

*U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan*

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FY 2002 CB Narrative Revised Apr 10.doc

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan
ORGANIZATION CHART

OUR MISSION
HOW SBA MAKES A DIFFERENCE

OUR MISSION

SBA's Mission

Maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from natural disasters.

The Small Business Act defines SBA's mission as follows:

"It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise, to ensure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government...be placed with small business enterprises, to ensure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."

SBA's success contributes to economic growth. Small business is a key component of America's productive capacity and play a critical role in creating America's innovations and jobs. Small business is responsible for 51 percent of private sector output, and has created 75 percent of the new jobs between 1990 – 1997. SBA promotes a vibrant small business sector with advocacy, capital access, procurement opportunity, technical assistance and disaster relief. These services provide small business customers with the crucial assistance they need to be successful, resulting in greater growth for existing businesses and expanded opportunities for start-ups. Ultimately, SBA programs create new jobs, and provide greater opportunities for all Americans.

Goals and Objectives

SBA, **as part of** the Bush Administration, will carry out its mission by focusing on the following goals and objectives:

1. Help Small Businesses Succeed
 - Objective 1: Act as a Voice for America's Small Businesses
 - Objective 2: Improve Access to Capital and Credit
 - Objective 3: Improve Access to Procurement Opportunities
 - Objective 4: Provide **and Improve** Access to Entrepreneurial Development Assistance
2. Help Families and Businesses Recover from Disasters
3. Improve SBA Management
 - Objective 1: Manage for Results
 - Objective 2: Transform the Workforce
 - Objective 3: Modernize Information Systems
 - Objective 4: Improve Financial Management
 - Objective 5: Improve Credit Program Management
 - Objective 6: Create Electronic Government

OUR MISSION

SBA Results

SBA contributes to the success of small business in two ways. First, it provides direct assistance to companies in the form of access to capital, procurement opportunities, and technical assistance. Second, SBA contributes to an improved small business climate by serving as a voice for small business in the regulatory and legislative process. The diagram below illustrates the logic flow between our resources and our customers, and their related impact on the small business sector and the economy as a whole.

HOW SBA PRODUCES RESULTS



Voice for Small Businesses

- Impact Analysis
- Research
- Hearings
- Advocacy

Access to Capital and Credit

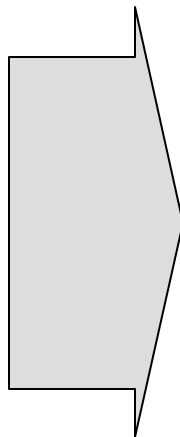
- Business loans
- Equity financings
- Surety bond guarantees

Access to Procurement Opportunities

- Certification of SDB and 8(a)
- 8(a) firms success rate
- SBIR grants

Entrepreneurial Development Assistance

- Clients assisted
- Clients counseled
- Clients trained



SBA Customer Outcomes

- Number of start-ups
- Firm growth in jobs and sales
- Firm survival rate
- Firm growth in export sales
- Customer satisfaction

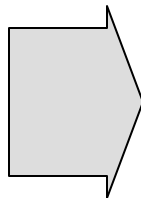
Small Business Sector Outcomes

- Regulatory savings
- Increase in number of small businesses
- Increase in small business jobs
- Increase in small business ownership diversity
- Small business growth in HUBZones, LMI, rural, and tribal areas
- Increase in small business export sales
- Increase in share of Federal procurement to different small business groups

DISASTER

Disaster Loans to Families and Businesses

- Loans to families
- Loans to businesses



Outcomes in Areas Stricken by Disaster

- Restored housing
- Jobs retained
- Increased survival of businesses
- Stabilized local economy and community
- Customer satisfaction

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OUR MISSION

The FY 2002 Budget Request and Performance Plan enhances accountability by describing goals and requested resources in a single, integrated document. The Performance Scorecard shown below summarizes our progress and reported success for each goal.

PERFORMANCE INDICATORS

Description	FY 2000 Actual	FY 2001 Estimate	FY 2002 Planned
Goal 1: Help Small Businesses Succeed			
1. Regulatory cost savings to small businesses	\$3.6B	TBD	TBD
2. Jobs created by SBA borrowers	541,539	542,000	542,000
3. Improved access to capital and credit: 7(a), 504, Microloan and SBIC programs	\$13.1B	\$17.6 B	\$17.6 B
4. Increase diversity:			
Number of loans to Women-owned firms	9,921	10,000	10,500
Number of loans to Minority-owned firms	12,120	12,300	12,500
Number of loans to Veteran-owned firms	5,215	5,300	5,300
5. Number of Start-up firms financed by 7(a), 504 and SBIC program	16,600	16,700	17,000
6. Export Sales assisted by SBA	\$675M	\$537 M	\$537 M
7. Mandated Fair Share of Federal prime contract dollars:			
▪ To small businesses	N/A	23%	23%
▪ To SDBs (including 8(a))	N/A	5%	5%
▪ To Women-owned firms	N/A	5%	5%
▪ To service disabled Veteran-owned firms	N/A	2.9%	3%
▪ To small businesses in HUBZones	1.5%	2%	2.5%
8. 8(a) client success rate 3 yrs after graduation	N/A	68%	70%
9. Customer satisfaction rate with ED programs as determined through surveys	N/A	80%	80%
10. Number of clients trained and counseled	1.3M	1.3M	1.4M
Goal 2: Help Families and Businesses Recover from Disasters			
11. Field presence within 3 days of a disaster	100%	98%	98%
12. Customer satisfaction rate	81%	80%	80%
13. Applications processed within 21 days	91%	80%	85%
Goal 3: Improve SBA Management			
14. Manage for Results		These initiatives will be published after a review by the incoming Administrator.	
15. Transform the Workforce			
16. Modernize Our Information Systems			
17. Improve Financial Management			
18. Improve Credit Program Management			
19. Create Electronic Government			

SBA and America's Small Businesses

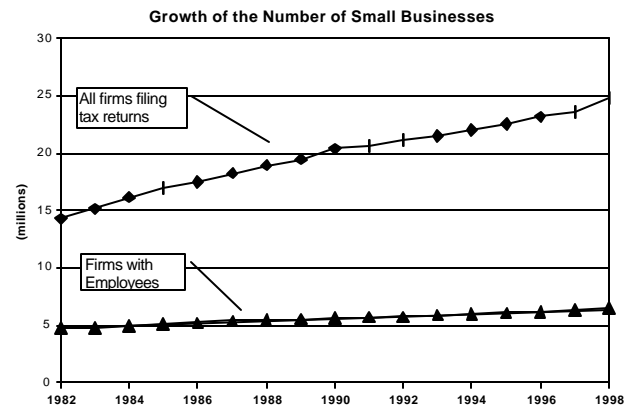
SBA will focus on the small business owner and continue to help small businesses succeed. Through access to capital, procurement opportunity, management and technical assistance, and regulatory advocacy, over a million small businesses benefit annually from SBA and its resource partner programs. Developing precise estimates of our contribution to the overall small business sector of the economy is a challenge. It is difficult to quantify the causal relationship between our outputs and measurable changes in the growth of the small business sector. However, general analysis of small business provides important contextual information for evaluating SBA's contribution to the American people.

We measure the growth of the small business sector in a number of ways. One measure is the aggregate number of small businesses, which can be defined as: (1) the number of small businesses with employees, using statistics from the U.S. Bureau of Labor Statistics; and (2) small businesses filing tax returns, using data from the Internal Revenue Service (IRS). Other measures of small business sector growth include the number of jobs, sales revenues, and business assets in small firms. These measures have varied substantially during the last decade, demonstrating how sensitive the small business sector is to external factors such as the overall state of the economy.

Number of Small Businesses With Employees

In 1998, 24.8 million small businesses filed tax returns with the IRS¹. SBA projects that 25.2 million small businesses will file tax returns in FY 2000 and 26.2 million² in FY 2001. The graph shows a steady growth since 1988, with a slight downturn during the 1990-1991 downturn. Firms with employees represent about half the growth rate of all firms that file tax returns.

Source: US Dept of Treasury, IRS, Statistics of Income Bulletin (Fall 1998) Table 21



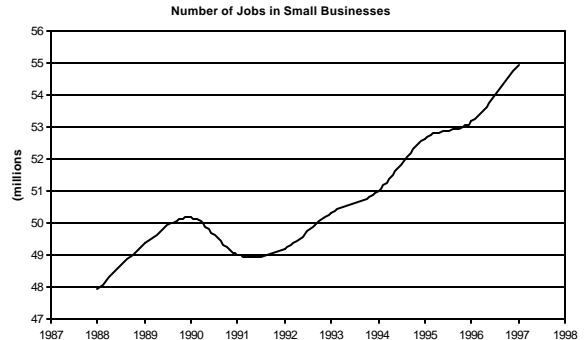
¹ This number includes all firms with and without employees, and firms where the owner is working part-time. Since only 15,000 firms of the 24.8 million firms have more than 500 employees, the IRS data is a very close approximation to the actual number of small firms (24,800,000-15,000 / 24.8 million = 99.9%).

² Projection based on a linear regression of values from 1988 through 1999.

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
OUR MISSION

Small Business Jobs

The number of jobs in small businesses has varied significantly since 1988. In FY 1997, small businesses provided 55.0 million jobs. SBA estimates that small businesses will provide 56.3 and 57.0 million jobs in FY 2000 and FY 2001, respectively. A SBA/Census Bureau database indicates that between 1990 and 1995, 76.5 percent of all new jobs came from small firms with less than 500 employees, and about 49 percent came from firms with less than 20 employees. Start-up firms provided about a third of the total new jobs.

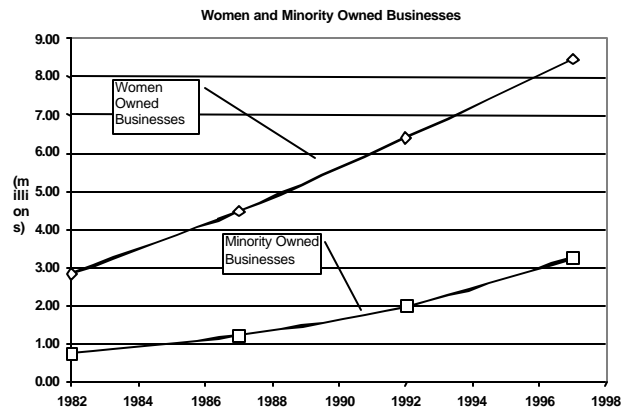


Source: SBA, Office of Advocacy, From data provided by Census Bureau, Department of Commerce

In keeping with President Bush's policy of inclusion, SBA will focus on diversity of small business ownership. We create opportunities for all entrepreneurs, regardless of race or gender, to become successful business owners. SBA levels the playing field for all entrepreneurs to ensure equity and fairness for all small businesses in dealing with the Federal government.

Diversity Of Small Business Ownership

Over the last decade, business ownership has grown rapidly for Hispanics, African-Americans, Asians, and for women. The number of companies owned by women has almost doubled to an estimated 9.1 million in the last 10 years. Women entrepreneurs now own about 40 percent of all firms and employ 27.5 million people.



Between 1987 and 1997, businesses owned by Hispanics have increased 232 percent, businesses owned by African-Americans by 108 percent, and businesses owned by Asian American and Pacific Islanders by 180 percent.

Source: SBA, Office of Advocacy, SBA. From data provided by Census Bureau, Department of Commerce

How We Work – Our Core Values

Successful businesses must put their customers first, achieve results through partnerships and strategic alliances, invest in their people, and use technology more effectively. SBA exercises an active, but limited role – one that empowers citizens and states to make decisions, ensures results through accountability, and promotes innovation through competition.

SBA is committed to the following principles in dealing with a more diverse, global, and technologically advanced world.

- **Citizen Centered** – SBA is driven by customer demands and needs. We offer tailored assistance including access to capital and credit, contracting help, regulatory help, counseling and training, and access to procurement markets.
- **Results Oriented**. We are performance-based, and measure success through results that small businesses seek, expect, and care about most. We hold ourselves accountable to the Congress and to the public.
- **Market Based** – SBA promotes innovation and competition. We depend on partnerships for our success. We deliver products and services by using an extensive grassroots network of business resource partners positioned to provide small businesses with the help they need. The more we can leverage these partnerships, along with interagency working relationships, and technology tools, the more successful we will be in achieving our mission. SBA’s outreach and support network consists of:
 - Approximately 5,000 lenders
 - 300 Certified Development Companies
 - 185 Microloan Program intermediaries
 - Nearly 1,000 Small Business Development Centers
 - 70 Business Information Centers
 - 22 One Stop Capital Shops
 - 17 Tribal Business Information Centers
 - 19 United States Export Assistance Centers
 - 4 Veterans Business Outreach Centers
 - 70 Women’s Business Centers
 - 389 SCORE chapters

OUR MISSION

- **Invest in our employees.** Our workforce is our most important asset. Our employees must adapt to the challenges of the new economy and provide guidance to the small business community. We will streamline operations and ensure that our staff is well trained, motivated, and positioned to help small businesses.
- **Move aggressively to embrace the Digital Age.** We are committed to offering all of our products and services via the Internet and creating an “electronic SBA” as part of the Administration’s vision to use the Internet to create a citizen-centered government. We will continue to assist the entrepreneur in taking advantage of the Internet to compete locally, nationally, and worldwide.

BUDGET HIGHLIGHTS

BUDGET HIGHLIGHTS

The FY 2002 Budget request for the Small Business Administration (SBA) meets the President's goal of encouraging entrepreneurial activity and growth while providing more efficient services and savings to the taxpayer. With a budget of \$539 million and an additional carryover balance of \$37.9 million in the Disaster Loan Programs account, SBA will be able to offer record levels of capital and credit assistance in excess of \$17.6 billion to America's 25 million small businesses. In addition, the budget provides adequate funds to provide the same level of managerial and technical assistance as was provided in FY 2001.

SBA's budget is complimented by the President's overall budget agenda which includes tax relief for small businesses. At least 17.4 million small business owners and entrepreneurs stand to benefit from President Bush's tax relief plan. Small businesses will grow as a result of lower marginal tax rates, which will give them more resources to expand.

The SBA's budget request supports President Bush's key budget goals: broad tax relief, the greatest debt reduction in history, protecting Social Security, and bolstering long term economic growth. SBA's budget also reflects key management challenges which will also be addressed by each agency in FY 2002, including: streamlining programs to better serve small business, moving the agency toward performance-based contracting, making full use of the Federal Activities Inventory Reform Act, identifying and correcting erroneous payments, and modernizing government.

The Administration's economic plan will benefit America's small businesses and compliment recent monetary action. President Bush's tax relief program, including an across the board reduction in the marginal rates, will serve as a long-term catalyst of economic growth. Since most small businesses do not pay corporate taxes, as sole proprietors or Subchapter S's, they are subject to personal income tax rates. Within SBA's account, savings from the elimination of redundant federal subsidies will make it possible to increase funding to some key programs as reflected in our overall increased levels of assistance to small business. Additional savings will be passed on to the taxpayer.

Presidential Initiatives:

SBA's FY 2002 Budget Request contains two specific program initiatives that are part of the President's agenda for America. First, under the "New Freedom Initiative," SBA requests \$5 million to provide technical assistance to help small businesses comply with the Americans with Disabilities Act (ADA), and hire more people with disabilities. This funding will also help SBA increase awareness and promote use of the Disabled Access Credit, which provides a 50 percent tax credit on up to \$5,000 of eligible expenses annually to help small businesses make their facilities ADA compliant. Secondly, to meet the Bush Administration's goal of a drug free workplace, SBA requests \$5 million to assist small businesses in developing policies and programs to address drug use in the workplace. Both of these initiatives would be funded at the level of \$5 million per year over 5 years.

BUDGET HIGHLIGHTS

FY 2002 Policy Proposals:

The following key policy proposals are included in this Budget Request. Our legislative package will include the changes required by the Small Business Act and the Small Business Investment Act.

- **Save taxpayers \$114.5 million** by increasing the tax deductible user fee paid by businesses on Section 7(a) loans *over* \$150,000. Loans smaller than this amount account for almost 60% of all 7(a) loans and will have **no increase**. This will support a record \$10.7 billion loan program with a zero subsidy rate.
- **Save taxpayers \$26 million in the SBIC program** through a nominal increase of 37.6 basis points on the fee for investors. This reform will support a record **\$3.1** billion investment program with a zero subsidy rate.
- **Save \$123 million from the SBA budget** by restructuring disaster relief funding to draw on a government-wide emergency account if funds are needed, and raising the loan rate to businesses with “no-credit elsewhere” to a modest **5.4 percent**. SBA’s budget includes funding for a \$300 million loan program level, including the use of a \$37.9 million carryover from 2001. The balance of funds to support the Disaster program if the need arises would be drawn from the \$5.6 billion reserve account requested in the President’s budget. SBA will continue to meet the needs of small businesses and homeowners when disaster strikes, and will do so with a more efficient loan program.
- **Streamline our programs and provide more effective services** by moving away from redundant and duplicative programs. By removing the Program for Investment in Microenterprise (PRIME) and Business Learning-Innovation-Networking and Collaboration (BusinessLINC) programs and reviewing other SBA program areas, SBA can focus on providing a greater level of service through our proven core programs. Existing SBA services will be improved through the elimination of programs that duplicate other federal, state, local or private-sector services to small business. Also, current and proposed tax incentives will provide additional economic stimulus. Areas where duplication is likely to hamper SBA’s services include: PRIME, BusinessLINC, New Markets Venture Capital program and technical assistance (NMVC), as well as “earmarked” Congressional initiatives which are not included in an agency’s budget request. These reforms will result in a higher level of service and savings of \$116 million that can be passed on to the taxpayer.

BUDGET HIGHLIGHTS

- **Save taxpayers \$12 million in spending on Small Business Development Centers (SBDC)**, while providing free and low cost counseling to small business clients. The small business clients served by SBDC's will receive one hour of free counseling. If additional counseling time is desired by the client, the SBDC's may charge approximately \$10.75 per hour, which is well below private sector counseling rates. Most SBDC clients are generally in a more mature stage of development and are therefore able to easily pay the small fee for counseling services.

Management Reform:

In addition to the small business programs and services to be provided in FY 2002, SBA will improve and streamline the management of all operations and activities. Specific management initiatives include:

- Continue to develop and implement new program and financial management systems under the Systems Modernization Initiative (SMI). These new systems will greatly improve SBA's oversight of its \$50 billion loan portfolio by assisting with our risk management measures, integrating our financial management processes to improve financial reporting and accountability, providing for increased client tracking to measure performance, and using information technology to improve services to SBA's customers and resource partners.

SBA is moving ahead with a **five year** plan to implement SMI. Phase I is focused on developing a new Loan Monitoring System. Loan system prototypes are being tested in Spring 2001. Phase II includes implementation of a new financial management system. From FY 1998 to FY 2000, SBA spent approximately \$18 million on SMI projects. Approximately \$12 million of these costs were for planning, personnel, and infrastructure, while the balance of \$6 million has been for systems acquisition and integration. SBA is currently reviewing the status of the project and is evaluating the most effective and cost efficient way to proceed.

For FY 2002, SBA's budget requests \$8 million in new budget authority for project implementation. In addition, SBA projects that there will be approximately \$8 million from prior appropriations that have been obligated in the FEDSIM account (will be held until the projects are ready for acquisition). SBA will prioritize its resources in FY 2002 to support the most critical LMS and SMI activities. SBA will need to review **its** plans and report a revised schedule to the Congress.

BUDGET HIGHLIGHTS

- Continue to transform our organization and streamline operations to match our changing workloads. SBA's need for internal transformation is based on several external factors including an increased level of privatization that has emerged, the changing demographics and geographic locale of our customers, and expanded use of technology.

Internally, we are experiencing shrinking employment levels, and will strive to efficiently use available human capital. A 150 employee-reduction is planned in this budget request through normal attrition, resulting in an overall employment reduction from FY 1990 of more than 32 percent. This was done while the loan portfolio was increasing to its current level of more than \$50 billion. SBA will continue to use its best efforts to serve America's record 25 million small businesses.

- Continue to increase efficiency and effectiveness of operations to manage programs and activities with a reallocation of resources. This includes conducting studies to evaluate further streamlining of operations, especially in the area of loan servicing that has been impacted by loan asset sales, and to reduce or eliminate duplicative operations.
- Continue to sell loan assets to private investors, thereby reducing the direct loan portfolio that will be serviced by SBA employees. Sales will continue to occur at regular intervals as long as the value to the government from these sales is greater than the cost to SBA of retaining loan servicing.
- Continue to enhance internal control efforts through the full implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.
- Continue to produce unqualified audited financial statements that are free of material weaknesses and compliant with the Federal Financial Management Improvement Act (FFMIA).

In summary, our request of \$539 million represents a responsible and responsive funding level to appropriately serve the needs of America's small businesses in FY 2002. Our budget provides sufficient funding to administer record levels of capital, credit, and entrepreneurial development assistance to small businesses at an overall lower cost to the taxpayer than in FY 2001. Our budget builds on the President's tax proposal and other policies to revitalize the economy, invest in human capital, increase customer satisfaction, and increase government accountability.

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Non-Credit Programs/Special Initiatives	FY 2001 Estimate	FY 2002 Request	Change
<u><i>New Freedom Initiative:</i></u>	\$ 0	\$5,000	+\$5,000
<p>SBA will use intermediaries to provide technical assistance to help small businesses comply with the Americans with Disabilities Act (ADA), serve customers with disabilities, and hire more people with disabilities. Funding will be used to increase small business awareness and promote use of the Disabled Access Credit, which provides an annual 50 percent tax credit up to \$5,000 of eligible expenses annually to help small businesses make their facilities ADA compliant. This level of funding represents the first year of a 5-year \$25 million initiative.</p>			
<u><i>Paul D. Coverdell Drug-Free Workplace Program:</i></u>	3,500	5,000	+1,500
<p>SBA will use intermediaries to provide technical assistance to help small businesses develop policies and programs to address drugs in the workplace. This is already an authorized program at SBA.</p>			
<u><i>Procurement Assistance Programs:</i></u>	0	500	+500
<p>P.L. 106-554 requires SBA to implement a number of additional procurement initiatives, including contract bundling and a women's procurement certification and goaling program. These statutory requirements include conducting research, developing a database, and monitoring these efforts.</p>			

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Non-Credit Programs/Special Initiatives	FY 2001 Estimate	FY 2002 Request	Change
<u><i>Veteran's Business Development Corporation:</i></u>	\$ 3,992	\$ 0	\$ (3,992)
<p>The Corporation was established by P.L. 106-50, the Veteran's Entrepreneurship and Small Business Development Act of 1999. Funding for this government-chartered corporation is not included in SBA's budget request for FY 2002, but under separate authority in the Commerce, Justice, State, and Related Agencies Bill.</p>			
<u><i>Veteran's Business Development Assistance:</i></u>	0	750	+750
<p>In order to implement the provisions of P.L. 106-50 relating to SBA's direct role in supporting veteran-owned small businesses, and implement the provisions of P.L. 105-135, the SBA Reauthorization Act of 1997, we will continue to administer our previously-funded outreach and assistance program to support the creation, growth, and viability of small businesses owned by eligible veterans.</p>			
<u><i>Service Corps of Retired Executives (SCORE):</i></u>	3,750	4,000	+250

Over 11,400 business men and women volunteer their time and talents to provide assistance in the form of training and counseling to prospective and current small business owners. The Federal funding covers the cost of the SCORE national office, reimbursement for local travel expenses, and some minimal operational expenses. This increase covers more of the operational costs of SCORE program volunteers, including postage, paper, and other incidental supplies.

U.S. Small Business Administration
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SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Non-Credit Programs/Special Initiatives	FY 2001 Estimate	FY 2002 Request	Change
<u>New Markets Venture Capital Technical Assistance:</u>	30,000	0	(30,000)

P.L. 106-554 authorized a number of Federal programs and initiatives to spur economic development in areas of high unemployment or low income, called “new markets.” SBA’s program included in this law was a venture capital loan program, modeled after our existing Small Business Investment Company program (SBIC), but with specific targets for investments in these areas. This program included a grant component to provide technical assistance to firms that received investments from the New Markets Venture Capital firms. In FY 2001, the program received a lump sum funding which will span 5 years. The Act also included a substantial tax incentive for investments in these New Markets areas, which makes SBA’s technical assistance program unnecessary. The 30 percent tax credit will provide over \$15 billion in investment in these areas. SBA’s existing SBIC program will continue to provide small businesses with equity capital, including those located in low and moderate income areas.

<u>Program for Investment in Microenterprises (PRIME):</u>	\$ 15,000	\$ 0	\$ (15,000)
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PRIME was authorized in 1999 to provide technical assistance to small businesses and to the organizations that support them. Funding was not provided until FY 2001. Similar assistance is already provided through existing Federal, State, local, and private-sector programs, including SBA’s Microloan program, Small Business Development Centers, and One-Stop Capital Shops. PRIME duplicates existing programs and is not funded in FY 2002.

