THE SMALL BUSINESS ADVOCATE

United States
Small Business
Administration

Office of Advocacy

October 1998

Vol. 17, No. 9

In This Issue

New Study Looks at Effects of Mergers and Acquisitions

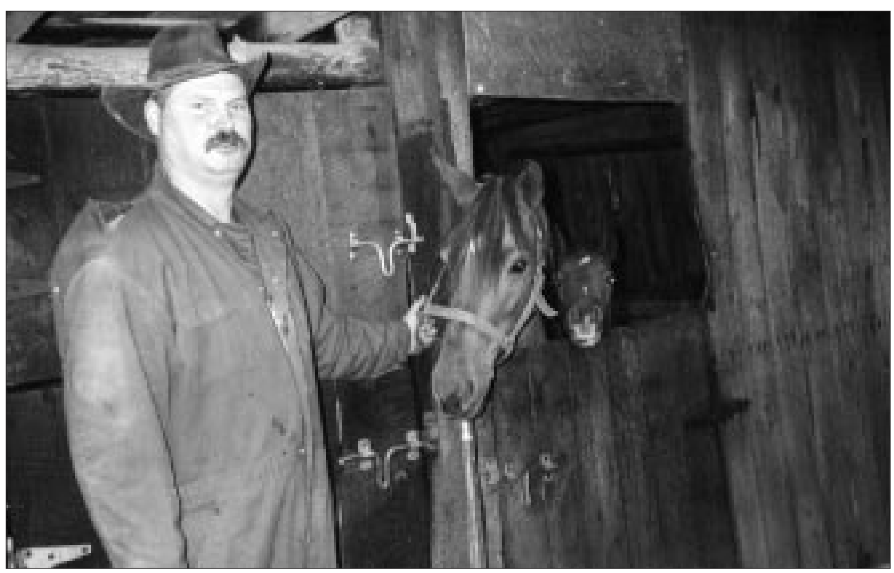
October's sampling of press stories about the recent wave of business mergers finds Chrysler Corporation workers worrying about the effects of the Daimler-Chrysler merger and 3,500 auto parts workers headed for layoff following the acquisition of Echlin of Connecticut by Dana Corp. of Ohio. In Oregon, Fred Meyer, Inc. — affectionately known as Freddy's, a small grocery business in the 1920s, now Oregon's biggest employer — is itself gobbled up by the nation's largest grocery chain, Kroger. Press reports about mergers and acquisitions usually focus on large companies taking over other large companies — and the massive worker displacements that almost invariably follow.

But it turns out, according to a new study by the Office of Advocacy, that more than one-half of the business locations picked up in mergers and acquisitions come from small firms with fewer than 500 employees. So how are mergers affecting small businesses and their employees, industry by industry?

Some small businesses reap major employment gains when they merge with large firms, says the Office of Advocacy study, *Mergers and Acquisitions in the United States, 1990–1994*. Employment in the high-growth establishments that were acquired from small firms by large firms increased more than 18 percent over the 1990–1994 period. And the small locations that were

Continued on page 2

A Farmer's Business



Clifford Hamilton tends to a mare and her newborn colt at his farm on Pound Mill Creek in Leslie County, Kentucky. Bank lending to small farmers such as Mr. Hamilton is the focus of the chief counsel's commentary on page 3 of this issue. (Photo courtesy of Owen Morgan, *The Leslie County News*.)

Mergers, *from page 1*

acquired by new firms had similarly high rates of job growth. But the net employment effect of mergers, the study found, is job loss.

"Merger and acquisition activity has been especially brisk in recent years," said Chief Counsel for Advocacy Jere W. Glover in releasing the report by Advocacy's Office of Economic Research this month. "Looking at the effects of 1990–1994 merger activity, we find that while rapid job growth is associated with small-firm establishments acquired by new or large firms, those gains are more than offset by job losses in establishments acquired from large firms."

The study takes advantage of a new data base developed by the Office of Advocacy and the U.S. Census Bureau's Center for Economic Studies to examine business merger and acquisition activity. The Longitudinal Enterprise and Establishment Microdata (LEEM) file is a valuable new tool for economic research by the Office of Advocacy. The LEEM features multiple years of data for each U.S. private-sector business with employees, and can be used to track business establishments and their employment, payroll, enterprise affiliation, industry, location, and size.

