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Administrator Alvarez Presents "State of the SBA" to Congress

In testimony on July 20, 2000, before the House of Representatives Committee on Small Business, SBA Administrator Aida Alvarez provided a snapshot of the state of the agency.

Alvarez pointed to several markers of SBA's success in recent years. In the past seven years, the SBA has helped almost 375,000 small businesses get more than $80 billion in loans, a total that exceeds the previous 39 years combined. In fact, SBA's loan portfolio has almost doubled from $25 billion in 1993 to nearly $50 billion in 2000.

Noting that more of SBA's loans are going to those in need, she highlighted the dramatic increase in loans to women, up from $5.7 billion over the period 1973 to 1992 to $12.2 billion from 1993 to 2000. Lending to minorities has also risen significantly, from $17.9 billion over the 20-year period of 1973-1992 to $18.4 billion over about one-third the time, the 19932000 period, with nearly 80,000 loans made during that period.

These loan increases have been accomplished even as the number of SBA staff has been reduced by 24 percent in the past decade from over 4,100 employees to around 3,100 in 1999. And, as Alvarez described, the loan increase has

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San Diego's Economic Rebirth Fostered by Growth of Small High-Technology Firms

San Diego's recent rebirth as a high-tech community began with cooperation between small businesses and entrepreneurs with input from academia and government. For details, turn to page 7 of this issue. (Photo courtesy of San Diego Regional Economic Development Corporation)

State of the SBA, *from page 1*

cost the taxpayers less. Since federal credit reform was enacted, the cost to taxpayers of SBA loans has declined from almost $5 per $100 loaned in 1992 to just $1.16 today. SBA's financial audit reports are another marker of agency performance: SBA was the first federal agency to receive a clean opinion in its financial audit reports, and the only federal agency to receive clean opinions four years in a row.

Alvarez highlighted SBA's use of technology by pointing out its award-winning Web site, rated by Forbes as one of the Best of the Web in 2000 and by Lycos as being in the top 5 percent. The site, she noted, receives an amazing 9.5 million hits per week.

The administrator also gave the committee an update on programs offered by the SBA:

• Since the inception of the Small Business Investment Company (SBIC) Program in 1958, the program has put almost $30 billion in venture capital financing into the hands of small business owners; about two-thirds of that amount was invested in 1993 or later.

• The SBIC program has returned $224 million in profits to the taxpayers through the Participating Securities Program since 1995.

• The 8(a) program contract awards have increased 81.5 percent, from $3.4 billion in 1990 to $6.2 billion in 1999.

For More Information

You can read Administrator Alvarez's full presentation on SBA's Web site at *www.sba.gov/regulations/testimony/alvarez72000.html*.

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Editor John B. Johnson IV

Managing Editor John Ward

Contributing Editors Kathryn Tobias, Kenneth Simonson, Phaedra Brotherton, Sherri Alms

Production Assistant Darlene Moye-Mahmoud

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Message from the Chief Counsel

Labor Day 2000: A Small Business Celebration

by Jere W. Glover

The United States was just entering the Industrial Age when, in 1894, Grover Cleveland designated the first Monday in September as a national holiday to honor the labor movement. Big business was considered the future of the country.

But a funny thing happened on the way to economic prosperity. Small businesses turned out to be more than just our economic starting point. They continued to start up and thrive alongside of large businesses, through good times and bad.

So, while we rightly recognize the original intent of Labor Day, it's appropriate that we also reflect on and celebrate small businesses' role in sustaining the nation's labor force.

As we enter the 21st century, America's 25 million small businesses continue to be a potent force in our dynamic economy. They employ more than 52 percent of the private work force. They are the principal source of new jobs in the country: more than 20 million since 1993. And they generate more than 51 percent of the private sector gross domestic product.

Recent studies of small business job creation, based on the Business Information Tracking Series (BITS) data developed by the SBA's Office of Advocacy with the Bureau of the Census, find that small businesses created three-fourths of the net new jobs from 1990 to 1995. And study of mergers and acquisitions over the 1990-1994 period found that establishments that were in small firms in 1990 accounted for all of the net job gains, whereas those that started in large firms had net job losses.

As we enter the 21st century, America's 25 million small businesses continue to be a potent force in our dynamic economy.

