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Government Assistance to Entrepreneurships: On Local, State/ Provincial, and Federal Levels - Introduction

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The District in 1999 also developed a campaign that enabled it to achieve record loan growth for minority-owned entrepreneurs, and in 2000 the Cleveland District Office developed a unique initiative for the economic revitalization for the City of Youngstown and did so by combining SBA resources, Project Sector Banking in the City of Youngstown.

Before coming to the SBA as District Director back in 1994, Mr. Goldberg spent 20 years in commercial banking of which the last ten were devoted to mid-market and entrepreneurial business development in Northern Ohio. He holds a Bachelor's Degree in Foreign Service from Georgetown University and Master's Degree in Business Administration from the University of Notre Dame, and he resides in Shaker Heights. So, Gil?

UNITED STATES SPEAKER

*Gilbert B. Goldberg**

MR. GOLDBERG: Thank you, Ron, for the introduction. I don't have a Power Point presentation today. I will just come up here and talk a little bit if you don't mind. If you are wondering why I don't have a Power Point presentation, I don't believe in Power Point presentations. I was supposed to go second, and the other panel member came up to me and said "Gil, would you mind if you go first? We can't find my Power Point." Now you know why I don't believe in Power Point presentations.

I will try to make this as interactive and dynamic as possible, even though we don't have a Power Point.

One of the things I was wondering is why Henry King called me and said "Gil, can you be on this panel for the Canada-United States Law Institute?" And I thought maybe he was interested in my son who is an attorney in New York rather than myself, and then I started to look through the sessions for

* As District Director, Gil Goldberg is responsible for directing the activities of 11 permanent SBA employees; the administration of a business portfolio of over 6,400 individual loans for a total of more than \$604 million; oversight of the Ohio Small Business Development Center and 17 sub-centers; and the coordination for five chapters of SCORE, a volunteer organization that provides free business counseling. He is also responsible for the marketing efforts of the two SBA sponsored micro-lenders in the District as well as the delivery and oversight of the Agency's 8(a), SDB, and HUBZone government contracting programs for small business. Gil also serves as the National SBA representative under the Agency's Lender Liaison Program for Key Bank and National City Bank. In addition, he was a member of the Agency's Goals Team for four years. Before coming to the SBA in 1994, Mr. Goldberg spent 20 years in commercial banking. Mr. Goldberg holds a bachelor's degree in Foreign Service from Georgetown University and a master's degree in Business Administration from the University of Notre Dame.

today, and I saw “Session 1: The Importance of Entrepreneurship to Economic Growth,” “Session 2: Creating Entrepreneurships,” “Session 4: Financing Entrepreneurships” and so on. All the sessions had the word “entrepreneurship” in it, and I thought to myself that’s why we are here. You can’t think of entrepreneurship in the United States without thinking of the United States Small Business Administration and our programs.

Basically, we have four programs that entrepreneurs can use, and you in the room can also take advantage of, whether you are an entrepreneur, a lawyer, an accountant or advisor. I think our programs are something that can bring value to a small business. I will give you a quick little overview first.

Our first program, the program most people think about, is our loan program. We have two loan programs, 7(a) and 504 that provides funding to businesses.¹ On the panel before I came up to the podium to speak, I heard somebody say it is really hard to get financing because a lot of these startups lack hard assets.

Well, if you look at our programs, hard assets are not a requirement. Cash flow is a requirement. We think that Uncle Sam’s guarantee substitutes for the lack of hard asset – or even the soft asset. We look for cash flow, and if the cash flow is there and the asset is not, theoretically, you can get funding under our program to start your business.

There is another program we have to help businesses once they get in business: government contracting – contracting for small business.² We facilitate small business access to government procurement officers in every department and agency of the United States Government.³

And right now, the segment of government procurement that is devoted for small business by law or presidential proclamation is \$300 billion annually.⁴ That’s a lot of money. And we will help you get the right contacts.