The merger study covers establishments that survived from 1990 to 1994, leaving out those that started after 1990 or closed before 1994. Just 2.6 percent of these "surviving" establishments, but 6.9 percent of their employees, were in firms that were wholly or partially acquired by other firms in the early 1990s. The acquired establishments lost 3.3 percent of their employment overall, compared with a small gain of 0.7 percent in those that were not acquired. (Not counted here are the businesses — some of them high-growth startups — that opened after the start of the period.)

The service industry was the only sector in which acquired locations had significant job growth — a gain of 7.8 percent over the period. Job losses were greatest (15 percent) in the sector where mergers and acquisitions were the most common: finance, insurance, and real estate. More than 6 percent of the surviving establishments in that sector were acquired.

Although more than one-half of the acquired establishments were small, only 1.6 percent of the surviving small establishments were acquired. In fact, large-firm locations were more than five times as likely as small-firm locations to be involved in a merger or acquisition. Two-thirds of the people whose jobs were affected were working in firms that were large in 1990. These large-firm locations lost 9.4 percent of their employment over the period.

Small acquired businesses — even some of the growing ones — might have been better off had they not been acquired. Even the small businesses that experienced the most growth as a result of mergers did not approach the growth rates of small establishments that grew large without being acquired. While the small business locations acquired by large firms increased employment by 18.4 percent, those that grew to be large on their own added jobs at a phenomenal, 76.5-percent rate over the same period.

"What this study seems to tell us," said Chief Counsel Glover, "is that policies that directly or indirectly encourage merger and acquisition activity may affect job growth — especially in large businesses, but even in those that are small. Further studies will be needed if we are to understand more specific effects of this activity across the states."

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 Editor Kathryn Tobias

Production Assistant Darlene Moye-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.

How to Get the Report

The full text of *Mergers and Acquisitions in the United States, 1990–1994* is available on the Office of Advocacy's Web site in both text and PDF formats at *http://www.sba.gov/ADVO/stats*. Paper and microfiche copies are available for purchase from the National Technical Information Service at (800) 553-6847.

Technical questions about the report may be addressed to Alicia Robb in Advocacy's Office of Economic Research via e-mail at *alicia.robb@sba.gov*.

Message from the Chief Counsel

Rural America

by Jere W. Glover

Rural America has enjoyed a special place in popular imagery, in politics and in policy, since the nation's earliest days. The family farmer, the cowpoke, and the prospector all evoke strong images that still affect government activity even though the frontier is long gone and the percentage of people living off farming, ranching, or mining is small and continues to shrink.

Rural America is still home to a lot of small firms and small business jobs. Some observers believe rural small businesses — farm and non-farm alike — face special hurdles in attracting financing. Rural America faces challenging times. Many farmers, ranchers, and natural resource producers are experiencing a severe income squeeze. Economic downturns in Asian markets have left their consumers unable to afford U.S. exports and have driven down prices for many raw materials. Shrinking export markets and mushrooming lower-cost imports put pressure on small and large producers alike, whether they export or not. These difficulties come on top of the usual inconsistencies of weather, crop yields, and shipping bottlenecks that make farm life a challenge in the best of times, especially for small farmers. Their pain is shared by retail and service businesses in rural America that depend on farmers as customers.

The importance of rural small businesses, and the stresses on them, make them a matter of concern to the Office of Advocacy. In response, Advocacy recently completed a study on "small-farm-friendly" banks and pulled together other data on what's happening to the rural economy. I called attention to some of these findings at a conference in Denver sponsored by the Federal Reserve Bank of Kansas City in early October. The impression that rural America has a large share of small enterprises is confirmed by the fact that more than 17 percent of small business employees in 1995 were in rural areas versus about 15 percent of all non-farm private sector employees. Nearly one out of five small establishments (business locations with fewer than 500 employees) was in a rural area.

Rural America faces challenging times, and it is the importance of rural small businesses that makes them a matter of concern to the Office of Advocacy, says Chief Counsel Jere W. Glover.

It's important to understand the demographic and economic forces at work in order to decide what policy actions, if any, to direct toward rural areas.

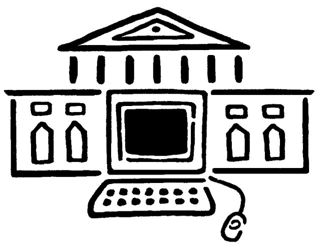
The reduction in the number of small farmers will likely continue. One portent is the number of young people living on farms, because by and large they are the pool from which future farmers will be drawn. In North Dakota, one of the most rural states in the country, the number of youths under 18 living on a farm declined by nearly three-quarters from 1970 to 1990.

