

# SMALL BUSINESS ADMINISTRATION

## The President's Proposal:

- Helps spur job creation by funding more than \$20 billion in small business lending and equity programs;
- Establishes an online single point of access to help small businesses comply with federal regulations;
- Provides average tax cuts of more than \$2,000 to 23 million small business owners;
- Helps small business owners finance new equipment by tripling the expensing deduction to \$75,000 per year; and
- Ensures that small businesses receive a fair share of the \$200 billion in annual federal purchases.

## The Agency's Major Challenge:

- Providing capital to small businesses amid rapid changes in the financial markets.

### Small Business Administration

Hector V. Barreto, Administrator

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**Number of Employees:** 3,927

**2003 Spending:** \$1.6 billion

The Small Business Administration (SBA) was created in 1953 to aid, counsel, and protect the interests of small businesses, as well as to help families and businesses recover from physical disasters.

Assistance for small businesses is not limited to SBA's technical assistance and credit programs. Additional support is provided under the President's

tax proposals enacted in 2002. Twenty-three million small business owners have benefited from lower marginal income tax rates, and the Administration is proposing to accelerate these rate reductions and to triple the expensing deduction for investment in capital equipment.

## Capital Needs of Small Businesses

Through a variety of financing programs, SBA guarantees small-business loans, fixed asset loans, and microloans, and provides debt and equity capital to small businesses. These programs offer a wide spectrum of assistance ranging from an average \$12,000 for microloans to a maximum \$2 million for general small-business loans. Average venture capital financings are \$690,000. The budget requests \$226 million to support more than \$20 billion in guaranteed lending and equity investments.

To address the financing needs of small businesses, SBA looks to: 1) target and expand access to credit; 2) increase customer choice; and 3) assess the impact and effectiveness of its capital access programs.

*Target and expand access to credit.* SBA seeks to target assistance more effectively to credit-worthy borrowers who would not be well-served by the commercial markets in the absence of a government guarantee to pay off loans. SBA is actively encouraging financial institutions to increase lending to start-up firms, low-income entrepreneurs, and borrowers in search of financing below \$150,000. Preliminary evidence shows that SBA's outreach has been successful. Average loan size has decreased from \$258,000 in 2000 to \$236,000 in 2002, while the number of small businesses served has grown from 43,748 to 51,666. SBA hopes that through reduced fees and higher guarantee levels (85 percent for loans below \$150,000), banks will be more inclined to provide loans to smaller borrowers.

*Increase customer choice.* Based upon the findings of the Program Assessment Rating Tool (PART), SBA will propose regulations to increase customer access to services in the Section 504 Certified Development Company Loan program. This program, which includes a job creation requirement, offers long-term financing for fixed assets (land, buildings, and large equipment). One proposed change under consideration would increase the availability of loan intermediaries in this program so that borrowers would have more choices and would be able to determine which SBA loan program best meets their needs.

*Assess program impact and effectiveness.* The budget includes funds to identify and measure factors that affect both demand and performance in the Sections 7(a) and 504 loan programs. With respect to demand, the purpose of the evaluation will be to gather critical information regarding who seeks assistance, for what purpose, and under which economic conditions. In terms of performance, the evaluation seeks to define how those who receive assistance perform in terms of their businesses' sustainability and job creation.

## **Disaster Loans**

Through SBA's Disaster Loan program, individuals and businesses adversely affected by physical disasters can borrow funds at low interest rates for extended periods. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations finance rebuilding and recovery efforts from physical damage. Working primarily with the Department of Homeland Security's Emergency Preparedness and Response Directorate, formerly known as the Federal Emergency Management Agency, SBA sets up temporary field offices in disaster areas to help the public apply for low interest construction and economic assistance loans. In 2002, the Administration sought, and the Congress provided, nearly \$1.4 billion in lending, including almost \$600 million to support businesses adversely affected by the September 11<sup>th</sup> attacks. For 2004, the budget requests funding to support SBA's activity level consistent with its five-year average of \$760 million.

