



Remarks Prepared For Delivery

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Introduction

Thank you, Chris, for that kind introduction.

As head of the U.S. Small Business Administration, I'm delighted to be at the Kauffman Foundation to discuss entrepreneurship in today's economy and to briefly discuss how SBA is rising to the new economy's challenges.

The Kauffman Foundation, and its leader, Carl Schramm, have my utmost respect. In my previous role as Assistant Secretary of Commerce, I worked with Carl on many initiatives – including focusing on innovation and competitiveness and using many of the principles advocated by the Kauffman Foundation in government to advance the art and science of entrepreneurship. I look forward to working with the Kaufmann Foundation in my new role leading SBA.

When I first joined the President's team at the U.S. Department of Commerce seven years ago, I did so because I understood that the state of the American economy is in directly linked to the state of American entrepreneurship. Everything I've learned in my government service since 2001 has only reinforced that thought.

If we want a strong and expanding economy, we need more people who take risks, work hard, and start new enterprises. In the 21st Century, we will need relatively fewer large and established organizations and more pioneers in new industries using strategies and inventions unheard of five years ago.

Likewise, if we want a robust GDP that delivers for a rising standard of living – enabling families to move up the economic ladder, to buy homes, to fund their

children's education – we cannot underestimate the dynamic role that small business and entrepreneurship plays in creating and nurturing that level of growth.

In fact, as I travel the country, I'm pleased to remind audiences that in our 21st Century, flat, global marketplace, competition does not come from the big company next door. It comes from any person, on any point on this globe with a good idea, a good education, and a good Internet connection.

In other words, it is our entrepreneurs that are advancing the state of play of our economy -- and if a nation, even one as seemingly committed to entrepreneurship as the United States, loses sight of the critical role entrepreneurship plays in our economic growth our economic growth will suffer.

Entrepreneurship and the Economy

The facts are clear: Small business and entrepreneurs drive our economy. Small businesses:

- Create 70 percent of new jobs;
- Are responsible for most of the innovation in our country (small patenting firms, for example, produce 13 to 14 times more patents per employee than their larger competitors do).
- Employ half of the private sector workforce; and
- Account for half of non-farm GDP.

Furthermore, owning or working for a small business is becoming a way of life for an increasing numbers of Americans. Over the last three decades, the number of employees at Fortune 500 companies has declined, while the number of

Americans who are self-employed or working for small firms has increased dramatically.

In addition, many corporate icons today – especially those on the cutting edge of innovation and profitability – were small firms a generation ago. Apple, Intel, and FedEx are prime examples, and all three got help from the SBA. In fact, three-quarters of Fortune 100 companies were not on that list 25 years ago. That is the business story of the last half century.

These facts are set against a national economy that has many concerned. It's not secret that after 6 years of record economic growth – the longest job expansion in American history – our economy is growing slower than we would all like to see.

Here are the facts:

- Our economy is still growing. Last year, GDP growth was an inflation-adjusted 2.2%. This year, GDP growth continues – second quarter GDP growth was strong at 3.3% -- revised significantly upward just last month. Much of this reflects the impact of the economic stimulus package. Going forward, I am optimistic. Gas prices continue their downward trend and home prices are seem to be stabilizing in many regions.
- Exports continue to play a critical role in our current and future economic health and are a primary reason for the impressive resiliency of our economic growth. In 2007, exports were up 13% over 2006 – which itself was a record year. So far in 2008, our exports are booming – up 19% year-to-date.

- From August 2003 to September 2007, the United States experienced the longest continuous job expansion our nation has ever seen (49 months). Although our unemployment rate is too high today, the job losses we have seen have been less than half the rate of job losses during the milder downturn of 2001.

Certainly, we are not out of the woods yet. We have challenges before us. But from the big picture perspective, our economy is still growing, our exports are strong, and the downturn in our job growth – while troubling, especially if it is your job that is lost – is less than in previous economic slowdowns.

SBA's Role

Recognizing small business's pivotal role in our economic health, to building America's future, and to helping the United States compete in today's global marketplace, the SBA has, since its 1953 founding, helped entrepreneurs start, grow and succeed by providing small business access to capital, counseling and technical assistance, and Federal contracts. SBA is also the Federal government's primary source of post-disaster economic recovery aid.

SBA works through its 109 field offices across the nation, as well as through about 1,500 education centers run by our resource partners. During the last fiscal year (2007), our programs, offices, and centers counseled more than 1.4 million entrepreneurs. We guaranteed more than 110,000 small businesses loans totaling more than \$20 billion. And we helped small business to secure almost \$78 billion in Federal contracts and almost \$61 billion in subcontracts.

