the program around the world are increasing their revenues and hiring additional employees.

¹⁸ *Community Development Financial Institutions Fund, United States Department of the Treasury.*