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Non-Credit Programs/Special Initiatives	FY 2001 Estimate	FY 2002 Request	Change
<u>Business, Learning - Investment - Networking and Collaboration (BusinessLINC):</u>	7,000	0	(7,000)
<u>Small Business Development Centers (SBDCs):</u>	87,806	75,806	(12,000)

Also included in P.L. 106-554 was the establishment of the BusinessLINC program, which would facilitate the establishment of mentor-protégé relationships between large and small businesses. These relationships are already facilitated through existing Federal and private-sector programs, such as the Department of Defense mentoring program, National Aeronautics & Space Administration's mentoring program, the Women's Network, and the 8(a) program. The 7(j) management and technical assistance programs also provide similar services as the BusinessLINC program. BusinessLINC duplicates existing programs and is not funded in FY 2002.

SBDCs provide training and counseling to small businesses. Counseling is currently provided free-of-charge; however, the SBDC can charge a fee for training. Statutory language prohibits the charging of a fee for counseling. We propose to remove this prohibition and encourage the SBDCs to charge a nominal fee for counseling to those who benefit from the program and reduce taxpayer burden. SBA's proposed funding option will allow for an initial 1 hour of counseling to remain free-of-charge. However, if additional counseling is needed, the client will be charged \$10.75 per hour. The average cost per client is estimated at approximately \$50, for an estimated 262,000 clients annually. This fee would reduce Federal funding for SBDCs by \$12 million per year.

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Non-Credit Programs/Special Initiatives	FY 2001 Estimate	FY 2002 Request	Change
	\$ 41,291	\$ 0	\$ (41,291)

Congressional Initiatives:

Each year as part of the congressional budget process, there are a number of program initiatives that are included in SBA's final appropriation. These initiatives are not authorized in the Small Business Act, and therefore, are not requested as part of the President's annual budget.

<u>Other Non-Credit Programs and Initiatives:</u>	62,844	62,844	0
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The remaining programs and initiatives for small business assistance are proposed to be funded at the same level as FY 2001.

Total Non-Credit Programs/Initiatives	\$255,183	\$153,900	\$ (101,283)
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U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002

(Dollars in Thousands)

Operating Budget	FY 2001 Estimate	FY 2002 Request	Change
Direct Appropriation to Salaries & Expenses	\$154,549	\$167,319	\$ 12,770
Transfer from Business Loans ¹	128,716	129,000	284
Transfer from Disaster Loans ²	9,854	9,854	0
Fee Income (Not Appropriation Item)	3,000	3,000	0
Total Operating Budget	\$296,119	\$309,173	\$ 13,054

SBA's operating budget includes funds directly appropriated to its Salaries and Expenses account, plus transfers from the Business and Disaster Loans Program accounts for administrative expenses. This budget covers the cost of compensation and benefits of our employees, excluding direct Disaster and Inspector General staff. Costs of fixed items such as rents, telephones, computers, postage, unemployment compensation, and financial systems such as payroll and accounting are included. Costs of normal operations to support and deliver services to small business, such as travel, supplies, and General Services Administration (GSA) rental cars are included.

The President requested a 3.6 percent general pay raise in January 2002, which would increase our compensation and benefits expense by about \$8 million in FY 2002. SBA expects to end FY 2001 with 2,860 full time employees (FTE). The estimate for the end of FY 2002 is 2,710 FTE, as SBA plans a staffing reduction of 150 through normal attrition. We are also experiencing increases in other operating costs, especially in the area of rents. The small increase in the operating budget is needed to cover these expected increased costs.

Total Salaries And Expenses	\$ 409,732	\$ 321,219	\$ (88,513)
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¹ Included in Business Loans Total

² Included in Disaster Loans Total

U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Business Loans Program	FY 2001 Estimate	FY 2002 Request	Change
<p><u>Section 7(a) General Business Loans:</u> SBA's largest lending program provides government guaranties for loans made by participating lenders. For FY 2002, we request a program level of \$10.7 billion and propose that the fees on larger loans be increased to result in a zero subsidy rate for these loans, requiring no new appropriations. This will shift the cost from the general taxpayer to those who benefit directly from the program, and decrease SBA's dependence on Congressional funding. Fee changes for FY 2002 would be as follows: For loans with a term of more than 1 year in an amount less than or equal to \$150,000, there is no change in the current fee schedule (except for loans that mature within one year); for loans greater than \$150,000 and less than or equal to \$700,000, the upfront fee increases from 3 percent to 3.5 percent and the ongoing fee increases from .50 percent to no more than 1 percent (SBA estimates .8875 percent); for loans greater than \$700,000, the upfront fee increases from 3.5 percent to 4.0 percent and the ongoing fee increases from .50 percent to no more than 1 percent (SBA estimates .8875 percent); for loans with a maturity of less than 1 year, the upfront fee increases from .25 percent to 1.0 percent.</p>	\$ 114,707	\$ 0	\$ (114,707)
<p><u>Small Business Investment Company (SBIC) Participating Securities:</u> The SBIC program meets small business needs for equity capital through partnerships with licensed investment companies. For FY 2002, we request a program level of \$2.5 billion and propose that the pass-through fees from SBIC's be increased from 1.0 percent to no more than 1.5% percent, to result in a zero subsidy rate for these loans (SBA estimates 1.376 percent for FY 2002), requiring no new appropriations.</p>	26,142	0	(26,142)

SUMMARY OF CHANGES FROM FY 2001 TO FY 2002

(Dollars in Thousands)

Business Loans Program	FY 2001 Estimate	FY 2002 Request	Change
<u>Microloans:</u> The Microloan program provides access to very small loans (up to \$35,000) to help meet the needs of small businesses through partnerships with microloan intermediaries. For FY 2002, we request a direct program level of \$20.6 million, with a reduced subsidy rate from 8.95 percent to 6.78 percent, resulting in a decreased need for new appropriations.	\$ 2,245	\$ 1,500	\$ (745)
<u>New Markets Venture Capital Debentures:</u> As indicated above, P.L. 106-554 authorized a number of Federal programs and initiatives to spur economic development in areas of low income or employment - "new markets." In FY 2001, the Program received lump sum funding for debentures, which will span over 10 years. The tax incentives provided in this law make the New Market Venture Capital Debentures unnecessary. Therefore, no funding is requested for FY 2002.	21,952	0	(21,952)
<u>Administrative Expenses</u>	128,716	129,000	+284
Total Business Loans Program	\$293,762	\$130,500	(\$163,262)

Disaster Loans Program

SBA's Disaster Loan Program provides long-term loans at subsidized interest rates to victims of natural disasters to enable them to recover or prevent disaster conditions. SBA's loans cover the uninsured losses from the disaster damage. SBA's loans are available to homeowners, renters and businesses affected by natural disaster.	\$ 75,972	\$ 0	\$ (75,972)
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U.S. Small Business Administration
 FY 2002 Budget Request and Performance Plan
SUMMARY OF CHANGES FROM FY 2001 TO FY 2002
 (Dollars in Thousands)

Business Loans Program	FY 2001 Estimate	FY 2002 Request	Change
Disaster Loans Program (Cont'd)			
<p>For FY 2002, the Administration proposes to establish a government-wide emergency reserve of \$5.6 billion to cover the cost of Federal disaster assistance. SBA would utilize this reserve fund to cover the cost of its disaster loan program and related administrative costs to the extent they exceed the amount of direct appropriations to SBA. SBA proposes a \$300 million loan program that is funded from anticipated carryover balances from FY 2001 in this program, and requests related administrative costs as a direct appropriation.</p> <p>In addition, we propose to increase the interest rate for business loans to borrowers who do not have credit available elsewhere. Presently, these loans are capped at a 4 percent interest rate. SBA's proposal would increase this rate to the Treasury cost of funds, which is projected at 5.4 percent next year. A maximum of 8 percent is also proposed to parallel the rate of disaster business loans with credit elsewhere. This proposal has the effect of reducing the subsidy rate on the disaster loan program from 14.67 percent to 10.95 percent.</p>			
<i>Disaster Administrative Expenses:</i>	108,116	75,354	(32,762)
Total Disaster Loan Program	184,088	75,354	(108,734)
Office of the Inspector General	11,927	11,927	0
Total SBA Request	\$899,509¹	\$539,000	(\$360,509)

¹ Amounts in this column are "net" of the rescission.

RESOURCES SUMMARIES

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan
SUMMARY OF BUDGET AUTHORITY
(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Salaries and Expenses				
Administrative Operating Expenses	\$ 133,695	\$ 154,541	\$ 167,319	\$ 12,778
Non-Credit Programs and Special Initiatives	189,105	256,094	153,900	(102,194)
Subtotal	322,800	410,635	321,219	(89,416)
Business Loans Program Account				
Direct Loans New Budget Authority	0	2,250	1,500	(750)
Guaranteed Loans Budget Authority	137,800	163,160	0	(163,160)
Administrative Expense	129,000	129,000	129,000	0
Subtotal	266,800	294,410	130,500	(163,910)
Disaster Loans Program Account				
Direct Loans				
New Budget Authority	140,400	76,140	0	(76,140)
Supplementals, Contingencies	15,500	0	0	0
Administrative Expense				
New Budget Authority	136,000	108,354	75,354	(33,000)
Supplemental Appropriation	25,400	0	0	0
Subtotal	317,300	184,494	75,354	(109,140)
Surety Bond Guarantee Fund	0	0	0	0
Office of the Inspector General	11,000	11,953	11,927	(26)
Appropriated Funds Rescinded	(3,280)	(1,983)	0	1,983
Total Budget Authority	\$ 914,620	\$ 899,509	\$ 539,000	\$ (360,509)

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan

SUMMARY OF FINANCING

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Salaries and Expenses:				
New Budget Authority	\$ 322,800	\$ 410,635	\$ 321,219	\$ (89,416)
Transfer from Business Loans Program	129,000	129,374	129,105	(269)
Transfer from Disaster Loans Program	20,000	9,854	9,854	0
Transfers from Other Agencies	11,654	5,000	1,800	(3,200)
Offsetting Collections - Fees	3,331	3,000	3,000	0
Estimated Gainsharing	0	3,000	3,000	0
Carryover from Prior Fiscal Year	4,089	2,791	0	(2,791)
Recoveries	10	0	0	0
Returned to Treasury	(10,500)	0	0	0
Transfer to Other Accounts	(4,248)	(1,898)	0	1,898
Carryover into Next Fiscal Year	(2,791)	0	0	0
Rescinded Funds Appropriated	(3,185)	(903)	0	903
Balance Expired	(674)	0	0	0
Total Salaries and Expenses	469,486	560,853	467,978	(92,875)
Business Loans Program				
New Budget Authority - Administration	129,000	129,000	129,000	0
New Budget Authority - Loan Programs	137,800	165,410	1,500	(163,910)
Transfer from Other Accounts	9,500	500	0	(500)
Carryover from Prior Fiscal Year	30,100	24,719	9,114	(15,605)
Recoveries	4,211	1,169	0	(1,169)
Transfer to Other Accounts	(135,000)	(129,874)	(129,105)	769
Carryover into Next Fiscal Year	(24,719)	(9,114)	(8,798)	316
Rescinded Funds Appropriated	0	(648)	0	648
Balance Expired	(13,100)	0	0	0
Total Business Loans	137,792	181,162	1,711	(179,451)
Disaster Loans Program				
New Budget Authority	140,400	76,140	0	(76,140)
Supplemental, Contingencies	15,500	0	0	0
Carryover from Prior Fiscal Year	81,004	96,231	37,850	(58,381)
Recoveries	33,235	10,000	0	(10,000)
Carryover into Next Fiscal Year	(96,231)	(37,850)	0	37,850
Transfer to Administrative Expense	0	0	(5,000)	(5,000)
Rescinded Funds Appropriated	0	(168)	0	168
Subtotal - Disaster Loans Program	173,908	144,353	32,850	(111,503)

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan

SUMMARY OF FINANCING

(Dollars in Thousands)

	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001
				Estimate
Disaster Loans Program - Administration				
New Budget Authority	\$ 136,000	\$ 108,354	\$ 75,354	\$ (33,000)
Supplemental, Contingencies	25,400	0	0	0
Carryover from Prior Fiscal Year	779	27,307	0	(27,307)
Transfer from Loan Subsidy	0	0	5,000	5,000
Recoveries	1,128	0	0	0
Carryover into Next Fiscal Year	(27,307)	0	0	0
Transfer to Salaries and Expenses	(20,000)	(9,854)	(9,854)	0
Transfer to Inspector General	(500)	(500)	(500)	0
Rescinded Funds Appropriated	(2,048)	(238)	0	238
Subtotal - Disaster Administration	113,452	125,069	70,000	(55,069)
Total - Disaster Assistance Program	287,360	269,422	102,850	(166,572)
Surety Bond Guarantee Fund	0	0	0	0
Office of the Inspector General				
New Budget Authority	11,000	11,953	11,927	(26)
Carryover from Prior Fiscal Year	482	515	0	(515)
Transfer from Disaster	500	500	500	0
Recoveries	96	0	0	0
Balance Expired	(130)	0	0	0
Carryover into Next Fiscal Year	(515)	0	0	0
Rescinded Funds Appropriated	(95)	(26)	0	26
Total Inspector General	11,338	12,942	12,427	(515)
Total Financing	\$ 905,976	\$ 1,024,379	\$ 584,966	\$ (439,413)

SUMMARY OF POSITIONS AND FULL TIME EQUIVALENTS

(Dollars in Thousands)

ON BOARD POSITIONS

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Salaries and Expenses - Regular Funds	2,807	2,760	2,610	(150)
Non Credit Programs and Initiatives	134	100	100	0
Subtotal	2,941	2,860	2,710	(150)
Disaster	1,168	1,164	932 ¹	(232)
Inspector General	112	125	125	0
Total	4,221	4,149	3,767	(382)

FULL TIME EQUIVALENTS (FTE)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Salaries and Expenses - Regular Funds	2,869	2,788	2,688	(100)
Non Credit Programs and Initiatives	141	94	100	6
Subtotal	3,010	2,882	2,788	(94)
Disaster	1,137	1,137	1,048 ¹	(89)
Inspector General	115	119	119	0
Total	4,262	4,138	3,955	(183)

¹ For FY 2002, this assumes additional funding from the government-wide Disaster Reserve to maintain approximately the same level of staffing throughout the year.

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan

SUMMARY OF NON CREDIT PROGRAMS & SPECIAL INITIATIVES¹

(Dollars in Thousands)

	FY 2000	FY 2001	FY 2002	Inc/(Dec) vs FY 2001
	Actual	Estimate	Request	Estimate
Executive Direction				
Advocacy Database and Analysis	\$ 1,140	\$ 1,300	\$ 1,100	\$ (200)
National Ombudsman	514	500	500	0
New Freedom Initiative	0	0	5,000	5,000
Veteran's Business Development Assistance	615	0	750	750
Veteran's Business Development	0	3,992	0	(3,992)
National Women's Business Council	600	750	750	0
Management & Administration				
Systems Modernization	10,067	8,000	8,000	0
Workforce Transformation	0	2,000	2,000	0
Government Contracting/Business Development				
7(j) Technical Assistance	3,950	3,600	3,600	0
BusinessLINC	0	7,000	0	(7,000)
PRO-Net	454	500	500	0
Small Disadvantaged Businesses	8,643	1,800	1,800	0
SBIR Technical Assistance	496	1,500	1,500	0
SBIR – FAST	0	3,500	3,500	0
HUBZones Program	1,978	2,000	2,000	0
Procurement Assistance Programs	0	0	500	500
Entrepreneurial Development				
Small Business Development Centers (SBDC)	84,074	88,013	75,806	(12,207)
Drug-Free Workplace	3,469	3,500	5,000	1,500
Service Corps of Retirees Executives (SCORE)	3,471	3,750	4,000	250
Business Information Centers	495	500	500	0
Women's Business Centers	8,926	12,000	12,000	0
Survey of Women-Owned Businesses	783	694	694	0
One Stop Capital Shops	3,206	3,100	3,100	0
Capital Access				
US Export Assistance Centers	3,065	3,100	3,100	0
Microloan Technical Assistance	19,243	20,260	20,000	(260)
PRIME Technical Assistance	0	15,000	0	(15,000)
New Market Venture Capital Tech Assistance	0	30,000	0	(30,000)
Gainsharing Improvements	0	3,000	3,000	0
Reimbursable Programs	2,722	3,668	105	(3,563)
Congressional Initiatives	27,749	41,291	0	(41,291)
Total	\$ 185,660	\$ 264,318	\$ 158,805	\$ (105,513)

¹ Includes amounts carried forward from the prior fiscal year.

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan

SUMMARY OF CONGRESSIONAL INITIATIVES

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	vs FY 2001 Estimate
Congressional Initiatives:				
NTTC @ Wheeling Jesuit University	\$ 2,312	\$ 2,458	\$ 0	\$ (2,458)
Western Carolina University	1,850	590	0	(590)
State University of NY-Inst of Entrep	925	1,475	0	(1,475)
New York-Bronx Museum	2,775	2,458	0	(2,458)
Long Island Bay Shore Aquarium	185	983	0	(983)
Promesa Enterprises-Bronx, NY	0	1,966	0	(1,966)
NY City Parks & Rec.-Bronx, NY	0	492	0	(492)
NY Public Library-Bronx, NY	0	492	0	(492)
Hazard, KY-Center for Rural Law Enf	2,312	0	0	0
Pike Cty, KY Interpretive Dev, Init	0	492	0	(492)
Somerset, KY-Center for Rural Dev	0	4,915	0	(4,915)
Paintsville, KY-Regional Arts & Tourism	0	1,966	0	(1,966)
Prestonburg, KY-Regional Arts and Tourism	1,758	0	0	0
South KY-Economic Development Corp.	925	4,915	0	(4,915)
Pikeville College, KY-Telemed Lrn & Res	925	0	0	0
Union College, KY-Tech. & Media Center	0	1,473	0	(1,473)
Pulaski Cty, KY-Emergency Training Center	0	1,278	0	(1,278)
Nicholas Cty, KY-Industrial. Authority	0	344	0	(344)
Mont. Cty, KY-Ed & Train Facility	0	344	0	(344)
Oakridge, TN-Tech & Econ Dev	0	983	0	(983)
Safer Foundation	0	983	0	(983)
Somerset Community College	7,909	0	0	0
Vandalia Heritage Foundation	185	197	0	(197)
Museum of Science & Industry	0	786	0	(786)
Moundsville, WV-Economic Dev Council	462	492	0	(492)
Johnstown, PA-Regional Industries Ctr.	0	246	0	(246)
Johnstown, PA-Regional Industries Ctr.	231	246	0	(246)
Buckhorn Childrens' Foundation	0	590	0	(590)
Miami-Dade Community College	139	0	0	0
Soundview Comm Action-Bronx, NY	694	983	0	(983)
East LA Community Union	0	983	0	(983)
Maywood, CA-Operation Hope	925	0	0	0
Illinois Coalition	1,850	0	0	0
Illinois Dept. of Commerce	462	0	0	0
Durant, OK.-Rural Enterprises	185	197	0	(197)
OK-Dept. of Career & Technical Education	0	492	0	(492)
City of Chicago-Tech Based Bus Growth	462	0	0	0
Greenpoint Mfg & Design Center	0	983	0	(983)
Old Sturbridge Village-Arts & Tourism	0	197	0	(197)
N.VA-Business Asst. Dev. Group	0	246	0	(246)
Brotherhood Bus. Dev. & Cap. Fund	0	983	0	(983)
AZ-Dept. of Public Safety	0	885	0	(885)
Gadsden State College-Ctr for Econ Dev	0	246	0	(246)
Morehead State U Science Res. & Tech Ctr.	0	1,966	0	(1,966)
Electronic Commerce Center, Scranton, PA	0	983	0	(983)
National Museum of Jazz, New York, NY	0	983	0	(983)
Western, MA.-Enterprsie Fund	278	0	0	0
Total Congressional Initiatives	\$ 27,749	\$ 41,291	\$ 0	\$ (41,291)

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan
SUMMARY OF CREDIT PROGRAMS

(Dollars in Thousands)

	Program Level				Budget Authority ¹				Subsidy Rate			
	FY 2000	FY 2001	FY 2002	Inc/(Dec)	FY 2000	FY 2001	FY 2002	Inc/(Dec)	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001 Estimate	Actual	Estimate	Request	vs FY 2001 Estimate	Actual	Estimate	Request	vs FY 2001 Estimate
Microloan Direct	\$ 27,204	\$ 25,531	\$ 20,575	\$ (4,956)	\$ 2,323	\$ 2,285	\$ 1,395	\$ (890)	8.54%	8.95%	6.78%	(2.17)%
Total Direct	27,204	25,531	20,575	(4,956)	2,323	2,285	1,395	(890)	8.54%	8.95%	6.78%	(2.17)%
Guaranty												
Section 7(a) Guaranty	\$ 9,679,569	\$11,008,547	\$10,700,000	\$ (308,547)	\$112,283	\$128,800	\$ 0	\$ (128,800)	1.16%	1.17% ²	0.00%	(1.17)%
Section 7(a) Guaranty - DELTA	15,552	20,000	20,000	0	285	374	132	(242)	1.83%	1.87%	0.66%	(1.21)%
Section 7(a) Y2K Loans	2,704	0	0	0	110	0	0	0	4.07%	N/A	N/A	0.00%
Section 504 CDC Guaranty	1,808,649	3,750,000	3,750,000	0	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Section 504 CDC Guaranty - DELTA	257	2,472	2,500	28	3	22	21	(1)	1.13%	0.89%	0.84%	(0.05)%
Microloan - Guaranty	1,150	2,000	2,000	0	96	159	163	4	8.32%	7.95%	8.17%	0.22%
New Market Venture Capital	0	152,022	0	(152,022)	0	21,952	0	(21,952)	15.00%	14.44%	14.47%	0.03%
SBIC - Participating Securities	1,260,630	2,104,580	2,500,000	395,420	22,692	27,570	0	(27,570)	1.80%	1.31%	0.00%	(1.31)%
SBIC - Debentures	384,955	500,000	600,000	100,000	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total - Guaranty	\$13,153,466	\$17,539,621	\$17,574,500	\$ 34,879	\$ 135,469	\$ 178,877	\$ 316	\$ (178,561)				
Total Business	\$13,180,670	\$17,565,152	\$17,595,075	\$ 29,923	\$ 137,792	\$ 181,162	\$ 1,711	\$ (179,451)				
Disaster	\$ 783,369	\$ 826,764	\$ 300,000	\$ (526,764)	\$ 173,908	\$ 144,353	\$ 32,850	\$ (111,503)	22.20%	17.46%	10.95%	(6.51)%
Surety Bond Guarantee	\$ 1,672,000	\$ 1,672,000	\$ 1,672,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	N/A	N/A	N/A	N/A

¹ Includes effects of carryover balances, transfers, recoveries, and rescissions.

² Reflects a blended rate; 1.24% from 10/1-12/21, 1.16 from 12/21 to 9/30.

JUSTIFICATION OF CHANGES FROM FY 2001 TO FY 2002 BY OBJECT CLASS

(Excluding Disaster Assistance and Office of Inspector General)

(Dollars in Thousands)

	FY 2000 Actual		FY 2001 Estimate		FY 2002 Request		Increase/(Decrease) vs FY 2001 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Salaries and Expenses¹								
Compensation & Benefits	2,807	\$ 217,423	2,760	\$ 226,633	2,610	\$ 234,452	(150)	\$ 7,819
Travel	0	5,964	0	6,960	0	6,960	0	0
Rents & Communication	0	31,869	0	31,660	0	33,911	0	2,251
Postage and Printing	0	1,519	0	3,125	0	3,125	0	0
Other Services	0	27,050	0	28,157	0	30,725	0	2,568
Subtotal	2,807	283,826	2,760	296,535	2,610	309,173	(150)	12,638
Non-Credit Programs & Special Initiatives	134	185,660	100	264,318	100	158,805	0	(105,513)
Total	2,941	\$ 469,486	2,860	\$ 560,853	2,710	\$ 467,978	(150)	\$ (92,875)

FY 2002 Increase/(Decrease) vs FY 2001 Estimate

Compensation & Benefits: Includes a 3.6 percent general pay increase in January 2002 and annualization impact of the FY 2001 general pay increase, and the pay increases from within grades and promotions, offset by decreasing on board positions by 150 personnel throughout the year.

Rents and Communication Includes a General Services Administration estimated rent increase - \$2.251 million.

Other Services Reflects a minimal increase to cover anticipated inflationary increases in all areas of operations not specifically defined at this time, such as travel, printing, transit benefits, etc. Also includes \$1.5 million for the Asset Sales Program Financial Advisor.

¹ Includes the effects of carryover balances, transfers, and rescissions.

