

# SMALL BUSINESS ADMINISTRATION

## The President's Proposal:

- Leverages small business lending and equity investment;
- Establishes an online access point to help small businesses comply with federal regulations;
- Supports Small Business Development Centers; and
- Eliminates or reduces redundant or poorly performing programs, such as the One-Stop-Capital Shop program.

## Small Business Administration

Hecto V. Barreto, Administrator

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**Number of Employees:** 3,026 permanent employees and 1,221 temporary employees for disasters

**2002 Spending:** \$1.1 billion

**Field Offices:** 93 nationwide

The Small Business Administration (SBA) was created in 1953 to aid, counsel, assist, and protect the interests of small businesses and help families and businesses recover from physical disasters. Critical to this mission are SBA's efforts to foster a business-friendly environment, help clients to succeed, and serve as the federal disaster bank.

## Providing Access to Capital

Through a variety of financing programs, SBA guarantees general small business loans, equipment loans, and microloans, as well as venture capital equity investments. These programs offer a wide spectrum of assistance, from an average of \$12,000 for microloans to a maximum of \$1.5 million for general business loans. Guaranteed equity investments can be as high as \$20 million.

To address the lending needs of small businesses affected by the September 11<sup>th</sup> attacks, the Congress passed and the President signed legislation that temporarily lowers fees for SBA lending programs and transfers more risk to the government. While the fee reductions may help a small number of businesses cope, it also means that SBA's lending programs will be more expensive. Given the additional cost, the Administration intends to target the available resources

to credit-worthy small businesses most likely to be underserved by the commercial capital markets including start-ups and those seeking loans of less than \$150,000. These types of firms need the extra assistance because they generally entail more risk for lenders and their smaller loans are more administratively burdensome. Without SBA support, the private sector may not make these loans because they do not produce the same profit margins as larger loans.

Historically, SBA's lending programs served less than one-tenth of one percent of the nation's small businesses annually and provided less than one percent of annual small business lending. The Administration will work with the Congress and the lending and small business communities to explore new approaches to ensure that a greater number of the nation's small businesses have adequate access to capital, such as Capital Access Programs (CAPs). Under a CAP program, the bank and the borrower pay an up-front insurance premium typically

between three and seven percent of the loan amount into a reserve account, which is matched by state governments. CAPs or other innovative state programs that place greater emphasis on market solutions may point the way toward modernizing SBA's lending programs.

#### **A Hand Up Not a Hand Out**

*[T]he government can never guarantee success in the private sector. That's not what happens in a system based upon free enterprise. And so the best thing we can do is help you to get your business started.*

President George W. Bush  
December 3, 2001

### **Disaster Assistance**

In the wake of physical disasters, SBA's disaster loans are the primary form of federal assistance for individuals and businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations finance rebuilding and recovery efforts from physical damage. Working closely with other federal disaster assistance agencies, particularly the Federal Emergency Management Agency, SBA establishes temporary field offices in disaster areas where it helps the public apply for low-interest construction and economic assistance loans. In 2001, SBA responded to about 70 disasters and approved \$986 million in loans. In 2002, the Administration sought and the Congress provided nearly \$1.4 billion in lending, including almost \$600 million to support businesses adversely impacted by the September 11th attacks. For 2003, the budget requests funding to support SBA's activity level consistent with its five-year average.

#### **SBA Provides Front-Line Disaster Relief**

*"They were the most efficient, most humane organization I've ever dealt with," says Marvin Rafeld, owner of a small business in lower Manhattan. The SBA approved his loan request for nearly \$125,000 less than 24 hours after he applied.*

*"I was shocked by how quick it was."*

#### ***Improve Disaster Response.***

SBA's Disaster Loan Program plans to significantly improve response capabilities in 2003 by installing a paperless loan application processing system. The new system will allow SBA to process loan applications electronically, thereby reducing turnaround time as well as personnel and administrative costs. SBA's goal is to increase its productivity by at least 25 percent. The new system will also enable

SBA to review electronic files anywhere regardless of where a disaster occurs, and to share data more easily with other SBA programs and other disaster relief agencies.

