

We believe that the increases forecast for FY 1968/69 are realistic in the light of recent experience which indicates a greater confidence in the SBA programs by the banking community. In FY 1967, we introduced the Simplified Bank Guarantee Plan (SBLG), which has been well accepted by the banking community. By December 31, 1967, there were 614 SBLG agreements signed with banks and 340 loans made for \$26 million under the agreements.

SBA's immediate participation loan program was improved in earlier years through the adoption of the Simplified Bank Loan Plan (SBLP) and the Simplified Early Maturity Plan (SEMP). These plans streamlined procedures, reduced paperwork and provided other incentives to increase bank participations. Our Bank Relations Officer Program, currently consisting of 24 retired bankers, has contributed to wider acceptance of SBA programs by the banking community. One of the primary tasks of these experienced men is to contact the banks each year to promote the SBA participation program.

C. Evaluation of Program Performance.—With the initiation of the Fiscal Year 1970 budget cycle, all SBA programs become subject to the principles and procedures of the Governmentwide Planning, Programming and Budgeting System (PPBS). As part of our preparation for this, we have initiated a systematic evaluation of the performance of all major programs in terms of their contribution to Agency objectives in relation to cost incurred. Over the past year, principal efforts have been devoted to a comprehensive evaluation of the business loan program.

As a first step, we collected, in a mechanized file, financial reports of some 22,000 firms which had received assistance through the business loan program since the establishment of the Small Business Administration in 1953. The progress of each borrower was recorded year by year after the approval of a loan. From these data, we were then able to trace the annual increase, or decrease, in the principal measures of the performance of assisted firms—profits, sales, net worth, and total assets. We were also able to compare some of these growth rates with the growth experience of other private firms over a comparable period of time. Selected results, converted to index numbers, are portrayed in charts attached. While the raw data traced growth experience through 10 years after issue of loans, the number of observations in the sample dropped off sharply in the seventh and subsequent years. This small number of observations in the later years raised questions as to the reliability of the results for these years. Accordingly, we have restricted our analysis to the first 6 years after loan issue.

Average Growth Rate for All Borrowers.—As shown in Table No. 8, every measure of borrower performance displayed marked and progressive improvement over the first 6 years following the issue of loans. Profits, in particular, more than doubled, averaging an annual rate of increase of 20 percent for all firms new and old. Growth, as measured by other indicators, was also significant, though less spectacular—annual growth rates averaged almost 8 percent for total assets, 6 percent for net worth, and 8 percent for net sales. These last three measures were uniformly closely related.

Growth Rates by Industry.—Wide variation was noted in profit growth rates by industry, as shown in Table No. 9. The four industry groups displayed—manufacturing, wholesale trade, retail trade, and services—accounted for approximately 85 percent of the total dollar volume of loans during the period under review. Profits of SBA-assisted manufacturing concerns increased at an average annual rate of 21 percent during the first 6 years following the issue of loans. This suggests that small business can still compete effectively in manufacturing, despite the persistence of mergers and consolidations in many areas. Profits of borrower firms in wholesale trade are shown through the fifth year only and averaged an annual growth rate of 7 percent in that period. An abnormally sharp further increase was indicated for the sixth year, but we question its validity because of the relatively small number of observations for that year. Profits in retail trade and services displayed orderly and progressive growth, with annual rates of increase of 8 and 15 percent, respectively.

Growth in net sales (Table 10)—taken as representative of other growth measures—displayed less variation by industry: 3.9 percent per year in wholesale trade, 6.4 percent in retail trade, 8.4 percent in manufacturing, and 10 percent in services.

Growth of SBA Borrowers Related to Industry Averages.—Available data for industry as a whole, while not strictly comparable with data for SBA-assisted firms, indicate that profit growth rates of the latter compare most favorably with