The third program we have is technical assistance.⁵ That’s providing business plan assistance, marketing assistance, and problem solving assistance to any business that needs it. It is done gratis.⁶ It is done through

¹ Small Business Administration, <http://www.sba.gov/services/financialassistance/sbaloantopics/cdc504/index.html> (last visited Sept. 23, 2007).

² Small Business Administration, <http://www.sba.gov/services/contractingopportunities/basics/buys/index.html> (last visited (Sept. 23, 2007).

³ *See id.*

⁴ News Release, Richmond District Office of the U.S. Small Business Administration, The U.S. Small Business Administration and Mt. Gilead International Ministries to Conduct a Symposium for Small Business Owners (Sept. 7, 2007), available at http://www.sba.gov/idc/groups/public/documents/va_do_files/va_october20_symposium.pdf [hereinafter News Release, Richmond].

⁵ *See* Small Business Administration, <http://www.sba.gov/services/training/onlinecourses/index.html> (last visited Sept. 23, 2007).

⁶ *Id.*

our Small Business Development Centers around the state and also around the nation. It is also done through the Service Core of Retired Executives – which again is available to the entrepreneur free, individuals that actually have business experience in any given area.

And then our fourth area – which lot of VCs that are very familiar with permitting the SBA to fund Small Business Investment Company. We fund venture funds that specifically invest in small business.⁷ Basically they make the decision on our behalf. They basically make the investment in the small business, and we take the risk with them.

Sometimes we win, and sometimes we lose on situations like that. But right now I would like to get back to one of our programs, and that's our lending program. Nationwide this year – we are about half way through our fiscal year (our fiscal year began October 1, so we are just a little over half way through our fiscal year) – if you analyze the data, the loan data, we will probably make over 110,000 loans nationwide⁸ (or guarantee because we don't actually make them – the banks make them, and we guarantee them).

So, there are 110,000 nationwide loans this year and there will probably be about \$15 billion.⁹ That's a lot of money to fund small business. Typically, about 20 to 25 percent of those 110,000 loans go to startups.¹⁰

These startups can be businesses that have just started in business or have been in business for two years because our definition right now is that any business that is two years or less we consider a startup or new business. So in that 25 percent of startup loans could be someone that has been in business six months or up to two years. That definition was changed probably about ten years ago.

Before that, before – let's say 1997 – we defined startups as true startups, someone who had never been in business before. And I have a question for everyone here in the group. Going back, if you look at the true startup, someone who has never been in business before, not someone who has been in business six months or two years, what do you think their success rate is? You people out there that work with startup companies, put money into startup businesses, new businesses, what do you think their success rate is?

⁷ Small Business Administration, http://www.sba.gov/smallbusinessplanner/start/financestartup/SERV_FINANBASICS.html (last visited Sept. 23, 2007).

⁸ See generally FY 2007, Budget of the United States Government, <http://www.whitehouse.gov/omb/budget/fy2007/sba.html> (stating that the Small Business Administration issued 89,000 loans under the 7(a) program alone) (last visited Sept. 23, 2007).

⁹ See generally Small Business Administration, <http://www.sba.gov/aboutsba/history/index.html> (stating that the SBA backed more than \$12.3 billion in loans last year) (last visited Sept. 24, 2007).

¹⁰ See generally Small Business Administration, <http://www.sba.gov/services/financialassistance/sbaloantopics/microloans/index.html> (discussing the Micro-Loan Program which provides small loans to start-ups) (last visited Sept. 24, 2007).

MR. ABRAHAMS: One percent.

MR. GOLDBERG: One percent. Okay. Anyone else? I like to throw out that question to groups such as yours. . I throw it out sometimes at a meeting with a group of accountants, and I would think the accountants are sharp once they get out their fine point pencil and know what they are doing. They usually respond 20 percent, 35 percent, five percent, or two percent.

Well, in the Cleveland District, which is really a small district – we run from the Pennsylvania line to the Indiana line and cover the northern 28 counties of Ohio¹¹ – back in 1994, we made 364 startup loans.¹² We tracked those startup loans, true starts, for a period of about six and-a-half years. We found after six and-a-half years that 78 percent were still in business.¹³ That's a remarkable figure. It is even more remarkable when you think it is here in the rust belt – Northern Ohio. We started to ask questions: why was that so great?