### Technical Assistance

SBA's technical assistance programs annually provide direct assistance to more than 1.3 million small businesses through grants that support more than 1,000 Small Business Development Centers (SBDCs). SBA and its resource partners provide training and counseling to small businesses on topics ranging from developing business plans to managing cashflows. SBA has 389 Service Corps of Retired Executives (SCORE) chapters, as well as grants provided for microloan lenders to provide business assistance.



Across the United States, small business owners struggle to understand the overwhelming number of government regulations.

Measuring the performance of these programs has been difficult because many factors beyond SBA assistance affect small business sustainability and growth. In addition, the SBDCs have been reluctant to provide information to SBA. In fact, Congress passed legislation prohibiting SBA from collecting client-level information. SBA has pledged to work more aggressively with its technical assistance grant recipients to collect information on business longevity, increased taxable business activity, and the number of start-up firms attributable to technical assistance services. This data is necessary to monitor the impact of SBA resources and hold program managers accountable for results.

In addition, duplication and overlap in these technical assistance programs can lead to confusion and diminish service delivery. The budget includes \$161 million for these programs and saves taxpayers \$31 million by eliminating or reducing poorly performing or redundant programs such as the One-Stop-Capital Shop program and the Program for Reinvestment in Microentrepreneurs (PRIME).

### Federal Procurement

The federal government annually purchases about \$200 billion in goods and services and in 2003, the Administration expects to award about \$44 billion in contracts to small businesses. The Administration is committed to achieving the government-wide small business procurement goal of 23 percent.

In 2001, while the federal government met its small disadvantaged business procurement goals, it fell short elsewhere, having problems meeting statutory goals where participation of eligible small businesses remains low. For example, Historically Underutilized Business Zones (HUBZone) business goals were not met. Though it is not clear how many eligible small businesses exist, a recent study by the General Accounting Office cited poorly designed eligibility criteria and

burdensome and costly application processes as major barriers to small business participation in the HUBZone program. SBA is working to correct these problems through regulatory changes.

### Small Is Beautiful

Complying with regulations is a major burden for small businesses and a principal impediment to their success. Laid end to end, federal regulations measure 16 feet long—and this does not include state and local laws. Apart from being particularly costly for firms with fewer than 20 employees, regulations are just too hard for the typical small business to find. Under the present arrangement, each of the nation's 25 million small businesses must coordinate with dozens of agencies to order licenses, select locations, negotiate leases, pay taxes, even hire employees. No wonder many small business owners do not even know where to start.

To address this problem, SBA has launched *BusinessLaw.gov*, an Internet-site that provides one-stop access to more than 30 types of regulatory information, 20,000 links to state and local laws, along with interactive help to find additional solutions. As part of the Administration's E-Government initiative, SBA will continue to offer small businesses more on-line options to make complying with regulations easier.

### Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The budget seeks to redirect funds from lesser performing programs to higher priority or more effective ones.

Program	Assessment	Explanation
Small Business Investment Company (SBIC)	<b>Effective</b>	The SBIC venture capital program serves small businesses whose needs are usually below \$5 million.
Disaster Loan Program (direct loans)	<b>Effective</b>	The disaster program responds quickly to disasters and processes loan applications in a timely manner.
7(a) General Business Loan Program	<b>Moderately Effective</b>	Declining defaults have improved performance but lender oversight needs to be improved.
Small Business Development Centers (SBDCs)	<b>Unknown</b>	SBA should develop measures to determine if the SBDCs effectively use the \$88 million they receive in annual federal funding.

Program	Assessment	Explanation
Section 8(a) Program	<b>Ineffective</b>	A recent Inspector General report noted that a small number of the same businesses receive most 8(a) contracts and award dollars year after year. Both business participants and agency procurement officials are concerned about the administrative burden imposed by the program.
One-Stop-Capital Shops	<b>Ineffective</b>	Duplicates other SBA technical assistance programs.

### Strengthening Management

SBA is making progress on the President's Management Agenda. For example, it is one of only four agencies whose financial systems met the Federal Financial Management Improvement Act requirements. However, the Loan Monitoring System (LMS), SBA's largest information technology (IT) investment, which has significant impact on SBA's ability to manage its \$50 billion loan portfolio, is behind schedule, over budget and not performing to expectations.

