



Remarks Prepared For Delivery

The Hon. Jovita Carranza
Administrator (A)
U.S. Small Business Administration

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Good morning. Let me start by saying how excited I am to speak with all of you this morning.

I want to thank Ambassador Mozena.

And I want to thank all of you, for your work to build this country and for your interest in ways to enable a successful small business sector.

Importance of Small Businesses

By way of introduction, I am the head of a small agency in the United States government that helps small businesses grow and succeed. We do this in a number of ways, and I'll get to those a little later. I want to start today by talking about *why* my agency does what it does. Why is it important to help small businesses? What do small businesses contribute to an economy?

The answer is that small businesses are vital contributors to economic growth, job creation, innovation. Small businesses are also critical to providing essential products and services, and creating opportunity for everyone.

I believe very strongly that an important component of a stable and prosperous country is a strong and vibrant middle class. And one very

important way to build a big middle class is through small business ownership.

I'm speaking here from my own experiences, both my personal and professional experiences in business and in government. My hope is that by sharing what I've learned about building a culture of entrepreneurship and of small business ownership, you might be able to find some applicable lessons for Angola. Every policy that works in the United States may not work in Angola, but I think there are broad ideas that apply across many different countries and cultures.

The first is that small businesses are critically important to building an economy. An entrepreneurial economy is a proven way to create products, provide services, and add jobs. This is certainly true in the United States.

When you think about the characteristics of an ideal economy, there are some concepts that probably come to mind: a healthy economy is robust; diversified; produces the goods and services that people need; drives new investment and creates wealth; flexible and adapts to opportunity; and, most of all, creates the opportunity for people to find jobs and

Well, when you look at all of these things, I think that a vibrant small business sector goes a long way toward creating these conditions. This is certainly the case in the United States.

When you think about business in the United States, what might come to mind are big multinational corporations – ExxonMobil, Wal-Mart, General Motors, Ford, or other big companies. But the truth is that America's economy is dependent on small businesses. And, in fact, our economy has become more dependent on small businesses over the past decades. More than 99 percent of employer firms in the United States are small businesses. And those companies employ about half of all private sector American workers.

The driving force behind America's economy today is rapidly expanding small businesses, and the entrepreneurs that manage them. Fortune magazine every year compiles a list of the 100 biggest U.S. companies. Last year, 75 of the Fortune 100 companies were not on the list 25 years ago. This means that three-quarters of America's largest companies were much smaller not too long ago.

America is somewhat unique in that many of our most successful companies are still fairly young. Even Wal-Mart, which is the largest employer in the United States, only opened its first store in the 1960s. One clear reason to support small businesses is that although they start small,

with only a few employees, they end up as big businesses, employing thousands of workers and providing a valuable product or service to thousands more.

Small businesses have a number of other essential benefits for America's economy. First, small businesses are responsible for about half of our non-farm gross domestic product. Although we talk a lot about the giants of American industry, small businesses account for a very large portion of our economy.

Second, small businesses in the United States create about two-thirds of net new jobs every year. In fact, according to U.S. government statistics, between 1990 and 2003, almost 80 percent of *net* new jobs were created by firms with less than 20 employees. This is staggering, if you think about it. Four out of every five new jobs created in the United States was at a firm with less than 20 employees. Clearly, small businesses play a vital role in adding jobs to the U.S. economy.

Finally, the great thing about small business is that it can be a path to success for anyone who is willing to work hard. You don't need an extensive formal education, you don't need a lot of connections, and since there's no limit on the number of small business owners, there are always opportunities.

I'm reminded of a story about a small business owner in San Antonio, Texas. This story comes to mind in part because the Small Business Administration was able to help her grow her business. But this small business owner, a young woman named Valerie Gonzales, graduated from college and had a vision. Her vision was to transform a small, local tamale factory into a major producer of tamales. She built up her business, and she now employs about 40 people, plus a dozen or so more during peak season, and ships tamales across the United States. Because of this young woman's entrepreneurial spirit and drive, 40 people now have good jobs. And she is only one of millions of small business owners that fuel America's economy.

Helping Small Businesses Succeed

For all of these reasons, I think that small businesses are absolutely crucial to a healthy, vibrant, and sustainable economy. Now, I'd like to talk about how the U.S. promotes small business ownership, and how we make it possible for our small businesses to succeed.

Admittedly, the United States enjoys many advantages that make it easier for entrepreneurs to pursue their small business aspirations. These are advantages like very well developed infrastructure, a highly educated workforce, deep capital markets, and a culture that has for many years strongly respected entrepreneurship. This means that not everything my

agency does for small businesses will be directly applicable. But I think there are broad lessons to be drawn.