Now, we basically came down to two reasons. One, we required 286 businesses to do a business plan, to work either with SCORE – The Service Corp of Retired Executives or the Small Business Development Center – and develop a business plan or a business model, and we think that was the road to success, and it really helped them.¹⁴

The other thing that contributed to this great success rate was having the right financial structure, the right amount of equity coming in – whether it is 20 percent or 30 percent – coupled with the right amount of funding. Contrary to that approach, typically what we see out there is someone who can't find access to venture funds or get the proper funding, relies on the credit card offerings in the mail, they fill out the application, call up the bank to get the money, and they open up for business without even thinking, without the business plan, without anyone realizing if they really have enough money to make the business work.

We think that having the proper financial structure – debt to equity – with a business plan is the reason why 78 percent of the businesses have succeeded. The 78% success rate that we had in Northern Ohio can be seen

¹¹ Small Business Administration, <http://www.sba.gov/localresources/district/oh/cleveland/aboutus/index.html> (last visited Sept. 23, 2007).

¹² See generally *id.* (discussing the total number of loans made in 2004) (last visited Sept. 24, 2007).

¹³ See generally Study Shows Start-ups Have High Rate of Success, <http://www.nfib.com/object/3678661.html> (citing a national SBA study which found that 67% of new ventures are successful after 4 years) (last visited Sept. 23, 2007).

¹⁴ See generally Business Plan for a Startup Business, http://www.score.org/downloads/Business%20Plan%20for%20a%20Startup%20Business_July.pdf (providing a guide to preparing a business plan by Service CORE) (last visited Sept. 23, 2007).

elsewhere in the Agency. We like to think that companies can say “I got my start with the SBA.”

Well, some of the companies that got their start with the SBA, some of them are not household names. Some of them are household names that we recognize: Outback Steakhouse, Compact Computer, Apple Computer, Staples, Intel and FedEx.¹⁵ There is also one company that I am particularly fond of. I like ice cream and there is Ben and Jerry’s Ice Cream from Vermont. They got their start with an SBA loan in the Vermont office, and it was kind of a rocky start.¹⁶

I will let you know a little secret about Ben and Jerry’s. That loan had to be restructured three times before they made it.¹⁷ The banker was running scared. We told the banker, “You got a guarantee, don’t worry about it. Let’s see if we can restructure to their cash flow and make it work.”

Three times it was restructured, and it did work, and everyone knows that it did work, and everyone knows of the success of Ben and Jerry’s.

Look here in Northern Ohio; look at what we do for startups. Last year in 2006, we made 737 startup loans for 34 percent of our total lending.¹⁸ So we do have quite a commitment here. The banks do lend under our guarantee to startups, even though their first reaction will be, “We don’t lend to startups.”¹⁹ They do, and they have done it. And once you get started, then I think after you’ve developed about a year track record, you are eligible to sell to the federal government under any of our contracting programs.²⁰ And as I said, that’s a \$300 billion market.²¹

In your handout that you have, there is a section on selling to the government. It looks like this. (Indicating.) It starts out with \$300 billion – you don’t need to go through it as we go through it, but on the second page

¹⁵ See CharlotteSteakHouses.com, <http://www.charlottesteakhouses.com/news.cfm/Article/37266/Outback-Steakhouse-SBA-Success-Story.html> (stating that the SBA provided \$151,000 of working capital which led to Outback Steakhouses success) (last visited Nov. 12, 2007).

¹⁶ Jeff Moore, *Looking for Start-up Cash?*, DETROITER, Feb. 1, 2001, available at <http://www.allbusiness.com/north-america/united-states-michigan-metro-areas-detroit/810131-1.html>.

¹⁷ See generally Glossary of Terms, <http://www.delawarecountybr.com/glossaryterms.htm> (providing a definition of restructuring a loan) (last visited Sept. 23, 2007).