Making SBA a Better Agency

In order to help entrepreneurs effectively, we need an SBA that works well. For those of you who cover the agency, you know SBA for some time has faced internal problems that have called its effectiveness into question. As a result, the number of lenders participating in our programs has declined sharply in recent years. Our contracting certification programs were bureaucratic and opaque. And, following Hurricane Katrina, our disaster assistance program faced profound backlogs and poor customer service. Years of “business as usual” and the stress of the largest disaster in our nation’s history clearly demonstrated the cracks beneath the surface.

Responding to these challenges, in the last two years SBA has undergone a tremendous transformation. While there is more to be done, I’m pleased to report that we’ve made tremendous strides – making SBA more accountable, transparent, and effective. My job between now and January is to ensure that all the changes currently underway are fully implemented and fully ingrained into the agency’s operations, and culture – as well as to address new challenges as they arise.

Those reforms have involved every one of our program offices:

Lending

To get capital to entrepreneurs, SBA underwrites private small business loans. Therefore, we need to be easier for lenders to work with.

- So, we’ve rewritten our rulebook for lenders, cutting it from 1,000 to 400 pages.
- We have substantially improved our lender oversight regimen to protect taxpayer dollars.

- And at our Herndon Guaranty Purchase Center, we have turned around a slow process and backlog by focusing on customer support, staff training, and process redesign. Today, the excess backlog is gone and reimbursement of correct packages – which used to take 279 days to turnaround – now takes an average of 23 days.
- Productivity per loan office has increased more than 100 percent.
- These improvements have allowed SBA to meet increasing demand for servicing and liquidations with 10 percent less staff than we would have needed to address the same level of demand before making improvements.
- Finally, we've launched a small and rural lending initiative to make it easier for smaller banks to make SBA loans; we are currently expanding this initiative to more areas of the country.

Thanks to these many improvements, after years of decline, we now have an increase in the number of lenders who make SBA loans (up 23 lenders or 1 percent) despite credit crunch and slower economy. We expect this increase to continue next year.

Contracting

To help small businesses get Federal contracts, we've dramatically enhanced our transparency and accountability addressing small business contracting with the Federal Government.

- SBA has overseen a major clean-up of the Federal contracting database, initiated a new recertification rule and created annual federal agency Scorecard. More than \$10 billion in contracts will be removed from the

small business classification this year, creating opportunities for other small businesses.

- Our 8(a) Certification Process for disadvantaged small businesses was backlogged – we’ve reduced the turn around time for applications from 146 days to 73 days, with greater improvements expected as new technology has recently been put in place.

Disaster

Our Office of Disaster Assistance, which provides economic recovery loans not only to businesses but to homeowners, renters, and nonprofits – has undergone a complete overhaul.

- In 2006, the operation was completely restructured in response to the 2005 hurricane backlog. Within months, backlogs were eliminated and key process times were cut by up to 90 percent. Today, SBA has disbursed more than \$6.4 billion in the Gulf.

SBA has undergone many other important internal changes including instituting massive, regular employee training. In 2007, overall job satisfaction increased 9% and respect for senior leadership increased over 21%. Two years ago, SBA’s employee morale was dead last among Federal agencies. Today, we are mid-pack and hopefully rising.

There are many more details on agency reform I could share but I’ll stop here. If any of you want to write about government reform and learn more about a great example of process improvement in a government environment, I’d be more than pleased to talk with you and share the details. I think it’s an impressive

story – in fact, the improvements at SBA are the greatest “good government” story of recent years – but unfortunately, it’s largely unsung.

By implementing these reforms, SBA has changed the way it functions. We have also put the agency on a more solid footing for years to come, so that the SBA can deliver results for the country, for the economy, and for small business.

At the end of the day, it is the private sector that drives our economic growth. I’m fond of saying that “unless the private sector is ready, willing, and able to invest, economic growth and job creation simply will not occur – regardless of how much government spends. In order for SBA to be effective, we must spur private sector activity.

SBA, just like any government entity is not perfect. But the efforts that the agency has undertaken in the past two years has make it much closer to perfect than at any other time and I am proud to be leading the agency during this effort.

I am also proud that we as the American people and the American government have decided that entrepreneurship is so central to our economic growth, standard of living, and way of life; we have created a Federal agency whose sole purpose is to advance entrepreneurship and small business. Not a bad reason to go to work in the morning.

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