U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan
SUMMARY BY PROGRAM OFFICE
(Dollars in thousands)

	FY 2000 Actual ¹		FY 2001 Estimate ²		FY 2002 Request		Increase (Decrease) vs. FY 2001 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Operating Budget (excluding								
Executive Direction								
Administrator	28	\$ 3,003	18	\$ 3,462	18	\$ 3,573	0	\$ 111
Disability Initiative	0	0	2	425	2	431	0	6
General Counsel	71	6,632	74	7,958	74	8,238	0	280
Congressional and Legislative Hearings and Appeals	11	963	9	1,042	9	1,081	0	39
	11	1,058	11	1,078	11	1,117	0	39
Communications and Public Field Operations	21	2,650	22	2,382	22	2,447	0	65
	10	2,262	6	1,265	6	1,292	0	27
EEO and Civil Rights Compliance	19	1,941	19	1,682	19	1,739	0	57
Advocacy	43	4,480	41	4,393	41	4,547	0	154
Veterans Business Development	5	513	5	793	5	562	0	(231)
Chief Financial Officer	82	8,733	82	8,864	82	9,113	0	249
Subtotal	301	\$ 32,235	289	\$ 33,344	289	\$ 34,140	0	\$ 796
Management and Administration								
Immediate Office	4	587	9	399	9	413	0	14
Human Resources	55	4,491	58	4,678	58	4,829	0	151
Administration	48	7,389	49	6,877	49	7,000	0	123
Chief Information Officer	54	17,149	56	17,224	56	17,411	0	187
Subtotal	161	\$ 29,616	172	\$ 29,178	172	\$ 29,653	0	\$ 475
Government Contracting/Business Development ³								
Immediate Office	4	389	5	390	5	401	0	11
Operations & Program Support	0	0	12	955	12	991	0	36
Planning & Policy Liaison	12	1,633	15	1,704	15	1,766	0	62
Business Development	28	3,260	57	3,396	57	3,522	0	126

¹ FY 2000 represents actual obligations and on-board staff as of 9/30/00.

² FY 2001 and FY 2002 represent estimated obligations. Staffing for FY 2001 and FY 2002 represent on-board count as of 1/31/01.

³ This office was re-organized effective October 1, 2000, which impacted the alignment of staffing and distorts a comparison between FY 2000 and FY 2001. In FY 2001, the 57 positions shown for the Office of Business Development includes 14 Small Disadvantaged Businesses (SDB) positions which are funded under the Economy Act.

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Government Contracting	<u>154</u>	<u>13,294</u>	<u>152</u>	<u>13,481</u>	<u>152</u>	<u>13,978</u>	<u>0</u>	<u>497</u>
Subtotal	198 \$	18,576	241 \$	19,926	241 \$	20,658	0 \$	732

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SUMMARY BY PROGRAM OFFICE

(Dollars in thousands)

	FY 2000 Actual ¹		FY 2001 Estimate ²		FY 2002 Request		Increase (Decrease) vs. FY 2001 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
Capital Access								
Immediate Office	7	\$ 821	5	\$ 843	5	\$ 870	0	\$ 27
Lender Oversight	0	554	3	1,004	3	1,015	0	11
Financial Assistance	153	11,527	157	11,199	157	11,578	0	379
Asset Sales (Program Financial Advisor)	0	0	0	0	0	1,500	0	1,500
Investment Division	89	7,714	90	8,611	90	8,909	0	298
Surety Guarantees	14	1,177	13	1,221	13	1,261	0	40
International Trade	12	2,598	10	921	10	949	0	28
	275	\$ 24,391	278	\$ 23,799	278	\$ 26,082	0	\$ 2,283
Entrepreneurial Development								
Immediate Office	9	\$ 1,478	6	\$ 1,056	6	\$ 1,087	0	\$ 31
Small Business Development Centers	16	1,743	16	1,578	16	1,631	0	53
Business Initiatives	11	2,158	13	1,082	13	1,121	0	39
Native American Affairs	2	381	1	662	1	129	0	(533)
Women's Business Ownership	11	940	9	1,025	9	1,059	0	34
	49	\$ 6,700	45	\$ 5,403	45	\$ 5,027	0	\$ (376)
Regional and District Offices	1,823	136,099	1,787	141,289	1,787	147,383	0	6,094
Agency-wide (not distributed) ³	0	36,209	(47)	43,596	(197)	46,230	(150)	2,634
Subtotal - Operating Budget	2,807	\$ 283,826	2,760	\$ 296,535	2,610	\$ 309,173	(150)	\$ 12,638
Non-Credit Programs & Special Initiatives	134	185,660	100	264,318	100	158,805	0	(105,513)
Total Salaries and Expenses	2,941	\$ 469,486	2,860	\$ 560,853	2,710	\$ 467,978	(150)	\$ (92,875)
Disaster Direct Program								
Loan Making	916	\$ 83,929	927	\$ 91,013	695	\$ 40,000	(232)	\$ (51,013)
Loan Servicing	252	29,523	237	34,056	237	30,000	0	(4,056)
Total Disaster Direct Program	1,168	\$	1,164	\$	932	\$	(232)	\$
Inspector General	112	\$	125	\$	125	\$	0	\$ (515)
Grand Total	4,221	\$	4,149	\$	3,767	\$	(382)	\$

¹ FY 2000 represents actual obligations and on-board staff as of 9/30/00.

² FY 2001 and FY 2002 represent estimated obligations. Staffing for FY 2001 and FY 2002 represent on-board count as of 1/31/01.

³ Agency-wide costs include staffing adjustments that have not yet been determined.

BUDGET CROSSWALK

BUDGET CROSSWALK

The budget crosswalk table on Page 39 illustrates the estimated resources that would be devoted to achieving each of SBA's goals in FY 2002. The table shows the relationship between an organization-based budget and cross-cutting goals. A budget structured around organizational units ensures financial and performance accountability which reflects the way we manage ourselves. However, the activities performed by an office often support the achievement of more than one goal. This is particularly true for support organizations such as executive direction and administrative offices. To present the full cost of achieving a particular goal, the costs of support offices must be allocated to each goal.

For example, the cost of providing access to capital includes the funding for the Office of Capital Access and a portion of all the support offices, such as Regional and District Offices and General Counsel. The crosswalk presented on Page 39 uses the results of an activity-based costing model as the basis for these cost allocations.

Explanation of Budget Crosswalk

The first column of the crosswalk details SBA's offices and programs categorized by the goal that best relates to that office's or program's mission. The offices and programs listed in this column devote the vast majority of their effort toward the goal under which they are listed. The estimated resources that will be consumed by these offices and programs are in the next three columns. The loan subsidy column shows the amount of budget authority used to subsidize loans.

The next four columns detail an estimate of the allocation of costs for support offices. The column entitled "Field" allocates the cost of SBA's Regional and District Offices. The Executive Direction¹ column includes the cost of offices such as the Administrator's office, the Office of General Counsel, the EEO Office, the Office of Hearings and Appeals, and the Office of the Chief Financial Officer. The Management and Administration column includes the Office of Administration, the Office of Human Resources, and the Office of the Chief Information Officer. The Agency-wide column includes rent, telecommunications, relocation expenses, centralized training, credit reports, and centralized printing.

Cost Allocation Methodology

The estimated allocation of FY 2002 resources presented in the crosswalk is based on the results of the SBA's FY 2000 cost allocation study. The SBA's cost allocation model provides an estimate of the resources required to produce key outputs. The first step in developing a cost allocation model is to identify the Agency's key activities. Through the budget formulation process, each office identifies the key activities that they perform to produce outputs.

¹ Executive Direction does not include offices that report directly to the Administrator but provide direct services such as the Disability Related Business Initiatives and the Office of Veterans Business Development. These offices are listed under the appropriate goal in the first column.

BUDGET CROSSWALK

An activity is a process that converts resources (materials, labor, and technology) into outputs. For FY 2000 the SBA identified over 520 key activities performed by program and support offices. Agency-wide costs such as rent and telecommunications expenses are allocated to activities based upon formulas such as the cost of space occupied by program offices.

Personnel costs are assigned to specific activities through the use of a survey. SBA employees are asked in an online survey to estimate the amount of time that they spend on over 520 key activities, including those outside of their particular organization. This data is used to compute an estimate of the personnel costs for each activity. The FY 2000 survey was completed in October 2000. To improve the accuracy of the estimate, the SBA will conduct two surveys in FY 2001.

The FY 2002 estimate assumes that the relative level of effort devoted to each goal by supporting offices in FY 2002 will be the same as that provided in FY 2000. For example, if the Office of the Chief Financial Officer (OCFO) devoted 1.45 percent of its effort toward the microlender program in FY 2000, it is assumed the OCFO will continue to devote 1.45 percent of its effort toward that output in FY 2002. For many offices the nature of the work performed dictates that this assumption will hold true over the years. However, we recognize that this assumption may require adjustments as SBA's priorities are redefined with the new Administration. Even taking into consideration this assumption, the crosswalk provides a useful benchmark for analysis of how the SBA allocates its resources at the present time.

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BUDGET CROSSWALK

(Dollars in Thousands)

	Operating Program	Special Initiative	Grants	Loan Subsidy	M&A	Field	Exec Dir	Agency Wide	Total
1. Help Small Businesses Succeed									
Obj 1 Act as a Voice for America's Small Businesses									
Advocacy	\$ 4,547				\$ 303	\$ 1	\$ 258	\$ 442	\$ 5,551
Advocacy Database		1,100			179	1	120	256	1,656
Ombudsman		500			234	63	430	255	1,482
Subtotal	4,547	1,600	0	0	716	65	808	953	8,689
Obj 2. Improve Access to Capital and Credit									
Office of Capital Access									
Loan Making: 7(a) and 504	2,131			211	4,669	48,986	3,806	10,703	70,506
Loan Servicing: 7(a) and 504	8,498				7,274	22,838	3,368	5,692	47,670
Lender Oversight	1,189				512	4,050	444	1,027	7,222
Asset Sales	601				606	2,629	722	679	5,237
Microloans: Direct and Guaranty	522			1,500	768	678	589	365	4,422
Microloan Technical Assistance			20,000						20,000
SBIC Participating and Debentures	9,083				1,403	36	1,866	1,354	13,742
Surety Bond Guarantees	1,435				861	1,326	392	719	4,733
US Export Assistance Centers		3,100							3,100
International Trade	1,123				387	1	316	219	2,046
Subtotal	24,582	3,100	20,000	1,711	16,480	80,544	11,503	20,758	178,678
Obj 3. Improve Access to Procurement Opportunities									
Government Contracting/Business Development									
Government Contracting	14,326				1,073	1,266	1,509	1,338	19,512
Women's Procurement Program		500			61	232	130	117	1,040
Procurement Policy	1,388				355	75	683	296	2,797
SBIR Technical Assistance	1,074		1,500		218	324	300	190	3,606
SBIR FAST			3,500						3,500
Pro-Net		500			239	1,654	318	439	3,150
8(a) Business Development Program	3,870				1,738	20,170	1,004	3,897	30,679
7(j) Technical Assistance			3,600		304	468	502	282	5,156
Small Disadvantaged Business		1,800							1,800
HUBZones Program		2,000			434	1,961	524	667	5,586
Subtotal	20,658	4,800	8,600	0	4,422	26,150	4,970	7,226	76,826

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BUDGET CROSSWALK

(Dollars in Thousands)

	Operating Program	Special Initiative	Grants	Loan Subsidy	M&A	Field	Exec Dir	Agency Wide	Total
Obj 4. Provide and Improve Access to Entrepreneurial Development. Assistance									
Entrepreneurial Development									
Small Business Development Centers	1,993		75,806		498	6,018	436	1,312	86,063
Drug Free Workplace	371		5,000						5,371
SCORE Programs	371		4,000		428	6,000	368	3,175	14,342
One Stop Capital Shops	371	3,100			365	5,159	346	1,038	10,379
Business Information Centers	371	500			479	7,706	419	2,089	11,564
Women's Business Centers	1,421		12,000		441	2,987	388	743	17,980
Native American Affairs	129				235	414	306	227	1,311
Small Business Classroom/Other					789	1,144	1,050	586	3,569
Commerce Reimbursement		694							694
National Women's Business Council		750			7	0	12	40	809
Office of Veteran's Business Development	562		750		193	1,072	310	303	3,190
Disability Initiative	431				87	0	114	56	688
New Freedom Initiative		5,000							5,000
Subtotal	6,020	10,044	97,556	0	3,522	30,500	3,749	9,569	160,960
2. Help Families and Businesses Recover From Disasters									
Disaster Assistance Programs	70,000			32,850	0	10,094	5,419	5,294	123,657
Subtotal	70,000	0	0	32,850	0	10,094	5,419	5,294	123,657

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BUDGET CROSSWALK

(Dollars in Thousands)

	Operating Program	Special Initiative	Grants	Loan Subsidy	M&A	Field	Exec Dir	Agency Wide	Total
3. Improve SBA Management									
Obj 1. Manage For Results									
Obj 2. Transform the Workforce									
Workforce Transformation		2,000							2,000
Obj 3. Modernize Information Systems									
Systems Modernization		8,000			3,862	28	1,804	688	14,382
Obj 4. Improve Financial Management									
Obj 5. Improve Credit Program Management									
Gainsharing Improvements		3,000							3,000
Financial Advisor Asset Sales	1,500	0							1,500
Obj 6. Create Electronic Government									0
Subtotal	1,500	13,000	0	0	3,862	28	1,804	688	20,882
Reimbursable Programs									105
Inspector General	12,427				651	2	347	1,742	15,169
Total	\$ 139,734	\$ 32,649	\$ 126,156	\$ 34,561	\$ 29,653	\$ 147,383	\$ 28,600	\$ 46,230	\$ 584,966

GOALS AND RESOURCES

SBA is committed to performance management. SBA will conduct a major review of the current performance plan to ensure that it will promote President Bush's agenda. After the SBA Administrator is confirmed and has approved a new performance plan, SBA will submit it to the Congress. The revised performance plan will meet all requirements of the Government Performance and Results Act. The data presented in the following section should be viewed as the baseline from which the new Administrator will start the review of the performance plan.

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GOALS AND RESOURCES

GOAL 1: HELP SMALL BUSINESSES SUCCEED

SBA helps small businesses overcome critical challenges that lie in their path to success. Small businesses need technical assistance to develop business plans and manage finances, access to capital to finance their plans, fair opportunities for procurement in the Federal marketplace, and a voice within the Government to ensure that regulations do not overwhelm them. SBA assistance is focused around four primary objectives.

- Objective 1: Act as a Voice for America's small businesses. We achieve this objective primarily through the work of the Office of Advocacy and the National Ombudsman. The objective is also supported through Agency efforts to represent small businesses at the National Policy level and through cross agency Internet tools.
- Objective 2: Improve access to capital and credit. We achieve this objective through the coordinated efforts of field offices, Office of Capital Access, and SBA's lending partners.
- Objective 3: Increase access to procurement opportunities. We achieve this objective by working with Federal agencies to create innovative strategies and programs that reach the small business community, identify procurement opportunities, and provide technical assistance and training.
- Objective 4: Provide access to entrepreneurial development assistance. We achieve this objective by managing a large network of business resource partners and electronic access points. Through our resource partners, we annually provide substantial assistance to more than 1 million small businesses.

Regional and District Offices play a key role in achieving SBA business assistance objectives. These offices coordinate the delivery of SBA's programs to the customer and ensure that every customer has access to the full range of SBA services. Aggressive marketing efforts ensure that customers are aware of the services offered. An estimate of the cost of Regional and District office support for each objective is listed in each objective's resource table.

GOALS AND RESOURCES

Objective 1: Act as a Voice for America's Small Businesses

As a voice for small business, we function as a two-way information conduit. We reach out to small businesses to gauge their needs. We raise small business concerns to the highest levels of this Government, and act as an advocate in legislative and regulatory areas to break down barriers to success.

Congress established the Office of Advocacy to be an independent voice for small business in the formulation of public policy across the entire Federal Government. The Office of Advocacy focuses on research on small business trends, characteristics, and contributions to the economy and monitors compliance with the Regulatory Flexibility Act. The Office of the National Ombudsman addresses specific regulatory enforcement and compliance concerns identified by small businesses in their interactions with Federal agencies, with the goal of ensuring equity and fairness. The National Ombudsman and the 50 Regulatory Fairness Board Members reach out to small businesses and listen to and address their concerns in cooperation with more than 38 Federal agencies.

Through its nationwide advisory committees, SBA has created a systematic process for eliciting citizens' advice, ideas, and opinions on small business issues and SBA programs. Additionally, the committees serve as links to local business and can measure the effectiveness and need for current and proposed SBA programs. SBA recognizes that advisory committees represent a valuable resource that improves the Agency's decision-making process by broadening its base of knowledge on small business issues.

PERFORMANCE INDICATORS AND RESOURCES REQUESTED

(Dollars in Thousands)

		FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Projected
Performance Indicators						
Regulatory cost savings to small businesses	\$	1.5B	\$ 4.3B	\$ 3.6B	TBD	TBD
Resources (\$000)						
Office of Advocacy	\$	4,079	\$ 4,334	\$ 4,480	\$ 4,393	\$ 4,547
Advocacy Database & Research		790	800	1,140	1,300	1,100
National Ombudsman		351	524	514	500	500
Subtotal		5,220	5,658	6,134	6,193	6,147
Agency Support Cost Estimates:						
Regional & District Offices (Field Executive Direction)		N/A	N/A	60	62	65
Management & Admin Support		N/A	N/A	769	783	808
Agencywide Costs (Rent, Telecom, etc.)		N/A	N/A	714	704	716
Subtotal				746	899	953
Subtotal				2,289	2,448	2,542
Total				\$ 8,423	\$ 8,641	\$ 8,689

Cross-Cutting Issues

Serving as a voice for small business, reviewing agency regulatory proposals for small business impact, and serving as the guardian for regulatory fairness requires close collaboration with major Federal regulatory agencies. In all, the Office of Advocacy monitors the regulatory proposals of approximately 20 regulatory agencies, as well as Administration and Congressional initiatives.

The Office of Advocacy is unique within the Federal Government, in its mandate is to speak up for small business, conduct research and reduce the costs of regulation to small business. Advocacy completed work on five panels, three at the Environmental Protection Agency and Occupational Safety and Health Administration.

External Factors

A critical success factor for the Office of Advocacy is continued Congressional and stakeholder support and sufficient resources to carry out an appropriate research agenda. A critical success factor for the Office of the National Ombudsman is the continued support of small business by participating in hearings and providing documentation of Government enforcement practices. Other critical success factors include:

- Using technology to elicit and receive input from small businesses
- Establishing working relationships with Federal agencies to assist small businesses
- Maintaining independence to ensure the ability to speak out

Objective 2: Improve Access to Capital and Credit

Small businesses cite inadequate access to capital and credit on reasonable terms as a serious impediment to start-up and growth. SBA improves access to capital for entrepreneurs who cannot obtain it from conventional lenders and in this sense is a gap lender. Our job then is to facilitate - not to compete with - conventional lenders and traditional providers of equity capital to help meet the needs of entrepreneurs. As the nation's preeminent gap lender for small business, SBA identifies and helps to fill the credit gap in the commercial marketplace.

SBA measures its performance by the amount of credit and capital provided by the loan and equity programs and by the diversity of the clients served. Success in meeting the measures identified below helps to ensure that credit and capital are available to all small businesses.

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PERFORMANCE INDICATORS AND RESOURCES REQUESTED

(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimated	FY 2002 Projected
Performance Indicators					
Jobs created by SBA borrowers	422,997	494,822	541,539	542,000	542,000
7(a), 504, Microloans and SBIC programs	\$14.0B	\$16.4B	\$18.0B	\$19.7B	\$20.4B
Number of 7(a) and 504 loans					
To Women-owned firms	11,084	10,244	9,921	10,000	10,500
To Minority-owned firms	10,897	12,127	12,120	12,300	12,000
To Veteran-owned firms	5,915	5,477	5,215	5,300	5,300
Number of Start-up firms financed by 7(a),	17,344	16,600	16,600	16,700	17,000
Export Sales assisted by SBA	\$413M	\$349M	\$675M	\$537 M	\$537 M
Resources (\$000)					
Capital Access Operating Expenses	\$ 19,002	\$ 20,943	\$ 24,391	\$ 23,799	\$ 26,082
Special Initiatives					
USEAC	2,831	3,100	3,065	3,100	3,100
Microloan Technical Assistance	14,094	19,148	19,243	20,260	20,000
PRIME Technical Assistance	0	0	0	15,000	0
New Market Venture Capital	0	0	0	30,000	0
Loan Subsidies					
7(a) General Business	182,435	131,648	112,283	128,800	0
New Market Venture Capital	0	0	0	21,952	0
SBIC Participating Securities	15,471	22,232	22,692	28,070	0
SBIC Debentures	8,955	4,858	0	0	0
Microloan Guaranty	298	92	96	159	163
Microloan Direct	1,111	1,369	2,323	2,285	1,395
Subtotal	244,197	203,390	184,093	273,425	50,740
Agency Support Cost Estimates					
Regional & District Offices (Field Support)	N/A	N/A	74,378	77,214	80,544
Executive Direction Support	N/A	N/A	10,956	11,155	11,503
Management & Admin Support	N/A	N/A	16,460	16,218	16,480
Agencywide Costs (Rent, Telecom, etc.)	N/A	N/A	16,262	19,576	20,758
Subtotal			118,056	124,163	129,285
Total			\$ 302,149	\$ 397,588	\$ 180,025

Programs

SBA offers general business loan guaranties, equity financing, and surety bond guarantees through five umbrella programs.

- General Business Guaranty Loan Program 7(a), including export loans and trade finance
- Certified Development Company (CDC) or 504 Program

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GOALS AND RESOURCES

- Microloan Program

- Small Business Investment Company (SBIC) Program

- Surety Bond Guarantee Program

SBA delivers financial assistance programs through a network of field offices and lending partners. These partners provide direct service and work with small businesses on a one-to-one basis. SBA also processes many of its loans through centralized processing centers located in Sacramento, California and Hazard, Kentucky. The Office of Financial Assistance, located in Washington, DC, is responsible for providing overall direction for the administration of these programs.

The 7(a) Loan Guaranty Program is SBA's primary business loan program. SBA guarantees up to \$1 million of a \$2 million maximum private-sector loan to small businesses for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000. Borrowers may have more than one SBA loan at a time, as long as the total amount guaranteed does not exceed the guaranty cap of \$1 million. The only exceptions to these limits are for loans approved under the Export Working Capital Program loans (which receive a guaranty of up to 90 percent), and the Defense Loan and Technical Assistance (DELTA) Loan program. SBA has a number of options under the 7(a) Program to help fill the special needs of small businesses. Some of these specialized 7(a) loans include: LowDoc, SBA Express, CAPLines, Community Express, the Prequalification Loan Program, Community Adjustment and Investment Program (CAIP), and the International Trade Loan Program. These specialized programs provide streamlined processes and special products tailored to fit the specific needs of a diverse array of small businesses and lenders.

The 504 Certified Development Company (CDC) Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. The program is designed to enable small businesses to create and retain jobs in their areas and to meet other legislatively mandated public policy purposes.

A CDC is generally a nonprofit corporation that is set up to contribute to the economic development of its community or region. SBA fully guarantees (100 percent) debentures issued by the CDC for up to 40 percent of the project cost up to \$1.0 million or \$1.3 million for projects that meet specific public policy purposes.

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GOALS AND RESOURCES

The Office of Lender Oversight (OLO) was created within the Office of Capital Access in FY 2000 to ensure consistent and appropriate supervision of SBA's lending partners. The responsibilities of the OLO includes evaluating existing oversight regulations, policies and procedures, monitoring changes in accounting, banking and financial industries, and recommending appropriate modification of SBA oversight policy. The OLO is also responsible for coordinating all Headquarters and Field office activities with respect to lender reviews; evaluating new programs, and recommending changes to existing programs to assess risk potential.

The Microloan program provides capital to very small businesses that traditional lenders are often unable to serve. SBA makes loans up to \$750,000 to intermediaries who in turn make very small loans (\$35,000 and under) available to entrepreneurs traditionally considered unbankable largely due to inexperience with credit, lack of assets, or the need for technical assistance. A key component of the Microloan program is the intermediary's ability to provide technical assistance to the micro business to enhance their chances for success.

The United States Export Assistance Centers (USEAC) program promotes small businesses' ability to succeed in the global economy. The USEAC program promotes globalization and increased export sales through funding of SBA personnel at 19 USEAC centers nationwide. At the USEAC sites, SBA personnel work with the Department of Commerce and the Export-Import Bank to deliver technical assistance and finance programs that help U.S. businesses finance and export their products or services. SBA personnel at the USEACs work closely with appropriate Small Business Development Centers (SBDCs) and members of the Service Corps of Retired Executives (SCORE).

The Small Business Investment Company Program (SBIC) helps qualified small enterprises secure the equity to start, maintain or grow a business. The SBIC program facilitates the formation of privately-owned and operated investment companies to serve as a source of equity capital and long-term loans to new or expanding small businesses; and supplementing investment companies' private capital with funds made available through SBA guarantees. SBICs are licensed and regulated by SBA. SBICs use their own funds, plus funds from borrowing with an SBA guaranty--referred to as "leverage," to make venture capital investments in small business. The entire private capital of an SBIC is always at risk ahead of the funding guaranteed by the SBA.

The Surety Bond Guarantee Program issues bid, payment and performance bond guarantees to surety companies for construction, service and supply contracts that do not exceed \$2 million. SBA's guarantees provide the incentive necessary for sureties to issue bonds to small contractors who could not otherwise compete in the contracting industry.

GOALS AND RESOURCES

As a gap lender, SBA expands the parameters within which a conventional lender can make a small business loan. SBA's guaranties allow funding for longer terms, for new start-up businesses in emerging industries, for businesses with lower levels of collateral and for businesses with limited track records.

