

## STRATEGIC GOAL TWO

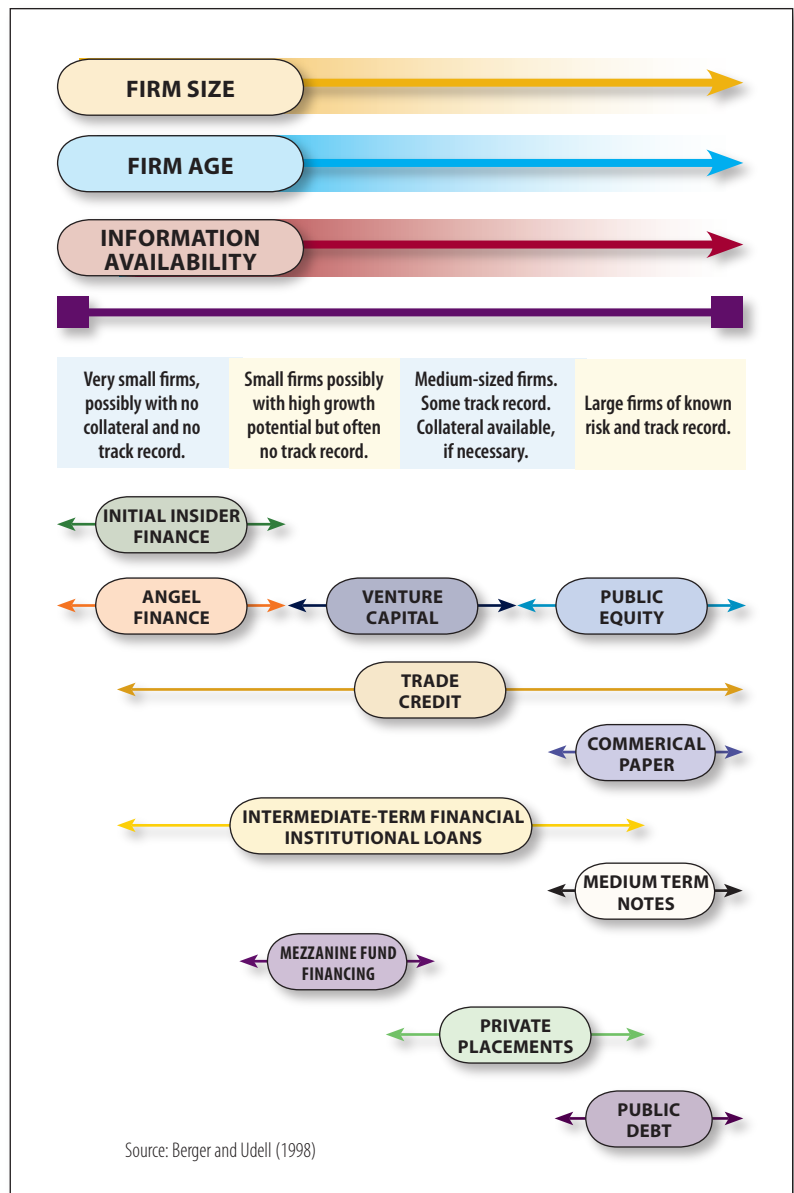
**Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.**

This Strategic Goal represents SBA’s commitment to helping small businesses overcome the competitive opportunity gaps often faced by entrepreneurs. The SBA empowers individual entrepreneurs to take advantage of the opportunities the market offers by providing knowledge, skills and technical assistance; access to loans and equity; and procurement opportunities, either directly or through its partners. While the SBA programs benefited all entrepreneurs seeking its assistance, the Agency places particular emphasis on groups that own and control little productive capital and have limited access to markets.

### Financial Assistance

Small firms are also vulnerable because of their dependency on financial institutions for external funding. These firms simply do not have access to public capital markets. As a result, shocks to the banking system can have a significant impact on the supply of credit to small businesses. Thus, small firms are subject to funding problems in equilibrium and these problems may be exacerbated during periods of disequilibrium in financial markets.<sup>14</sup>

14. Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure, Berger, *Economic Journal*, 2002. <http://ideas.repec.org/p/fip/fedgfe/2001-36.html>