*Improve disaster response.* To increase responsiveness to disasters and reduce administrative burdens, SBA's Disaster Loan program plans a paperless loan application processing system. By 2004, the system is expected to result in a 25-percent productivity increase. More importantly, such a system will let staff readily review files anywhere, regardless of the city, town, or region of a disaster, thereby improving service to the public. Under this new system, SBA will be able to minimize paperwork burdens on affected citizens by sharing data electronically with other SBA programs and with disaster relief agencies.

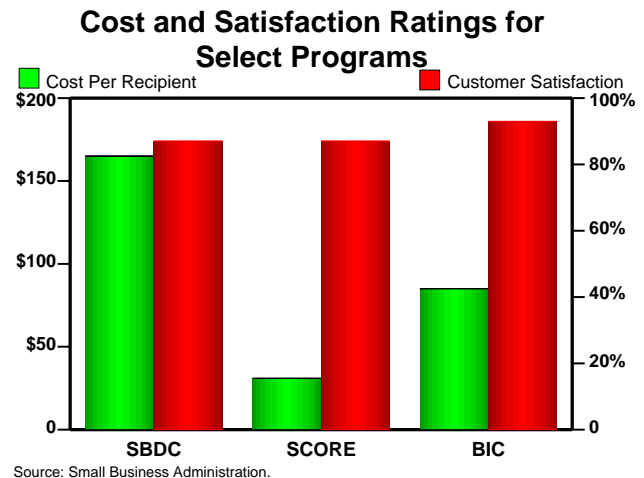
## **Technical Assistance**

Annually, SBA and its partners provide technical assistance including training, counseling and mentoring to approximately two million existing and potential small business entrepreneurs. The

assistance is provided on-line as well as face-to-face and ranges from how to start a business to specific issues on exporting to certain countries. SBA provides grants to a network of over 1,100 Small Business Development Centers (SBDC), 389 Service Corps of Retired Executives (SCORE) chapters, 84 Women's Business Centers, and 80 Business Information Centers (BIC). In addition, the agency has a program that helps microloan lenders provide business assistance to start-up firms.

Measuring the performance of these programs has been difficult because numerous external factors can significantly affect small business sustainability, such as unemployment or the general state of the economy. In addition, SBA partners do not always provide reliable or consistent data for measuring progress. As a result, SBA is developing new annual performance measures and outcome-oriented, long-term goals that will reduce reporting burdens and improve data reliability. Coupled with better oversight of the reporting process, the improved data will enable policymakers to better measure program impact and performance. SBA will

work more aggressively with its technical assistance grant recipients to collect information on business longevity, increased business activity, and the number of start-up firms assisted. The budget proposes \$141 million for technical assistance programs in 2004.



## Federal Procurement

The federal government annually buys over \$200 billion in goods and services, and has a statutory goal of awarding at least 23 percent of its purchases to small businesses. As part of this effort, SBA assists agencies by negotiating agency-specific procurement goals, monitoring performance, and encouraging the use of small business sources. The federal government came close to the 23-percent goal in 2000 (22.3 percent) and 2001 (22.8 percent).











### Reducing the Regulatory Burden for America's 23 Million Businesses

Small businesses face a dizzying array of daunting legal and regulatory issues, from employment law to tax regulations to licensing and permitting. SBA's Office of Advocacy estimates that the regulatory burden on businesses cost nearly \$500 billion in 2000. This translates to roughly \$7,000 per employee in firms with less than 20 employees. Much of these costs result from small businesses' difficulty in finding and understanding the regulations. As a result, the SBA, in partnership with other federal, state, and industry or groups, is building a Business Compliance One Stop website (BCOS) to address this problem. By providing user friendly access to laws and regulations, compliance tools, and online transactions, the portal offers value to both businesses and government.

SBA's *BusinessLaw.gov* is the cornerstone of this effort. The website provides a single place where businesses can easily access information about laws and regulations, find compliance assistance digital guides, and carry out transactions. Once completed in summer 2004, businesses will save an estimated \$400 million annually, while federal agencies will reduce their costs by \$36 million per year.