Human Resources

Small business practices, products, and needs have transformed over the past several years. The greatest change in job tasks that SBA employees have experienced and will continue to experience is from transaction processing to analysis. Automation and asset sales will allow staff to shift their attention from the processing of transactions to using information to analyze programs, activities, and performance of SBA's partners.

This transformation requires proper training of employees to provide them with the skills needed to operate in the new business environment, to provide small business customers with first-class service, and to ensure that the SBA's portfolio is managed to limit risk to the taxpayer.

The Office of Capital Access will continue to work with SBA's Office of Human Resources to develop and deliver SBA sponsored training for its employees in marketing and outreach, commercial credit analysis, lender oversight, lender relations, and basic and advanced liquidation. We will encourage training in leadership and management courses for our middle management employees and will also promote technology and computer skill enhancement as we continue our systems modernization efforts.

Evaluations, Analyses and Surveys

We are investigating the feasibility of developing an econometric demand model for the 7(a) loan program. In FY 2000, a contract was awarded to: 1) carry out a literature survey of existing models and experience in estimating demand for loans; 2) suggest an approach to estimate demand; and 3) determine data availability for the suggested demand model.

The contractor completed the final report in March 2001 and it is being evaluated to determine how a phase II should be carried out.

Additionally, a study of job creation in the 7(a) and 504 programs was initiated. This study planned to use the Census Office of Advocacy BITS file containing longitudinal data on small businesses for the years 1989 through 1996. A research design was approved by the Census Bureau in FY 2000.

GOALS AND RESOURCES

Before the data collection could commence, the Internal Revenue Service (IRS) decided that it had to review all research proposals using the BITS data base. A decision is still pending. To move forward, SBA has asked the Bureau of Labor Statistics if it would give SBA access to job data for small businesses that have received 7(a), 504 or SBIC financing, with strict procedures to ensure privacy. Discussions are still ongoing as of March 2001.

Office of the Inspector General (OIG) Management Challenges

The management challenges that apply to this functional area were identified by the OIG for the Congress in December 2000. The current status of the specific action steps and milestones agreed upon by the OIG and each program office's response to the OIG's specific recommendations are discussed below.

The December 2000 management challenges for the Capital Access programs differ from those of December 1999. The OIG no longer considers the oversight of the Small Business Lending Companies (SBLC) to be a major challenge on its own, as SBA has complied with nearly all the recommendations made in the Farm Credit Administration examination reports. Because the Agency has not yet implemented the recommended actions, the OIG has included SBLCs in the challenge on improving lender oversight.

OIG's two December 2000 challenges on guaranty purchases and lender oversight are essentially the same as those from the previous year. OIG feels that the SBA is making progress on both challenges, but much of the implementation is still pending.

Challenge: Field offices do not consistently apply guaranty purchase requirements.

Summary: OIG audits have shown that SBA field offices do not consistently follow Agency requirements when purchasing guarantees from lenders after loan defaults, resulting in purchases that may not be justified and unnecessary expenditures for the Agency. In response to this concern, SBA reports that it has taken steps to establish a purchase review and follow-up process mechanism, a guaranty repair tracking system, an early warning system, and improved procedures and training.

Goals:

- Ensure that the Agency denies liability or reduces its payment on the guaranty when a lender has failed to comply with SBA requirements.
- Implement an automated system for tracking circumstances where the field office records of guarantees have been repaired and lenders have released SBA from guaranty liability on questionable lender practices.

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Action Taken: SBA has implemented procedures to improve the guaranty purchase process for the Section 7(a) program and has taken the following actions:

1. Implemented procedures to review, on a sample basis, 10 percent of all guaranty loan purchases.
2. Established a tracking system to follow up on purchase reviews.
3. Initiated development of a Guaranty Repair Tracking System.
4. Initiated revision of its Standard Operating Procedures and the development of a training course.
5. Modified the Delinquent Loan Collection System to identify loans where an audit or other review has shown that a lender has an origination or servicing deficiency significant enough to affect the guaranty purchase.

Challenge: Preventing loan fraud requires additional measures, including the necessary legislative authority and funding.

Summary: Fraud in the business loan program can be reduced by obtaining criminal background information on prospective borrowers and on loan packagers and other for-fee agents.

SBA submitted a proposal for the legislation necessary to conduct the background checks, but it was not included in the reauthorization bill by the Congressional Conference Committee. The Agency needs to resubmit the legislative proposal, establish a loan agent registration process, and track loan agent association with individual loans.

Goals:

- Submit a legislative proposal that: (1) requires all loan agents to provide SBA with the information necessary to conduct criminal background checks, including social security numbers; and (2) authorizes SBA to conduct criminal background checks on loan agents.
- Identify all loan agents through a registration process and track their association with individual loans. Registration includes maintaining identifying data and background information on loan agents. However, registration does not imply Agency endorsement.
- Submit legislation authorizing SBA to conduct criminal background checks on all business loan applicants.

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- Ensure sufficient funding to permit OIG to perform background checks on all business loan applicants in a timely manner.

Action Taken:

- SBA submitted a legislative proposal which the Senate Small Business Committee voted to include in the SBA reauthorization bill for FY 2001. The Conference Committee, however, voted out the House version that did not contain the proposal. The proposal is being resubmitted for the FY 2002 legislative cycle.
- The establishment of a loan agent tracking system is tied to the development of a Partner Information Management System (PIMS). PIMS is to be incorporated into the loan monitoring system. The first phase of PIMS was completed on June 30, 2000. SBA Form 159, which contains information on loan agents, is being revised to clarify the requirements for agents to notify SBA of their loan participation. If the necessary legislation is enacted, the form will be further revised to include additional loan agent identification data.
- SBA expects the loan agent criminal background check system to be operational 6 months after the passage of the proposed legislation, assuming adequate staff resources are available.

Cross-Cutting Issues

Key to SBA's success in providing access to capital and credit is a cooperative working relationship with the various stakeholders, most notably the National Association of Government Guaranteed Lenders (NAGGL), the National Association of Development Companies (NADCO), and the National Association of Small Business Investment Companies (NASBIC).

SBA has executed agreements with both NADCO and NAGGL to support the Agency's initiatives. With the Community Development Financial Institutions Fund (CDFI), Department of Treasury, SBA has co-chaired the Interagency Work Group on Microenterprise Development.

SBA is expanding formal relationships with a number of entities including agencies such as the United States Department of Agriculture, the National Federation of Community Development Credit Unions, and the Association for Enterprise Opportunity and state and local development agencies. Also important is the partnership with the Small Business Development Centers that assist a large number of small companies in obtaining loans.

In the international marketplace, 19 agencies, under the direction of the Commerce-directed Trade Promotion Coordinating Committee (TPCC), offer both financial and business development assistance to small exporters. SBA meets regularly with these groups to discuss challenges, propose program initiatives, work on developing new products, and avoid duplication of effort.

External Factors

Although the demographics, terms and conditions, and purpose of the 7(a), 504, Microloan, and SBIC programs vary significantly, economic conditions strongly affect the demand for these products. If interest rates rise, a credit crunch often occurs. Supply of resources for technical assistance and the aggressiveness of the intermediaries will determine whether we reach our Microloan targets. We will work closely with our intermediaries to ensure a successful expansion of the program.

If the economy remains strong, surety bond guarantees will remain constant or decrease, but if the economy deteriorates, demand will increase. Congressional support of the programs, particularly those elements that require legislative changes, is a critical success factor. Finally, the continuing uncertainty in overseas markets, the overall strength of our own domestic economy, lack of finance, and lack of export promotion information are four impediments to small companies entering the export market. Our success in stimulating more small exporters is dependent on our ability to develop and make available the appropriate export finance and information tools to overcome these impediments to export growth.

Objective 3: Improve Access to Procurement Opportunities

SBA is responsible for promoting the use of small businesses in the nearly \$190 billion Federal procurement market. Our efforts help to ensure that Federal agencies comply with statutory requirements to buy a portion of their goods and services from small businesses. SBA helps small businesses participate in the Federal marketplace by working with departments and agencies to establish procurement goals, monitor performance, advocating the use of small business sources, and providing procurement training and technical assistance to small firms. Through these activities, agencies procured \$43 billion from small businesses in FY 1999 or 23.1 percent of Federal prime contract dollars.

SBA works with Federal agencies to identify suitable procurement opportunities for small businesses, and plan innovative procurement strategies and outreach programs to reach the small business community. We provide hands-on technical assistance and training to small firms so that they can fill Federal requirements efficiently and cost-effectively, serve as a source of innovation, and contribute to our Nation's economic health and vitality. In a dynamic procurement environment, we are educating small businesses on how to transition from paper-based business transactions into the expanding electronic commerce marketplace. We are also educating Federal agencies on how to use our small business programs to their best advantage.

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PERFORMANCE INDICATORS AND RESOURCES REQUESTED

(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Projected
Performance Indicators					
Achieve mandated shares of Federal Prime contract dollars:					
• to small businesses	23.4%	23.1%	N/A	23%	23%
• to women-owned businesses	2.2%	2.5%	N/A	5%	5%
• to small and disadvantaged businesses (incl 8(a))	6.5%	6.6%	N/A	5%	5%
• to service disabled veteran-owned businesses	N/A	N/A	N/A	2.9%	3%
• to small businesses in HUBZones	N/A	N/A	N/A	2.0%	2.5%
8(a) program client success rate 3 yrs after graduation	N/A	N/A	65%	68%	70%
Resources (\$000):					
Gov Contracting /Business Development Operating Expenses	\$16,601	\$18,300	\$18,576	\$19,926	\$20,658
Non-Credit Initiatives					
7(j) Technical Assistance	2,850	2,600	3,950	3,600	3,600
BusinessLINC	0	0	0	7,000	0
Pro-Net	232	363	454	500	500
Small Disadvantaged Business	10,409	9,750	8,643	1,800	1,800
SBIR Technical Assistance	0	0	496	1,500	1,500
SBIR FAST	0	0	0	3,500	3,500
HUBZones Program	2,000	2,000	1,978	2,000	2,000
Procurement Programs	0	0	0	0	500
Subtotal	32,092	33,013	34,097	39,826	34,058
Agency Support Cost Estimates					
Regional & District Offices (Field Support)	N/A	N/A	24,148	25,070	26,150
Executive Direction Support	N/A	N/A	4,734	4,820	4,970
Management & Admin Support	N/A	N/A	4,416	4,348	4,422
Agency-wide (Rent, Telecom, etc.)	N/A	N/A	5,659	6,813	7,226
Subtotal			34,228	41,051	42,768
Total			\$68,325	\$80,877	\$76,826

Programs

Our Procurement Access Strategy to improve access to procurement opportunities has four key elements:

1. Increase the number of opportunities for small businesses to perform Federal contracts at the prime and subcontract levels.
2. Increase the economic viability of small and small disadvantaged businesses by providing contract opportunities and other business development assistance to those firms who qualify.

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3. Increase the economic viability of small disadvantaged and small businesses in Historically Underutilized Business Zones (HUBZones) by providing contract opportunities and other business development assistance to those firms who qualify.

4. Facilitate the commercialization of Federal research by providing access to capital.

SBA's primary objective is to increase Federal prime contract and subcontract dollars to small businesses. As agencies use larger consolidated contracts that are often not suitable for small businesses to perform as prime contractors, we must ensure that efforts are made to increase subcontracting opportunities for these companies. SBA negotiates with each Federal department and agency to establish annual prime contracting goals and subcontracting goals for their large prime contractors. Based on FY 1999 data, agencies are awarding about 38 percent of Federal procurement prime and subcontract dollars to small businesses. We believe our goals should remain constant through FY 2002. However, SBA will continue to work with the agencies to ensure that small businesses participate in Federal contracting to the maximum extent possible.

Through the Prime Contracting Program, SBA works with Federal agencies to increase small business opportunities in the Federal acquisition process by reviewing their acquisition plans and making appropriate recommendations to set-aside opportunities for small businesses. SBA provides small business sources to acquisition officials and counsels small businesses on how to sell to the Federal Government.

Under the Subcontracting Program, SBA works with the Federal Government's large prime contractors to ensure that small businesses receive a fair share of subcontracting opportunities. The SBA accomplishes this by reviewing the subcontracting plans of large prime contractors and by bringing together large and small businesses to facilitate the formation of mutually beneficial private sector relationships.

For example, the Federal Contract Assistance for Women's Business Program encourages Federal agencies to develop long-term comprehensive strategies that expand opportunities for women-owned small businesses in order to meet the 5 percent women-owned small business goal. The Office is also developing regulations to implement the women-owned small business set-aside program authorized by the SBA reauthorization bill of FY 2000. This program authorizes set-asides in industries determined by SBA, whose women-owned businesses are under-represented.

Through the Natural Resources Sales Program, SBA ensures that small businesses obtain a fair share of Federal real and personal property authorized for sale or other competitive disposition.

Through the Certificate of Competency Program, SBA helps small businesses that are apparent successful low-bidders on government requirements, but whose ability to perform is questioned by contracting officers.

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The Procurement Marketing and Access Network, PRO-Net, is one of SBA's key tools in ensuring that small businesses participate fully in the Federal market for goods and services. PRO-Net is the Federal Government's officially established and recognized database of small businesses seeking to do business with the Government. It holds records of more than 200,000 small businesses, including small disadvantaged businesses, veteran-owned, Native American-owned, and women-owned small businesses. Per statutory/regulatory requirements, PRO-Net is the authoritative database of firms certified under the 8(a) Business Development and HUBZone Empowerment Contracting Programs, and as certified small disadvantaged businesses. The Federal acquisition community, state and local governments, and prime contractors use PRO-Net in identifying small business vendors.

The HUBZone Empowerment Contracting Program helps small businesses that are located in, and employ residents of, "historically underutilized business zones." The program provides for Federal Contract set-asides, sole source awards, and price evaluation preferences for HUBZone small businesses. The government-wide statutory goal for this program is to award of 2.5 percent of the total Federal procurements to such firms in FY 2002. Through this program, SBA seeks to increase employment, promote capital investment, and encourage economic development in these communities. To accomplish this, SBA certifies eligible firms, maintains a database of certified firms, and conducts random and targeted compliance reviews. SBA also utilizes its procurement assistance professionals to assist these firms in marketing Federal contract opportunities.

The 8(a) Business Development Program assists firms owned and controlled by economically and socially disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term.

SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act. Assistance includes access to sole source and limited competition Federal contract opportunities. We work with Federal acquisition agencies to develop contract opportunities for program participants, and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

Under the 7(j) Program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals, or companies located in areas of high unemployment, and firms located in areas of low income.

SBA certifies qualifying companies as Small Disadvantaged Businesses (SDBs). Certification enables eligible companies to obtain certain procurement preferences. This activity has been funded under Economy Act Agreements with the top 20 Federal procuring agencies.

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SBA encourages small business innovation by establishing government-wide policy for the Small Business Innovation and Research (SBIR) and Small Business Technology Transfer (STTR) Programs. Through award of research and development assistance grants, these programs promote the flow of innovative products and services from small businesses to Federal and commercial markets.

Through the Federal and State Technology Partnership (FAST) Program, SBA will make matching fund grants to state organizations to strengthen the technological competitiveness of small businesses. The Rural Outreach Program provides grants to approximately 25 states to increase participation in the Small Business Innovation Research Program.

SBA develops small business size standards for Federal programs so that small business assistance is provided to its intended beneficiaries.

Human Resources

We will provide training for our procurement specialists mandated by the Defense Acquisition Workforce Improvement Act (DAWIA) of 1991 and subsequent legislation applicable to the civilian workforce. This training is especially important as the pace of efforts to reform the acquisition process is challenging SBA's acquisition and contracts specialists as never before. To meet these challenges, acquisition personnel must perform at higher standards, be flexible, and keep pace with professional development trends, especially contracting certification in accordance with DAWIA.

We also plan to provide professional development training to Business Opportunity Specialists in our district offices that service portfolios of 8(a) Business Development program participants. This training will address changes taking place in the Federal marketplace, streamlining of 8(a) Program operations, improved business counseling techniques, and leveraging resources to provide enhanced management and technical assistance. As part of this training, we will provide guidance to staff in the determination of initial and continuing eligibility, especially that of economic disadvantage.

We plan to hold the second annual district office liaison training conference for the HUBZone Empowerment Contracting Program. All district office liaisons and Government Contracting Area Directors will attend. Training will cover the use of geocoding software, newly deployed electronic applications, database reporting systems, and statutory and regulatory updates.

Evaluations, Analyses, and Surveys

SBA began a HUBZone benchmarking study to help assess changes in employment opportunity and investment in distressed urban and rural communities as a result of the HUBZone program. A report is due in late FY 2001. This information will be used to develop our report to Congress on the program in FY 2002.

Office of the Inspector General

OIG Management Issues

The management challenges were identified by the OIG for the Congress in December 2000. The current status of the specific action steps and milestones agreed upon by the OIG and each program office in response to the OIG's specific recommendations are discussed below.

Challenge: More participating companies need access to business development and contracts in the 8(a) Business Development program.

Summary: The bulk of the dollar value of 8(a) Business Development (BD) contracts go to a relatively small number of companies in the program. SBA is participating in a recently formed interagency task force designed to, among other things, improve business development initiatives, including access to contracts. The Agency needs to give greater emphasis to business development assistance and encourage a more equitable distribution of contracting opportunities to program participants.

Goals:

- Refocus the 8(a) BD program to emphasize business development, develop criteria defining "business success," and graduate participants once they reach those levels.
- Develop a mechanism that ensures contracting opportunities are more equitably distributed to 8(a) BD program participants.

Actions Taken or Planned:

- SBA plans to refocus the role of the District Office staff where their highest priority will be helping inform small businesses about the Federal procurement process, Federal and non-Federal contracting opportunities, and best practices in procurement opportunities. SBA is planning to send out a new 8(a) BD Standard Operating Procedure to the field during calendar year 2001.

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- To address needed reform and achieve major improvement in the results of the 8(a) BD program, the Department of Defense Change Management Center, SBA, and the Office of Management and Budget, jointly sponsored the formation of a Rapid Improvement Team (RIT). The RIT, comprised of key stakeholders and interested staff from SBA, was asked to identify breakthrough opportunities and recommend actions for Federal government-wide 8(a) BD program improvements. The process began November 1, 2000.
- SBA plans to propose several significant changes that it believes will make the 8(a) BD program more acceptable to procuring agencies and less cumbersome to administer, including:
 - Reduce cumbersome regulations and administration and streamline 8(a) processes.
 - Reduce or eliminate some unrealistic expectations held by participants, and focus on facilitating business development initiatives, including access to Federal agency contracts.
 - Reduce or eliminate SBA's role of having sole responsibility for developing firms, and create a Federal government-wide program coordinated by SBA that leverages all agencies' resources to promote growth of Section 8(a) firms.

Challenge: SBA needs clearer standards to determine economic disadvantage

Summary: New standards for determining economic disadvantage should be established to effectively measure diminished capital and credit opportunities - the definition included in the law. SBA anticipates issuing procedural guidance on the definition of "economic disadvantage" based on revisions to be made by a new interagency task force. The Agency should: (1) redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities; and (2) provide sufficient training to SBA staff responsible for evaluating companies.

Goals:

- Redefine "economic disadvantage" using objective quantitative and qualitative criteria that effectively measure capital and credit opportunities.
- Provide sufficient financial and analytical training to Business Opportunity Specialists to enable them to more accurately evaluate a company's business profile and competitive potential.

Action Taken or Planned:

- SBA added provisions to the regulations to prevent 8(a) BD applicants and participants from transferring assets to family members.
- Annual review procedures, designed to assess continuing program eligibility, were modified and training was provided to SBA field staff.
- SBA will work with RIT team to develop recommendations to define “economic disadvantage.” Based on the results from the RIT, SBA officials plan to issue draft procedural guidance by September 30, 2001, to ensure an objective and comprehensive review of Section 8(a) applicant and/or participant’s economic status.

Challenge: SBA needs to clarify its rules intended to deter 8(a) Business Development participants from passing through procurement activity to non-8(a) Business Development firms.

Summary: SBA’s rules, while restricting the amount of a contract that a Section 8(a) firm may pass through to a non-Section 8(a) firm, allow many non-participating companies to receive substantial financial benefit. SBA intends to include value-added resellers as a legitimate industry under the North American Industry Code. SBA needs to tighten the definition of “manufacturing” to preclude the pass-through practice of making only minor modifications to the products of other manufacturers.

Goals:

- Tighten the definition of “manufacturing” to preclude the pass-through practice of making only minor modifications to the products of other manufacturers.

Action Taken or Planned:

- SBA proposes to define value-added resellers (VARs) as legitimate categories of business. SBA has already published a notice in the Federal Register seeking comment on VARs. The 8(a) BD program will use this information and work with the Office of Size Standards to develop an appropriate size and category for VARs.

Cross-Cutting Issues

SBA is charged with providing business development assistance to firms owned by socially and economically disadvantaged individuals through Federal contract program grants, and cooperative agreements with service providers for management and technical assistance. SBA accomplishes this through partnerships with other Federal, state and local agencies and the private sector.

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For example, SBA participates in monthly meetings with the agencies' directors of the Offices of Small and Disadvantaged Business Utilization to discuss our small business program and strategies to increase small business participation in Federal contracts. We also plan to partner with the Department of Defense to offer assistance to small businesses through Electronic Commerce Resource Centers and Procurement Technical Assistance Centers. We will develop additional partnerships with other agencies. Additionally, we plan to:

- Work with private organizations to develop special electronic malls to facilitate the participation of small and small disadvantaged businesses in Federal purchases made electronically.
- Explore the increased use of the Internet to increase the coverage of Federal buying activities by our Procurement Center Representatives.
- Maintain a proactive stance on combating contract bundling by aggressively identifying bundled procurements for small business participants.
- Encourage increased partnering of small and large businesses to enhance the capacity and competitiveness of small contractors.
- Work with the Office of Federal Procurement Policy and the Procurement Executives Council to enhance the efficiency with which Federal buyers can utilize 8(a) and women-owned small businesses.
- Increase efforts to secure procurement opportunities for small businesses in designated HUBZones to build on the success of the certification effort.

External Factors

Acquisition reform has changed the way agencies buy goods and services. SBA must continue to work with Federal agencies to develop alternative procurement strategies that will maximize small business participation in this changing environment, while at the same time ensuring efficient and cost-effective procurement reform. It is also critical for SBA to develop positive cooperative working relationships with the major procurement agencies in the Federal Government, resource partners, and major prime contractors to improve access and opportunities for small businesses in Federal procurement.

SBA published final regulations in FY 2000 to implement the contract bundling provisions set forth in the SBA Reauthorization Act of 1997. The regulations establish guidelines to assist agencies in determining whether planned acquisitions that consolidate requirements are necessary and justified.

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SBA has trained its Procurement Center Representatives (PCRs) on the new regulations, will work aggressively to educate the Federal acquisition work force about the new procedures, and will take the steps necessary to ensure that these procedures are enforced. These efforts will both further procurement reform and continue to ensure our Nation's small businesses play a significant role in Federal acquisitions.

SBA is charged with implementing the small business procurement objective of 3 percent of prime and subcontracts to service-disabled veteran-owned small businesses established by the Veterans Entrepreneurship and Small Business Development Act of 1999. On October 11, 2000, the Federal Acquisition Regulatory Council published an interim procurement regulation that requires service-disabled veteran-owned small businesses to represent their small business status. The agencies must also include a provision in their contracts that requires prime contractors to use their best efforts and establish goals for subcontracting with both veteran and service-disabled veteran-owned small businesses.

During FY 2002, SBA will continue to educate Federal contracting officials, small business officials, and prime contractors about this new small business objective. SBA will also work with the Office of Federal Procurement Policy to change its policy directives to incorporate this new procurement preference objective.

Objective 4: Provide and Improve Access to Entrepreneurial Development Assistance

Lack of management and technical assistance is an impediment to small business success. With this in mind, providing access to entrepreneurial development assistance is one of SBA's four principal objectives as the Agency helps more businesses get started and stay in business.

SBA annually assists more than 1 million small businesses through a vast network of resource partners and electronic access points. Business development information, education and training are offered at more than 1,100 locations nationwide. These include the Online Women's Business Center, SCORE Online, nearly 1,000 Small Business Development Centers (SBDC), 11,400 Service Corps of Retired Executive (SCORE) volunteers, 70 Business Information Centers (BIC), 17 Tribal Business Information Centers (TBIC), 22 One Stop Capital Shops (OSCS), 19 US Export Assistance Centers (USEAC), 4 Veterans Business Outreach Centers, and 70 Women's Business Centers (WBC).¹ The Agency is also continuing to create customer-centered Internet applications that empower entrepreneurs to easily access government information.

¹ There are currently 67 Women's Business Center grantees representing 70 centers. Some of the grantees fund multiple locations.