To advance the Administration's management goals, SBA is administering a successful asset sales program. The program is improving the collection of outstanding debts and moving loan servicing functions to the private sector. In fact, SBA has sold more than 110,000 loans totaling over \$4 billion, collecting more from its sales to private sector investors than if it held and serviced the loans to maturity. Some 135,000 loans worth \$4.5 billion will be sold over the next few years. However, even more improvements can be made. For example, the asset sales program has significantly reduced SBA's loan servicing workload yet SBA has not reduced staff for such activities.

This year, the Administration will implement a fundamental reorganization of the SBA's field office operations. Back office operations (servicing, liquidations, loan processing, etc.) will be centralized or contracted out. District offices will focus on reaching a much larger percentage of the small business community and improving oversight and marketing to lending institutions. Specific strategies will be tested through District Office pilot projects in three offices during 2002 with implementation for 20 Districts in 2003. The pilots include using telecommuters, video teleconferencing, and restructuring the relationship with SBA's technical assistance grant recipients to increase accountability.

Initiative	2001 Status
<p><b>Human Capital</b>—The agency has not articulated a clear vision of what role it should fulfill in the marketplace. In addition, the benefits of asset sales and technological improvements have not been translated into human resource efficiencies. While SBA recognizes the need to restructure, little progress has been made to date. SBA expects to better articulate goals in a 2002 restructuring plan.</p>	●
<p><b>Competitive Sourcing</b>—SBA's analysis of its workforce indicates that 66 percent of SBA's activities are commercial in nature. However, SBA has not developed a competitive-sourcing plan, something it will do in 2002. This effort will be closely coordinated with SBA's human resource restructuring.</p>	●
<p><b>Financial Management</b>—SBA has received an unqualified and timely audit opinion five years in a row, and its financial management system is compliant with relevant federal law. In addition, SBA is improving the accuracy of cost estimates for its general business loan program and will continue its successful asset sales program. In contrast to these successes, the Loan Monitoring System (LMS) technology project is over budget, behind schedule, and not performing as expected. SBA's inability to implement LMS adversely affects its risk management and oversight of its \$50 billion loan portfolio. SBA is refining the LMS project and developing specific implementation milestones.</p>	●
<p><b>E-Government</b>—SBA has a documented enterprise architecture and capital planning investment process, which help inform business decisions and the allocation of the agency's \$50 million technology budget. SBA will lead the government-wide efforts in creating a one-stop regulatory compliance tool for businesses. However, SBA's difficulties continue in developing cost, schedule, and performance goals for other E-gov projects and corresponding security plans, such as the LMS.</p>	●
<p><b>Budget/Performance Integration</b>—SBA submitted an integrated budget and performance plan, which attempted to tie resources to output targets. However, SBA has been unsuccessful at overcoming barriers to the collection of meaningful performance measures in some programs, such as the SBDC program. SBA has pledged to work more aggressively with its technical assistance grant recipients to collect information on performance measures such as business longevity, increased taxable business activity, and the number of start-up firms attributable to technical assistance services.</p>	●



### Small Business Administration

(In millions of dollars)

	2001	Estimate	
	Actual	2002	2003
<b>Spending:</b>			
Discretionary Budget Authority:			
Business Loans .....	298	208	223
Disaster Loans.....	188	214	197
Non-Credit Business Programs .....	245	177	144
Salaries and Expenses .....	175	171	218
All Other Programs .....	14	12	15
Subtotal, Discretionary budget authority adjusted <sup>1</sup> .....	920	782	797
Remove contingent adjustments.....	-20	-20	-18
Total, Discretionary budget authority .....	900	762	779
Emergency Response Fund, Budgetary Resources:			
Disaster Loans.....	100	75	—
Business Loans .....	—	75	—
Total, Emergency Response Fund, Budgetary resources .....	100	150	—
Mandatory Outlays:			
Loan Reestimates and Loan Asset Sale Proceeds.....	-1,380	70	-238
Total, Mandatory outlays.....	-1,380	70	-238
<b>Credit activity:</b>			
Direct Loan Disbursements:			
Disaster Loans.....	683	1,334	976
Business Loans .....	67	41	29
Total, Direct loan disbursements .....	750	1,375	1,005
Guaranteed Loans:			
Business Loans .....	10,963	9,111	10,111
Total, Guaranteed loans.....	10,963	9,111	10,111

<sup>1</sup> Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, "Preview Report," in *Analytical Perspectives*.