¹⁸ See Mary Vanac, *Charter One Gets Top SBA Lending Honor*, CLEV. PLAIN DEALER, December 12, 2006, available at http://www.cleveland.com/weblogs/print.ssf?mtlogs/cleve_eeedition/archives/print214855.html.

¹⁹ See Joseph Anthony, *6 Things to Know About Getting an SBA Loan*, MICROSOFT’S SMALL BUSINESS CENTER, http://www.microsoft.com/smallbusiness/resources/startups/startup_financing/6_things_to_know_about_getting_an_sba_loan.mspx (last visited Sept. 24, 2007).

²⁰ See generally Small Business Administration, <http://www.sba.gov/services/contractingopportunities/certifications/index.html> (providing the requirements for doing business with the government) (last visited Sept. 23, 2007).

²¹ News Release, Richmond, *supra* note 4.

of that handout, you will see that there are basically four designations of types of businesses that the government recognizes, that get special preference when it comes to selling to the federal government.

One is women-owned businesses.²² There is no special certification you have to go through. You self-certify that you are a woman-owned business, that 51 percent of the business is owned by a woman, by a female. By presidential proclamation, by executive order, five percent of all government procurement has to go to a woman-owned business, and that translates to \$15 billion.²³ Again, that's a lot of money.

Another self-certification program is to service disabled veterans.²⁴ If you are disabled – if you are a disabled veteran – and again, it is self-certifying, there is \$9 billion, three percent by presidential proclamation or executive order.²⁵ Three percent is available, and procurement officers at these government agencies have this goal, and they are judged by the goal, whether they make it or don't make it.²⁶

So there is a big incentive for them to help the business get the right contracts. Then we have two programs in which we do have to certify the business. One is a Small Disadvantaged Business, and the other is 8(a).²⁷ They have different qualifications. It is done by statute.²⁸ The statute defines minorities as being disadvantaged under the law (historically) and therefore, you can qualify for set-aside programs.²⁹ Again, this is five percent of that \$300 billion or \$15 billion.³⁰

We also have another program that we certify – called the “HUBZone” – under utilized business area.³¹ There is no presumption of historic discrimination.³² It is just whether you are located in an area that has been

²² Small Business Administration, <http://www.sba.gov/services/contractingopportunities/basics/identify/index.html> (last visited Sept. 23, 2007).

²³ *Id.*

²⁴ *Id.*

²⁵ Press Release, The White House, Executive Order: Service Disabled Veterans Executive Order (Oct. 21, 2004), *available at* <http://www.whitehouse.gov/news/releases/2004/10/20041021-5.html>.

²⁶ *See generally* Small Business Administration, <http://www.sba.gov/services/contractingopportunities/basics/identify/index.html> (discussing the goal of having 5% of contracting with women-owned small businesses) (last visited (Sept. 23, 2007)

²⁷ Small Business Administration, <http://www.sba.gov/aboutsba/sbaprograms/sdb/index.html> (last visited Sept. 23, 2007).

²⁸ 13 C.F.R. §§ 124.101-124.112 (2007).

²⁹ *See* 13 C.F.R. § 124.103 (2007) (discussing the statutory definition of ‘socially disadvantaged).

³⁰ JAYETTA HECKER, STATUS OF SMALL DISADVANTAGED BUSINESS CERTIFICATIONS 1 (Government Accountability Office 2001) *available at* <http://www.gao.gov/new.items/d01273.pdf>.

³¹ GC/BD HUBZone, <http://www.sba.gov/hubzone/> (last visited Sept. 23, 2007).

³² *See* HUBZone – Frequently Asked Questions, <https://eweb1.sba.gov/hubzone/internet/>

designated a labor surplus or low-moderate income area, and we call that a HUBZone.³³

And if your business is located there, if the business is owned by an American citizen, and if the business employs 35 percent of its employees from a HUBZone, it can qualify for certain set-asides and preferences.³⁴ Again, it is three percent of that \$300 billion program, a lot of money. The rest of the packet that you have goes into some detail on those programs. I won't go over that at this time.

