

THE SMALL BUSINESS

ADVOCATE

United States
Small Business
Administration
Office of Advocacy

July 1999
Vol. 18, No. 5

In This Issue

Small Businesses Joining the
E-Commerce Bandwagon . . .1

Message from the Chief Counsel

Another Year of Being the Small
Business Watchdog3

Economic News

New Report on "Micro-Business-
Friendly" Banks Issued4

Fed Survey Seeks Responses
from Small Firms5

Small Business Week

Advocates Honored at
Congressional Luncheon6

Special Feature: Vision 2000

"Models of Excellence" Winners
Highlighted8

Technology Talk

Federal Use of Small Business
R&D Lagging10

News Briefs

Pre-Disaster Mitigation Pilot
Program Launched11

SEC Forums Scheduled for
September11

Small Businesses Joining the E-Commerce Bandwagon

Electronic commerce, or e-commerce — the marketing, promotion, buying, and selling of goods and services electronically, particularly via the Internet — is experiencing unprecedented growth, according to a report recently released by the Office of Advocacy, *E-Commerce: Small Business Ventures Online*. Estimates vary, but a growing number of small businesses are tapping into the Internet to conduct business and to reach new prospective consumers. According to the study, online sales are booming, but such electronic commerce represents only a fraction of small businesses' use of the Internet. Businesses are more likely

to be online to identify customers and promote product and services before the point of sale.

"The use of e-commerce opens a universe of new venues for small businesses and consumers to exchange information, goods, and services," said the SBA's Chief Counsel for Advocacy Jere W. Glover. "Consumers are on the Internet because of the price and choice available to them there. Small businesses built Main Street and they will likely lead the way in the future to a virtual market square."

E-Commerce: Small Business Ventures Online identifies a number of issues in the move to electronic commerce by small business: the

Continued on page 2

Small Business Advocates Honored at Congressional Event



L to R: Rep. Phil English (R-Pa.) and Maj. Gen. Michael E. Dunlavey, 1999 Veteran Advocate of the Year, are interviewed at a congressional luncheon on May 25 that was part of the 1999 Small Business Week activities in Washington. For more pictures of this year's festivities, turn to page 6 of this issue. (Photo: Cable Risdon Photography)

E-Commerce, from page 1

cost of establishing and maintaining a Web site, the security of data collected online, potential tax liability, and the millennium bug, to name a few. Using existing research, this report provides an overview of small business use of e-commerce.

Internet use by small businesses is on the rise: the number of small businesses with access to the Internet nearly doubled over the past two years, from 21.5 percent in 1996 to 41.2 percent in 1998. As many as 35 percent of small businesses maintain their own Web site. How use of the Internet helps small firms is unclear, but research shows that small businesses that utilize the Web have higher annual revenues, averaging \$3.79 million in 1998, compared with \$2.72 million for all small businesses.

Small businesses use the Internet for a variety of operations including customer-based identification, advertising, consumer sales, business-to-business transactions, e-mail, and private internal networks for employees. Seventy-eight percent of small business owners with a Web site declared the ability to reach new and potential customers as their main reason for having one.

For More Information

Copies of *E-Commerce: Small Business Ventures Online* are available on the Office of Advocacy's Web site at www.sba.gov/ADVO/stats. Paper and microfiche copies of the report are available for purchase from the National Technical Information Service (NTIS) tel. (703) 605-6000, or visit the NTIS Web site at www.ntis.gov.

For technical questions about the report, contact Victoria Williams in Advocacy's Office of Economic Research at (202) 205-6530 or via e-mail at victoria.williams@sba.gov.

Online retail marketing is currently experiencing about a 200-percent annual growth rate, with online traffic doubling every 100 days. It has been estimated that small businesses earned \$3.5 billion in e-commerce sales in 1997, and projections for online sales for the beginning of the next decade range widely — from \$25 billion to over \$300 billion — depending on the source. (Online sales currently account for less than 1 percent of total retail sales in the U.S.)

Growth in electronic sales has been stalled by a number of barriers that small firms encounter. These include initial start-up costs, difficulty attracting and keeping technologically skilled personnel to service the site and customers, security of a small business's (or its customers') data, and consumer trust.