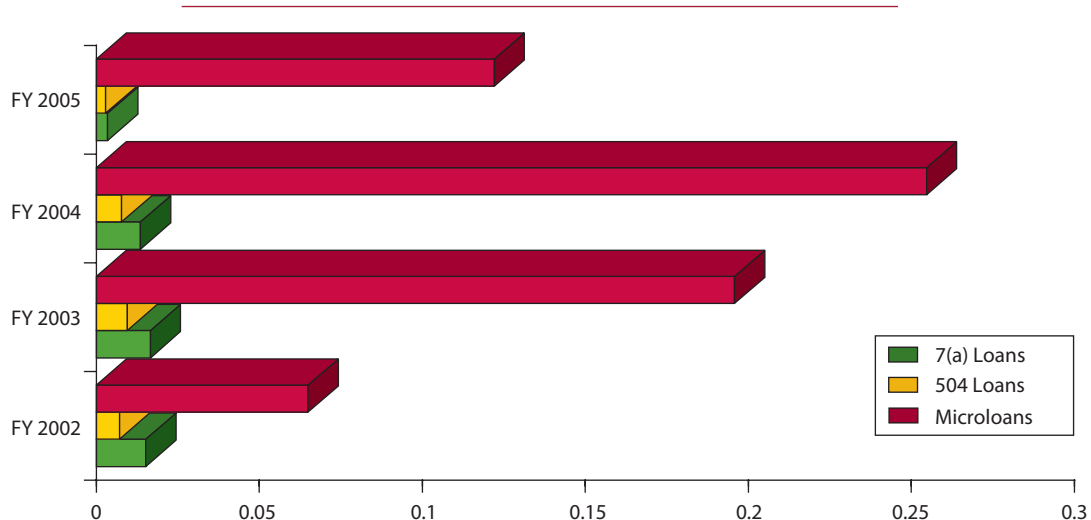
Having access to capital when needed, and under the right conditions, is vital to the success of small businesses. This need changes as the business goes through the various stages in its life cycle, from a possibility to a vibrant, successful business. The financial vulnerability of these small businesses may make SBA financial assistance a vital component at any given time.

The SBA has structured its programs to be able to fill the financial gap as determined by differing financial markets and the various stages of a small business’s life cycle. SBA provides loans through its 7(a) loan, 504 loan, and Microloan programs, as well as equity and mezzanine financings through its SBIC program. SBA has placed its focus on providing financing assistance that is effective and at the lowest possible cost to the taxpayer.

During FY 2005, the SBA made great strides in ensuring a more efficient, streamlined lending process for SBA loans. E-Tran represents one of these successes. E-Tran is the SBA loan guaranty origination solution that leverages best-practice Internet technology to reduce the turnaround time on loan guaranty requests and provide the Agency with high-quality, timely data to support the management and oversight of its loan portfolio. Through E-Tran, lenders can submit loans directly to the SBA. As the number of users increases, the cost of the loan origination is reduced, at the same time that small businesses’ eligibility compliance is being maintained through the system design of the data entry and validation.

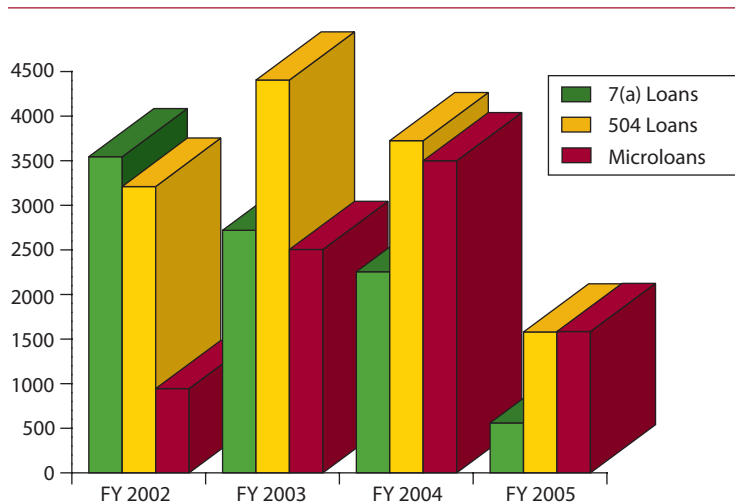
Through the E-Tran program, SBA ensures electronic processing capability for all 7(a) lenders that participate in the Preferred Lending Program (PLP). Currently, SBA is in the process of training the remaining PLP/SBAExpress lenders and participating software vendors. In addition, the E-Tran team recently completed a successful implementation that enables customers to process guaranty requests electronically—directly from the desktop. The goals of the E-Tran implementation are to achieve: (1) a shorter turnaround time for small businesses seeking loans, through instant assignment of SBA loan numbers; (2) faster lender response time; (3) improved degree of eligibility compliance validation; and (4) reduced loan origination costs.

**Cost of Funding One Loan  
Comparison by Fiscal Year and Loan Program**



E-Tran combines sophisticated Internet technology with robust data validation criteria to enhance the quality of loan origination data, and specifically mandates the entry of unambiguous data on start-ups, job creation, and demographics.