But creating or expanding a business is a difficult endeavor, which is why in 1976 the Congress decided small firms needed a voice in policy deliberations to ensure government did nothing inadvertently to make starting a small business more difficult. Created by Congress, the Office of Advocacy in the U.S. Small Business Administration is an independent voice for small business that works to ensure an economic environment in which small businesses can effectively compete and create jobs.

Our many responsibilities include examining the role of small business in the economy and evaluating the direct costs and other effects of regulation on small business. Last year alone, we were instrumental in getting agencies to change proposed regulations so as to reduce the potential cost to small businesses by some $5.3 billion. We aggressively reach out to small businesses throughout the country to involve them in government deliberations. The office has regional advocates located in 10 different cities who help carry out our manifold mission and maintain communication links with individual small business owners, trade associations, and state government officials.

The SBA and the Office of Advocacy are committed to small businesses during their beginning stages and as they grow and expand. For example, the Office of Advocacy's research has shown that lack of access to equity capital hinders the growth of small business and that venture capital flows to businesses requiring larger investments than small businesses require. To allow small businesses to make their equity capital needs known, and to give investors a way to identify potential investments, the Office of Advocacy created an Internet-based system, ACE-*Net*. Information about ACE-*Net* is accessible on the Internet at *http://ace-net.sr.unh.edu/pub*.

At the turn of the 21st century, the United States has more open markets and more access to capital than ever before, and the highest business startup rate in the world. Small businesses have helped build a strong economy—and the strength of the economy in turn continues to encourage startups by new entrepreneurs. We owe small businesses both our commitment and our thanks for their part in creating the jobs and the strong labor force we celebrate on Labor Day 2000.

For More Information

Readers interested in the Office of Advocacy's study of mergers and acquisitions, *Mergers and Acquisitions in the United States, 1990-1994*, can obtain a copy from at *www.sba.gov/advo/stats.*

ICANN Adopts New Policy for "Top-Level" Domain Names

A small business's chance of obtaining a commercially viable Internet name may have just gotten better. At its July 16 board meeting, the Internet Corporation for Assigned Names and Numbers (ICANN), which coordinates the management of the Internet's domain name system (DNS), adopted a policy to introduce new "top-level domains" (TLDs) to the Internet. New domains, such as .biz or .travel, will enhance the ability of small businesses to participate in the emerging electronic market. The new domains could be available by the end of the year. A schedule has been established to account for and process the applications and proposals of those entities wishing to use a new TLD.

Currently, approximately 14 million names are registered in .com, .net, and .org. With that number steadily on the rise, small business owners are finding it harder to obtain a commercially viable domain name.

"Generally, Advocacy supports the introduction of new TLDs a few at a time and only after an evaluation period," said Chief Counsel for Advocacy Jere Glover.

Created in October 1998, ICANN is a not-for-profit, private sector corporation formed by a broad coalition of the Internet's business, technical, academic, and user communities. ICANN has been recognized by the U.S. government as the global consensus entity to coordinate the technical management of the Internet's domain name system and Internet addressing.

The Office of Advocacy has kept abreast of ICANN's proposals with respect to the DNS, particularly those proposals dealing with famous trademark protection. For example, one proposal, the "Sunrise Proposal," would allow trademark holders to register not only their trademark, but 20 variations of it. Thus, "MacDonald's" and 19 other variations might be registered to McDonald's, or "Micrasoft" and similar names could be assigned exclusively to Microsoft. The proposal, if implemented as proposed, would be greatly detrimental to small business owners, lessening their ability to compete in the electronic commerce market. Given the 1 million live registered trademarks already in existence, some 20 million possible domain names could be taken out of circulation under this proposal.

Domain help is on the way for small business with the introduction of a new ICANN policy to expand the number of new domains available.

In addition, said Glover, "we fear that the proposed protections for famous marks would preclude small businesses from using common, everyday words, like apple, ford, fox, and bell."

At its meeting on July 16, ICANN's board also considered issues such as Internet stability, initial test introduction, advantages of new TLDs, suggested new TLDs, and famous trademark protection. The Office of Advocacy contacted small business trade associations emphasizing the importance of their opinions and urging the organizations and their members to comment. The ICANN board received more than 1,300 comments from interested parties including small businesses and their representatives.