Rural America has increasingly become the home of manufacturing jobs, and it would be a mistake to equate "rural" with "agricultural." Since 1960, the population of rural areas has dropped from one-quarter of the U.S. total population to one-fifth. But the percentage of all manufacturing jobs found in rural counties has risen from 16 percent to 22 percent, recent studies by two Census Bureau researchers show. Although manufacturing jobs have historically been concentrated in large businesses, recent data from the Office of Advocacy show that small firms accounted for a slowly rising share of these jobs from 1988 to 1995.

Why is manufacturing growing in rural areas and among small firms relative to large, urban ones? Part of the answer lies in how revolutions in communications, transportation, and computers have helped manufacturers, and others, to start up or relocate in rural and small-city locations. Generally falling telecommunications costs have enabled companies like Gateway (North Sioux City, S.D.), Land's End (Dodgeville, Wis.), and L.L. Bean (Freeport, Maine) to keep in touch with suppliers and customers at lower costs. Transportation deregulation has spurred the development of overnight and two-day delivery between any two points, helping manufacturers in remote locations with both in-bound delivery of components and rapid shipment to customers. Computers have had many effects, of course. By eliminating the need to have high numbers of clerical workers or even have all workers in one site, computers enable firms to function in less populated locations.

If you can't keep 'em down on the farm, to change the old song lyric, can you get 'em another rural job? That depends in part on getting enough capital to rural loca-

Continued on page 4



Rural America, *from page 3*

tions to allow businesses to start up and expand. Both loans and equity are important.

Farmers rely heavily on loans, partly because their business is so seasonal, with high demands for capital during the planting and growing season, offset — they hope — by enough income at harvest time to repay the loans. The exodus from family farms may be exacerbated if farmers don't have enough access to loans, especially in tight economic times.

Small, non-farm businesses in rural areas also tend to rely on bank financing more than their urban counterparts do. The National Survey of Small Business Finances, co-sponsored by the Office of Advocacy and the Federal Reserve, found that in 1993 over 45 percent of small rural businesses (but less than 35 percent of small urban firms) used credit from banks. Conversely, only 16 percent of rural small firms (versus 23 percent of urban small businesses) raised equity from either existing shareholders (owners) or from outside investors.

The Office of Advocacy is taking steps to improve access to capital for both farms and rural small non-farm businesses. To provide more information to both borrowers and lenders as to where loans are being made, we recently compiled and published *Small-Farm-Friendly Banks in the United States*. This report revealed that over half of all bank loans to small farms came from small community banks (that is, those with less than $100 million in assets) even though these banks accounted for less than 7 percent of all bank assets. As a group, small banks also accounted for a disproportionately high 19 percent of all bank loans to small non-farm businesses. (See story on page 5 of this issue.)

Community banks are more likely to make "character" loans that rely on the banker's personal knowledge of the borrower. In contrast, regional and national banks tend to base loans on a borrower's assets or score on a credit scoring model. The latter standards are likely to be harder than a "character standard" for a new business to meet.

The trend of consolidation in the banking industry has important implications for small rural businesses, both farm and non-farm. When a community bank goes out of business or is acquired by a regional or national bank, farmers and small local businesses are likely to have a harder time getting bank loans.

As for equity capital, we are continuing to add states to the ACE-*Net* (Access to Capital Electronic Network) system, including many rural states. By "introducing" investors and businesses seeking capital over the Internet, ACE-*Net* eliminates the difficulty and cost of arranging face-to-face initial contacts.

The Office of Advocacy will continue to monitor trends in rural business and finance. I will not hesitate to make recommendations to Congress and financial regulators if small rural entities don't receive the credit (or equity) they deserve.

Chief Counsel for Advocacy Jere W. Glover's presentation to the Federal Reserve, as well as all data and studies produced by the Office of Advocacy, is available on the Internet at www.sba.gov/ADVO/.

For more information on the rural manufacturing sector see Small Business Growth by Major Industry, 1988–1995. *For more on bank mergers, see the proceedings of the Office of Advocacy's October 1997 conference,* The Impact of Bank Mergers and Acquisitions on Small Business Lending. *ACE*-Net *can be accessed via the Internet at* http://www.sba.gov/ADVO.