The most immediate barrier to full implementation of e-commerce is the cost. Experts estimate that a small business would need an initial investment of \$10,000 to launch an e-commerce site and approximately 20 percent of the launching costs to maintain it annually. The technical barriers involve both personnel and data. For example, small businesses are concerned about integrating their current systems for processing sales into an Internet environment. To complete such a transition, competent personnel and a secure system are necessary. With these uncertainties is coupled the ultimate question: will profit increase with this investment?

The growth of e-commerce has focused policy-makers on keeping policies current with the innovations and popularity of the Internet. An explosion of commissions and programs is focusing on Y2K and Internet espionage. Some legislation has been passed. The Internet Tax Freedom Act of 1998, for example, prohibits new taxes on commercial transactions over the Internet for three years. In early 1999, the Senate Small Business

The Small Business Advocate

Deputy Chief Counsel, Public Liaison
Jody Wharton

Director, Office of Public Liaison
Anita Drummond

Editor John B. Johnson IV

Managing Editor John Ward

Contributing Editors Kathryn Tobias,
Rina Martinez

Production Assistant Darlene Moyer-
Mahmoud

The Small Business Advocate (ISSN 1045-7658) is published monthly by the U.S. Small Business Administration's Office of Advocacy and is distributed to Small Business Administration field staff and members of the U.S. Congress. *The Small Business Advocate* is available without charge from the Office of Advocacy, U.S. Small Business Administration, Mail Code 3114, Washington, DC 20416. Back issues are available on microfiche from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161.

Send address changes to: The Small Business Advocate, Mail Code 3114, U.S. Small Business Administration, Washington, DC 20416. Include your current address label.

The Small Business Advocate Online:
<http://www.sba.gov/ADVO/news/>.



Federal Recycling Program
Printed on recycled paper.

Committee convened a small business roundtable to identify barriers that keep Main Street businesses from expanding into electronic commerce. In May, the House Small Business Committee held a hearing on the benefits and pitfalls of conducting business over the Internet.

Obvious concerns exist about online security of information and the cost of ever-changing technology and expertise. But the fears and challenges are far outweighed by the long-term hope for new enterprise and solutions presented by e-commerce.

Message from the Chief Counsel

Another Year of Being the Small Business Watchdog

by Jere W. Glover

In June, I presented my fifth annual report to Congress and President Clinton on federal agencies' compliance with the Regulatory Flexibility Act (RFA). The report provides policy-makers with insight into agencies' attitudes toward small business when developing new regulations. It also provides readers with a greater understanding of the "watchdog" role of the Office of Advocacy.

In 1998, the Office of Advocacy reviewed an estimated 1,600 proposed, interim, and final rules for their impact on small business. These affected a wide range of industries — such as fishing businesses, federal contractors, home health care providers, juice producers, ambulance services, mining companies, homeless shelters, construction contractors, bus companies, industrial laundries, cement kilns, gasoline stations, oil refineries, manufacturers of commercial fasteners, small and rural telephone companies, and broadband facilities.

Some rules affected most or all small businesses, regardless of industry — especially labor and tax rules. The regulations in most instances would not make the headlines, but they were overwhelmingly important to small businesses in a particular industry or in a specific area of the country.

I am very proud that small businesses come to us when federal agencies aren't listening to their concerns. And during the past year agencies' responses to recommendations and criticisms made by the Office of Advocacy have markedly improved.

The Office of Advocacy has been assisted in its efforts by the amend-

The publication of the latest annual report on the Regulatory Flexibility Act provides an opportunity to see how small businesses have been treated in the regulatory process.

ments to the Regulatory Flexibility Act that were contained in the Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996. I am convinced that agency awareness and compliance has increased with the passage of the SBREFA. The most significant amendment allows a small business, appealing from an agency's final action, to seek judicial review of an agency's compliance with the RFA. Small entities have taken advantage of this change and several appeals were decided in 1998. In addition, the Office of Advocacy filed its first *amicus curiae* brief, in which it detailed an agency's failure to comply with the RFA. In that case, *Northwest Mining Assn. v. Babbitt*, the court remanded the rule to the agency to address the issues raised by the Office of Advocacy.

Although we continue to experience positive results from the SBREFA amendments to the RFA, non-compliance remains an issue for some agencies. This failure is attributable not so much to ignorance of the law, but to ignorance of the importance of small businesses to the economy and the anti-competitive barriers burdensome regulations can unnecessarily erect.