Implementation Schedule

- **August 2000** New TLD application process description becomes available.
- **August 15, 2000** Detailed new TLD registry application form with instructions will be posted at *www.icann.org*.
- **September 5, 2000** First day applications will be accepted. **October 2, 2000** Deadline for ICANN's receipt of completed applications.
- **October 5, 2000** Portions of those applications deemed appropriate for publication for purposes of public comment or otherwise will be posted on ICANN's Web site.
- **October 19, 2000** Close of period for public comments. **Mid-November 2000** ICANN announces selections for negotiations of agreements with registry sponsors and operators.
- **December 31, 2000** Target date for completion of negotiations.

For More Information

The Office of Advocacy's comments on ICANN's policy are on the Internet at *www.sba.gov/advo/is_dom.html.* For more information regarding ICANN's technical management of the Internet domain name system, contact Eric Menge, assistant chief counsel, at (202) 205-6949, or by e-mail at *eric.menge@sba.gov* or visit ICANN's Web site at *www.icann.org*.

Advocacy and the Forest Service Work Together to Ensure Small Business Input

The Small Business Regulatory Enforcement Fairness Act (SBREFA) continues to have a positive influence on agencies as they draft rules. Recently, the U.S. Forest Service worked with the Office of Advocacy to develop a meaningful economic analysis, soliciting comments from small entities — small businesses, communities, and organizations — that would be affected by a proposed Forest Service rule. The rule would prohibit road construction and reconstruction from approximately 54 million acres of inventoried roadless areas.

The rule was designed to implement the administration's plan to set aside certain areas of the national forests to preserve opportunities for recreation, privacy, and seclusion in largely undisturbed landscapes. The Forest Service put together an interagency team to assure compliance with legal requirements such as the Regulatory Flexibility Act (RFA). Because the Office of Advocacy's mandate includes assuring agency compliance with the RFA, the office was asked to join the interagency team to provide guidance.

The Forest Service initially believed that the rule would not directly impact small entities. The Office of Advocacy argued, however, that the information provided by the Forest Service with the initial draft indicated that the proposal might have a significant economic impact on a substantial number of small entities. Chief Counsel for Advocacy Jere Glover recommended that the Forest Service perform a forthright initial regulatory flexibility analysis (IRFA) to determine the impact of the proposed rule on small entities such as small communities, timber harvesters, mining not protected by the 1872 Mining Act, and construction companies. Advocacy also contended that the proposed rule could have a direct negative impact on the "economic expectation interest" of small businesses concerned with activities such as mining and timber harvesting, as well as small neighboring communities and other small businesses in those communities.

In response to the Office of Advocacy's recommendations, the Forest Service prepared an economic analysis using available economic data. However, the data proved insufficient to draw any definitive conclusions about the rule's impact. Advocacy therefore recommended that the Forest Service solicit specific information from the public. The Forest Service published the list of questions along with the proposed rule in May 2000. The questions were designed to elicit specific economic information from those affected by the rule. The comment period closed on July 17, 2000. The Office of Advocacy will continue to work with the Forest Service to ensure that the comments received are given full consideration in the final regulatory flexibility analysis. Particular attention will be paid to regulatory alternatives suggested by the public.

News Briefs

SEC to Host Forum

The U.S. Securities and Exchange Commission will host its 19th Annual Government-Business Forum on Small Business Capital Formation on September 11 and 12 in San Antonio, Texas. Held with active involvement from the Office of Advocacy, the forum offers small business owners an opportunity to articulate their views and needs on how to eliminate unnecessary governmental impediments to raising capital.

Using a new case-study format, this forum will provide an opportunity for participants to compare the growth of a traditional "brick and mortar" company with a "dot com" company during the general sessions. The first day will focus on traditional companies, examining initial funding, growth, and initial round/later stage venture capital financing. The second day's sessions will look at dot com companies, concentrating on joint ventures, offshore financings, mergers/acquisitions, and initial public offerings.

Both days will provide ample time for participants to craft thoughtful recommendations. These recommendations have led, over the years, to legislative and regulatory reform in the areas of taxation, securities regulation, financial services regulation, and state assistance programs.

Only 150 people may participate in the forum. In order to defray the costs of the group luncheons and the welcoming receptions, there is a charge of $150 per participant.

For further information, contact Barbara Jacobs or Janice McGuirk in the Office of Small Business in the Division of Corporate Finance at (202) 942-2950 or send an e-mail to *eprospectus@sec.gov*. You can also find more information on this and previous years' forums at the SEC's Web site, *www.sec.gov*.