Small Farms Find Friendlier Loans at Small Banks

Farmers use many tools to produce their harvest. From the ox and plow to today's sophisticated and technologically advanced harvesters, farmers have long sought to improve the science of farming. In that spirit, the Office of Advocacy is giving farmers a new financial tool with its bank lending research. Thanks to a new report published by the SBA's Office of Advocacy, *Small-Farm-Friendly Banks in the United States*, small farmers can identify banks more likely to lend to them.

Released October 14, *Small-Farm-Friendly Banks* is the first study to highlight lending to small farms by banks in each state and identify those that are "small-farm-friendly" in terms of their lending in amounts under $250,000. The study also raises some troubling concerns regarding the supply of credit to small farms, due to the declining number of small banks in the United States.

"Farms are the heart of rural America. If banks aren't serving small farms, rural small businesses won't prosper either," said Chief Counsel for Advocacy Jere W. Glover. "By publicizing this information, bank competition should increase for serving the important farming sector. Advocacy's study shows smaller banks hold a greater percentage of small farm loans, so bank acquisitions and mergers may pose access to capital problems in the future."

Based on reports filed with federal banking regulators in 1997, the study identified a number of important facts about lending to small farms:

• Small farm loans totaled $48.4 billion, with 1.7 million loans made. Total farm loans were valued at $68.6 billion. Small farm loans made up 70.6 percent of total farm loan dollars. (Comparable figures: Small business loans totaled $184 billion, 19.9 percent of total business loans, valued at $923 billion.)

• The study identifies 446 banks that are small-farm-friendly — that is, having the highest total rank of the variables the Office of Advocacy used to measure farm lending activity in loans of less than $250,000.

• These 446 banks hold only 1.6 percent of total bank assets, but 13.1 percent ($6.3 billion) of the dollar value of small farm loans outstanding from all U.S. banks.

• Seven banks had at least $50 million in small farm loans outstanding as of June 1997. These banks were in Idaho, North Dakota, North Carolina, South Dakota, Nebraska, and Wyoming.

• Five large banks with assets in excess of $1 billion were characterized as small-farm-friendly lenders. These banks were in Alaska, Hawaii, North Carolina, Rhode Island, and Vermont.

Banking studies such as this one become more important as bank acquisitions and mergers continue. "The Office of Advocacy assessed farm lending and found that small banks provide the bulk of small farm loans and, therefore, bank consolidations may be of particular concern for rural businesses," said Chief Counsel Glover.

The following statistics illustrate the Chief Counsel's concern:

• The smallest banks (those with less than $100 million in assets) have the largest percentage of their assets in small farm loans (11.4 percent).

• The largest banks (those with more than $10 billion in assets) have a small farm loan-to-asset percentage some 100 times smaller than the smallest banks (0.1 percent).

• The smallest banks make 53.5 percent of small farm loans, whereas the largest banks make only 5.6 percent.

• The smallest banks have a small-to-total farm loan percentage of 79.4 percent, whereas the largest banks have a small-to-total farm loan percentage of 29.6 percent.

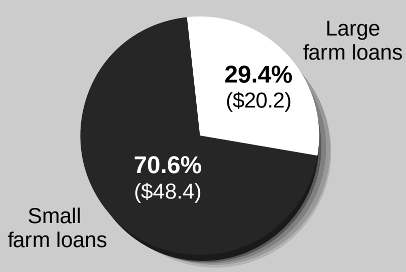
Since this is the first study on farm lending, one practical question

Continued on page 12

Farmers get a new tool for identifying farm-friendly banks with the release of a new study by the Office of Advocacy.

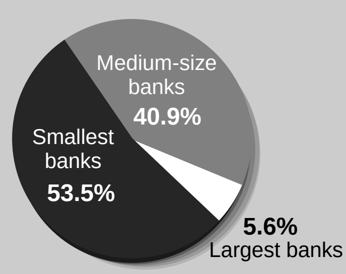
Small Farm Loans . . .

Total farm lending, by loan size, 1997 (billions of dollars)



. . . and Who Makes Them

Share of small farm loan dollars, by size of bank, 1997



Source: SBA, Office of Advocacy.

Comprehensive Tax Reform 1998: Gone, But Not Forgotten

The clock ran out for Congress in the struggle to put together a comprehensive tax passage, but not before several key small business tax reforms were passed. In the eleventh hour, before adjournment, Congress was able to pass several important provisions that will provide direct relief to small businesses across the country. The President signed the omnibus appropriations bill including these measures on Oct. 21, 1998.