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Performance Indicators and Resources Requested

(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimated	FY 2002 Projected
Performance Indicators					
Achieve high customer satisfaction rate:					
Women's Business Centers	76%	N/A	N/A	80%	80%
BICs	N/A	N/A	93%	93%	93%
OSCS	N/A	N/A	89% ¹	80%	80%
SBDC ²	85%	N/A	N/A	80%	80%
Veterans Business Opportunity Centers	N/A	N/A	N/A	N/A	85%
SCORE	N/A	N/A	N/A	80%	80%
Resources (\$000)					
Office of Veterans Business Development					
Veterans Business Development Assistance	\$ 371	\$ 733	\$ 615	\$ 0	\$ 750
Veterans Business Development Corporation	N/A	N/A	N/A	3,992	0
Disability Related Business Initiatives					
New Freedom Initiative	N/A	N/A	N/A	N/A	5,000
National Women's Business Council	473	600	600	750	750
Office of Entrepreneurial Development (ED)					
ED Programs & Special Initiatives	4,543	5,296	6,700	5,403	5,027
SBDC	71,561	89,817	84,074	88,013	75,806
Drug Free Workplace	0	0	3,469	3,500	5,000
SCORE	3,937	3,660	3,471	3,750	4,000
Business Information Centers	499	700	495	500	500
Women's Business Centers	4,292	8,000	8,926	12,000	12,000
Commerce Reimbursement - SWOBE	992	750	783	694	694
One Stop Capital Shops	3,100	3,100	3,206	3,100	3,100
Native American Outreach	607	0	0	0	0
Subtotal	90,375	112,656	112,339	121,702	112,627
Agency Support Cost Estimates:					
Regional & District Offices (Field)	N/A	N/A	28,165	29,238	30,500
Executive Direction Support	N/A	N/A	3,571	3,635	3,749
Management & Administrative Support	N/A	N/A	3,517	3,463	3,522
Agencywide (Rent, Telecom, etc.)	N/A	N/A	7,494	9,026	9,569
Subtotal			42,747	45,362	47,340
Total			\$ 155,086	\$ 167,064	\$ 159,967

¹ 89% is based on a pilot of the Boston, MA One Stop Capital Shop. A full survey will be conducted in FY 2001.

² Customer satisfaction results are based on a biannual study conducted by the Association of Small Business Development Centers.

Programs & Special Initiatives

SBA provides business assistance programs through the Office of Entrepreneurial Development, the National Women's Business Council, the Office of Veterans Business Development, and Disability Related Business Initiatives. The Office of Entrepreneurial Development manages programs that provide direct service to the small business community. Entrepreneurial development programs and special initiatives provide information, education, and training opportunities to small business owners and individuals interested in starting a business.

The National Women's Business Council serves as an independent advisor to the President, Congress, and the Interagency Committee on Women's Business Enterprise, and the SBA on issues concerning women in business, and the effectiveness of Federal programs designed to foster women's entrepreneurship.

SBA supports the needs of veterans through the new Office of Veterans Business Development. This office was officially established on January 12, 2001. It is responsible for the formulation, execution, and promotion of policies and programs of the Administration that provide assistance to small business concerns owned and controlled by veterans and service-disabled veterans. The office also supports other SBA veteran-oriented objectives. It serves as a voice for veterans by acting as an ombudsman for full consideration of veterans in all programs of the Administration. It supports ensuring veterans access to capital through marketing and outreach efforts. It will help make Federal procurement opportunities available to veterans by working to ensure that 3.0 percent of Federal prime and subcontracts go to service-disabled veteran-owned small businesses.

The Disability Related Business Initiatives assist small businesses in the implementation of the American's With Disabilities Act and foster entrepreneurship among people with disabilities. Implementation of President Bush's New Freedom Initiative will be a major focus in FY 2002. This initiative will provide small businesses with training and technical assistance to help them comply with the Americans with Disabilities Act (ADA). This training will result in increased hiring of people with disabilities and an increase in customers who will be able to frequent small businesses. A \$5 million dollar budget is requested for this activity.

The Office of Entrepreneurial Development manages the following programs:

- *Paul D. Coverdell Drug-Free Workplace Program (DFWP)*: Through this program, SBA funds organizations that provide technical assistance services to small businesses to implement programs to address the issue of drugs in the workplace. Examples of services provided by intermediaries include drug free workplace policy development and training, drug testing, Employee Assistance Program services and general drug-free workplace education.

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- *Women's Business Centers (WBC)*: Through the WBC program, SBA provides grants to non-profit organizations to train and counsel women entrepreneurs. In addition, the Online Women's Business Center offers a 24-hour Internet site with information aimed specifically at women entrepreneurs.
- *Service Corps of Retired Executives (SCORE)*: Though a network of 11,400 counselors and 389 chapter locations, SCORE provides counseling and training services to more than 350,000 clients annually.
- *E-Commerce and Distance Learning*: Through this initiative, SBA is developing distance learning and other advanced learning applications to deliver E-Commerce and other virtual business development information to small businesses.
- *Small Business Development Centers (SBDC)*: SBDCs provide management and technical assistance to small businesses through a network of service centers located throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam and American Samoa.
- *Business Information Centers (BIC)*: Through a network of 70 locations, BICs provide entrepreneurs access to computers and other business resource materials. Pre-business and in-business counseling and training are also available at BIC locations using SCORE volunteers.
- *One Stop Capital Shops (OSCS)*: 22 OSCSs are operated in partnership with the local communities and provide clients a one-stop location for financial and business assistance through a full range of Federal, state and local resources.
- *Tribal Business Information Centers (TBIC)*: In partnership with Tribal colleges, 17 TBICs provide entrepreneurial development assistance to Native Americans interested in starting or expanding a small business.

Evaluation, Analyses and Surveys

Customer Satisfaction Surveys. In September 2000, SBA contracted the University of Michigan to conduct three surveys of clients from the One Stop Capital Shops, Service Corps of Retired Executives (SCORE), and Women's Business Centers. The contractor conducted the interviews in February and March and will submit a final report in the spring of 2001.

Review of the SBDC program. Between December 2000 and March 2001, SBA conducted a traditional program review of the SBDC network to 1) describe SBDC inputs, outputs and outcomes; 2) identify significant management issues regarding the SBDC network, cooperation with SBA and SBA oversight; 3) identify “best practices” in the network and suggest ways to emulate these “models”; and 4) identify ideas to make the SBDC more responsive to client and community needs, and use technology more effectively.

Cross-Cutting Programs

SBA provides management and technical assistance through partnerships with other Federal, state and local agencies and the private sector. For example, SBA and the Department of Commerce (DOC) provide different programs and services to American minority businesses, and focus on different market segments. SBA provides counseling and technical/management assistance to help small firms write business plans, apply for loans, compete for Federal contracts, and run their businesses. SBA focuses on long-term competency-based skills and institution building. DOC provides services to minority businesses, regardless of size, and seeks to enhance the continued development of these firms by increasing their access to resources and markets.

In the past, the Office of Veterans Affairs (now the Office of Veterans Business Development) partnered with the Office of Small and Disadvantaged Business Utilization in the Department of Veterans Affairs, to conduct business-management briefings on resources within SBA which help small business grow and improve in doing business with the Federal Government. The SBA and the Departments of Veterans Affairs and the Department of Labor (DOL) have entered into an MOU to assist disabled veterans to become entrepreneurs by providing the necessary entrepreneurial development assistance needed to start a company.

The Office of Veterans Business Development is working in conjunction with the Department of Veterans Affairs’ Center for Veterans Enterprise, the Department of Labor Assistant Secretary for Veterans Employment and Training, the DOL Office of Disability Policy, the Association of Small Business Development Centers, the Service Corps of Retired Executives, the National Veterans Business Development Corporation, and the organized veterans community to implement significant outreach to veterans and the service-disabled veterans small business community.

We are also working with the Department of Commerce (DOC), the National Institute of Science and Technology (NIST), the United States Department of Agriculture (USDA) and the Minority Business Development Agency (MBDA) of the DOC on E-Commerce outreach and training.

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The Disability Related Business Initiative is cross-cutting in that it works with the Social Security Administration, Department of Labor, Department of Education, and Department of Defense and Department of Veterans Affairs, to develop interagency educational sessions on lending, entrepreneurship, resource sharing and required training. This cooperative effort works to support the market education for entrepreneurs with disabilities

External Factors

No other SBA program exemplifies the importance of “shared outcomes” more than the “access to entrepreneurial development assistance” programs. With the positive and cooperative assistance from a host of business resource partners, SBA is able to reach out to more than 1 million small firms annually. Additionally, with new emphasis on delivery of management and technical assistance via the electronic media, a critical success factor will be access to and training in the use of the Internet. Finally, availability of resources and stakeholder support are essential to successful implementation of this strategy.

The SBA, through the Office of Veterans Business Development, has established a relationship with the National Veterans Business Development Corporation. The relationship is critical to our efforts to reach and develop initiatives designed to meet the needs of the veteran and service-disabled veteran small business market. Working with the Corporation (a public/private initiative) enables SBA to engage the private business community and develop cost-effective and efficient ways of furthering our efforts.

GOAL 2: HELP FAMILIES AND BUSINESSES RECOVER FROM DISASTERS

In the wake of physical disasters, SBA's disaster loans are the primary form of Federal assistance for non-farm, private-sector disaster losses for individuals and businesses. The disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations fund rebuilding and recovery efforts.

SBA operates a direct loan program to assist victims of natural disasters and supports the servicing and collection of these loans after they have been made. We make disaster loans totaling approximately \$1 billion each year, and we have an active portfolio of about \$8 billion in loans. In FY 2000, SBA included a large number of disaster loans in its Assets Sale Program.

Recent legislation was passed to establish two additional categories of economic injury disaster loans. The Pre-disaster Mitigation Pilot Loan Program is a 5-year program that provides financial assistance to small businesses participating in the Federal Emergency Management Agency's (FEMA) formal mitigation program to protect property from future disaster damage. The legislation authorizes SBA to use up to \$15 million of loan authority in each fiscal year. The Military Reservist Economic Injury Loan Program provides financial assistance to small businesses that are economically impacted because its owner(s) or employee(s) are called up for active duty due to a military conflict.

SBA disaster assistance is a critical source of economic stimulation in disaster-ravaged communities. Eligibility is based on financial criteria. Current interest rates charged to borrowers are determined according to statutory formulas: i.e., a lower rate, not to exceed 4 percent, is available to applicants without credit available elsewhere; and a higher rate, not to exceed 8 percent, for those with credit available elsewhere. SBA offers physical disaster loans to individuals and businesses of any size, and economic injury loans to small businesses without credit available elsewhere.

The dollar volume of approved loans varies widely from year to year, reflecting the difficulty of planning and accurate forecasting of the next disaster. Because it is difficult to predict disasters, SBA's primary objective is to offer victims quality, timely, easy access, and cost-effective help to rebuild their homes and businesses. Customer satisfaction is a key measure of success for this program.

GOALS AND RESOURCES

Performance Indicators and Resources Requested

(Dollars in Thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimated	FY 2002 Projected
Performance Indicators					
Field presence within three days of a disaster	100%	100%	100%	98%	98%
Achieve high customer satisfaction rate	N/A	N/A	81%	80%	80%
Applications processed within 21 days	77%	60%	91% ¹	80%	85%
Resources (\$000)					
Disaster Assistance Operating Expenses					
Disaster Loan Making	\$ 79,116	\$ 85,926	\$ 83,929	\$ 91,013	\$ 40,000
Disaster Loan Servicing	25,012	30,808	29,523	34,056	30,000
Loan Program Subsidy	149,953	170,427	173,908	144,353	32,850
Subtotal	254,081	287,161	287,360	269,422	102,850
Agency Support Cost Estimates:					
Regional & District Offices (Field Support)	N/A	N/A	9,321	9,677	10,094
Executive Direction	N/A	N/A	5,162	5,252	5,419
Management & Admin Support ²	N/A	N/A	0	0	0
Agencywide Costs (Rent, Telecom, etc.)	N/A	N/A	4,148	4,994	5,294
Subtotal			18,631	19,923	20,807
Total ³			\$ 305,991	\$ 289,345	\$ 123,657

Evaluation, Analyses and Surveys

SBA will continue to conduct quality reviews of its disaster loan underwriting and documentation process. Customer surveys will be conducted to measure the effectiveness and delivery of disaster assistance.

Cross-Cutting Issues

Systematic coordination among Federal, state and local agencies is necessary before and during a disaster to ensure effective, efficient delivery of the array of recovery programs. The Federal Response Plan (FRP) describes the initiation, coordination and implementation of the wide array of Federal disaster programs that provide assistance directly to individuals, families and business owners attempting to recover from the effects of a major disaster (Presidential declaration). The Stafford Act assigns FEMA the coordination role, in which multiple Federal assistance programs are reviewed, initiated, implemented, and delivered to address the unique needs of a particular disaster area. Interagency coordination is critical to promote efficient, consistent Federal action.

¹ In FY 2000, the bulk of the loan activity occurred during the first 3 months of the fiscal year, enabling the program to exceed the loan processing goal due to low levels of activity in the remaining months.

² The majority of the Management and Administrative support for Disaster is directly funded by the \$70 million appropriation for program operating expenses.

³ These numbers represent spending and were funded partially with carryover balances.

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It also helps avoid *ad hoc* decision making, funding initiatives at cross-purposes, replicating efforts (e.g. multiple damage assessments, inspections, environmental reviews), and duplicating benefits.

Disaster assistance programs for individuals, families, and businesses often overlap in their coverage and purpose. Section 312 of the Stafford Act requires that no person, business concern, or other entity receive Federal disaster assistance for any part of a loss that has been covered by any other program, insurance, or any other source. FEMA has established a policy and procedure that outlines when duplication can occur, and describes procedures for preventing and rectifying duplication.

The following delivery sequence establishes the order in which the major forms of overlapping assistance should be provided:

1. Voluntary organizations' emergency assistance and insurance proceeds, including additional living-expense benefits
2. Disaster temporary housing assistance, including rental assistance, funds for minimal repairs, and provision for housing units
3. SBA and United States Department of Agriculture disaster loans
4. Individual and family grant awards
5. Additional assistance from voluntary organizations

External Factors

The single most important external factor is the unpredictability of disasters. Helping families and businesses recover from disasters requires SBA to work closely with the FEMA as well as other Federal, state and local agencies. SBA must coordinate closely with FEMA to establish disaster-assistance centers when natural disasters strike, provide expedited responses, cut paperwork, and create ongoing partnerships with voluntary agencies, businesses, and industries in the affected area.

GOALS AND RESOURCES

GOAL 3: IMPROVE SBA MANAGEMENT

SBA is an Agency that is continuing to transform itself to meet the challenges and opportunities of a global marketplace. This integrated budget and performance plan partially documents this transformational process. We have already made changes and continue to improve how we manage ourselves and our resources. Similar to the private sector, SBA needs to increase the pace of change and reform itself based on a reexamination of the role of the Federal Government. Our guiding principle is to meet the needs of today's citizens, creating a culture that is *results-oriented* (not process-oriented), *citizen-centered* (not bureaucracy-centered), and *market-based* (promoting, not stifling, innovation and competition). To achieve our overall goal of modernizing the Agency, we have identified six critical management objectives: (1) Managing for Results (Transparency and Accountability); (2) Transforming the Workforce (Human Capital Investment); (3) Modernizing our Information Systems (Information Technology Investment); (4) Improving Financial Management; (5) Improving Credit Program Management; and (6) Creating Electronic Government.

Objective 1: Manage for Results

Performance Goal: Create Culture of Results

The Results Act requires Federal agencies to institute changes to enable them to measure and declare the value of public sector programs to improve the internal management and decision-making of related public expenditures. The core of the Results Act is the ability of a Federal Agency to be transparent (i.e., define our work, our success, and our costs) and to be accountable (i.e., measure and report on our progress).

To achieve an acceptable level of transparency and accountability in the Executive Branch, Congress requires agencies to develop goals, objectives, and strategies for success and to submit multi-year strategic plans, annual performance plans, and annual performance reports. SBA is meeting this Congressional requirement by integrating its annual performance plan with the budget contained in this document as well as its annual performance report with its program and financial accountability report in the recently released "Performance and Accountability Report."

To manage for results, SBA must ensure that performance information is valid and verifiable, and that it has a cost allocation system that links resources with results achieved.

Office of the Inspector General (OIG) Management Challenge

The OIG has incorporated the need to improve managing for results in its December 2000 major management challenges.

Challenge: SBA needs to improve its managing for results processes and produce reliable performance data

Summary: SBA needs to develop effective outcome measures, ensure that its performance data are accurate and reliable, and establish systems to manage for results. The Agency has taken steps to identify more program outcomes, improve performance measures, and increase the accuracy of its data. SBA still needs to develop (1) Agency-wide guidance on preparing performance goals and indicators, (2) standards and procedures for data verification and validation, and (3) client surveys and other methods to obtain outcome information.

Goals:

- Develop guidance involving the preparation of organizational performance goals and indicators
- Develop and promulgate standards and procedures for data verification and validation
- Issue guidance to providers on how to count clients served, client counseling and training sessions
- Develop a client survey to measure impact of counseling and training

Action Planned

- Develop guidance for preparation of organizational performance goals and indicators
- Develop and promulgate standards and procedures for data verification and validation
- Issue guidance on how to count clients served, client counseling, and business training sessions

Objective 2: Transform the Workforce

Performance Goal: Ensure a Workforce with the right skills and correct placement.

SBA has changed significantly and will continue to change in the way it operates. We are moving toward a more technologically driven operation, focused on providing business development assistance, oversight, and building partnerships to help serve the needs of small business. We are phasing out some functions, reemphasizing others, and creating new ones. Some new functions include:

- Management and technical assistance tailored to small and disadvantaged, HUBZone, disabled veterans, and other entrepreneurs with disabilities.
- Oversight of lenders and business partners
- Response to asset sales
- Marketing and outreach to small business segments and our resource partners
- Management of information technology (IT Security, IT Investment Management, Internet, Quality Assurance, IT Acquisition, Configuration Management)
- Creating E-Government and E-Commerce

Changes in how we do business and the demands of the New Economy create situations where we lack geographic or functional employee balance. We must keep pace with the level of skill and technology of our lending partners, since they originate 75 percent of our loans. We are committed to a thoughtful workforce transformation process for our affected employees. Through discussions with our union partners, we will invest in our human capital by providing employees with transition services and training.

Office of Inspector General (OIG) Management Challenges

Challenge: Maximizing program performance requires that SBA fully implement its human capital management strategies.

Summary: The nature and scope of SBA's work has changed significantly, requiring a different set of skills in the Agency's workforce to maintain productivity. SBA has prepared an analysis that projects future workforce needs, expanded training and candidate development programs, and contracted for a workload and staffing study. The Agency needs to continue to develop its workforce planning, re-training, and other human capital management activities to ensure optimal performance of its employees.

Goals:

- Identify the knowledge, skills, abilities, and other characteristics that employees will need to perform successfully in SBA's new business environment.
- Develop a succession plan for senior leaders and candidate development programs.
- Ensure that employees receive adequate training to improve job performance.

Action Taken

- Developed a comprehensive "Workforce Transformation Plan" that outlines the current workforce numbers and skills, and estimates the number of employees needed categorized by types of skills needed in the future.
- Conducted a workload and staffing analysis of SBA Headquarters.
- Provided leadership training to 134 SBA executives and senior managers and trained more than 200 supervisors in leadership competencies.
- Reinstated candidate development programs for executives and district directors for succession planning.
- Completed competency models for Marketing and Outreach Specialist and Public Information Officer positions, and trained more than 300 employees in the skills required.

Objective 3: Modernize Information Systems

Performance Goal: Provide Effective and Efficient IT Support to Program Delivery

Our financial management and information systems were developed when SBA was primarily a direct lender, and are currently more than 20 years old. They do not comply with many new guidelines and standards, including enhanced systems security, integration, standard databases and reporting, and a standard general ledger. They also do not fully support our transition to the role of overseer of resource partners, nor do they meet SBA's need for quicker, more comprehensive, and accurate information on program performance (Results Act compliance).

SBA is redefining how it does business to include outreach, marketing, and program oversight. We are using information technology, particularly the Internet, to become more widely accessible to small firms.

Through modernizing our information systems, we can ensure reasonable data accuracy, improve decision-making, and increase productivity and cost-effective service delivery to more small business customers. Effective systems modernization requires replacement of old and outdated legacy systems, and installation of a new technology infrastructure. Once completed, these improvements will improve program oversight, enhance program management, and permit more accurate and timely financial reporting.

Our System Modernization Initiative (SMI) is divided into four phases:

1. Phase I is a Loan Monitoring System (LMS) which addresses loan and lender monitoring. The LMS system includes loan management, lender management, and risk management. The LMS is an automated systems solution designed to automate the business functions necessary to manage SBA's portfolio, principally: process applications for loans and loan guarantees, service loans and loan guarantees, process payments and disbursements, liquidate and litigate, maintain subsidiary loan ledgers, perform debt collection, lender oversight, risk management, subsidy rate calculations, and portfolio management.
2. Phase II is the Joint Accounting and Administrative Management System (JA²MS) and Disaster Credit Management Modernization (DCMM). JA²MS will provide common processing routines and support data for critical financial management functions affecting the entire Agency. SBA will have a fully integrated and modern financial management system that includes human resources, procurement, travel and finance (budget, reporting, and accounting). DCMM will define the requirements for a paperless loan application process to be used by the Office of Disaster Assistance. This system will expedite the disaster loan approval process and result in substantial savings in personnel and travel expenses.

3. Phase III includes Government Contracting and Business Development and Entrepreneurial Development. In order to more fully monitor the use of resource partners in these areas and quantify the performance of these programs, SBA will develop a client tracking database and identify counseling and training that is conducted on a consistent and reliable basis. This data will also allow us to better identify not just outputs but also program outcomes.

4. Phase IV will upgrade SMI functions which will greatly affect our ability to achieve our goals: an up-to-date technology infrastructure that can support new work processes and systems; (2) a strong IT security program; and (3) IT standards management and governance. We must also upgrade our telecommunications network to support large data transfers at faster speeds and must be able to handle the increased complexity of hardware and software interfaces that accommodate effective data interchange with lending and resource partners. To succeed, we must ensure that our IT infrastructure remains current.

Finally, security will become increasingly important as we become more automated. We must assure the public, as well as our resource partners, that we have the security policies, practices, and infrastructure to maintain the privacy, confidentiality, and integrity of the data that we collect and exchange with them. We realize that maintaining good security requires a continuous commitment of resources and management attention.

Office of Inspector General (OIG) Management Challenges

Challenge: SBA faces significant challenges in modernizing its major loan monitoring and financial management systems

Summary: SBA has ambitious plans to upgrade its systems for loan monitoring and financial management, but implementing those plans will require sustained commitment to achieve objectives and overcome system development obstacles. The Agency has identified modernizing these systems as a major priority and has made progress in developing information technology procedures and controls. SBA needs to continue to formulate and implement sound procedures for system development and acquisition to enable more effective and efficient loan monitoring and financial management.

Goals:

- Adopt policies and procedures and define processes for investment selection, control, and evaluation.

- Develop a systematic process for architecture development, establish policies and procedures for architecture maintenance, and set a target date for implementation of the maintenance process.

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- Develop a plan to institutionalize and enforce agency-wide use of SBA's Systems Development Methodology (SDM).
- Establish policies, procedures, and processes for software development and software acquisition and develop a mechanism to enforce them.

Action Taken

- SBA has taken steps to strengthen and institutionalize its "Information Technology (IT) Planning and Investment Control Process," to improve selection and control of IT projects in a portfolio environment and to improve formulation of the IT budget.
- To address past criticisms and help support its strategic goals, the Office of the Chief Information Officer developed and started implementing the SDM. SDM is a set of procedures and quality controls intended to reduce risks in the development of new information systems and ensure that new systems function as intended by owners and stakeholders.
- SBA has begun development and implementation of a cost accounting system. In addition, SBA has implemented a cost allocation model to assign costs to each major program, activity and function.
- The Agency has completed an IT architecture document and established procedures for its maintenance.
- SBA has developed configuration management and quality assurance procedures for SMI projects.

Challenge: Information systems security needs improvement

Summary: SBA operations depend heavily on the Agency's information systems, and the security of these systems is critical. The Agency has made a substantial commitment of resources for enhancing computer security, providing technical staff support, and developing security training. SBA needs to fully implement its agency-wide systems security program to include assessing risks, establishing policies and controls, promoting awareness, and evaluating security effectiveness.

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Goals:

- SBA needs to fully implement and maintain an ongoing information security program aimed at understanding and reducing its information security risks.

Action Taken

- Committed more than \$1.2 million in personnel and contract support to enhance the Agency's computer security program
- Increased the number of authorized personnel for IT security from 2 to 9 and acquired additional contractor support to conduct security reviews
- Removed computer security as one of SBA's material weaknesses in the FY 2000 audit
- Issued an updated computer security policy document that incorporated security policies covering the latest Agency technology including client servers, e-mail, and the Internet
- Documented the computer security program and produced guidance documents and templates for the performance of computer security functions within the Agency
- Completed certification and accreditation reviews for eight of the most sensitive systems
- Developed a security training program
- Continued work on developing critical infrastructure protection and security plans

Action Needed

- Perform vulnerability assessments on all critical cyber-based infrastructure
- Complete remedial plans for vulnerabilities identified by the risk assessments
- Develop a multi-year funding plan
- Include infrastructure assurance functions in the strategic planning and performance measurement framework

Objective 4: Improve Financial Management

Performance Goal: Improve Financial Management

Since the passage of the Chief Financial Officers Act of 1990 (CFO Act), SBA has become a leader in Federal financial management. In essence, SBA is primarily a financial institution, due to the level of credit extended annually and a loan portfolio more than \$50 billion. As a financial institution, excellence in financial management is paramount to ensuring public confidence in SBA.