This failure presents a constant educational challenge that can only

be overcome with crucial economic data. Our data show that from 1990 to 1995, small employer firms (those with fewer than 500 employees) accounted for 90.1 percent of net new business establishments and 76.5 percent of net new jobs.

Yet small firms' growth can be stunted with the disproportionate cost — relative to the cost incurred by large competitors — of regulations. Costs are usually disproportionate per unit of output. In January, we released the latest research on the cost of a wide range of regulations for small firms. The study, *The Impact of Federal Regulations, Paperwork and Tax Requirements on Small Business*, provided a case-by-case review of 24 specific regulations and found that three out of four rules proved more costly for small regulated firms than their larger counterparts.

The Office of Advocacy will continue to hold federal agencies accountable for evaluating objectively the impacts of their regulatory proposals on small businesses. Most important, we will measure success by reducing the cost of federal regulations for entrepreneurs.

For More Information

Copies of the 1998 edition of the *Annual Report of the Chief Counsel for Advocacy on Implementation of the Regulatory Flexibility Act* are available for purchase from the National Technical Information Service, tel. (703) 605-6000. An electronic version has been posted to the Office of Advocacy's Web site at www.sba.gov/advo/laws/flex.

New Edition of Report on “Micro-Business-Friendly” Banks Issued

Small businesses interested in locating small- and micro-business-friendly banks will find significant new information in the Office of Advocacy’s 1998 lending reports about out-of-state banks that are active small and micro-business lenders.

For the first time, in addition to the call report data updating earlier lending studies, the 1998 reports offer information gathered under the revised Community Reinvestment Act (CRA) regulations. The CRA data add a significant new piece to the lending puzzle — the geographic location of lending activity by large banks headquartered in one state and conducting significant lending activity in another.

Micro-Business-Friendly Banks in the United States, released in July, notes that many of the large banks making micro-loans (loans under \$100,000) are based outside of the state in which the loan is being made. These banks are identified only in the CRA data. In Florida, for example, the CRA data show 24 active lenders of micro-loans, only three of which are Florida-based. In fact, in the CRA data, the nine leading micro-lenders in Florida, ranked solely by the dollar amount of micro-loans, are out-of-state banks.

Coverage of the call report and CRA data bases differs significantly (see box). While all banks must file call reports, only larger banks are required to file CRA reports. The larger banks covered by the CRA were responsible for more than half (56.2 percent) of the total \$111.5 billion in micro-business loan dollars reported by all banks in their June 1998 call reports.

Updating last year’s call report

New data based on Community Reinvestment Act lending records point to significant micro-lending by out-of-state banks.

data, the 1998 *Micro-Business-Friendly Banks* report indicates that the number of micro-loans reported in June 1998 call reports was up 19 percent over June 1997. The increase was especially significant on top of the 27 percent increase in the 1996–1997 period. While the number of these loans increased significantly, the dollar value increased by only 3 percent. The smaller average size of these loans may reflect some banks’ recent promotion of lines of credit and credit cards to small businesses, using credit scoring techniques.

In their June 1998 call reports,

567 banks reported significant micro-business lending in amounts under \$100,000. These 567 “micro-business-friendly” banks hold 18 percent of total bank assets, but 26.5 percent (\$29.6 billion) of the dollar value of micro-business loans outstanding from all banks. Forty-two of the banks had at least \$100 million in micro-business loans outstanding.

Small business owners will find both the call report and CRA information helpful in locating micro-business-friendly lenders. They should also seek out SBA preferred and certified lenders. These banks may have artificially low “small business friendliness” rankings in this study, because generally only the non-guaranteed portion of SBA-guaranteed loans will appear in the bank’s loan portfolio. To locate the top SBA lenders, contact local SBA offices or visit the SBA’s Web site at <http://www.sba.gov/financing/>.

Sizing Up the Data

Comparison of call report and Community Reinvestment Act (CRA) data bases used in the Office of Advocacy’s lending studies.

	Call Report Data	CRA Data
Loan coverage	Stock of business loans outstanding as of June 1998	Flow of business loans over entire calendar year
Classified by location of	Bank headquarters	Lending activity
Bank coverage	All banks	Banks with \$250 million or more in assets or members of bank holding companies with more than \$1 billion in assets

For More Information on Micro-Business-Friendly Banks

Micro-Friendly-Banks in the United States, as well as state-by-state reports on small business lending in amounts under \$1 million (*Small Business Lending in the United States, 1998*) and other Office of Advocacy lending studies are on the Internet at www.sba.gov/ADVO/lending/bk_hom98.html#Micro.