Policies

First, before I discuss specific programs, it's important to discuss broad policies that encourage small business formation and growth. This means lowering the barriers for entrepreneurs to start their business, and then keeping their path to success as clear of roadblocks as possible.

It should be easy, straightforward, fast, and relatively inexpensive to start a new business. I think this goes hand-in-hand with having an entrepreneurial culture and a healthy small business sector. The United States is one of the best countries for starting a new business, according to the World Bank. The whole process takes a few days, doesn't cost very much, and is transparent and predictable.

Knowing that a new venture can be started easily and inexpensively is tremendously important for an entrepreneur, so that he or she can make appropriate plans.

It's also important to keep developing infrastructure, which will help small businesses, as well as large businesses, do business. I think there's a virtuous circle here. As infrastructure is developed, small businesses will

start, grow, create jobs and drive the economy. And as they do that, they will also contribute to the further development of the country's infrastructure, through an increased tax base and more economic activity.

Another point that I need to mention is the importance of having legally enforceable contracts. Legal assurances allow small businesses to plan ahead, take risks, and expand.

Finally, the burden other policies place on small businesses should be reduced as much as possible. Taxes should be low, and the tax code should encourage people to take risks and to invest in a small business.

Other regulations should also be minimized and should be applied consistently. Small business owners need to focus their full attention on running their business, and taking time to sort through bureaucratic, complex regulations can be very detrimental.

In the United States, taxes and other regulations are frequently cited by small business owners as being among the most significant encumbrances they face. One thing that my agency does is to look at how each new federal rule will impact small businesses. We also help small businesses avoid excessive or overzealous enforcement of federal regulations. Both of these can really impede small business success.

These are all ways that we work to create the right environment for small businesses. We want to give small businesses the right conditions to start, to grow, and to create jobs, and these policies are an important way for us to do that.

Programs

Finally, I'd like to talk about the programs that we have in place in the United States to enable small businesses to succeed. All of these programs are designed to give small business owners what they need to be successful themselves. At a fundamental level, the government does not make small businesses successful: small business owners make their business ventures successful. Our programs do not try to take the place of the private sector, only to enable it to do more.

Our programs address some of the most common challenges that small businesses have. We help small businesses get access to capital, we help them compete for federal government contracts, and we help them through training and counseling.

First, capital is the lifeblood of any enterprise. Without it, the organization can't survive. And we play a critical role in helping small businesses with great ideas get it.

The SBA generally doesn't make loans. The only time we do make loans, it's in response to a disaster. We work with private lending institutions – credit unions, banks, community development companies – who make loans. We simply provide credit enhancement in the form of a government-backed guarantee to the lender, so that they are able to stretch farther and make loans that they regard as too risky to make otherwise.

This financial assistance can be used for a wide variety of business purposes, including start-up, expansion, equipment purchases, working capital, inventory, and real-estate purchases without overwhelming entrepreneurs with high interest rates. Depending on the program and the loan amount, we offer guarantees up to 85 percent on loans up to \$2 million.

In the last fiscal year, we approved more than \$20 billion in guaranteed loans. And we have a total portfolio of guaranteed loans and investments of about \$75 billion.

In our loan programs, interest rates are determined by the lending institutions. The lenders profit from these loans – otherwise there wouldn't be any incentive for them to work with us. But the interest rates are regulated, because we are not interested in saddling borrowers with overly burdensome interest rates. Another very important feature of our primary loan programs is that they're done on a self sustaining budget

basis. The administrative costs are paid by the government, but by charging fees on our loans, we don't rely on an appropriation to fund the program. This means we won't run out of money during the year as the program grows. It also means that our bankers can market the product as aggressively as they want and don't have to worry about the program being shut down later in the year because of a lack of funding.

In these loan programs, we don't actually lend the money; we work through private lending institutions. Our guarantee allows them to stretch further in getting money into the hands of entrepreneurs.

These lenders have relationships and local knowledge of small businesses. And, we like working with them because our customers are better served by financial institutions in their communities than by the federal government.

SBA fills a critical role that is not being satisfied by the private sector. Our programs help entrepreneurs with mixed or limited credit histories – or, who just don't have access to capital – obtain the funding needed to get their businesses up-and-running.

Another important aspect of our loan programs is that we're able to target specific underserved communities and areas where we see higher than average unemployment and poverty. Through our loan programs we

enable economic development in urban centers and underserved rural communities. In the United States, banks and other private lending institutions often make fewer loans to these economically distressed markets. By providing a guaranty for the loan, we help those lenders finance worthy small business ventures that otherwise would not get the capital they need.

We also lend capital to private investment companies to help increase the availability of venture capital for small businesses. Financing from these Small Business Investment Companies, or SBICs, makes up only around 10 percent of the venture capital industry. But SBICs spread venture capital financing more thoroughly, making smaller investments in a broader mix of industries and in more geographically diverse areas. Again, this is an example of the SBA standing behind the private sector and helping it to reach further.