What began as a comprehensive legislative tax reform package last spring containing a number of sought-after small businesses incentives was reduced, but important provisions remain, including:

• accelerating the deductibility of health insurance for the self-employed. The provision allows for 60 percent deduction of health insurance in 1999, 2000, and 2001; 75 percent in 2002; and 100 percent thereafter. This is a $3.4-billion incentive to assist small businesses in providing health insurance;

• permitting farmers to income average;

• extending the existing research and development tax credit;

• extending the existing welfare-to-work tax credit;

• extending the existing work opportunity tax credit.

After the vote for the small-business tax plan, the leadership in the House of Representatives and the Senate announced that a tax bill would be the first order of business in the new 106th Congress. Small businesses can expect to see many of the elements cut from this year's bill brought back to the forefront of Congress' attention in 1999.

The Office of Advocacy continues to support provisions that would:

In the end-of-session rush, tax cuts and health insurance deductibility for the self-employed made it into legislation passed by Congress.

• improve the extended research and experimentation tax credit to provide special incentives to small, innovative businesses;

• clean up the welfare-to-work tax initiative to allow small businesses to use intermediaries;

• improve the requirements to gain the tax incentives for special small business stock; and

• provide for expensing (deducting from taxes immediately) such expenditures as year 2000 computer compliance expenses or costs associated with ISO 9000 quality standards.

For more information on the tax provisions in this year's bill, contact Russ Orban, assistant chief counsel for tax at (202) 205-6533 or via e-mail at *russell.orban@sba.gov.*

New IRS Mission Statement Emphasizes Taxpayer Service

"To provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all." That's the new mission statement of the Internal Revenue Service (IRS) according to Commissioner Charles O. Rossotti. As part of the IRS's transformation into a customer-oriented organization, it has developed a number of initiatives aimed at the small business community. Included in these initiatives is direct aid to the U.S. Small Business Administration's Business Information Centers (BICs), a nationwide roll-out of forms and publication distribution at BICs, and a pending project with the Association of Small Business Development Centers. Information about BICs is located on the SBA's home page at *http://www.sba.gov/starting/bics.html*. The home page of the Small Business Development Center program is located at *http://www.sba.gov/sbdc/.*

Final Rules on Intercity Bus Transportation: A Win-Win Situation for All Parties

The Department of Transportation (DOT) took serious steps recently to assure that passengers with disabilities receive over-the-road (OTR) bus service when it adopted an innovative approach that minimizes the impact of a new rule on small bus companies. Under new regulations issued Sept. 28, bus companies will be allowed to provide service to the disabled with a 48-hour advance reservation system. The new regulations also provide for a complaint process for individuals to report non-compliance by transportation companies.

"The rulemaking clearly demonstrates that considering alternatives that are less burdensome to small business need not compromise public policy objectives," Chief Counsel for Advocacy Jere W. Glover said. "This is all that the Regulatory Flexibility Act mandates."

The issue came to a head this spring when, under court order to finalize a rule in compliance with the Americans with Disabilities Act, the Department of Transportation published in the *Federal Register* proposed regulations governing the accessibility of buses used in intercity transportation (63 FR 14560, March 25, 1998). The proposed regulations would have required that new purchases of over-the-road buses be accessible to passengers with disabilities, and further required bus companies to provide accessible OTR bus service. The rules applied to both fixed-route and charter/tour operators.

At the instigation of the Office of Advocacy, the DOT's legal and economic staff met with small bus company owners who were concerned about the proposed rule. The department acknowledged that the rule would have a significant economic impact on small companies, and the Office of Advocacy urged the DOT to consider less costly alternative regulations. In comments to the department filed on May 27, the Office of Advocacy emphasized that mandatory equipment modifications for all buses would be extremely costly to small firms and may be detrimental to overall bus transportation service.

This type of accessible intercity bus will become an increasingly familiar sight under recently issued DOT regulations. (Photo courtesy of Motor Coach Industries, Inc.)

But the impact of the regulations would have done more than hurt the bottom line for small bus companies. The chief counsel argued that the increased costs would have reduced transportation options for passengers, both with and without disabilities. Bus companies would have been forced to reduce routes in rural and underserved areas and/or increase fares.

"Many counties have been losing intercity bus and rural connections, as carriers have dropped many of their less economical routes," Glover wrote, citing the DOT's statistical report on transportation. "Continued erosion of bus service as the result of government regulation is not in the public interest. . . . This is especially troublesome for fixed-route operators who serve rural communities as the only provider of mass transportation."