Paper and microfiche copies of all Advocacy reports are also available for purchase from the National Technical Information

Service (NTIS), tel. (703) 605-6000, or visit the NTIS Web site at www.ntis.gov. Comments and technical questions about this study may be directed to Dr. Robert Berney, tel. (202) 205-6875; e-mail: robert.berney@sba.gov; or Dr. Charles Ou, tel. (202) 205-6966; e-mail: charles.ou@sba.gov at the Office of Advocacy, U.S. Small Business Administration, 409 Third Street, S.W., Washington, D.C. 20416, fax (202) 205-6928.

Fed Survey Seeks Responses from Small Firms

Small businesses will have an important opportunity to help define their credit needs with their participation in the upcoming 1998 Survey of Small Business Finances (SSBF).

The SSBF, formerly known as the National Survey of Small Business Finances, is being conducted by the Board of Governors of the Federal Reserve System, with the help of the National Opinion Research Center (NORC) at the University of Chicago. The 1998 survey marks the third time that financial information from businesses with fewer than 500 employees will be collected by the Federal Reserve.

The information from this survey will be used to evaluate the effects of public policies on small businesses of different sizes, locations, and ownership characteristics. The information will also be used in a report to Congress on the availability of credit to small business that is produced every five years by the Federal Reserve Board.

The SSBF will survey 6,000 businesses by telephone between

August and December 1999. During telephone interviews, businesses will be asked to provide information about their business finances — including experiences in obtaining loans, use of credit cards, equity financing, and credit with suppliers — in an effort to understand how differences in financial characteristics of small firms affect their credit needs and access to credit markets.

The Office of Advocacy encourages small businesses contacted by the National Opinion Research Center to participate in this important study. The office uses the data produced by this survey to substantiate new policy recommendations for expanding credit availability for small firms.

Additional information and background on the 1998 Survey of Small Business Finances can be obtained from the Federal Reserve's Web site at www.federalreserve.gov/ssbf or from the National Opinion Research Center's Web site at www.norc.uchicago.edu/ssbf.

Simple Retirement Solutions for Small Business



Learn how your business can set up an easy-to-administer retirement savings plan. The details are contained in a series of booklets that are available at no charge from the U.S. Department of Labor's Publications Hotline, 1-800-998-7542. Or visit the Pension and Welfare Benefits Administration's Web site at <http://www.dol.gov/dol/pwba>.



U.S. Department of Labor
Pension and Welfare
Benefits Administration
Washington, DC 20210

Small Business Week 1999

Small Business Advocates Honored at Congressional Luncheon

The best and the brightest of America's most outstanding small business persons and advocates traveled to the nation's capital this past May 23–29 to be recognized for their extraordinary achievements and contributions as part of Small Business Week 1999.

The 36th annual Small Business Week included several celebrations saluting the 23 million small businesses across the United States. On

May 25, SBA Deputy Administrator Fred P. Hochberg and Chief Counsel for Advocacy Jere W. Glover presented special awards to "advocates of the year" in nine categories at a luncheon on Capitol Hill. Many state Small Business Persons of the Year and members of Congress joined the luncheon. The honorees were selected for their commitment to helping small businesses succeed, demonstrated in

large part by a voluntary sharing of their expertise.

"The business of growing a vibrant and strong small business sector is what this year's winners do best," said Glover. "Their commitment to small businesses across the country serves as an example to all. I applaud their leadership and support."

L to R: Kimberly Fine, Rep. Jim McDermott (D-Wash.), and Daniel Matthew Fine (right) of fine.com International Corp., Seattle, Wash. Mr. Fine was selected as Washington's Small Business Person of the Year.



L to R: Sen. Joseph I. Lieberman (D-Conn.) meets Max Solis of BST Systems, Inc., Plainfield, Conn., at the May 25 congressional luncheon honoring small business advocates. Mr. Solis was the 1999 Connecticut Small Business Person of the Year. Sen. Lieberman is a member of the Senate Small Business Committee.

At the 1999 Congressional luncheon . . .



Left: WRC-TV New 4 co-anchor and luncheon mistress of ceremonies Debbie Jarvis (L) interviews District of Columbia Small Business Person of the Year Rodney P. Hunt (R) of RS Information Systems, Inc. SBA Chief Counsel for Advocacy Jere W. Glover looks on.