Office of Inspector General (OIG) Management

The OIG has incorporated its December 1999 cost accounting challenge into its December 2000 Major Management Challenge on modernizing Agency information systems for loan monitoring and financial management.

Objective 5: Improve Credit Program Management

Performance Goal: Improve Loan Portfolio Performance

SBA must maintain the financial stability and soundness of our \$50 billion loan portfolio. As with financial institutions in the private sector, we have the fiduciary responsibility to make our loan guaranty decisions wisely and guard our current investments carefully. Risk management issues have become more critical as we have initiated a change to partnering with banks, outsourcing our core processes, and selling our assets. In FY 2000, SBA placed greater reliance on the credit decisions of its lending partners to originate approximately 75 percent of all business loans. Congress has required us to outsource servicing 30 percent of our disaster home loans. In the past 2 years, we have implemented a highly successful asset sale program and will continue to strategically sell our loan portfolio.

As more of the loan-making, servicing and liquidation processes are outsourced and centralized, SBA's exposure on loan guaranties becomes increasingly subject to the credit policies and actions of the participating lenders. To protect the taxpayers interests and to ensure the long-term viability of our lending programs, we have begun to build a system to identify, understand, and respond appropriately to the behavior of SBA's lending partners in a timely way. As described previously, the Loan Monitoring System (LMS) is part of SBA's Systems Modernization Initiative and will create an automated monitoring system for SBA's portfolio.

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Federal guidelines now require Federal credit agencies to include lender oversight in their program management. OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires Federal credit agencies to track and evaluate lender performance, including delinquency, default and claim rates. The Joint Financial Management Improvement Program (JFMIP) guidelines on Guaranteed Loan System Requirements similarly require Federal agencies to monitor lender and servicer performance, identify lenders or servicers for regular or special review based on performance characteristics, and periodically review lenders and servicers on-site.

One of SBA's major management challenges is to make sure our lenders take prudent and appropriate risk. With this in mind, we are improving our ability to assess, forecast, and manage risk.

Key objectives include:

- Delineating the difference between conventional bank lending and SBA guaranties by industry at different points in the economic cycle.
- Delineating an optimization of risk/benefit ratio for small business borrowers.
- Detecting excessive risk-taking by marginal lenders earlier in the loan cycle.
- Implementing a graduated system of enforcement to slow marginal lending activity.
- Forecasting portfolio performance.

The Office of Lender Oversight is developing models and processes to meet the above objectives. Performance measures addressing delinquency and purchase and default rates among other items will be defined and monitored for individual lenders and by loan program. Monitoring these measures will allow the Agency to track trends by lender and within the loan portfolio. The new approach will allow longitudinal comparisons of lender behavior both among individual lenders, and that of an individual lender to a norm (constant) derived from the behavior of the portfolio as a whole. By analyzing both loan portfolio performance and lender behavior, the Agency gains a broad analytical tool in which to improve performance.

Office of the Inspector General (OIG) Management Challenges

Challenge: SBA needs to continue improving lender oversight.

Summary: As SBA becomes increasingly dependent on private lenders to carry out business loan functions, an effective lender oversight program is critical for ensuring that lender activities serve Agency objectives and comply with all rules and procedures. SBA has established an Office of Lender Oversight, completed the second round and started the third round of Preferred Lender Program (PLP) reviews, completed the second cycle of safety and soundness examinations of the non-depository Small Business Lending Companies (SBLC) and begun development of a comprehensive loan monitoring system. The Agency needs to ensure that all non-PLP lenders are reviewed periodically on a consistent basis, fully implement the loan monitoring system, establish baseline goals and measures for lender processing errors, and compare actual performance to goals.

Goals:

- Ensure that all non-PLP lenders are reviewed periodically and on a consistent basis. Results must be documented, and recommendations made to correct any problems found.
- Implement a comprehensive Loan Monitoring System (LMS) that will enable SBA to better evaluate the quality of a lender's SBA portfolio. Factors to be considered should include loan volume, loan origination, loan seasoning, and delinquency and default rates.
- Establish baseline goals and measures for lender processing errors and periodically compare performance to goals.
- Implement the strategic plan for lender oversight.

Action Taken:

- SBA has established an Office of Lender Oversight.
- PLP lenders are reviewed annually by the PLP Review Branch with contractor help.
- SBA is continuing to conduct Quality Service Reviews of all district office functions.
- SBA has initiated steps to develop and implement a comprehensive Loan Monitoring System (LMS) to evaluate lender performance.
- SBA has implemented an examination program for the Agency's 14 Small Business Lending Companies.

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- SBA modified the PLP certification renewal process to strengthen the process for evaluating lender performance in loan origination and processing.

Objective 6: Create Electronic Government

Performance Goal: Use the Internet to Serve Entrepreneurs and Small Businesses.

Electronic commerce (EC), loosely defined, is using computers, telecommunications and all available electronic resources to conduct business. For SBA, the E-Government (e-gov) vision revolves around customer service. Our objectives are to (1) educate small businesses on the importance of using electronic commerce services in their businesses (e-commerce), and (2) deliver products and services to small businesses anytime/anyplace through the Internet (e-gov).

At the core of our e-government and e-commerce strategy is an effort to create a horizontally integrated suite of programs and services available to small companies anyplace, when they need it, and in a format that is user-friendly, comprehensive and cost effective. We will use information technology and communications to implement electronic business transactions that will replace the current paper intensive processes as required by the Government Paperwork Elimination Act.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Salaries and Expenses Appropriation

The Salaries and Expenses (S&E) appropriation provides funding for non-credit programs and initiatives and for costs incurred by Headquarters and field staff in the administration and operation of SBA programs. Non-credit programs and initiatives include all SBA business assistance programs not related to loans, such as procurement assistance and business development assistance for women and minorities. They also include management and information technology initiatives that improve SBA's operations. Funding for administration and operation (hereafter referred to as the operating budget) pays for on-going personnel and support costs, including costs to support the administration and management of the non-credit programs. As such, the S&E account is instrumental in the achievement of SBA's performance goals to help small businesses succeed, assist disaster victims, and improve overall SBA management.

The FY 2002 President's Budget requests \$321.2 million in new budget authority for the S&E appropriation, a decrease of \$89.4 million from the FY 2001 appropriated level. Of this amount, \$153.9 million is for non-credit programs (a reduction of \$101.2 million from the FY 2001 appropriation). For the operating budget, including fee income and transfers from the Business Loan appropriation and the Disaster Assistance appropriation for administrative expenses pursuant to the Federal Credit Reform Act of 1990, the request will provide \$309.2 million in total resources (an increase of \$13.0 million over FY 2001). A summary of the President's Request for Salaries and Expenses follows:

	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001
				Estimate
Salaries and Expenses:				
New Budget Authority	\$ 322,800	\$ 410,635	\$ 321,219	\$ (89,416)
Transfer from Business Loans Program	129,000	129,374	129,105	(269)
Transfer from Disaster Loans Program	20,000	9,854	9,854	0
Transfers from Other Agencies	11,654	5,000	1,800	(3,200)
Offsetting Collections - Fees	3,331	3,000	3,000	0
Estimated Gainsharing	0	3,000	3,000	0
Carryover from Prior Fiscal Year	4,089	2,791	0	(2,791)
Recoveries	10	0	0	0
Returned to Treasury	(10,500)	0	0	0
Transfer to Other Accounts	(4,248)	(1,898)	0	1,898
Carryover into Next Fiscal Year	(2,791)	0	0	0
Rescinded Funds Appropriated	(3,185)	(903)	0	903
Balance Expired	(674)	0	0	0
Total Salaries and Expenses	\$ 469,486	\$ 560,853	\$ 467,978	\$ (92,875)

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Non-Credit Programs and Initiatives (\$158.8 million)

The FY 2002 request includes \$158.8 million for non-credit programs and initiatives. Of this amount, nearly \$76 million is for the Small Business Development Centers to provide long-term counseling and training to small businesses throughout the country. The remaining funds will allow SBA to provide outreach and technical assistance to small businesses, especially women, veterans, and minorities, through programs such as Microloan technical assistance, Women's Business Centers, and Veteran's Business Assistance. Other non-credit programs such as HUBZone Empowerment Contracting and 7(j) Technical Assistance provide an advocate for small businesses in the government contracting area.

In addition to funding business assistance programs, the Non-Credit Programs and Special Initiatives account funds management and information technology initiatives to help transform SBA's workforce and modernize its infrastructure. Funds are requested to upgrade systems, implement risk management techniques, improve internal controls, transition the workforce, and update technology infrastructure to help meet SBA's long-term goals.

Operating Budget (\$309.2 million)

The total authority requested for SBA's operating budget is \$309.2 million, an increase of \$13.0 million from the FY 2001 enacted level. The small increase (3.9 percent) is primarily for the general salary pay raises of 3.6 percent in January 2002 and for mandatory rate increases in rent that are passed directly to SBA by the General Services Administration. The request for SBA's operating budget reflects the minimum requirement needed to provide efficient customer services, ensure a motivated and trained workforce, and maintain an effective infrastructure to support SBA programs and activities. In fact, SBA will further reduce its workforce by 150 positions during FY 2002. The operating budget portion of the S&E appropriation funds five major types of costs: Program Support, Field Operations, Executive Direction, Management and Administration, and Agency-wide Costs. It does not include funding for disaster assistance direct expenses; these are covered under the Disaster Loan Appropriation. Descriptions of these major components of the operating budget follow.

Program Support (\$51.9 million)

Funding for program support activities covers the costs of providing government contracting assistance, business development assistance, training and outreach activities, and capital access programs. Most administrative expenses for non-credit programs are included in this group. Funding requirements reflect the needs of headquarters offices as well as servicing centers that process loan guarantees and service SBA's portfolio.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Field Operations (\$147.4 million)

Funding for field operations covers the cost of operating 10 regional and 70 district and branch offices throughout the United States and Puerto Rico. The regional and district offices are the locations where SBA personnel interact with customers and deliver SBA's programs and activities to the Nation's 25 million small business customers.

Executive Direction (\$34.1 million)

Executive Direction offices are responsible for administratively supporting SBA's program offices. Requirements include policy analysis and support, financial management, legal representation, hearings and appeals, equal employment opportunity/civil rights compliance, congressional and public interface, marketing to SBA's constituency, and advocating the small business community within the governmental process. An estimate of the cost of Executive Direction is provided in the Performance Indicators and Resources Requested section of each goal.

Management and Administration (29.6 million)

Management and Administration offices are responsible for the formulation and execution of policies and procedures that maximize the utilization of SBA's primary internal resources, including human resources, information technology, and administrative services. An estimate of the cost of Management and Administration is provided in the Performance Indicators and Resources Requested section of each goal.

Agency-wide Costs (\$46.2 million)

Agency-wide costs comprise fixed expenses that the Agency must incur to support the annual level of program funding. These costs include telecommunications, postage, rent, worker's compensation, centralized training, in-house printing, transit benefits subsidy, and reasonable accommodation expenses. Estimates for Agency-wide costs are provided in the Performance Indicators and Resources Requested section of each goal.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

SALARIES AND EXPENSES

*For necessary expenses, not otherwise provided for, of the Small Business Administration as authorized by Public Law 105–135, including hire of passenger motor vehicles as authorized by 31 U.S.C. 1343 and 1344, and not to exceed \$3,500 for official reception and representation expenses, ~~[331,635,000,000]~~ **\$321,219,000**: Provided, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan servicing activities: Provided further, That, notwithstanding 31 U.S.C. 3302, revenues received from all such activities shall be credited to this account, to be available for carrying out these purposes without further appropriations: Provided further, That ~~[\$88,000,000]~~ **\$75,806,000** shall be available to fund grants for performance in fiscal year ~~[2001]~~ **2002** or fiscal year ~~[2002]~~ **2003** as authorized by section 21 of the Small Business Act, as amended. ~~[Provided further, That, of the funds made available under this heading, \$4,000,000 shall be for the National Veterans Business Development Corporation established under section 33(a) of the Small Business Act (15 U.S.C. 657e).~~*

~~*In addition, for the cost of programs related to the New Markets Venture Capital Program, \$37,000,000, of which \$7,000,000 shall be for BusinessLINC, and of which \$30,000,000 shall be for technical assistance: Provided, That the funds appropriated under this paragraph shall not be available for obligation until the New Markets Venture Capital program is authorized by subsequent legislation.]*~~

In addition, to reimburse the Small Business Administration for qualified expenses of delinquent non-tax debt collection, to be derived from increased agency collections of delinquent debt, 5 percent of such collections but not to exceed \$3,000,000. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2001, as enacted by section 1(a)(2) of P.L. 106–553).

~~*[For an additional amount for “Salaries and Expenses”, \$1,000,000 shall be available for a grant to the Electronic Commerce Resource Center in Scranton, Pennsylvania, to establish an electronic commerce technology distribution center. (Division A, Miscellaneous Appropriations Act, 2001, as enacted by section 1(a)(4) of P.L. 106–554.)]*~~

APPROPRIATIONS LANGUAGE AND DESCRIPTION

~~NON-CREDIT BUSINESS ASSISTANCE PROGRAMS~~

~~[For non credit programs authorized under the Small Business Act, as amended, \$256,050,000, of which \$89,500,000 shall be for grants for performance in fiscal year 2001 or fiscal year 2002: Provided, That (1) \$85,000,000 shall be for grants for the purposes authorized by section 21 of such Act, (2) \$3,000,000 to establish a reservation based Native American Small Business Development Center network, including subcenters, to serve Native Americans on a national basis subject to section 21 of such Act but without the necessity for matching funds, and (3) \$1,500,000 to support the Tribal Business Information Centers: Provided further, That any balances of FY2000 funds appropriated for these non credit programs under the heading, "Salaries and Expenses", may be transferred to this heading, to be available to carry out these programs and to be available for the time period originally provided.]~~

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Business Loans Appropriation

The Business Loans appropriation includes the funds to cover the taxpayer's cost of providing direct and guaranteed loans to new and existing small businesses throughout the United States. Financing to small businesses is made either directly or in cooperation with banks or other financial institutions through agreements to participate on a deferred (guaranteed) basis, or through approved Microloan intermediaries. Through its business loan programs, SBA provides capital, credit and equity assistance to help develop and strengthen America's small businesses and contribute to the country's economy.

As required by the Federal Credit Reform Act of 1990 (FCRA), the Business Loans program account includes the subsidy costs associated with direct loans obligated and loan guaranties committed in the fiscal year in question.

The Business Loans program account also includes administrative expenses associated with the delivery of business loan programs. Subsidy amounts are estimated on a present value basis, and administrative expenses are estimated on a cash basis. Funds for administrative expenses are appropriated to this account and then transferred to the Salaries and Expenses account to be obligated and outlayed in that account.

The FY 2002 budget requests \$1.5 million for the subsidy costs associated with direct loans, \$0 for the subsidy costs associated with guaranteed loans and debentures, supporting and a total program level of \$17.6 billion in "net" loan approvals to small businesses during FY 2002. These approvals include the effect of loan increases, decreases, and cancellations. In addition, the Budget requests \$129 million for administrative expenses to be transferred to the Salaries and Expenses account.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Business Loan Programs Appropriation

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
New Budget Authority				
Section 7(a) Guaranty	\$ 107,390	\$ 114,960	\$ 0	\$ (114,960)
Section 7(a) Guaranty - DELTA	0	0	0	0
Y2K Loans ¹	110	0	0	0
Section 504 CDC Guaranty	0	0	0	0
Section 504 CDC Guaranty - DELTA	0	0	0	0
Microloan - Direct	0	2,250	1,500	(750)
Microloan - Guaranty	0	0	0	0
New Market Venture Capital	6,000	22,000	0	(22,000)
SBIC - Participating Securities	24,300	26,200	0	(26,200)
SBIC - Debentures	0	0	0	0
Rescinded Funds - Appropriation	0	(364)	0	364
Subtotal – Loan Programs	137,800	165,046	1,500	(163,546)
Administrative Expense				
New Budget Authority	129,000	129,000	129,000	0
Rescinded Funds - Appropriation	0	(284)	0	284
Subtotal – Administrative Expense	129,000	128,716	129,000	284
Total New Budget Authority	\$ 266,800	\$ 293,762	\$ 130,500	\$ (163,262)
Business Loans - Summary				
Program Level	\$ 13,180,670	\$ 17,565,152	\$ 17,595,075	\$ 29,923
New Appropriation	\$ 266,800	\$ 294,410	\$ 130,500	\$ (163,910)
Carryover from Prior Fiscal Year	30,100	24,719	9,114	(15,605)
Carryover into Next Fiscal Year	(24,719)	(9,114)	(8,798)	316
Transfer to Other Accounts	(135,000)	(129,974)	(129,105)	(231)
Recoveries	4,211	1,169	0	(1,169)
Balance Expired	(13,100)	0	0	0
Transfer from Other Accounts	9,500	0	0	0
Rescinded Funds - Appropriation	0	(648)	0	648
Subsidy Budget Authority	\$ 137,792	\$ 181,162	\$ 1,711	\$ (179,451)

¹ Program authority expired 12/31/00.

U.S. Small Business Administration
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APPROPRIATIONS LANGUAGE AND DESCRIPTION
Section 7(A) Loan Guaranty Program
 (Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Program Level	\$ 9,679,569	\$ 11,008,547	\$ 10,700,000	\$ (308,547)
New Subsidy Appropriation	107,390	114,960	0	(114,960)
Carryover Balance - Beginning of Year	5,632	12,924	0	(12,924)
Recoveries	2,685	1,169	0	(1,169)
Carryover Balance - End of Year	(12,924)	0	0	0
Transfer from Other Accounts	9,500	0	0	0
Rescinded Funds - Appropriation	0	(253)	0	253
Subsidy Budget Authority	\$ 112,283	\$ 128,800	\$ 0	\$ (128,800)
Subsidy Rate ¹	1.16%	1.17%	0.00%	(1.17%)

Base Program

The 7(a) Loan Guaranty Program is the SBA's primary business loan program. The SBA guarantees up to \$1 million of a \$2 million maximum loan. At present, the guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000 (except Export Working Capital loans, which receive a guaranty of up to 90 percent). A borrower may have more than one SBA loan at a time, so long as the total amount does not exceed the SBA's guaranty cap of \$1 million. The only exceptions are the International Trade and DELTA loan programs, as noted in the following pages.

The SBA has a number of specialized loans under the 7(a) Program that help fill the particular needs of small businesses:

SBA LowDoc: SBA's Low Documentation Loan Program (LowDoc) offers a one-page SBA application form and centralized processing with a rapid turnaround on approvals for loans of \$150,000 or less. SBA established a requirement to process completed applications within 3 days. Proceeds may not be used to repay certain types of existing debt.

SBAExpress: SBAExpress provides SBA guaranties on loans \$150,000 or less, allowing lenders to use their own forms and processes. In return for this convenience, lenders receive a maximum 50 percent guaranty.

¹ FY 2001: The Authorization Bill includes changes that lower the rate to 1.16% effective December 21, 2000. The rate was 1.24% from October 1, 2000 to December 21, 2000.

FY 2002: Assumes proposed fee changes (under 1 year = 1%, <=\$150,000 = 1.5%, >\$150,000 and <=\$700,000 = 3.5%; > \$700,000 = 4%; pass-thru <= \$150,000 = 0.5%, >\$150,000 = 0.8875%) to lower rate from 1.07% current services rate to 0%.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Section 7(A) Loan Guaranty Program

(Dollars in Thousands)

CAPLines: Under this program, SBA helps small businesses meet their short-term and cyclical working capital needs. A CAPLines loan can be for any dollar amount and the SBA will guarantee 75 percent up to \$1 million (85 percent on loans of \$150,000 or less). There are five short-term working capital loan programs for small businesses under the CAPLines umbrella: seasonal line, contract line, builders' line, standard asset-based line, and small asset-based line.

Prequalification Loan Program: Through the Prequalification Loan Program, intermediaries assist women, minorities, and veterans as well as exporters, rural markets and designated geographical areas, to develop viable loan application packages and secure loans. This program is a pilot and combines the Women and Minority Prequalification Pilots established in 1994. It allows SBA to prequalify guaranties of up to \$250,000 before a business owner approaches a lender.

International Trade Loan Program: The International Trade Loan Program helps small businesses that are either engaged in international trade, preparing to engage in international trade or adversely affected by competition from imports. SBA can guarantee as much as \$1.25 million in combined working capital, facilities, and equipment loans (including any other current SBA loan guaranties).

Community Express: Community Express is similar to SBAExpress except that it provides the maximum guaranty available to loans up to \$250,000. That is, 75 percent on loans over \$150,000 and 85 percent on loans up to and including that amount. The unique feature of this program is that it requires lenders to arrange for technical assistance to be provided to meet the needs of the borrower. The program is targeted to businesses located in low and moderate income areas and those owned by women, minorities, and veterans.

Community Adjustment and Investment Program (CAIP) Under a Memorandum of Understanding (MOU) with the Department of Treasury, SBA guarantees 7(a) loans to businesses in communities adversely affected by the North American Free Trade Agreement (NAFTA) without guarantee fees. This fee is paid from a special fund provided by the Department of Treasury.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Section 7(A) Loan Guaranty Program (DELTA)

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Program Level	\$ 15,552	\$ 20,000	\$ 20,000	\$ 0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	4,796	4,511	4,137	(374)
Carryover Balance - End of Year	(4,511)	(4,137)	(4,005)	132
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	\$ 285	\$ 374	\$ 132	\$ (242)
Subsidy Rate	1.83%	1.87%	0.66%	(1.21%)

Base Program

The Defense Loan and Technical Assistance Program (DELTA) is a joint effort between SBA and the Department of Defense. It provides both financial and technical assistance to defense-dependent small firms adversely affected by defense cuts and base closings to help them diversify into the commercial marketplace. The maximum SBA loan guarantee under DELTA is 80 percent for all loans with a \$1.25 million loan ceiling.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Section 504 Development Company Loan Program

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Section 504/CDC Guarantees				
Program Level	\$ 1,808,649	\$ 3,750,000	\$ 3,750,000	\$ 0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	0	0	0	0
Recoveries	0	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	0	0	0	0
Subsidy Rate ¹	0.00%	0.00%	0.00%	0.00%
Section 504/CDC Guarantees (DELTA)				
Program Level	\$ 257	\$ 2,472	\$ 2,500	\$ 28
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	1,031	1,028	1,006	(22)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(1,028)	(1,006)	(985)	21
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	\$ 3	\$ 22	\$ 21	\$ (1)
Subsidy Rate	1.13%	0.89%	0.84%	(0.05%)

Base Program

The 504 Development Company Loan Program is delivered through a network of Certified Development Companies (CDCs) that provide small businesses with long-term fixed-rate financing for the purchase of land, buildings and long-life equipment. The program is designed to enable small businesses to create and retain jobs in their business service areas and to meet other legislatively mandated public policy purposes. A CDC is generally a nonprofit corporation that is set up to contribute to the economic development of its community or region. There are about 300 CDCs nationwide. SBA guarantees debentures issued by the CDC for up to 40 percent of the project cost, up to \$1.3 million.

¹ No appropriation is required due to the annual adjustment of fees to maintain a 0% subsidy rate. For FY 2002, the fee will be lowered from 0.472% to 0.410%.

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Microloan Program

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Microloan Direct				
Program Level	\$ 27,204	\$ 25,531	\$ 20,575	\$ (4,956)
New Subsidy Appropriation	0	2,250	1,500	(750)
Carryover from Prior Year	2,521	198	0	(198)
Recoveries	0	0	0	0
Carryover into Next Year	(198)	0	0	0
Transfer to Salaries and Expenses ¹	0	(158)	(105)	53
Rescinded Funds - Appropriation	0	(5)	0	5
Subsidy Budget Authority	2,323	2,285	1,395	(890)
Subsidy Rate	8.54%	8.95%	6.78%	(2.17%)
Microloan Guaranty Loans				
Program Level	\$ 1,150	\$ 2,000	\$ 2,000 ²	\$ 0
New Subsidy Appropriation	0	0	0	0
Carryover from Prior	2,700	2,604	2,445	(159)
Recoveries	0	0	0	0
Carryover into Next Year	(2,604)	(2,445)	(2,282)	163
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	\$ 96	\$ 159	\$ 163	\$ 4
Subsidy Rate	8.32%	7.95%	8.17%	0.22%

Base Program

The Microloan Program makes loans up to \$750,000 to intermediaries who in turn make very small loans (\$35,000 and under) to entrepreneurs traditionally considered “unbankable” largely due to inexperience with credit, lack of assets or the need for on-going technical assistance. They may have no prior business experience, have no credit history (or a blemished one), have been on public assistance, live in an area of economic downturn or face other factors that would cause traditional lenders not to consider them viable clients. Therefore, this program is accompanied by a technical assistance grant program that provides a significant contribution to the viability of the business and supports the repayment of the debt.