**Cost of Funding One Dollar  
Comparison by Fiscal Year and Loan Program**



As the SBA continues to increase the efficiency of its loans operations, a larger proportion of its funds go toward benefiting small businesses. The chart above shows the cost to the government of every dollar in new loans funded. The net cost per dollar of newly funded 7(a) loans has decreased by 79% from FY 2003 to FY 2005. This resulted from streamlining the delivery system, introducing E-Tran, and zeroing the subsidy rate. In the case of 504 loans, the net cost of a newly funded loan decreased by 60% from FY 2002 to FY 2005, which seems to be due to economies of scale, because the number of 504 loans approximately doubled during that period of time.

On the other hand, the Microloans cost per dollar funded has continuously risen since FY 2002. In FY 2004, the net cost of a Microloan was 18 times greater than the net cost of a newly funded 7(a). In FY 2005, even though the net cost of a Microloan was reduced by more than half, the cost was substantially higher than a 7(a) loan.

As the SBA moves to more streamlined lending processes and delegates more authority to its lenders, the need for better and more comprehensive lender oversight is essential. With the integration of the loan and lender monitoring system, the SBA has an early warning system that allows the Agency to monitor its lenders on a regular basis. Details of this system can be found under the Strategic Goal 4, financial management section.

### **Technical Assistance**

One of the roles of the SBA is to assist small businesses to avoid negative consequences, including business failure and bankruptcy. Businesses fail for many reasons, and, although it is the reason most often cited, inadequate financing (i.e., insufficient cash flow or initial start-up capital), is only one of those reasons. Businesses also fail because of inadequate short- and long-term planning, inadequate market research, ineffective marketing, incomplete or deficient strategy or vision, and inadequacies in the

management team, among other reasons. The SBA, through its management and technical assistance programs designed to address these potential pitfalls, helps small businesses get off to a good start, and increases their chance of becoming established, employment-generating businesses; and it helps existing businesses to prosper and grow.

One of the Agency's main objectives is to continue improving the quality of the management and technical assistance data collected so that it can better measure the services that it provides and the outcomes resulting from those services, and so it can better target its assistance to address the needs of its small business clients. Having complete, consistent and accurate data is the first requirement for measuring the effectiveness and efficiency of SBA's assistance.

During FY 2005, SBA continued to increase its use of technology to improve the effectiveness and efficiency of its programs. An example of this is the Entrepreneurial Development Management Information System (EDMIS2). In FY 2005, SBA completed the design, development and testing of EDMIS2. This online system is designed to capture data related to the provision of services by SBA field staff and by its resource partners—SCORE, the Small Business Development Centers (SBDCs), and the Women's Business Centers (WBCs)—and report this activity to SBA field and headquarters managers. After working closely with its partners to develop a system that met the needs of all participants, SBA was ready to launch EDMIS at the beginning of FY 2006.

Recognizing that improving its data collection system would only tell one part of the management and technical assistance story, in FY 2004, SBA also undertook a program impact survey.<sup>15</sup> The survey, in addition to providing an across-the-board look at all ED program areas for such factors as customer satisfaction and the value of management assistance received, provided initial baseline impact data



for a three-year longitudinal study of OED clients. This study was partly implemented in response to the OMB's evaluation with the Performance Assessment Review Tool (PART) which identified SBA's inability to report on the economic impact of its counseling and training programs. In FY 2005, SBA finalized the report on the first (baseline) year of the survey, titled *The Impact Study of Entrepreneurial Development Resources*, and conducted the second-year survey. While the Agency is committed to measuring the impact of its OED resources, and is continuing this effort, it is important to note that it would be inappropriate to make policy changes based on the study until it has been completed and fully examined, researched and refined.

15. Even though the study was finalized in FY 2004, the results were not available until FY 2005.

With the caveats regarding the limitations of the survey in mind, it is worth noting that, in response to customer satisfaction questions, 70% of the survey respondents reported that they perceived the assistance that they received from SCORE volunteers, SBDCs and WBCs as valuable. One interesting note was the relatively high regard that the respondents had for the services that they received even when the result was that they used the information to decide not to start a business. In addition, although it can be said that preliminary economic data were encouraging, another data point (year of operations) will be needed to arrive at any substantive conclusions.

During FY 2005, SBA also implemented its revised OED client definitions, making these definitions uniform for all OED programs, with one exception: The new definition for counseling was not mandated for use by SCORE until FY 2006. Although the implementation of these definitions caused marked differences in program data when compared to previous years, the net effect will be a substantial improvement in SBA's ability to compare and contrast efficiencies and effectiveness among the ED programs. However, the short-term effect is an inability to compare performance data between FY 2004 and FY 2005 and an inability to set goals based on previous performance. Consequently, performance in FY 2005 will be used as the baseline for future performance measures.

The table below shows how the total costs for SBDCs have remained essentially flat since FY 2000, while the costs for SCORE and WBC show a more pronounced increase. However, a cost methodology change in FY 2005 accounts for some of the increase.