Right: Sen. John F Kerry (D-Mass.) congratulates Karen P. Atwood of Cycle-Craft Co., Inc., of Everett, Mass. Ms. Atwood and her brother John Atwood were named the Massachusetts Small Business Persons of the Year. Sen. Kerry is the ranking minority member of the Senate Small Business Committee.



Left: Senate Small Business Committee Chairman Sen. Christopher "Kit" Bond (R-Mo.) congratulates 1999 Young Entrepreneur of the Year Thomas W. Dunn, Jr., of Dunn Lawn and Land, Fenton, Mo.

Special Report: Vision 2000

"Models of Excellence" Honored in Several Categories

Vision 2000: The States and Small Business Conference held this past December 9–10 brought together small business leaders and state and local government officials to spotlight programs and policies that promote small business growth.

Community and Economic Development Model of Excellence

Debi Durham and the Siouxland Chamber of Commerce, Sioux City, Iowa

The Siouxland Initiative (TSI) is the economic development mechanism for the Siouxland Chamber of Commerce. A key component of this effort is the successful operation of the W. Edwards Deming Business Center (DBC), one of only a handful of nationally recognized, privately funded small business incubators.

The DBC has served 38 businesses, 24 of which remained in business after leaving the incubator. TSI supported the DBC during its early years with staff and direct funding, but last year the DBC achieved the break-even point and is now self-supporting.

Another TSI initiative, the Small Business Enhancement Fund provides matching grants to small start-up businesses to help pay for specific development costs. The Siouxland Chamber of Commerce has a well-deserved reputation for hands-on involvement in community and economic development, and its "can do" attitude can be seen in projects throughout the Siouxland area.

Micro-Enterprise Development Model of Excellence

Frank Ballesteros, Tucson, Ariz.

Mr. Ballesteros has served as the

Participants in the conference took home many ideas for small business programs and policies that they could adapt to their own localities. Throughout 1999, selected issues of The Small Business Advocate have profiled Vision 2000 award winners



executive director of the MICRO Industry Credit Rural Organization (MICRO) since 1986 and is the deputy CEO of the Micro-business and Housing Development Corporation in Phoenix. He has worked as an advocate for micro-enterprise development locally and nationally as a strategy for alleviating poverty and providing economic self-sufficiency for Hispanic low-income families through self-employment.

The MICRO loan fund is capitalized at over \$5 million, with a \$1.6 million portfolio and 398 active loan customers in six Arizona counties. Mr. Ballesteros has overseen disbursement of more than 2,400 loans to more than 1,100 micro-enterprises through MICRO. The average loan amount is \$2,200, through which over 600 new jobs have been created and over 800 micro-enterprises stabilized.

Mr. Ballesteros has testified before presidential task forces and

in this space. This month we profile the winners of "Models of Excellence" awards in a number of different categories.

The next conference will be held December 1–2, 1999, in Washington, D.C.

congressional committees, and met with policy-makers and funding sources in both the private and public sectors to mobilize help for micro-enterprise development.

Rural Development Model of Excellence

The Business First Stop Support Center of the Mountain Association for Community Economic Development, Berea, Ky.

The Mountain Association for Community Economic Development (MACED) has created an innovative resource for rural Kentucky with its Business First Stop, a virtual Internet-based small business support center. The primary focus of Business First Stop — located at www.maced.org — is to promote entrepreneurship through the development of the most convenient and comprehensive access to business information for the population it serves.

Business First Stop is distinguished from other Web sites for entrepreneurs by its extensive local content and emphasis on creating a local virtual community.

A prototype of Business First Stop was demonstrated at several conferences, including the Commission on the Future of the South in June 1998. As part of this conference, MACED participated in the Southern Innovators Fair as one of the most innovative economic developments programs in the South.

Tax Incentive Initiatives Model of Excellence

*Joseph L. Driskell, director,
Missouri Department of Economic
Development, Jefferson City, Mo.*

The Missouri Capital Tax Credit Program (CTCP) provides investors with a powerful incentive to invest in new or growing small businesses located in Missouri. Investors can receive state tax credits based on 40 percent of eligible investments made into an eligible small business. The program is focused on developing smaller firms with job creation potential.