Intercity private bus carrier services — often the only source of affordable transportation — cannot offset increased costs with government subsidies, noted Glover. Therefore, bus services may stop serving rural areas or lose business to other modes of intercity transportation, such as air and rail travel. In fact, intercity bus passenger revenues decreased from 1980 to 1995 by 12 percent, while air travel revenues increased by 112 percent. Increased fares could cause bus companies to lose more business to other forms of transportation.

After considering the comments of the Office of Advocacy and its constituencies, the DOT adopted a service-based system to meet the immediate needs of the disabled, and granted a phase-in for more costly equipment purchase mandates. The final rule, published on Sept. 28 (at 63 FR 51670–694), accomplishes the objective of ensuring over-the-road bus service for passengers with disabilities, but allows the needs of other passenger groups to be met.

"We urged DOT to consider two questions. What will be the rule's impact on the overall accessibility to transportation if carriers are forced to reduce or eliminate services? Are these less costly and equally effective alternatives?" Glover said. "The DOT did an excellent job of answering these questions."

Small Business Technology Leaders Honored at Tibbetts Awards Ceremonies

by Terry Bibbens

Some 125 small business technology leaders, representing 62 companies, non-profit organizations, and individuals from every state, gathered in Washington, D.C., on Sept. 17 to be honored as winners of the third annual Tibbetts Awards.

The Tibbetts Awards are named for Roland Tibbetts, the man widely acknowledged as the "father" of the federal Small Business Innovation Research (SBIR) program and the former SBIR program manager of the National Science Foundation. The awards were started in 1996 by the SBA's Office of Technology and the Office of Advocacy as a way to honor the achievements of exemplary SBIR awardees and to recognize the contributions of small, high-technology firms to the U.S. economy. To date, some 198 organizations representing all of the 50 states have been recipients of Tibbetts Awards.

In a welcoming ceremony, Sen. John F. Kerry (D-Mass.), ranking minority member of the Senate Small Business Committee, noted the accomplishments of the winners: "You've proven that small business can make a significant contribution to research and development and in turn contribute to the innovation that helps keep this nation competitive in a global economy."

Rep. George E. Brown, Jr. (D-Calif.), ranking minority member of the Science Committee of the U.S. House of Representatives, also welcomed the attendees and singled out Kelly Space and Technology, Inc. (KST). "I am very proud of KST for its excellent work," said Rep. Brown. "The award should increase KST's prestige and exposure as the company seeks to expand its business. The award will also help showcase the former Norton Air Force Base and the Inland Empire as places where companies are doing innovative work and are expanding. KST is one of the many good business ambassadors our region has."

Some 125 business leaders, representing 62 high-tech companies, are recognized for their achievements in the federal Small Business Innovation Research program.

KST, of San Bernardino, Calif., received the Tibbetts award based on commercialization success of an Air Force SBIR program for low-cost space launch technology.

The awards ceremony keynote address was given by SBA Administrator Aida Alvarez, who noted the breadth of technological knowledge represented by the winners. "As I read through the list of accomplishments," said Administrator Alvarez, "I am impressed with the diversity and ingenuity shown by each of these award recipients. There are projects dealing with computer-based speech transcription, submarine tracking, and even genetic research. This is the creativity of the small business community at its best."

Small businesses must meet several eligibility criteria to participate in the SBIR program. (See box on page 11 for a description of the SBIR program.)

Since its inception in 1982, the SBIR program has become the largest federal research and development program to utilize the resources of the small business sector. Small businesses now employ more degreed scientists and engineers

At a Sept. 17 reception in Washington, Rep. George E. Brown (D-Calif.)(L) congratulates Robert Keltner (R) of Kelly Space and Technology on winning a Tibbetts Award. (Photo by Tisara Photography) than large businesses and more than the academic and federal government institutions combined. (For details, see the September 1998 issue of *The Small Business Advocate*.) The General Accounting Office has conducted nine different studies on the SBIR program and found it one of the most successful federal research programs, both in the quality of the research undertaken and the rate of commercialization. SBA studies show that over 25 percent of SBIR programs are commercially successful (40 percent if a company has won two or more awards).

Tom Callahan, 1998 Tibbetts award winner representing Bio Acoustics Technology Corporation of Grantham, N.H., spoke about the SBIR program. "We have been working within the SBIR program since its inception and have developed several successful prototypes. However, our most meaningful achievement is the development of the Digital Active Noise Attenuation — Vital Signs Monitor prototype," he said. "For the first time in the 180-year history of the stethoscope, medical professionals can hear heart and lung sounds in high noise environments. We expect a final monitor system will be used in general and emergency medical applications, and we are grateful to the SBA for recognizing the value of this achievement by presenting us with the 1998 Tibbetts award."