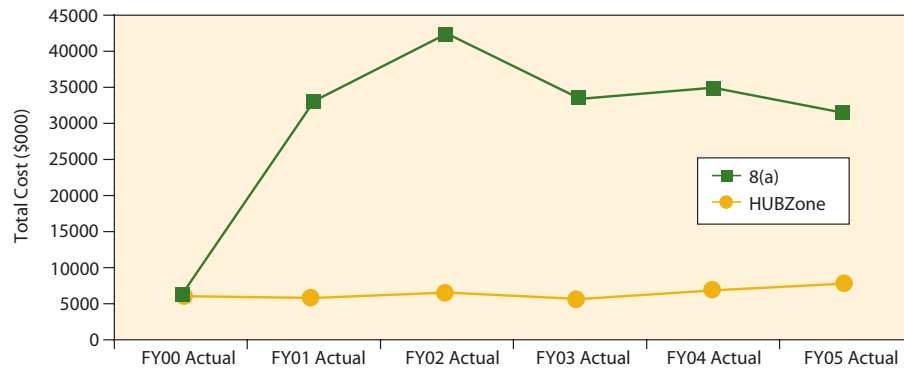
Total Costs (\$ in Millions)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
SBDC	\$94	\$100	\$100	\$93	\$104	\$106
SCORE	\$10	\$12	\$13	\$11	\$17	\$19
WBC	\$15	\$21	\$17	\$17	\$22	\$24

### ***Procurement Assistance***

The SBA offers already-established businesses opportunities to sell products and services to the Federal Government. Purchases by military and civilian installations amount to nearly \$200 billion a year, and include everything from complex space vehicles to janitorial services to cancer research. In sum, the Federal Government buys just about every category of commodity and service available.

Two of the small business certification programs at SBA are the 8(a) Business Development Program and the HUBZone Program. Each of these programs has a very different objective, yet their missions complement each other. The HUBZone program is a procurement assistance program whose primary objective is job creation and increasing capital investment in distressed communities. The 8(a) program is a business development program whose primary objective is to increase small business ownership among groups of individuals who own and control little productive capital.

8(a) and HUBZone Program Costs



The chart above reflects the difference in character between the two programs. The HUBZone program was designed from its inception as an electronic-based program, charged with the certification of eligible small businesses. The overall and unit costs of the 8(a) Program are higher than the HUBZone Program because it offers a broad scope of assistance to small businesses. Tools of the 8(a) Business Development Program include the use of Federal Surplus Property, Technology Transfer, Mentor-Protégé and joint venture arrangements, management and technical assistance and Federal contracts. Both programs offer Internet-based tools and application processes.



The Surety Bond Guarantee Program assists small businesses in obtaining required bonding in the construction, supply, and service sectors by guaranteeing between 70 and 90% of the value of the bond issued to the small business by a surety company. This year, SBA guaranteed close to 8,000 bid, performance and payment bonds on Federal and commercial contracts and subcontracts. Over 2,000 of these bond guarantees assisted 8(a), SDB and HUBZone small businesses.

## District Office Assistance

SBA, through its district offices, made significant outreach efforts to the entrepreneurial community. For example, it worked with faith-based and community organizations to develop and conduct workshops and training sessions designed specifically to educate these organizations and their members about SBA's programs and services. Workshops were held with a variety of groups including veterans organizations, Urban League chapters, local chambers of commerce, church groups, religious community centers, and other faith-based organizations. The offices also teamed with other Federal agencies in conducting joint programs.

Some examples include:

- The South Carolina District Office held a workshop at which they combined Community Express, an SBAExpress-like program offered to pre-designated geographic areas serving mostly low- and moderate-income communities and small businesses experiencing special opportunity gaps (SCOGs), and faith-based and community businesses. The event attracted 200 attendees, and of that number, 64 applied for a loan; half of those who applied were approved.
- The Alabama District Office recruited faith-based and community business counseling services to operate as Community Express Technical Assistance providers. These organizations are not resource partners and do not receive SBA funding. However, they provided services for SBA lending partners that allowed borrowers in the State to receive 52 SBA loans.

The table below shows a summary of the district offices' activities and their costs.

Functions of SBA District Offices	FY 2005 Goal	FY 2005 Actual	FY 2005 Cost (\$)	Unit Cost (\$)
Counseling & Training (number of activities)	279,968	454,087	\$30,395,969	\$67
Lender Training (number of activities)	9,249	18,896	\$10,484,913	\$555
Marketing Outreach (number of activities)	233,298	435,051	\$67,915,279	\$156
<b>Total</b>	<b>522,515</b>	<b>908,034</b>	<b>\$108,796,161</b>	<b>\$120</b>