The CTCP tax credits can be applied toward a variety of state tax liabilities, including income taxes, corporation franchise taxes, and financial institution taxes. Tax credits earned under the CTCP may be transferred, sold, or assigned, and any remaining credit may be carried forward for up to 10 years. Qualified investments must remain in the business for at least five years to avoid revocation of credits already used. Eligible small businesses must meet certain residency and size standard requirements and must have no more than 100 employees and annual revenues not in excess of \$2 million.

The CTCP plan differs from many other small business investment incentive programs in that the 40-percent tax credit runs to the investor rather than to the small business itself. An investor is more likely to be able to use such a credit than a young or rapidly growing small business that often puts its earnings back into the business.

Venture and Seed Capital Development Models of Excellence

*Larry A. Milov and the PROMISE
Program of the West Virginia High
Technology Consortium, Fairmont,
W.Va.*

Mr. Milov serves as president and CEO of the West Virginia High Technology Consortium (WVHTC) Foundation in Fairmont, W.Va. Founded in 1990 under the guidance of Rep. Alan B. Mollohan, the WVHTC has grown from its founding six members to more than 180 in 1998. As the WVHTC grew and became more diverse, the WVHTC Foundation was formed in 1993 as a non-profit education and research corporation dedicated to leading the development of high-technology industries and research facilities in West Virginia through advanced technology-based research, development and educational initiatives.

Mr. Milov and WVHTC developed the PROMISE Program to help small businesses pursue and win SBIR Phase I awards by providing grants of up to \$5,000, which help small businesses develop Phase I SBIR proposals. Teaming with higher education faculty members, applicants submit proposal concepts for review and evaluation by economic development professionals before finalizing their SBIR submissions. Since PROMISE began, there has been a significant increase in SBIR proposals from and awards to West Virginia businesses, with further growth expected.

*Sherman McCorkle, president,
Technology Ventures Corporation,
Albuquerque, N.M.*

Founded in 1993 by the Lockheed Martin Corporation, the Technology Ventures Corporation (TVC) was established to commercialize the technology generated by New Mexico's federal laboratories and research universities. Today, TVC's commercialization model is recognized nationally and replicated at four other federal facilities. Through its president and CEO, Sherman McCorkle, TVC has developed practical approaches to encourage and support entrepre-

neurship and to move new technologies into the marketplace. Nearly \$3 billion in federal research and development funds are spent annually in New Mexico. TVC continues to be supported by Lockheed Martin, which also funded construction of its \$5 million technology commercialization facility. TVC accepts no fees for its services and does not take equity positions in the ventures it helps create.

TVC has worked aggressively to make venture capital more readily available to its firms. It founded the New Mexico Capital Network, an affiliation of investors and investment groups from throughout the state that are interested in new, high-growth potential companies. TVC also established the New Mexico Equity Capital Symposium, a nationally recognized forum that showcases technology-based New Mexico investment opportunities.

In less than five years, TVC has assisted in the creation of 28 new high-technology companies that employ 1,270 New Mexico residents and have generated more than \$120 million in private investment.

Vision 2000: 1999 Edition

"Vision 2000: The States and Small Business Conference" will convene again this coming December 1 and 2 in Washington, D.C. If you would like to register to attend the conference, see the brochure wrapped around this issue of *The Small Business Advocate*, or go to the conference's Web site at www.sba.gov/advo/vision.html.

Nominations for 1999 Models of Excellence awards will be accepted until Sept. 15, 1999. For nomination guidelines, visit the conference Web site or call Barbara George in the Office of Advocacy at (202) 205-6943.

Federal Use of Small Business R&D Still Lags Behind Private Sector

by Ron Cooper

Federal spending is lagging behind the private sector in recognizing the research and development (R&D) capability of small firms. In 1997, small firms conducted more than 16 percent of industry-funded R&D yet received only 9 percent of the federal R&D funds that went to private firms. The largest firms (those with 25,000 or more employees) conducted only 40 percent of industry-funded R&D, but received more than 80 percent of federal R&D funds going to private industry.

By encouraging federal contracting with small innovative firms, the Small Business Innovation Research (SBIR) program brings federal spending more in line with the distribution of R&D efforts performed and funded by the private sector. The program, administered by the SBA's Office of Technology, strengthens the role of small innovative firms in federally funded R&D. It does this by mandating that federal agencies with \$100 million or more of extramural R&D obligations set aside 2.5 percent of these funds for small business. Since its inception in 1982, the program has grown to the point where it now provides more than \$1 billion a year to innovative small businesses.