Finally, we do have a small microloan program, which we make through non-for-profit lending organizations. This fixed-rate financing provides small loans for shorter maturities, but many small businesses qualify and the capital can be used for a variety of purposes.

A second great way to invigorate entrepreneurship is by getting small businesses involved in doing business with the government. The United

States government is the largest purchaser of goods and services in the world, spending more than \$400 billion last year.

The federal government has a broad goal of supporting small businesses by incorporating them into its purchasing programs. They are often more flexible, and competitive than large companies – just harder to find. The U.S. government has a goal, not a quota, of spending a minimum of 23 percent of its procurement dollars with small businesses. All agencies have small business contracting goals, and large businesses that sell to the government have small business subcontracting goals. In 2006, small businesses received almost \$80 billion in prime federal contracting obligations, and more than \$60 billion in subcontracts.

In addition to this broad goal, the federal government has more targeted goal of purchasing from several specific groups. This includes entrepreneurs who live in economically distressed communities, or who have historically been disadvantaged.

I want to close by talking about what we do to provide counseling and training to entrepreneurs, and current as well as aspiring small business owners. Many times a small business owner will know all there is to know about the product or service that their business sells, but will have questions about the business of selling it. This is to be expected. Few entrepreneurs start out with a full knowledge of marketing, sales,

accounting and bookkeeping, regulation and compliance, or management. But we have many readily available resources to answer those questions and provide guidance.

We provide this information both online and in person through a national network of partners. Certainly private institutions provide a wide-range of support services – from online classes to books – and these are all fine. But the SBA is able to do something different. Because we work with such a large and distinguished network of partners, we have the ability to offer face-to-face, personalized advice that can be put to use immediately. That customization to the individual businessperson’s needs is a critical part of our technical assistance success.

We are working to create a class of entrepreneurs who are fully prepared to own and manage a company.

Our in-person counseling and training is provided through a network of different partners. Some of these counselors are retired small business owners who volunteer their time and impart their expertise to younger small business owners. We provide funding to these networks, but it’s important to understand that the centers are staffed by people who live in the communities they serve. The people who work at these centers are connected to the local small business community, so they understand the issues that small business owners in their communities face better than

those of us who work in Washington do. This is how our network of centers can connect to entrepreneurs at a real “grass-roots” level. And ultimately, this makes the training and counseling services we provide more valuable.

Let me highlight one particular partner we work with – our Small Business Development Center network. There are more than 1,000 centers located in this network throughout the United States. These centers are usually located on college and university campuses.

An important benefit to locating these training and counseling centers around students is that we are helping to teach entrepreneurship at a young age. The students of today are the entrepreneurs of tomorrow. We need to instill in them an entrepreneurial culture, and we also need to show them early in their lives that the door to small business ownership is open.

I learned this lesson early in life. I learned about entrepreneurship from my paternal grandmother in Mexico, whom I visited in the summers. I was amazed how she made her living by selling goods from her home after my grandfather passed away. This taught me the value of entrepreneurship and to prize entrepreneurship later in life.

Resource centers can be extremely helpful to small business owners, but they can also serve the function of exciting potential entrepreneurs about the rewards of starting your own business. Doing this early, either in school or connected to school, helps to build a culture of entrepreneurship. That culture, in turn, encourages small business ownership.

We have seen success with our Small Business Development Center model outside of the U.S. Mexico, for example, opened its first version of a Small Business Development Center in 2001. Mexico now has 45 of them, with the goal of reach 100. The Small Business Administration helped provide the model for these centers, and Mexican officials are now looking closely at how we fund the network in the United States.

This goes to show that the model for educating and training for entrepreneurs is not limited to success in the United States. To the extent that entrepreneurial education can be carried out at the local level, involving people who are familiar with and can really engage local communities, it will be more successful than a program entirely administered by a national government.

Conclusion

In closing, I would like to say that as you rebuild the infrastructure and systems in Angola, I hope that you do so in a way that encourages small

businesses. I think this can be an effective way to create a robust, sustainable economy. I think it can open the door of opportunity to many Angolans.

Small businesses adapt to opportunity, filling the gaps and delivering products and services that are needed. And as they do this, they create a more self-sufficient, resilient, and flexible economy.

Building an entrepreneurial economy takes years. But I'm convinced that an economy that encourages small businesses to thrive is ideal in many ways. Most of all, I think it's the best way to give everyone an opportunity to build a better life for themselves, for their families, and to develop their communities.

Thank you again. I hope that I've been able to offer some helpful information today. I'm happy to answer questions that you might have.