Economic News

Report Finds Small Farm Lending Declines as Banks Merge

The Office of Advocacy's third annual study of small farm lending by banks, *Small Farm Lending in the United States*, highlights a shrinking credit market for small farmers. From June 1998 to June 1999, the year the study covers, small farm loans (farm loans of less than $250,000) declined by $1.4 billion or 2.8 percent. The value of larger farm loans (larger than $1 million), on the other hand, rose by 6.6 percent. The decline in farm lending was concentrated in micro-loans (loans under $100,000), which declined from $38.8 billion in 1998 to $36.6 billion in 1999.

As in previous editions, the 1999 study ranks all banks in every state. The report points out the rapid decline in the number of community banks, which serve farms in rural areas. The smallest banks (those with assets under $100 million) are disappearing fastest.

They are also the banks with the largest average share of small farm loan dollars as a percentage of total assets (9.5 percent), a ratio that fell by 0.4 percentage points in 1999. In contrast, the largest banks (those with assets of $10 billion or more) have a small farm loan share of total assets of only 0.1 percent—a share that remained constant in 1999.

The smallest banks held only 5.2 percent of total bank assets, down from 5.9 percent in 1998, but these banks made up 48.1 percent of the value of small farm loans in 1999, a figure that also declined, from 51.1 percent in 1998. The largest banks provided only 7.9 percent of small farm loans, up from 5.1 percent in 1998, while owning 61 percent of bank assets, an increase from 57 percent in the previous year. Small and mid-sized banks combined with assets under $500 million, made 80 percent of the total value of small farm loans although they accounted for only 17 percent of total bank assets.

The disappearance of small banks is not good news for small farms as their supply of ready credit dwindles.

Small banks are disappearing as they merge into bigger banks. This trend is a disturbing one for small farms since the likelihood of those farms being adequately served diminishes. For example, the stock of small farm loans under $250,000 was valued at $48.9 billion in 1999, a decrease of 2.8 percent from 1998. But the number of loans outstanding (1.5 million) declined even more, by 7.6 percent. Not only are the numbers and dollar amounts declining, it appears that the average loan size is increasing, so farmers needing smaller loans may be having more problems getting the credit they need.

Looking at total farm loans also raises the question of whether small farms are receiving enough credit. Total farm loans increased only one percent from 1998, up to $75.2 billion, while the total value of large farm loans (those valued at more than $1 million) has increased by 6.6 percent.

A related Office of Advocacy study, *Small Farm Lending by Bank Holding Companies*, also points up the problem. While the nation's 57 largest bank holding companies (BHCs), with branches in many states, appear to be increasing their lending to small farms, it appears more likely that the increases are

Continued on page 7

For More Information

Small farmers interested in finding a small-farm-friendly bank may find Advocacy's small farm lending studies helpful. These analyze the "call reports" that banks file each year. The studies are available at *www.sba.gov/advo/stats/lending*.

Other studies include *Small Business Lending in the United States*, *The Bank Holding Company Study*, and *Micro-Business-Friendly Banks in the United States*. The first study rank orders all 8,659 U.S. banks that submitted call reports in 1999 in terms of their small business lending. The second study lists bank holding companies that were top lenders to small business. he third rank orders banks using a $100,000 loan size. Paper and microfiche copies of the reports can be purchased from the National Technical Information Service, (800) 553-6847.

Other small-farm-friendly banks participate in SBA's preferred or certified lender programs. To locate these lenders, visit SBA's Web site at *www.sba.gov/financing/lender.html*, contact the local SBA district office, or call the Small Business Answer Desk at (800) 827-5722.

Comments and technical questions may be directed to SBA's chief economist, Dr. Robert Berney (*robert.berney@sba.gov*) or to Dr. Charles Ou (*charles.ou@ sba.gov*), 409 Third Street, S.W., Washington, D.C. 20416, (202) 205-6930; fax (202) 205-6928.

Small Firms Sparked San Diego Growth, Advocacy Study Says

The growth of small high-technology firms—fostered by strong university, government, and industry cooperation—is largely responsible for San Diego's remarkable economic rebirth, according to a recent Office of Advocacy report, Developing High-Technology Communities: San Diego, by Diane Palmintera of Innovation Associates of Reston, Virginia. San Diego's unemployment fell from 7.7 percent in the early 1990s to 3 percent today. The "San Diego Story" has plenty of lessons for other communities trying to retool for a high-tech economy.