With the SBIR set-aside at this relatively low level, though, small firms today still receive less than 5 percent of federal extramural R&D funding, compared with 47 percent going to large firms and more than 42 percent going to universities and colleges.

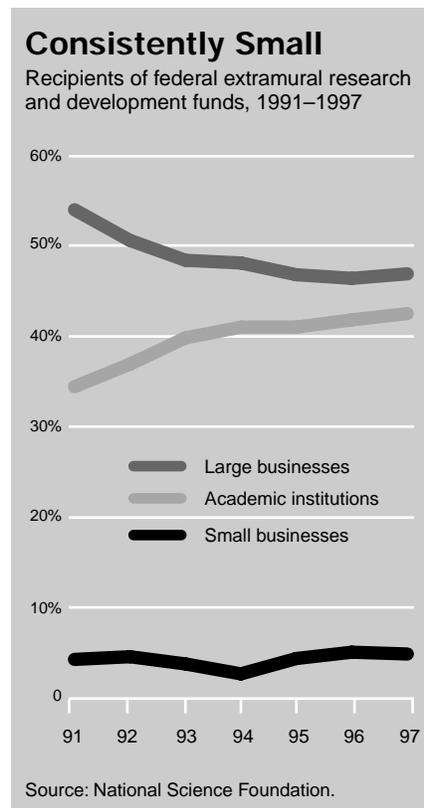
Recent data from the National Science Foundation (NSF) show that small business' role in innovation and the economy is growing. In an increasingly knowledge-based

Despite growing use of small R&D firms by the private sector, only 5 percent of federal R&D spending went to small firms in 1997.

economy, future competitiveness will be determined largely by the quality of technically trained and skilled personnel. The NSF data show that the distribution of this human resource base — the technical intellectual capital needed for future innovation — appears to be shifting from large businesses to small businesses. As a recent NSF study, *Will Small Business Become the Nation's Leading Employer of Graduates with Bachelor's Degrees*

in Science and Engineering?, noted: "the employment of full-time equivalent research and development scientists and engineers rose almost twice as fast between 1995 and 1996 at small companies as at larger ones — 18 percent versus 10 percent — according to a 1997 national survey of R&D-performing firms." The data show this trend continuing from 1997 to 1998 with a 14 percent increase for small firms and only a 6 percent change for large firms. Although large businesses still receive a greater number of scientists and engineers, these rates of change indicate a reallocation toward small business. Data from the NSF's Survey of Recent College Graduates show that an equal number of recent college graduates with degrees in science or engineering are entering small and large firms. The business total far exceeds the number going into other, non-business institutions such as universities, non-profits, or government. (Only the most recent survey includes data by firm size, so changes over time are not available.)

By making R&D funds available to small innovative firms, the SBIR program takes advantage of an underutilized economic and social resource: the small, flexible, innovative firm willing to take the risk needed to transform a new idea into an innovation. Small firms have a number of advantages over large firms when it comes to innovation, such as greater flexibility, closer contact with customers and potential end users, and a greater willingness to engage in high risk R&D projects. These qualities have made