If you have any questions, I brought the brain trust from the Cleveland District Office that can answer those. I also brought as part of that brain trust an individual that can answer questions you might have on our lending programs. So at this time, I hope you found your Power Point. I can go on more and more – for a longer time if you haven't found your Power Point.

MR. STRAATSMA: No. That's great. Actually, thanks very much, Gil. Are there any questions at this point?

MR. ABRAHAMS: Just a quick one: Gil, are there any HUBZones in Cuyahoga County? Which ones, and where are they?

MR. GOLDBERG: There are quite a few HUBZones. How many would you say, John?

MR. RENNER: HUBZones are designated by census scribes,³⁵ and there are dozens,³⁶ virtually the entire east side of Cleveland,³⁷ and a lot of areas on the west side are also HUBZones.³⁸

MR. ABRAHAMS: Within the City of Cleveland proper, Joe, Cleveland proper mainly?

MR. GOLDBERG: The easiest thing to do, if you have a company and you want to know whether or not you are in a HUBZone would be to go to the SBA website – sba.gov – and you click on HUBZone, and there a program will pop up. You can enter the address of your company and it will show whether you are in a HUBZone or not. As John said, you know, there are dozens within the City of Cleveland,³⁹ and let me give you another

[general/faqs.cfm#Q3](#) (last visited Sept. 23, 2007).

³³ *See id.*

³⁴ *See id.*

³⁵ *See generally* HUBZone – Frequently Asked Questions, <https://eweb1.sba.gov/hubzone/internet/general/faqs.cfm#Q16> (discussing qualified census tracts and four other qualifying geographic locations) (last visited Sept. 23, 2007).

³⁶ SBA HUBZone Locator, <http://map.sba.gov/hubzone/hzqry.asp?state=oh> (click the black dot representing Cleveland 3 times) (last visited Sept. 23, 2007).

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.*

example: Ashtabula County, a little further east of Cuyahoga County, the entire county is designated a HUBZone.⁴⁰

MR. STRAATSMA: Yes.

DR. BARBER: I just wondered, when you described the success of companies six and-a-half years down the pike, so to speak, how did you define success?

I guess my question is: I think often startups evolve, and there may well be just a small percentage that actually go bankrupt, but they get merged or acquired. Were they counted in the successes, or did they stay pure?

MR. GOLDBERG: We did not have the resources to track the company individually. What we looked at was, basically, the cost to the taxpayer since the taxpayer is supporting the loan via our guarantee program. If they made their payments in timely fashion and paid off the loan, they were a success. They didn't cost the taxpayer any money. So I don't know how many were acquired. I don't know how many grew to a plateau that is sexy enough for VCs, but we define success as the ability to pay off the loan in a timely fashion. One other thing if you don't mind.

MR. STRAATSMA: Please.

MR. GOLDBERG: We mentioned some of our economic development programs that we have with various entities in our district, and I will just briefly mention those because this is a way of attracting supplemental equity to your business – if I could ask Mark and John to hand it out.

We have done an economic development initiative in the City of Youngstown and one for Wards 1 and 3 here in the City of Cleveland on the southeast side; Wards 1 and 3 are on the south side. What we have found out – and I guess as most of you know – the hardest thing for a business to do is to attract equity.⁴¹

So we have come up with free money. But it is not a free lunch for the small business. If the small business has ten percent of their own equity in the business or is able to start the business with ten percent equity and can qualify for an SBA guaranteed loan and can develop a business plan through the assistance of either SCORE or the Small Business Development Centers.⁴² Then the City of Youngstown will supply them with a 15 percent performance grant that – if they meet certain hurdles – that performance

⁴⁰ SBA HUBZone Locator, <http://map.sba.gov/hubzone/hzqry.asp?CNTY=39007> (last visited Sept. 23, 2007).

⁴¹ See generally Small Business Administration, <http://www.sba.gov/services/financialassistance/equitycapital/equity/index.html> (discussing equity capital) (last visited Sept. 23, 2007).