Terry Bibbens is the Office of Advocacy's Entrepreneur in Residence.

For More Information

A list of the Tibbetts Award winners for 1998 is available on the Internet at *http://www.sba.gov/SBIR/*. For additional information about the SBIR program or the Tibbetts Awards, contact the SBA's Office of Technology at (202) 401-6365.

About the SBIR Program

The SBIR program, mandated by the Small Business Innovation Development Act of 1982, requires federal agencies with $100 million or more of extramural research and development (R&D) obligations to set aside a certain percentage of these funds for small businesses. By law, the percentage of federal R&D contracts going to small firms increased to 2.5 percent in 1996. Ten federal agencies currently participate in the SBIR program: the Departments of Agriculture, Commerce, Defense, Education, Health and Human Services, Transportation, Energy, and the Environmental Protection Agency, the National Aeronautics and Space Administration, and the National Science Foundation.

The SBIR program is designed to stimulate technological innovation and make greater use of small businesses in meeting national innovation needs. Businesses must meet several eligibility criteria to participate in the program. Qualifying businesses must be for-profit, American-owned, and independently operated. Principal researchers must be employed by the business, and the company's size cannot exceed 500 employees.

More information on the SBIR program can be found on the SBA Office of Technology's Web site at *http://www.sba.gov/SBIR/*.

Over the past few months, The Small Business Advocate *has been bringing you reports that highlight state programs and events that are "models of excellence." These state programs that are successfully advancing the growth of small business — such as the Working Capital Delaware program described in the following article — will be showcased at* ***Vision 2000: The States and Small Business Conference*** *to be held in Washington, D.C., Dec. 9–10, 1998. To receive more information about the conference, contact Barbara George in the Office of Advocacy at (202) 205-6934.*

In Delaware, Building a Bridge for Micro-Businesses

by Mary Dupont

The power players in government, business, and the financial industry have become increasingly aware of the sleeping potential of the smallest entrepreneurs. The owner of such a "micro-business" could be a woman who watches children in her home, a vendor in the marketplace, or a small-time artisan. These individual entrepreneurs are doing something very important for the economy: they are creating jobs and producing revenues for themselves and their communities. Statistics from the Small Business Administration indicate that in recent years the primary source of jobs has been these small and micro-businesses. As a result, millions of dollars are being invested in programs that support and encourage micro-enterprise development by making credit, business training, and counseling available to micro-businesses.

The smallest businesses, the so-called "micro-businesses," are the focus of an innovative economic development initiative in Delaware.

Mary Dupont, director of the YWCA of New Castle County's Women's Center for Economic Options.

In Delaware, over 400 micro-businesses enjoy open access to credit, business development training, and group support through Working Capital Delaware, a joint project of the YWCA of New Castle County and the First State Community Loan Fund. The goal of this award-winning program is economic revitalization in distressed communities through the creation of a commercial base of locally owned businesses. Since 1995, the program has stimulated neighborhood economies by targeting assistance to the state's smallest economically and socially disadvantaged entrepreneurs.

Working Capital Delaware has eliminated barriers for access to credit to "unbankable" entrepreneurs by delegating loan decisions to support groups of business owners who evaluate each other's credibility and help each other make small but sound investments in their businesses. Mutual accountability encourages the support group members to work closely and make careful loan decisions.

In Delaware, micro-business owners are showing that while access to credit, training, and personal support help to establish a strong foundation, the businesses tend to remain very small and on the sidelines of the economy. The gulf between micro-entrepreneurs — particularly women- and minority-owned businesses — and the mainstream business community remains wide. These entrepreneurs need a bridge to make the connections to develop contacts and contracts with larger businesses. Surveys of micro-businesses indicate that they want more networking opportunities and training to increase their skills and exposure to other business owners.

In response, the YWCA of New Castle County teamed up recently with the Delaware State Chamber of Commerce and the Small Business Administration to create a Micro-Business Chamber of Commerce to open market access for

Delaware's Commitment to Micro-Businesses

The goals and objectives of the Micro-Business Chamber of Commerce.