"New technology clusters don't just happen," said Chief Counsel for Advocacy Jere W. Glover. "They need the support of a driving force, available capital, government policies supportive of small business, a less restrictive regulatory climate, and a skilled labor force. In San Diego, the chemistry was right. But San Diego's experience can certainly be replicated elsewhere."

Palmintera analyzed how San Diego transformed itself after the number of once-dominant military contractors and aerospace companies declined sharply with the defense cutbacks of the late 1980s and early 1990s. She examined data on employment, patent grants, retail sales, number of firms, per capita income, regional imports and exports, cross-border manufacturing, and venture capital investments. More than 30 government, university, non-profit, and corporate leaders were interviewed.

"New technology clusters...need the support of a driving force, available capital, government policies supportive of small business, a less restrictive regulatory climate, and a skilled labor force."
Jere Glover

Key to San Diego's success was the cooperation between small businesses and entrepreneurs, with coordinating support from academia and government. Talented former defense sector employees, working with local university and government resources, began new small firms in cellular communications, biotechnology, pharmaceuticals, and computer software.

Individuals also made a difference. University of California President Richard Atkinson, then chancellor of the University of California at San Diego (UCSD), built a new world-class engineering school and used all the tools at his disposal to ensure the interaction of the university, government, and business communities. The UCSD's CONNECT program provided information and connections to the financial community, potential customers of the new small high-tech firms, and local political leaders, who reduced business taxes and streamlined regulations. San Diego's state and community colleges also worked closely with the business sector to turn out graduates with appropriate skills for the new industries.

For More Information

For more information about San Diego's economic revitalization, go to the Office of Advocacy's Web site at *www.sba.gov/advo/stats*. Paper and microfiche copies of Advocacy reports are available for purchase from the National Technical Information Service, (800) 553-6847 or at *www.ntis.gov*.

Small Farms, *from page 6*

attributable to increases in assets because of acquisitions of smaller small-farm-friendly banks. In fact, the reality is that small farm loans are a shrinking part of the BHC asset structure. For example, while the value of the BHCs' small farm loans increased by almost 10 percent from 1998 to 1999 and their farm micro-loans increased by 17 percent, BHC assets grew even more—by almost 24 percent.

Small Business Lending in Rural America, the first report of its kind, examines bank lending to rural non-farm small businesses. It finds that the value of micro-business loans (loans of less than $100,000) to rural non-farm business borrowers increased by 14 percent, from $7.9 billion in 1997 to $9.0 billion in 1998. Rural small business loans (loans of less than $1 million) increased by 22 percent, from $21.4 billion to $26.4 billion.

Tech Talk

New SBA Reports Highlight Innovation, Partnership

by Terry Bibbens

The U.S. Small Business Administration (SBA) has released two new reports of interest to the high-tech small business community. *Purpose and Performance of the Small Business Innovation Research (SBIR) Program* provides an in-depth analysis of the SBIR program from concept to current operation and includes recent data on program performance. In the report, Dr. Ronald S. Cooper, a senior policy analyst in SBA's Office of Technology, discusses the capital formation for phase III commercialization efforts by SBIR contractors and makes recommendations to improve the program.

SBA has also released a working paper, *A New View of Government, University and Industry Partnerships*, which discusses improving the relationship between research universities and the small business sector for their mutual benefit. The paper summarizes the results of two years of work with leaders in the university and high-tech small business communities and reviews the close university/small business relationships that led to the development of Boston's Route 128 region and the creation of Silicon Valley.

Both topics have drawn widespread interest, as states, localities, and universities try to become more attractive to high-tech firms. For instance, the National Governors' Association (NGA) has just published a series of papers on state "best practices" to highlight different mechanisms for fostering cooperation, strengthening research programs, and providing seed money or other support for high-tech startups. (See the NGA papers at *www.nga.org*.)

The Office of Advocacy will continue to spotlight successful efforts. Chief Counsel for Advocacy Jere Glover and I met in July with government and business leaders in California, where we called attention to the lessons learned during San Diego's transformation into a diversified high-tech leader. (See article in this issue on the report for Advocacy called *Developing High-Technology Communities: San Diego*.) Other events are planned for September. Please contact *terry.bibbens@sba.gov* if you would like to know more about how your company, association, local chamber of commerce, university or government can encourage a local economy that is conducive to innovation.

Terry Bibbens is the Office of Advocacy's entrepreneur in residence.

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