⁴² But cf. Small Business Administration, <http://www.sba.gov/services/financialassistance/eligibility/requirements/index.html> (indicating that 20% equity is required to be eligible) (last visited Sept. 23, 2007).

grant or loan is forgiven over a three-year period and actually becomes true equity.⁴³

The money that Youngstown supplies is subordinated and put on standby.⁴⁴ So, no payments are made during the three-year period. So, it actually is free money, and they don't have to service the debt.⁴⁵

If you take their ten percent equity and couple it with the 15 percent supplemental equity from the city, you have a borrower that has 25 percent equity and can usually qualify, with a good business plan, for an SBA guaranteed loan.

Also, Youngstown is providing tax abatements, waivable city permit fees, and a facade grant.⁴⁶ On the east side of Cleveland in Wards 1 and 3, it is limited to equity funding,⁴⁷ but again, it is free money that doesn't have to be paid back. But it is not a free lunch because you have to meet those pretty tough requirements.

Thank you.

MR. STRAATSMA: Any others?

Gil, with respect to the profile, your chart here, this identifies by percentages, and just going over your tenure for the last ten plus years, have the types of firms changed that you deal with, your client base?

MR. GOLDBERG: When I first came to the SBA in 1994, the majority of all the loans we did, the biggest bulk, went to manufacturing, both in numbers and in dollars. That held true until 1996.

In 1996 the largest number of loans went to manufacturers, that is no longer true. The service sector has become the largest segment in number of loans. But it was not until 1998 or 1999 that the dollar switched. Manufacturing took a few more dollars for a few more years, until probably 1997 or 1998.

And it is interesting, going back to the comment that was made on the last panel, (hard assets): it was very difficult to convert the banks from lending to manufacturing with hard assets to lending to service with either intellectual property or leasehold improvements. But I think they understand that lending now and realize that our guarantee along with the cash flow enables them to

⁴³ THE YOUNGSTOWN INITIATIVE (City of Youngstown) available at http://www.ytowndevelopment.com/docs/youngstown_city.PDF (last visited Sept. 23, 2007) [hereinafter YOUNGSTOWN INITIATIVE].

⁴⁴ See Youngstown/SBA Initiative, <http://www.ytowndevelopment.com/docs/YOSBAINITIATIVEAPP.pdf> (last visited Sept. 23, 2007).

⁴⁵ See *id.*

⁴⁶ YOUNGSTOWN INITIATIVE, *supra* note 43.

⁴⁷ A Partnership for Economic Development in Southeast Cleveland, SBA'S REGION V OFFICE, Winter/Spring 2007, 4, available at http://www.sba.gov/idc/groups/public/documents/region5/r5_finalsummer2006takefivenews.pdf.

lend to a service sector or intellectual property company that does not have hard assets.

MR. STRAATSMA: Thank you. Thank you very much, Gil.

Our next speaker is John Connell. He represents the Canadian side, and he is the Director General of Small Business Policy with Industry Canada, which is a federal government department.

John is a career public servant in Canada. His responsibilities include the creation of policies and programs, addressing small business development throughout the country, and between 1998 and 2003, he served as a senior chief, Industry Analogy Comment for Finance Canada,⁴⁸ which had a mandate of increasing industry productivity and competition in a knowledge-based economy.

Between 1995 and 1998, he served as a Privy Council Officer in the Economic and Regional Development Policies⁴⁹ of the period, and he now handles submissions from the Minister of Industry to that body.

John obtained his Bachelor of Arts and Master's Degrees at Queens University in Kingston, Ontario, with a concentration on political studies and public administration. This afternoon he would like to address some of the methods and some of the issues facing entrepreneurs in Canada and some of the actions that the federal government will respond to. John?

⁴⁸ Driving Canada's Business Success, <http://www.cybf.ca/about-us/board-of-directors/bio-johnconnell.htm> (last visited Sept. 23, 2007).

⁴⁹ *Id.*