- Increase market access for disadvantaged micro-businesses through exposure and involvement with the larger business community.
- Help micro-businesses develop an awareness and understanding of the market potential available through business networks.
- Build the skills to help micro-businesses make the leap to doing business in a more sophisticated market.
- Create tangible opportunities to develop procurement and formal business relationships with other businesses.
- Create a structure to marry the constituencies, agendas, services, and goals of Working Capital Delaware and the Delaware State Chamber of Commerce.
- Develop specialized programming and activities addressing the needs of micro-businesses.
- Make the resources of a chamber of commerce more relevant and affordable to micro-businesses.
- Increase the contact and depth of relationships between micro-businesses and the larger business community.

micro-businesses.

The chamber's benefits to its member businesses will include an electronic marketplace Web site with free advertisements for members, health care benefits, and a membership discount program for business products and services that flow through the state chamber of commerce. This program is funded by the SBA's Office of Women's Business Ownership and is under development. A grand opening is scheduled for 1999.

Mary Dupont is the director of the YWCA of New Castle County's Women's Center for Economic Options. She will speak at Vision 2000: The States and Small Business Conference. For more information on the Micro-Business Chamber of Commerce, Working Capital Delaware, and the YWCA of New Castle County, call (302) 658-7161.

Keynote Speaker Named

Secretary of Labor Alexis Herman will be the keynote speaker at the Vision 2000 conference on Dec. 9. "Vision 2000: The States and Small Business Conference" will bring together state government officials and small business leaders on Dec. 9 and 10 in Washington, D.C., to examine proven initiatives that make entrepreneurship thrive. The conference is sponsored by the SBA's Office of Advocacy, and is designed to focus on business development and regulatory initiatives that work.

For more information about the conference, or to register to attend, visit the conference Web site at *http://www.sba.gov/ADVO/vision.html*, or contact Barbara George, the conference coordinator, at (202) 205-6934 or via e-mail at *barbara.george@sba.gov*.

Farm Lending, *from page 5*

— how the data from this report change over time — cannot be answered. However, with the publication of the second edition next year, it will be possible to identify on a state-by-state basis whether the supplies of bank credit for small farms are growing or declining.

The Office of Advocacy began its bank lending studies four years ago with *Small Business Lending in the United Sates*. *Small-Farm-Friendly Banks in the United States* is a companion to this study. They are both based upon analyses of the Consolidated Reports of Condition and Income, or "call reports," that banks must file with federal bank regulatory agencies. Another study published by the Office of Advocacy, *Micro-Business-Friendly Banks in the United States*, identifies the micro-business-friendly lenders — that is, banks with significant lending activity in loans of less than $100,000. *The Bank Holding Company Study* provides national data that consolidate the information on small business lending for multi-state bank holding companies with assets greater than $10 billion.

A number of "firsts" are marked with the release of *Small-Farm-Friendly Banks in the United States*. For the first time, data from call reports on agricultural lending are now available to the public, farmers, and the banks that serve them. It is also the first time that data have been made available on farm lending on a state-by-state basis and by loan size.

The U.S. Department of Agriculture recently released a study, *Credit in Rural America*, that concluded "not all markets and market segments are well served." *Small-Farm-Friendly Banks*, as a more detailed study, should encourage more competition among the banks that do not find themselves listed and will help farmers find banks interested in making small farm loans. The more successful small farms are, the more successful other small businesses will be in their local communities.

For More Information

The 1997 edition of *Small-Farm-Friendly Banks in the United States* and its companion bank studies are available on the Office of Advocacy's Web site at *http://www.sba.gov/ADVO/lendinginus2.html*. Paper and microfiche copies of these reports are also available for purchase from the National Technical Information Service, (703) 487-4650 or, toll free, at (800) 553-6847.

The Department of Agriculture study *Credit in Rural America* (Agricultural Economic Report no. 749) is available on the Internet site of the USDA's Economic Research Service at *http://www.econ.ag.gov*.

Comments and technical questions about *Small-Farm-Friendly Banks* may be directed to Dr. Robert Berney or Dr. Charles Ou, Office of Advocacy, U.S. Small Business Administration, 409 Third Street, S.W., Washington, DC 20416; tel. (202) 205-6530; fax (202) 205-6928.

U.S. Small Business Administration
Office of Advocacy
Mail Code 3114
409 Third Street S.W.
Washington, DC 20416

Official Use
Penalty for Private Use, $300

Return Service Requested

FIRST CLASS
POSTAGE AND FEES PAID
U.S. Small Business Administration
Permit No.G-82