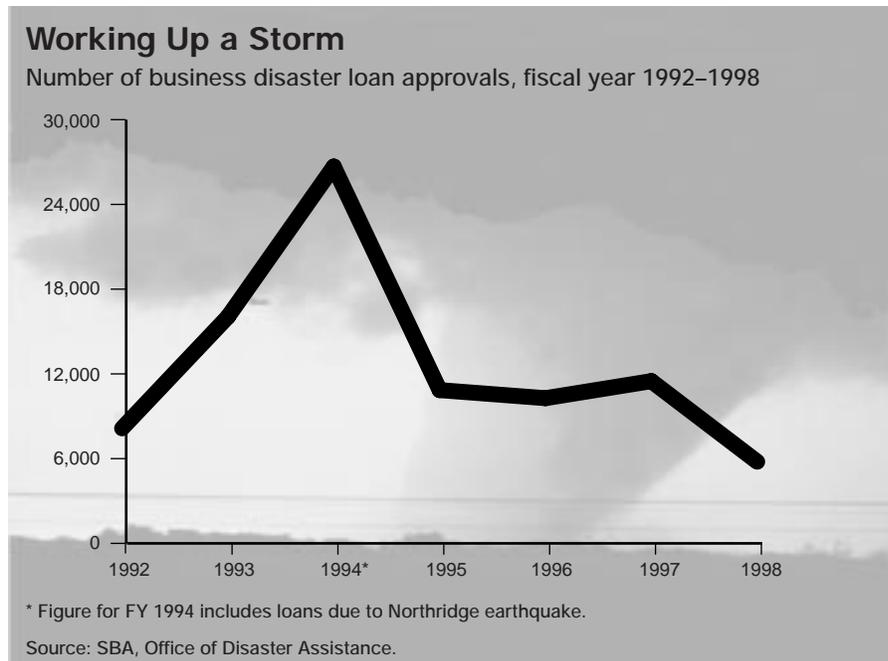
Continued on page 12

Pilot Program Makes Disaster Insurance Funds Available

Powerful scenes of devastation are repeated annually across the country as floods, hurricanes, tornadoes, earthquakes, fires and other natural and man-made disasters cause billions of dollars in losses to homes and businesses. Weather experts predict this year's Atlantic hurricane season (June 1 to November 30) will be particularly intense, with increased potential for catastrophic property damage and loss of life. Yet many business owners are unprepared for a disaster and risk losing everything in a matter of seconds.

When planning for disaster, having enough insurance is of utmost importance, according to Bernard Kulik, the SBA's associate administrator for disaster assistance. "Whatever you determine you can't afford to lose has to be covered by insurance," Kulik said.

President Clinton recently signed into law legislation authorizing the SBA, beginning in October, to make low-interest loans of up to \$50,000 to help small business owners in disaster-prone communities protect their property from dis-



aster damage. The Pre-Disaster Mitigation Pilot Program will operate in conjunction with the Federal Emergency Management Agency's Project Impact program.

Tips on disaster preparedness can be found on the Internet at www.sba.gov/DISASTER. For more information about the Pre-Disaster

Mitigation Pilot Program, contact James Rivera in the SBA's Office of Disaster Assistance at (202) 205-6734.

SEC Forums Scheduled for September

The U.S. Securities and Exchange Commission's 18th Annual Government-Business Forum on Small Business Capital Formation will be held in Washington, D.C., Sept. 13-14, 1999. The Forum offers small business an opportunity to articulate its views and needs on how to eliminate governmental impediments to raising capital and seeking credit. At the Forum, small

business owners and policy specialists will develop recommendations on securities, tax, and banking issues for federal policy-makers.

For an application form or additional information about the Forum, contact Barbara Jacobs or Janice McGuirk in the SEC's Office of Small Business Policy at (202) 942-2950, or send an e-mail to e-prospectuc@sec.gov. Additional

information is also available on the SEC's small business home page at www.sec.gov.

An Aerie for Legal Eagles



The Office of Advocacy's retooled Web page makes it easier than ever for you to access up-to-date information

on regulatory proposals that can affect small business. Plus, you get access to incomparable business statistics, research

materials, and the on-line version of *The Small Business Advocate*. Visit us today at www.sba.gov/advo/.

www.sba.gov/advo/

R&D, from page 10

small firms the leaders in industrial innovation: they produce more innovations per employee and per dollar spent on R&D than larger firms. In fact, large corporations in innovation-intensive industries try to achieve some of the advantages of small firm organizations through new business models using semi-autonomous research and development units. Further evidence of the advantage of small innovative firms is the central role being played by small start-up businesses in the development of emerging high-tech industries such as biotechnology and information technologies.

But many advantages and efficiencies of small innovative firms are not fully realized in our economy because of obstacles faced in

raising capital. Capital markets do not have the information needed to make sufficient investments in the high quality but risky small-firm projects that can lead to significant and socially beneficial innovations. The SBIR program funds those types of projects by providing high-risk, patient capital not available in the market.

Ron Cooper is senior policy analyst in the SBA's Office of Technology. Dr. Cooper conducts economic and policy research on technology and innovation issues related to small business. Before joining SBA, he worked for the Science, Technology, and Economic Policy Board of the National Academy of Sciences.

For More Information

Copies of the National Science Foundation's study *Will Small Business Become the Nation's Leading Employer of Graduates with Bachelor's Degrees in Science and Engineering?* are available for downloading from the NSF Web site at www.nsf.gov/sbe/srs/nsf99322/start.htm.

For information on the Small Business Innovation Research program, visit the Web site of the SBA's Office of Technology at www.sba.gov/sbir.