Agencies in the 1990's increasingly grouped separate, and often unrelated, purchasing activities under a single contract. Effectively, this limited small businesses' participation in the bidding process. As part of the Administration's agenda to assist small businesses, the President assembled an interagency working group tasked with developing a strategy to "unbundle" federal contracts, which may help the government reach its 23-percent goal<sup>1</sup>. The group proposed the following recommendations: 1) ensure timely and accurate reporting of contract bundling information through the President's Management Council; 2) require contract bundling reviews for task and delivery orders under multiple award contract vehicles; 3) require SBA or agency Offices of Small and Disadvantaged Business Utilization to review proposed acquisitions above certain individual agency-specific thresholds (between \$2 million and \$7 million); and 4) require identification of alternative acquisition strategies for the proposed bundling of contracts above certain individual agency-specific thresholds and written justification when alternatives involving less bundling are not used.

### Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
Status					
Progress					

*Arrow indicates change in status since baseline evaluation on September 30, 2001.*

With the exception of setbacks in financial management, SBA has made solid progress in implementing the President's Management Agenda. In order to improve service to the public, the agency has undertaken an assessment of its staff's skills, contracted for training, and identified positions for competitive sourcing in 2003. As the leader of the BCOS initiative, SBA has launched the website *BusinessLaw.gov*, which helps small business owners easily find, understand, and comply with myriad regulations. In May 2002, the site won the prestigious Pioneer award from the E-Gov group. In addition, the agency is implementing an advanced cost accounting system. However, SBA's financial management status slipped in the past year due to inconsistencies in asset sale accounting and weak management of credit programs. The agency has made remediation of these deficiencies a top priority.

<sup>1</sup> Contract bundling is the consolidation of two or more procurements previously provided under separate, smaller contracts into a single contract, which is unlikely to be suitable for award to a small business (section 3(o) of the Small Business Act (15 U.S.C. Section 632 (o))).

## Performance Evaluation of Select Programs

In developing the 2004 Budget, the Administration reviewed four programs with the PART. Overall, the PART revealed that SBA fails to document results due to a lack of outcome oriented long-term goals. SBA has committed to improving accountability by developing stronger indicators and goals. For further details on SBA's performance assessments refer to the SBA chapter in the *Performance and Management Assessment* volume.

Program	Rating	Explanation	Recommendation
504 Certified Development Company Guarantee Loan Program	Results Not Demonstrated	The agency lacks a strategic plan and has not articulated the long-term public policy objectives of the program.	SBA needs to examine whether it would be more cost-effective to the government and borrowers to concentrate fixed asset loans in the 504 loan program or the 7(a) program rather than dividing this service between both programs.
Business Information Centers	Results Not Demonstrated	The program lacks a clear purpose and does not have long-term outcome goals from which to measure performance.	SBA needs to develop outcome-oriented annual and long-term goals, undertake an evaluation of the program's effectiveness, and reduce administrative costs associated with this program.
Service Corps of Retired Executives	Results Not Demonstrated	While the purpose of the program is clear and the cost per client is low compared to similar programs, SBA does not have goals and measurements to show that the program has long-term, positive results for citizens.	SBA needs to evaluate the program after establishing annual and long-term outcome oriented program goals.
Small Business Development Centers	Results Not Demonstrated	SBA lacks meaningful annual and long-term goals from which to measure performance.	SBA should evaluate the program and assess whether it duplicates other federal or non-federal programs. In addition, the agency should define outcome-oriented annual and long-term goals.

**Small Business Administration**  
(In millions of dollars)

	2002 Actual	Estimate	
		2003	2004
<b>Spending</b>			
Discretionary Budget Authority:			
Salaries and Expenses .....	162	209	219
Non Credit Business Assistance .....	177	144	141
Business Programs .....	278	218	226
Disaster Program .....	284	194	198
Office of the Inspector General .....	11	14	14
Total, Discretionary budget authority <sup>1</sup> .....	912	779	798
<b>Credit activity</b>			
Direct Loan Disbursements:			
Disaster Loans .....	1,306	829	691
Microloans .....	32	29	29
Total, Direct loan disbursements .....	1,338	858	720
Guaranteed Loans:			
Section 7(a) business loans .....	9,140	6,911	7,948
504 Community Development Corp loans .....	2,056	2,100	1,826
SBIC Participating Securities .....	842	800	752
SBIC Debentures .....	304	300	215
Total, Guaranteed loans .....	12,342	10,111	10,741

<sup>1</sup> Includes \$0.2 billion in 2002 supplemental funding.