¹ By SBA statute, 7% of the annual appropriation is to be transferred to Salaries and Expenses to provide training to Microloan intermediaries.

² The amount shown consists entirely of funds carried over from FY 2001 and may be reduced if expenditures during FY 2001 are different from projections.

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APPROPRIATIONS LANGUAGE AND DESCRIPTION

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Each loan generates approximately 1.7 jobs, and if a borrower was a welfare recipient, it is common for them to hire other welfare recipients. Since its inception in 1992, more than 100 intermediary lenders have made \$121 million in Microloans to more than 12,000 small businesses. This program was made permanent with the passage of P.L. 105-135 in December 1997.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
Small Business Investment Company Programs

(Dollars in Thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Participating Securities				
Program Level	\$ 1,260,630	\$ 2,104,580	\$ 2,500,000	\$ 395,420
New Subsidy Appropriation	24,300	26,200	0	(26,200)
Carryover Balance - Beginning of Year	320	1,928	0	(1,928)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(1,928)	0	0	0
Transfer from Debentures	0	0	0	0
Rescinded Funds - Appropriation	0	(58)	0	58
Transfer to Salaries and Expenses	0	(500)	0	500
Subsidy Budget Authority	22,692	27,570	0	(27,570)
Subsidy Rate ¹	1.80%	1.31%	0.00%	(1.31%)
SBIC - Debentures				
Program Level	\$ 384,955	\$ 500,000	\$ 600,000	\$ 100,000
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	13,100	1,526	0	(1,526)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(1,526)	(1,526)	0	1,526
Balance Expiring	(13,100)	0	0	0
Recoveries	1,526	0	0	0
Subsidy Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Subsidy Rate ²	0.00%	0.00%	0.00%	0.00%

Base Program

The need for the Small Business Investment Company Program (SBIC) was established by a 1958 Federal Reserve Board Study, which identified a major gap in capital markets for long-term financing of smaller growth-oriented businesses. The SBIC program was reinvented in FY 1994 with the creation of a new participating security program and the issuance of final regulations implementing a sweeping overhaul of the program. SBICs, licensed and regulated by SBA, are privately owned and managed investment firms who make their own investment decisions.

¹ FY 2002 assumes proposed fee change from 1.0% to 1.376% resulting in 0% subsidy rate.

² No appropriation is required due to the annual adjustment of fees to maintain a 0% subsidy rate. For FY 2002, the fee will be lowered from 0.88% to 0.866%.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
Small Business Investment Company Program

SBICs use their own funds, plus funds from borrowing with an SBA guaranty (referred to as “leverage”), to make venture capital investments in small business. The entire private capital of an SBIC is always at risk ahead of the funding guaranteed by the SBA. This program serves one of the most important missions of the Agency--that of helping qualified small enterprises secure the capital to start, maintain or grow a business.

The SBIC Program furthers this mission by: (1) facilitating the formation of privately-owned and operated investment companies to serve as a source of equity capital and long-term loans to new or expanding small businesses; and, (2) supplementing investment companies’ private capital with funds made available through SBA guarantees.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
New Markets Venture Capital Program

(Dollars in Thousands)

	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001
				Estimate
Program Level	\$ 0	\$ 152,022	\$ 0	\$ (152,022)
New Subsidy Appropriation	6,000	22,000	0	(22,000)
Carryover Balance - Beginning of Year	0	0	0	0
Recoveries	0	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer to Other Accounts	(6,000)	0	0	0
Rescinded Funds – Appropriation	0	(48)	0	48
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	\$ 0	\$ 21,952	\$ 0	\$ (21,952)
Subsidy Rate	15.00%	14.44%	14.47%	0.03%

Base Program

This Program was funded in FY 2001 for debentures spanning 10 years. The consolidated Appropriations Act of 2001 (P.L. 106-554) authorized SBA to provide loans to geographic areas with high unemployment or low income to help spur economic development in “new markets.” This loan program duplicates the effects of tax incentives also included in the bill. The Act included a 30 percent tax credit for investments in these areas, which will provide \$1.5 billion in investments over a 10 year period. As a result, funding for the New Markets Venture Capital loan program in FY 2002 will not be necessary.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
Surety Bond Guaranty Revolving Fund Appropriation
 (Dollars in thousands)

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
Surety Guarantees	\$ 0	\$ 0	\$ 0	\$ 0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Total Obligation	\$ 3,300	\$ 0	\$ 0	\$ 0
Adjustments to Obligations	0	0	0	0
Offsetting collections	\$ (3,300)	0	0	0
Appropriation	\$ 0	\$ 0	\$ 0	\$ 0

Base Program

The Small Business Administration (SBA) is authorized to issue bond guarantees to surety companies for construction, service and supply contracts that do not exceed \$2 million and to reimburse these sureties up to 90 percent of the losses sustained if the contractor defaults. SBA's guarantees provide the incentive necessary for sureties to issue bonds to small contractors who could not otherwise compete in the contracting industry.

The Surety Bond Guaranty Program is delivered through the Prior Approval Program and the Preferred Surety Bond (PSB) Program. Under the Prior Approval Program, SBA must approve each surety bond guarantee agreement. The surety receives a 90 percent guarantee if the bonds are issued on behalf of a socially and economically disadvantaged firm or if the total amount of the contract does not exceed \$100,000. Otherwise the SBA's guarantee will not exceed 80 percent.

Under the Preferred Surety Bond (PSP) Program, participating sureties are authorized to issue, monitor, and service bonds without SBA's prior approval. Guarantees under this program are limited to 70 percent. Currently, there are 15 participating sureties in the program.

Each of these programs provides assistance to a different segment of the contracting community. There is no subsidy loss rate for this program since it is not considered a credit program under the guidelines of credit reform. Instead, there is a revolving fund at the Treasury in which income is deposited and from which claims are paid.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
BUSINESS LOANS PROGRAM ACCOUNT

For the cost of direct loans, ~~[\$2,250,000]~~, **\$1,500,000** to be available until expended; ~~[and for the cost of guaranteed loans, \$163,160,000, as authorized by 15 U.S.C. 631 note or subsequently authorized for the New Markets Venture Capital program, of which \$45,000,000 shall remain available until September 30, 2002: Provided, That of the total provided, \$22,000,000 shall be available only for the cost of guaranteed loans under the New Markets Venture Capital program and shall become available for obligation only upon authorization of such program by the enactment of subsequent legislation in fiscal year 2001]:~~ *Provided further*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: *Provided further*, That during fiscal year ~~[2001]~~, **2002** commitments to guarantee loans under section 503 of the Small Business Investment Act of 1958, as amended, shall not exceed \$3,750,000,000: *Provided further*, That during fiscal year ~~[2001]~~ **2002**, commitments for general business loans authorized under section 7(a) of the Small Business Act, as amended, shall not exceed ~~[\$10,000,000,000 without prior notification of the Committees on Appropriations of the House of Representatives and Senate in accordance with section 605 of this Act]~~ **\$10,700,000,000**: *Provided further*, That during fiscal year ~~[2001]~~ **2002**, commitments to guarantee ~~[loans]~~ **debentures and participating securities** under section 303(b) of the Small Business Investment Act of 1958, as amended, shall not exceed ~~[\$500,000,000]~~ **\$3,100,000,000**.

In addition, for administrative expenses to carry out the direct and guaranteed loan programs, \$129,000,000, which may be transferred to and merged with the appropriations for Salaries and Expenses. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2001, as enacted by section 1(a)(2) of P.L. 106-553).

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APPROPRIATIONS LANGUAGE AND DESCRIPTION

SURETY BOND GUARANTEES REVOLVING FUND

No appropriation language is requested for FY 2002.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
Disaster Loans Appropriation

Base Program

The Small Business Administration's (SBA) Disaster loan Program is a key component of the overall Federal recovery effort in the wake of natural disasters. SBA's disaster loans, made pursuant to Section 7(b) of the Small Business Act, as amended, are the primary form of Federal assistance for non-farm, private sector uninsured losses as the result of natural disasters such as hurricanes, floods, wildfires and tornadoes. The disaster loan program is the only form of SBA assistance that is not limited to small businesses. Both the President and the SBA Administrator may make disaster declarations, but the vast majority of disaster loans (in number and dollars) are made to victims of disasters declared by the President. Disaster loans from SBA to homeowners, renters, nonprofits and businesses make a significant contribution to the process of the rebuilding and recovery from these events.

The SBA Disaster Loan program helps **control** Federal disaster **assistance** costs, by providing loans that are repaid to the Treasury. When disaster victims need to borrow to repair uninsured damages, the comparably low interest rates and long period of repayment terms available from SBA make recovery affordable. Currently interest rates fluctuate according to statutory formulas: a lower rate, not to exceed 4 percent is available to those applicants unable to obtain credit elsewhere, while a higher rate, not to exceed 8 percent is charged when other sources of credit are available. SBA's disaster loans are a critical source of economic stimulation for the economies of disaster-ravaged communities, helping to rebuild homes and businesses, spur employment and stabilize the tax base.

Appropriation

As required by the Federal Credit Reform Act of 1990, the Disaster Loans Program account includes the subsidy costs associated with direct loans obligated committed in the fiscal year in question.

The Disaster Loan program account also includes administrative expenses associated with the delivery of disaster loans. Subsidy amounts are estimated on a present value basis, and administrative expenses are estimated on a cash basis. Funds for administrative expenses are appropriated to this account and then transferred by reimbursement to the Salaries and Expenses account.

APPROPRIATIONS LANGUAGE AND DESCRIPTION
Disaster Loans Appropriation

The FY 2002 budget requests no new budget authority for loan subsidies to support a \$300 million loan program. This level will be funded by unobligated balances from FY 2001. SBA's budget requests \$75.4 million for administrative expenses to support the direct and indirect costs associated with administering the \$300 million in loans and servicing our disaster loan portfolio. In addition to SBA's direct request for new budget authority in FY 2002, the President requests an appropriation of \$5.6 billion for a government-wide reserve account for disaster **programs**. SBA's need for additional loan funds and related administrative support, will be drawn from this reserve account once the direct appropriation is exhausted.

In addition, we propose to increase the interest rate for business loans to borrowers who do not have credit available elsewhere. Presently, these loans are capped at a 4 percent interest rate. SBA's proposal would increase this rate to the Treasury cost of funds, which is projected at 5.4 percent next year. A maximum of 8 percent is also proposed to parallel the rate of disaster business loans with credit elsewhere. This proposal has the effect of reducing the subsidy rate on the disaster loan program from 14.67 percent to 10.95 percent.

Detailed information on the FY 2002 budget request is provided on the following pages.

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APPROPRIATIONS LANGUAGE AND DESCRIPTION

Disaster Loan Program

(Dollars in Thousands)

	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001
				Estimate
Disaster Loans Program				
Direct Loan Subsidy	\$ 140,400	\$ 76,140	\$ 0	\$ (74,140)
Supplemental, Contingencies	15,500	0	0	0
Total Budget Authority	<u>\$ 155,900</u>	<u>\$ 76,140</u>	<u>\$ 0</u>	<u>\$ (76,140)</u>
Loan Program Budget Authority				
New Budget Authority	\$ 140,400	\$ 76,140	\$ 0	\$ (76,140)
Supplemental, Contingencies	15,500	0	0	0
Carryover from Prior Fiscal Year	81,004	96,231	37,850	(58,381)
Recoveries	33,235	10,000	0	(10,000)
Carryover into Next Fiscal Year	(96,231)	(37,850)	0	37,850
Transfer to Administrative Expense	0	0	(5,000)	(5,000)
Rescinded Funds Appropriated	0	(168)	0	168
Subtotal - Disaster Loans Program	<u>\$ 173,908</u>	<u>\$ 144,353</u>	<u>\$ 32,850</u>	<u>\$ (111,503)</u>
Subsidy Rate	22.2%	17.46%	10.95%	(6.51)%
Program Level	<u>\$ 783,369</u>	<u>\$ 826,764</u>	<u>\$ 300,000</u>	<u>\$ (526,764)</u>
Disaster Loans Program - Administration				
New Budget Authority	\$ 136,000	\$ 108,354	\$ 75,354	\$ (33,000)
Supplemental, Contingencies	25,400	0	0	0
Carryover from Prior Fiscal Year	779	27,307	0	(27,307)
Transfer from Loan Subsidy	0	0	5,000	5,000
Recoveries	1,128	0	0	0
Carryover into Next Fiscal Year	(27,307)	0	0	0
Transfer to Salaries and Expenses	(20,000)	(9,854)	(9,854)	0
Transfer to Inspector General	(500)	(500)	(500)	0
Rescinded Funds Appropriated	(2,048)	(238)	0	238
Total - Disaster Administration	<u>\$ 113,452</u>	<u>\$ 125,069</u>	<u>\$ 70,000</u>	<u>\$ (55,069)</u>
Disaster Loan Making	\$ 83,929	\$ 91,013	\$ 40,000	\$ (51,013)
Disaster Loan Servicing	29,523	34,056	30,000	(4,056)
Total	<u>\$ 113,452</u>	<u>\$ 125,069</u>	<u>\$ 70,000</u>	<u>\$ (55,069)</u>

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FY 2002 Budget Request and Performance Plan

APPROPRIATIONS LANGUAGE AND DESCRIPTION

Disaster Loan Making

Summary Of Requirements By Object Class

(Dollars in Thousands)

	FY 2000	FY 2001	FY 2002	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2001
				Estimate
Personnel Compensation	\$ 34,848	\$ 37,789	\$ 8,472	\$ (29,317)
Overtime and Awards	5,855	6,349	2,790	(3,559)
Civilian Personnel Benefits	9,340	10,128	2,270	(7,858)
Workers/Unempl Compensation	1,429	1,550	1,550	0
Travel	9,756	10,579	300	(10,279)
Transportation of Things	14	15	15	0
Rental Payments to GSA	3,800	4,176	4,176	0
Rental Payments to Others	0	0	0	0
Communications, Utilities	1,274	1,381	1,381	0
Postage	735	797	797	0
Printing and Reproduction	25	28	28	0
Other Services	13,623	14,718	14,718	0
Supplies and Materials	92	100	100	0
Equipment	3,138	3,403	3,403	0
Total Obligations	\$ 83,929	\$ 91,013	\$ 40,000	\$ (51,013)
Total Positions¹	916	927	695	(232)

¹ For FY 2002, this assumes additional funding from the Government-wide Disaster Reserve to maintain approximately the same level of staffing throughout the year.

U.S. Small Business Administration
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APPROPRIATIONS LANGUAGE AND DESCRIPTION

Disaster Loan Servicing

Summary Of Requirements By Object Class

(Dollars in Thousands)

	FY 2000		FY 2001		FY 2002	Inc/(Dec)
	Actual		Estimate		Request	vs FY 2001
						Estimate
Personnel Compensation	\$ 12,138	\$	14,002	\$	13,992	\$ (10)
Overtime and Awards	253		292		257	(35)
Civilian Personnel Benefits	3,942		4,547		4,543	(4)
Workers/Unempl Compensation	32		37		37	0
Travel	51		59		52	(7)
Transportation of Things	10		12		12	0
Rental Payments to GSA	2,608		2,857		2,857	0
Rental Payments to Others	0		0		0	0
Communications and Utilities	409		472		472	0
Postage	1,113		1,284		1,284	0
Printing and Reproduction	3		4		4	0
Other Services	8,876		10,389		6,389	(4,000)
Supplies and Materials	61		70		70	0
Equipment	27		31		31	0
Grants and Subsidies	0		0		0	0
Total Obligations	\$ 29,523	\$	34,056	\$	30,000	\$ (4,056)
Total Positions	252		237		237	0

APPROPRIATIONS LANGUAGE AND DESCRIPTION

DISASTER LOANS PROGRAM ACCOUNT

~~[For the cost of direct loans authorized by section 7(b) of the Small Business Act, as amended, \$76,140,000, to remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended.]~~

~~[In addition, for]~~ For administrative expenses to carry out the direct loan program, ~~[\$103,354,000]~~, **\$75,354,000** which may be transferred to and merged with appropriations for Salaries and Expenses, of which \$500,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General; of which ~~[\$98,000,000]~~ **\$65,000,000** is for direct administrative expenses of loan making and servicing to carry out the direct loan program; and of which \$9,854,000 is for indirect administrative expenses[: *Provided, That any amount in excess of \$9,854,000 to be transferred to and merged with appropriations for Salaries and Expenses for indirect administrative expenses shall be treated as a reprogramming of funds under section 605 of this Act and shall not be available for obligation or expenditure except in compliance with the procedures set forth in that section.* (*Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2001, as enacted by section 1(a)(2) P.L. 106-563*).

DATA VALIDATION AND VERIFICATION

DATA VALIDATION AND VERIFICATION

Managing for results and producing an annual performance plan and performance report require valid, reliable and high-quality performance measures and data. SBA faces many challenges in acquiring high-quality data, both output and outcome. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE, WBCs), and other Federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, and the reporting capacity of quality data, remain major issues for the Agency. Improving data quality will continue to be a high priority for SBA.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** We will assess the relevancy of performance measures and data.
- **Fostering organizational commitment and capacity for data quality.** We will achieve data quality through different processes. As part of a formal process, our managers will *attest* to the quality of the data under their management. We are training managers to make sure they understand the need for quality data. This necessitates guidance to the field on standards for data collection and warehousing. In managing for results, we will require development of better data systems to provide relevant information for decision-making. We are also using performance information to evaluate our senior managers and the effectiveness of our programs.
- **Assessing the quality of existing data.** The quality of our financial data systems is ensured by audits and reviews. However, we must assess the quality of loan and program data provided by our resource partners. For example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done. We plan to include data verification in our lender and resource partner oversight.
- **Responding to data limitations.** It is not enough to identify data quality problems. Where there are data limitations, we must improve quality. Managers will be asked to document how they intend to reduce these limitations.
- **Building quality into the development of performance data.** The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will ensure that only correct data is entered into the systems and that data is stored with stringent verification and change rules.

DATA VALIDATION AND VERIFICATION

In FY 1999, we tracked our performance goals monthly and verified the accuracy of the data on an *ad hoc* basis. As part of this internal performance monitoring, we tested the relevance of the indicators and identified problems of data completeness, timeliness, and accuracy.

In FY 2000, we began implementing a more formal quality process, which included program managers self-assessing the quality of their performance indicators, training managers in data quality control and improvement methods, developing data quality improvement plans, and feedback to program managers about data limitations determined through using the data. We completed the program manager self-assessment step in December 1999. Program managers were asked to:

- Identify the data source.
- Discuss the validity of the measure.
- List data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that could not be collected (due to privacy or policy), and system capacity; and document steps being taken to improve data collection, verification and reporting, and to reduce data limitations.

In FY 2001 we will continue to train our managers. Managers will be informed of the elements of data quality, how to ensure data quality through internal controls and how to improve data quality. Managers will be asked to provide data verification procedures and improvement plans, with milestones, after completion of the training. Explicit feedback will be provided to managers regarding data limitations and data quality as part of SBA's use of the data in analyzing Agency activities, outputs and outcomes, and as part of the Inspector General's audits of data validity and verification.

DATA VALIDATION AND VERIFICATION

The table below provides a definition, source, validity statement and discussion of limitations for each performance indicator

Measure	Number of Small Businesses
Definition	Number of small businesses filing tax returns with the Internal Revenue Service (IRS). This number includes all firms with employees, without employees and where the owner is working part-time.
Source	Department of Treasury, IRS, <u>Statistics of Income Bulletin</u>
Validation (Self-Assessment)	The indicator is a valid measure for the growth of small businesses
Limitations	None.
Remedies for Limitations	N/A
Verification	Through audits
Measure	Number of Small Businesses With Employees
Definition	Firms filing form 941 with IRS.
Source	SBA, Office of Advocacy, from data provided by the U.S. Department of Labor, Employment and Training Administration
Validation (Self-Assessment)	The indicator is a valid measure for the growth of small businesses
Limitations	None.
Remedies for Limitations	N/A
Verification	Through audits
Measure	Number of Jobs in Small Businesses
Definition	Firms with a positive payroll reporting on form 941 to IRS.
Source	SBA, Office of Advocacy, from data provided by Census
Validation (Self-Assessment)	The indicator is a valid measure for the growth of small businesses
Limitations	None.
Remedies for Limitations	N/A
Verification	Through audits
Measure	Number of Small Businesses Owned by Women and Minorities
Definition	Small firms that are self-certified as 51 percent woman- or minority-owned.
Source	SBA, Office of Advocacy, "Women in Business", and "Minorities in Business" based on Census of Women-Owned Business, IRS data on sole proprietorships, Bureau of Labor Statistics data on self-employed women.
Validation (Self-Assessment)	The indicator is a valid measure for the growth of small businesses
Limitations	Only the Census Bureau does a survey every 5 years and uses 50 percent as criterion of ownership.
Remedies for Limitations	None
Verification	Through audits

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DATA VALIDATION AND VERIFICATION

Measure	Regulatory Cost Savings to Small Business
Definition	Cost savings to Small Businesses in implementing regulations because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Office of Advocacy Report “20 Years of the Regulatory Flexibility Act: Rulemaking in a Dynamic Economy”.
Validation (Self Assessment)	The indicator is a valid measure of the impact of the Office of Advocacy on small businesses.
Limitations	The savings are an estimate provided by a model that was developed by a contractor.
Remedies for Limitations	None
Verification	Through audits
Measure	Jobs created by SBA borrowers
Definition	Estimates of jobs created by SBA loan programs.
Source	Disbursed loans for 7(a) and 504 estimate from Loan Accounting data base. SBIC dollar financings from program data base. <u>7(a)</u> : Based on a study done in 1994 of disbursed loans in 1990, with a change in jobs between 1989 and 1994. Uses an estimated job creation constant of one job for \$27,259. <u>504</u> : Based on SBA’s follow-up of jobs created from disbursed loan funds. Job creation constant is \$33,366 for loans made 1998-2000. <u>SBIC</u> : Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation constant of one job for \$35,000 invested in 1999
Validation (Self Assessment)	The indicator is a valid measure of the impact of SBA’s credit and equity assistance to small businesses.
Limitations	The studies used are old, based on a limited sample, and based on self-reported data.
Remedies for Limitations	Discussions are under way with Bureau of Labor statistics to obtain current statistics on job creation by SBA loan recipients. This will be possible for those firms that have EIN numbers.
Verification	Not possible until SBA has access to data from BLS or IRS.
Measure	Improved Access to Capital and Credit: 7(a), 504, Microloan and SBIC programs
Definition	Dollar amount of Gross Original Approval Loan Dollars for 7(a), Microloans and 504. Dollar amount of actual financing by Small Business Investment Companies to small businesses.
Source	SBA internal databases.
Validation (Self-Assessment)	The indicator is a valid measure of the impact of SBA’s credit and equity assistance to small businesses.

DATA VALIDATION AND VERIFICATION

Limitations	OIG has recommended that SBA use disbursed loan dollars instead of approved loan dollars.
Remedies for Limitations	None
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data is accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking.
Measure	Number of Loans to Women, Minorities, and Veterans
Definition	Loans made to small businesses 51 percent owned by Women, Minorities, or Veterans
Source	SBA internal databases.
Validation (Self-Assessment)	The indicator is a valid measure of the impact of SBA's credit and equity assistance to small businesses.
Limitations	By default, firms 50 percent owned by women are regarded as male-owned. A more valid approach would be to also indicate loans to firms 50 percent women-owned.
Remedies for Limitations	None
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data is accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking.
Measure	Number of Start-up Firms Financed by 7(a), 504, and SBIC programs
Definition	7(a) and 504 loans made to start-up firms. Number of actual SBIC financings to start-ups. Start-ups are defined as firms less than 2 years old (Census definition).
Source	SBA internal databases.
Validation (Self-Assessment)	The indicator is a valid measure of the impact of SBA's credit and equity assistance to small businesses.
Limitations	The measure would perhaps be improved if the number of disbursed loans were used instead. The SBIC data shows number of start-up financings rather than the number of start-up firms financed.
Remedies for Limitations	None
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking.

DATA VALIDATION AND VERIFICATION

Measure	Export Sales Assisted by SBA
Definition	Estimate of export sales by clients who receive SBA export loans.
Source	Office of International Trade loan documentation
Validation (Self-Assessment)	This indicator is a valid measure of the impact of SBA's assistance on small businesses, since exporting is important to firm survival and competitiveness.
Limitations	This is an estimate and a derivative statistic.
Remedies for Limitations	None
Verification	Through audits
Measure	Share of Federal Procurement Prime Contract Dollars to Small Firms, to SDBs (including 8(a)), to Women-owned, Minority-owned, service disabled Veteran-owned Firms, and to Small Businesses in HUBZones.
Definition	The extent to which these different categories of small business ownership receive Federal Prime Contract dollars.
Source	The Federal Procurement Data System (FPDS).
Validation (External)	This indicator is a valid measure of SBA's assistance to small businesses since Federal contracting provides a large source of revenues, about \$190 billion per year, into the marketplace. The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure accomplishments rather than requiring agencies to provide this information on separate reports.
Limitations	Prime contracts data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281. The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies for Limitations	SBA is working with agencies to ensure accuracy of the data placed into FPDS. SBA is a member of the PEC-Social Economic Work Group that is reviewing methods to improve the accuracy of the FPDS data. This is an on-going effort. The FPDS has been modified to collect HUBZone contract award data for FY 2000. The revised system will provide consistent, valid information relative to goal achievement.
Verification	There are data verification procedures in place to ensure that the data are accurate. The General Services Administration is responsible for the accuracy of the FPDS database. SBA does not have access or resources to review or evaluate this data.

DATA VALIDATION AND VERIFICATION

Measure	8(a) Client Success Rate 3 Years after Graduation
Definition	The percentage of firms 3 years after graduation that are successful and competitive.
Source	SACS/MEDCOR data base, surveys, and Dunn and Bradstreet
Validation (Self-Assessment)	The indicator is a valid measure of SBA's assistance to small businesses because the intent of the program is to increase the firm's competitiveness and survival rate.
Limitations	The success rate is an estimate.
Verification	Through audits
Measure	Customer Satisfaction rate with ED programs as determined by Surveys
Definition	The percentage of customers receiving assistance from SBA that were satisfied with the assistance.
Source	Surveys done by University of Michigan
Validation (Self-Assessment)	This indicator is a valid measure of SBA's assistance to small businesses because we are customer-focused and strive to continually improve our level of customer service and satisfaction.
Limitations	An estimate.
Remedies for Limitations	None
Verification	Through audits
Measure	Number of Clients Trained and Counseled
Definition	The number of clients receiving entrepreneurial development assistance by SBA and its resource partners.
Source	Collected as part of normal reporting
Validation (Self-Assessment)	This indication is a valid measure of SBA's assistance to small businesses because our mission is to assist in the start-up and survival of businesses.
Limitations	Consistency in reporting by different resource partners
Remedies for Limitations	Consistent definitions
Verification	Through audits.
GOAL 2: HELP FAMILIES AND BUSINESSES RECOVER FROM DISASTER	
Measure	Field Presence within 3 days of Declaration of a Disaster
Definition	Percentage of Disasters where effective field presence is provided within 3 days of a physical disaster declaration. Field presence is defined as SBA disaster office personnel on site to coordinate the provision of disaster assistance with appropriate federal, state and local officials.

DATA VALIDATION AND VERIFICATION

Source	Closeout reports prepared by the disaster area office after each disaster.
Validation	This indicator is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitations	Currently, this information is not received for approximately 6 months after a disaster is declared and there is some inconsistency in what is meant by "effective field presence" among the area offices.
Remedies for Limitation	SBA will consider options for obtaining this information much sooner after the disaster has been declared, including, but not limited to, making a revision to the automated loan control system so that this information can be inputted as soon as it is accomplished. SBA will also provide further guidance to the area offices to define "effective field presence" and its scope.
Verification	Through audits
Measure	Customer Satisfaction Rate
Definition	The percentage of customers receiving assistance from SBA that were satisfied with the assistance.
Source	Surveys
Validation (Self-Assessment)	This indicator is a valid measure of SBA's assistance to disaster victims because we are customer-focused and strive to continually improve our level of customer service and satisfaction.
Limitations	The survey measures those who received disaster loans but does not include those who did not receive loans.
Remedies for Limitations	None
Verification	Through audits
Measure	Percentage of Disaster Loans processed within 21 days after receipt of a Complete Application
Definition	Share of applications where the disaster office has provided applicants with a decision within 21 days of receiving a complete disaster loan application,.
Source	Disaster automated loan control system.
Validation	This indication is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitations	
Verification	

CHARTS OF HISTORICAL DATA

OFFICE OF THE INSPECTOR GENERAL
FY 2002 Budget Request And Justification

FY 2002 BUDGET REQUEST AND JUSTIFICATION

	FY 2000 Actual	FY 2001 Estimate	FY 2002 Request	Inc/(Dec) vs FY 2001 Estimate
New Budget Authority	\$ 11,000	\$ 11,953	\$ 11,927	\$ (26)
Carryover from Prior Fiscal Year	482	515	0	(515)
Carryover into Next Fiscal Year	(515)	0	0	0
Transfer from Disaster	500	500	500	0
Recoveries	96	0	0	0
Balance Expired	(130)	0	0	0
Rescinded Funds - Appropriation	(95)	(26)	0	26
Total Budget Authority	\$ 11,338	\$ 12,942	\$ 12,427	\$ (515)
Positions	112	125	125	0

Base Program:

The Inspector General Act of 1978, Public Law 95-452 (as amended), established the Office of Inspector General (OIG) as an independent office within the Small Business Administration (SBA) to conduct and supervise audits and investigations of SBA programs and operations; to provide leadership for the detection and prevention of fraud, waste, and abuse; and to promote policies for the improvement of economy, efficiency, and effectiveness in the administration of SBA programs and operations. The Inspector General (IG) keeps the Administrator of SBA and the Congress fully informed of any problems and deficiencies relating to SBA programs and operations, recommends corrective actions to SBA's policy officials and program managers, and monitors SBA's overall progress toward the implementation of such actions.

OIG has a mandate to audit, investigate, and review a large number of SBA programs and participants. These oversight activities cover a universe of approximately 5,400 certified Section 8(a) firms, 330 Small Business Investment Companies, 214,000 business loans, more than 5,000 participating lenders (of which more than 900 are certified and preferred lenders) 270,000 disaster loans, and \$328 million in SBA liability for surety bond guarantees. These and other activities comprise SBA's financial portfolio, which has a current exposure of more than \$41 billion in SBA funds (of which almost \$7 billion represent the disaster portfolio) and potentially another \$22 billion in other Federal Government agencies' funds. OIG conducts:

- Audits of financial statements and information systems to ensure accurate information.
- Audits of selected operations to assess inherent program risks and systemic problems.
- Audits of selected SBA program participants to identify money owed to SBA.
- Inspections and other reviews that identify opportunities for more effective operations.
- Investigations of suspected fraud and abuse.

FY 2002 BUDGET REQUEST AND JUSTIFICATION

- Reviews of proposed legislation, regulations, and procedures.
- Reviews of complaints from the public and from SBA employees.

Major Accomplishments for FY 2000

- Overall office-wide dollar accomplishments of \$39 million, including loans not approved as a result of the Name Check Program, potential investigative recoveries and fines, disallowed costs agreed to by management, and recommendations to put Agency funds to better use.
- Major audits and inspections of the Small Disadvantaged Business Certification and Eligibility Program, Agency Government Performance and Results Act Performance Measures, as well as Loan Processing Centers, Entrepreneurial Development and Section 7(a) Loan Programs that identified opportunities for significant improvements.
- Seventy-three indictments and 38 convictions relating to fraud in SBA programs.
- Issued 31 audit reports and 2 inspection reports, and obtained management decisions on 104 audit recommendations.
- Reviewed 304 proposed issuances, including legislation, regulations, and procedures.
- Identified major SBA management challenges.

Major Goals and Objectives for FY 2001

OIG has three goals: (1) improve the economy, efficiency, and effectiveness of SBA programs and operations; (2) prevent and detect fraud and abuse and foster integrity in SBA programs and operations; and (3) ensure the economical, efficient, and effective operation of OIG. Much of OIG's work is in response to requests, complaints, and referrals. Given the unknown nature of the work, it is difficult to project results. OIG expects, however, that the workload will remain the same or increase and therefore OIG results in FY 2001 should be similar to those in FY 2000.

Congress appropriated \$11.9 million to OIG for FY 2001, with an additional \$500,000 transfer from the Disaster Program for disaster-related oversight. After a rescission adjustment of .22 percent, OIG's final budget authority is \$12.427 million. OIG priority areas for review in FY 2001 are listed below:

- Continue to address Congress' priority concerns about the Agency's internal financial management systems, the planned Loan Monitoring/Risk Management System, annual exams of Small Business Lending Companies, and Agency oversight on lenders and defaulted loans.

FY 2002 BUDGET REQUEST AND JUSTIFICATION

- Identify the most significant management challenges facing SBA.
- Give primary attention to fraud in the Business Loan Guarantee and Disaster Loan Programs.
- Evaluate the Agency's implementation of the Government Performance and Results Act of 1994.
- Provide oversight to new Agency initiatives, such as the HUBZone Empowerment Contracting Program (HUBZone), asset sales, and new information systems.

FY 2002 Justification

The \$12.4 million budget request for FY 2002 will fund OIG at a "current services level" in providing oversight of SBA's programs and participants. OIG workload is based on identified risks for the Agency, referrals and requests from many sources, and complaints and inquiries. Potential workload always exceeds the OIG's available capacity to investigate or review high-risk areas or to respond to all inquiries. OIG prioritizes its workload based on available resources, and seeks alternatives when internal resources are not available. Our FY 2002 priorities are contained in our FY 2002 annual performance plan.

Small Business Administration
Office of Inspector General
FY 2002
Annual Performance Plan

*U.S. Small Business Administration
FY 2002 Budget Request and Performance Plan*
ANNUAL PERFORMANCE PLAN

Vision

Our vision is to improve SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We will focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We will also provide a work environment in the Office of Inspector General (OIG) that is conducive to excellent performance by our employees.

To accomplish this vision, we will –

- Focus on significant, systemic issues drawn from the cumulative results of our reviews and cases.
- Enhance our expertise in SBA's major programs to help us identify priority issues and plan our reviews and casework.
- Become more proficient in the use of information technology, research methods, data analysis, and investigative techniques.
- Encourage creative thinking within our office and the development of synergistic teams that combine various disciplines.
- Achieve superior results by emphasizing corrective actions that will improve SBA operations, combat fraud, and eliminate program vulnerabilities.

Mission

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended (IG Act), the Inspector General is committed to supporting the Small Business Administration (SBA) in its statutory mission to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from disasters.

Annual Plan Alignment

With the Inspector General Act. OIG is an independent and objective oversight office created within the SBA by the IG Act of 1978. Inspectors General (IG) are principally charged with detecting fraud, waste, and mismanagement in agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness. OIGs also review existing and proposed legislation and regulations and make appropriate recommendations, and keep the Agency head and Congress informed.

U.S. Small Business Administration
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ANNUAL PERFORMANCE PLAN

The goals and objectives of the Strategic and Annual Plans reflect the OIG's statutory mission. OIG implementation of the Government Performance and Results Act (Results Act) extends our commitment to a results-oriented Government. For many years, OIG has provided regular and frequent updates to customers and stakeholders on the monetary and non-monetary results of OIG reviews and investigations. OIG Annual Plans and Performance Reports will strengthen our commitment to performance-based management.

With SBA's Program Initiatives. In 1953, the Congress created SBA to aid, counsel, assist, and protect the interests of small business concerns. The OIG's Strategic and Annual Plans reflect the OIG commitment to support SBA's purpose. In FY 2002, OIG will assist SBA in identifying and mitigating emerging vulnerabilities as SBA modernizes and changes its business practices, work systems, and procedures.

With the OIG Strategic Plan. The OIG FY 2002 Annual Performance Plan also builds on the three strategic goals and related supporting objectives found in the OIG FY 2001-2006 Strategic Plan. The focus of the Strategic Plan is to increasingly direct our efforts to

- Financial management systems.
- Information systems and computer security.
- Lender oversight.
- Other selected high risk issues.
- New Agency initiatives.

OIG also places a high priority on responding to requests from SBA management and congressional committees and providing consultative assistance where appropriate.

Performance Measurement Limitations

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of our work. Nevertheless, the OIG measures are subject to a number of external factors. Some are predictable, such as mandatory statutory requirements. Others are unpredictable, such as the budget, or the discovery of individual cases of fraud with a potential to yield such substantial judgments or settlements in a single year that they cannot be easily compared to other work. Moreover, it often takes several years after the completion of work on a given audit, inspection, or investigation for its outcome to be final and its results known.

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In addition, the ultimate authority in implementing OIG recommendations and improvements rests with the Agency. OIG also cannot control the results of judicial or administrative proceedings. To mitigate these factors, OIG will expand on-going efforts with SBA's policy and program officials to underline the importance of OIG findings and encourage the implementation of OIG recommendations. Likewise, we will work closely with judicial and administrative officials to ensure that criminal and administrative cases are appropriately handled. Within these parameters, OIG strives to improve the performance of SBA programs and operations and deter fraud and other forms of misconduct.

Data Collection and Validation

As appropriate, quantitative data is being collected and stored in the management information system (MIS). Much of the quantitative data proposed has been collected for several years. For some of the measures, baselines have been established in FY 2000. Monetary results will be reported at the time of management decision in accordance with OIG legislative requirements. SBA's Office of the Chief Financial Officer tracks actual collections. The management of each OIG division will be responsible for collecting, verifying, and validating all data in the Annual Performance Report. All qualitative data will be thoroughly documented by the appropriate divisions. The data will be reviewed quarterly and consolidated by the Management and Policy Division. OIG believes that the data is reasonably accurate.

Goals, Objectives, Performance Goals, and Resources

Goal 1. Improve the economy, efficiency, and effectiveness of SBA programs and operations.

FY 2002: Consistent with OIG's strategic plan, FY 2002 OIG audits and inspections will focus on financial management, information systems and computer security, lender oversight, other selected high risk issues, and new Agency initiatives.

To fulfill the legislatively mandated requirement, OIG will contract for an audit of SBA's financial statements to provide an opinion on whether they are presented fairly and in accordance with Federal accounting requirements. Financial management issues that are identified, either through financial statement auditing efforts or otherwise, will also be scheduled for audit coverage.

A major focus of OIG efforts in FY 2002 is continued oversight of SBA's systems modernization efforts, which include planned major improvements to SBA's accounting system and loan monitoring systems. In addition, OIG will conduct computer systems security assessments to identify vulnerabilities such as unauthorized access and information accuracy. Regarding the latter, OIG will selectively verify the accuracy of data in support of the Government Performance and Results Act (GPRA) reporting process.

SBA's increasing reliance on banks and other lenders to perform loan management functions previously reserved to the Government presents inherent risks. OIG will conduct oversight reviews to identify vulnerabilities and offsetting controls to minimize potential problems and continue its auditing of defaulted loans to identify invalid claims and to identify lenders who do not follow SBA rules. OIG will also assess lenders' performance and adherence to SBA requirements.

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OIG will provide oversight of SBA's high-risk programs and will respond to program managers' requests for reviews of programs, projects, or entities that they consider vulnerable to loss or mismanagement. OIG will continue to identify the major management challenges facing the operation of its programs. OIG will institutionalize an OIG advisory function, made up of selected Agency program managers, to identify high-risk operations.

Agency initiatives, such as Historically Underutilized Business Zones (HUBZones), asset sales, implementation of internal controls, and human capital programs, will be selectively identified for OIG oversight. OIG will also review proposed legislation, regulations, standard operating procedures, and other issuances for vulnerabilities and risks.

The majority of staff and other resources used to accomplish Goal 1 will come from the Auditing and Inspection and Evaluation Divisions, with contributions and support from the Investigations, Management and Policy, and Counsel Divisions. Approximately 36 percent (or \$4,461,293) of OIG's total FY 2002 resources will be dedicated to Goal 1.

Objective 1.1 Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner.				
	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Output Performance Goals				
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance	86%	88%	90%	90%
Narrative assessment of OIG contribution to Agency task forces				
Intermediate Outcome				
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed by OIG and management	N/A*	52%	60%	60%
Outcome				
Identification and implementation of corrective actions by the Agency to address the major management and operating problems in SBA				

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- The chart will be updated to reflect the percentage of recommendations implemented or corrective actions taken by management within the timeframe agreed by OIG contained in reports issued between April 1998 through March 31, 1999.

Objective 1.2 Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.				
	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Output Performance Goals				
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	95%	96%	95%	95%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	97%	44%*	60%	60%
Intermediate Outcome				
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by OIG and management	N/A**	44%	60%	60%

* This reflects recommendations agreed to by management contained in reports issued between April 1, 1999 through March 31, 2000.

** This chart will be updated to reflect recommendations agreed to by management contained in reports issued between April 1, 1998 through March 31, 1999.

Outcome/Impact for Goal 1: OIG activities improve the economy, efficiency, and effectiveness of SBA programs.

Methodology for Measuring Outcome: Estimate the impact of implemented recommendations, e.g., what percentage of corrective actions taken in response to the OIG recommendations resolved the identified problems, and/or resulted in improved SBA programs or operations.

Limitations: Because OIG staff and resources are limited and intervening variables may also make it difficult to draw direct causal relationships, a pilot for estimating impact will be developed in FY 2001. The pilot will assist us in determining the level of resources needed to evaluate impact. As SBA develops and verifies the accuracy of its performance measurement system, it may also be possible to use some of that information to assess OIG effectiveness.

Goal 2. Prevent and detect fraud and abuse, and foster integrity in SBA programs and operations.

FY 2002: OIG places a high priority on combating and preventing both fraud and abuse in SBA's programs and operations and ensuring a high level of integrity in SBA's applicants, lenders, and employees. While the Investigations Division has the primary responsibility for OIG efforts to prevent fraud and abuse, all OIG divisions directly contribute to fostering integrity in SBA programs and operations. For example, audits frequently result in referrals for investigations and investigative results are always analyzed to identify potential steps to improve controls. Much of the OIG effort in the area of fraud and abuse is reactive.

For FY 2002, OIG will investigate those cases with the highest impact and potential for successful prosecution. In addition, OIG will expand activities to pursue civil fraud under the False Claims Act and the Financial Institution Reform, Recovery, and Enforcement Act of 1989.

Traditionally, the Investigations Division has relied on SBA's personnel to refer allegations concerning fraud, abuse, and mismanagement in SBA programs. As SBA's employees reduce their direct involvement in reviewing loans, however, fraud indicators will have to be identified by lenders. OIG integrity and fraud awareness programs will be restructured to equip SBA employees to perform their new or expanded lender oversight role. OIG will develop new programs to educate the lending community concerning their responsibilities to report allegations of wrongdoing and heighten their awareness of the role of OIG. Outreach will include attending and/or participating in lender-related conferences and other activities and educating non-SBA employees of the more than 5,000 participating, certified, and preferred SBA lending partners. OIG will also continue to conduct a comprehensive employee integrity assurance program.

In addition, as resources are available, OIG will conduct studies of the underlying conditions that foster opportunities to commit fraud and recommend ways to detect vulnerabilities.

OIG will continue its name and fingerprint checks for SBA program participants, and assist the Agency in its pre-employment screening program by conducting background checks of potential key employees. OIG will explore the use of other information sources to identify persons of bad character and preclude their participation in SBA programs.

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The Investigations Division will provide the majority of the staff and other resources necessary to accomplish Goal 2. In addition, goal achievement will depend on the contributions of the Auditing, Inspection and Evaluation, Management and Policy, and Counsel Divisions. Approximately 50 percent (or \$6,201,073) of OIG FY 2002 resources will be dedicated to Goal 2.

Objective 2.1 Detect/identify waste, fraud, abuse and integrity problems in SBA programs and operations and take appropriate action.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Percentage of criminal cases referred that are accepted by U.S. Attorneys	N/A*	N/A*	50%	50%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. Attorneys	N/A*	N/A*	35%	35%
Intermediate Outcomes				
Percentage of potential monetary recoveries to estimated losses	20%	17%	20%	20%
Percentage of closed cases resulting in criminal, civil, or administrative actions	32%	23.5%	25%	25%

* The Investigation Division's current management information system (MIS) does not record when a referral, either criminal or ACE, is "accepted" by a Federal prosecutor. When implemented in FY 2001, our new MIS should provide that capacity.

Objective 2.2 Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Output Performance Goals				
Number of SBA employees attending integrity briefings	499	222	300	300
Number of private sector partners attending integrity briefings	150	96	150	150
Intermediate Outcome				
Percentage of target population reached by integrity briefings	8%	4.2%	8%	8%

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Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.

Output Performance Goal

Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations

Outcome/Impact for Goal 2: SBA internal policies, procedures, and controls are strengthened and provide a deterrence for future wrongdoing. OIG activities lead to changes in SBA practices that effectively reduce fraud and abuse, and promote the integrity of SBA programs and operations.

Methodology for Measuring Outcomes: OIG will assess the practicality and feasibility of developing evaluations of major investigative cases and related audits and inspections to estimate the impact on the prevention and deterrence of fraud and abuse. In addition, as SBA develops and verifies the accuracy of its performance measurement system, it may be possible to use some of the information to indicate OIG effectiveness.

Limitations: Evaluation efforts will be constrained by a lack of information on the extent of actual fraud and other misconduct in SBA's programs and operations.

Goal 3. Ensure the economical, efficient, and effective operation of OIG.

FY 2002: OIG recognizes that its operations are only as good as its people, communications, and planning and control processes. Therefore, OIG will continue to emphasize these functions and strive to improve them. OIG will continue to explore innovative ways to recruit, develop, and retain a well-qualified work force, including regular assessments and provision of necessary training. OIG will provide up-to-date and secure computer technology and information systems for OIG staff. Support functions, such as legal advice, administrative services, budget development and execution, and procurement, will be timely to aid in carrying out OIG mandated functions.

OIG will continue to strive to improve communication with Agency officials and stakeholders to improve our planning process and information services on the results of our operations. In developing our annual operating plans, OIG will closely cooperate with SBA management to identify areas for in-depth review. OIG will seek to be more proactive in evaluating SBA's programs, management structure, and administrative systems, and develop work products that provide input or feedback to SBA management on an expedited basis.

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Maintaining ongoing liaison with Agency officials (both headquarters and field), key congressional committees, the Office of Management and Budget, the President's Council on Integrity and Efficiency, and others as appropriate is key to effectively accomplishing the OIG mission. We will continue to identify and share the knowledge/experience of individual staff members across OIG organizations.

OIG will complete an annual plan--based on current information from strategic plans, budget, legislative and program developments, previous reports, external sources, and in consultation and coordination with customers and stakeholders--that identifies high-priority issues for OIG review. As with the other two OIG goals, staff and other resources necessary to accomplish the support functions related to Goal 3 will come primarily from one division--Management and Policy--although all divisions are key to accomplishing the objectives of this internal operating goal. Approximately 14 percent (or \$1,764,634) of OIG FY 2002 resources will be dedicated to Goal 3.

Objective 3.1 Provide the tools, services, and supportive work environment necessary to improve employee productivity.				
	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate	FY 2002 Estimate
Output Performance Goals				
Percentage of staff that received the training established by OIG for their career needs	N/A*	85%	100%	100%
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A*	100%	100%	100%
Intermediate Outcomes				
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A*	62%***	65%	65%
No material weaknesses identified in audit quality controls by external peer reviews	N/A**	N/A**	None **	N/A**

*Standards for measuring this goal and the employee survey instrument were developed in FY 2000.

**Peer reviews are conducted every three years. The peer review was scheduled to be completed in FY 2000, but was actually completed in FY 2001. The peer review found no material weaknesses in audit quality controls.

***Based on responses to an OIG Organization Assessment Survey distributed September 2000: "Considering everything, how satisfied are you with your job?"

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Objective 3.2 Communicate and foster cooperation with all stakeholders, customers, and interested parties.
Output Performance Goals/Intermediate Outcome
Narrative assessment that may include anecdotal results of ongoing contacts with customers and stakeholders, OIG work on PCIE and interagency projects, and/or customer satisfaction surveys
Objective 3.3 Develop and maintain a planning process that will provide for effective monitoring of operations and identify opportunities for improvement.
Output Performance Goal/ Intermediate Outcome
Narrative assessment of the results of the OIG planning process

Outcome/Impact for Goal 3: An OIG staff that is fully supported with the tools, services, and direction necessary to be economical, efficient, and effective, and works cooperatively and in a timely manner with customers and stakeholders.

Methodology
 An analysis of the performance goal results in each Annual Performance Report (beginning with the FY 2001 report) should indicate if OIG is operating economically, efficiently, and effectively.

Statistical Data on Selected Product Outputs

	FY 1999 Actual	FY 2000 Actual
Office-Wide Dollar Accomplishments		
Potential Investigative Recoveries and Fines	\$10,419,102	\$7,555,827
Management Avoidances As a Result of Investigations and Name Checks	\$28,382,286	\$28,741,121
Disallowed Costs Agreed to by Management	\$2,322,780	\$1,153,535
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$8,929,983	\$9,762,700
Goal 1 Accomplishments		
Reports Issued	28	33
Number of Recommendations Made	103	126
Disallowed Costs Agreed to by Management	\$2,322,780	\$1,153,535

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Recommendations That Funds Be Put to Better Use Agreed to by Management	\$8,929,983	\$9,762,700
Number of Reviews of Proposed Legislation, Regulations, Standard Operating Procedures, and Other SBA Issuances	241	323
Goal 2 Accomplishments		
Cases Closed	138	132
Indictments	44	73
Convictions	53	38
Potential Investigative Recoveries and Fines	\$10,419,102	\$7,555,827
Loans not Approved as a Result of:	\$28,382,286	\$28,741,121
1) Investigations	\$0	\$1,404,529
2) Name Check Program	\$28,382,286	\$27,336,592
Number of Integrity Briefings	12	15
Goal 3 Accomplishments		
Number of FOIA Responses and Other Disclosures	67	89
Number of Subpoenas Issued	86	135
Number of External Reports Issued	19	14
Number of Employees Trained	114	94