STRATEGIC GOAL 2

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

Small businesses represent an essential mechanism by which millions enter the economic and social mainstream of American society. They tend to be dynamic in their processes and their response to opportunities in the marketplace, and arrive faster at management decision-making. They create new opportunities for employment, and play a crucial role in experimentation and innovation, which leads to technological change and productivity growth.[15]

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

The Agency strives to meet this Strategic Goal by focusing on the following Long-Term Objectives:

LTO 2.1: Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

LTO 2.2: Maximize the sustainability and growth of existing small businesses assisted by SBA.

LTO 2.3: Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps (SCOG).

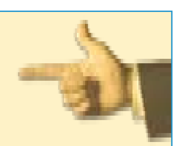
Under this Strategic Goal, the SBA provides three main types of assistance: Financial, Management, and Procurement. The following sections cover the key achievements and challenges faced by the programs that provide the assistance. The MD&A covers how successful the Agency was as a whole in helping small businesses succeed.

FINANCIAL ASSISTANCE

Having access to capital when needed, and under the right conditions, is vital to the success of small businesses. This need changes as the business goes through the various stages in its lifecycle, from a possibility to a vibrant, successful business.

Small firms are vulnerable because of their dependency on financial institutions for external funding. These firms simply do not have access to public capital markets. As a result, shocks to the banking system can have a significant impact on the supply of credit to small businesses. Thus, small firms are subject to funding problems in equilibrium and these problems may be exacerbated during periods of disequilibrium in financial markets[16].

DID YOU KNOW?



Commercial banks are the largest suppliers of debt capital to small firms. In June 2004, small business loans outstanding owed to commercial banks amounted to $522 billion.

15 The New American Evolution: The Role and Impact of Small Firms,U.S. Small Business Administration, Office of Advocacy, 1998. http://www.sba.gov/ADVO/stats/evol_pap.html

16 Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure, Berger, *Economic Journal*, 2002. http://www.federalreserve.gov/pubs/feds/2001/200136/200136pap.pdf

The SBA has structured its programs to be able to fill the financial gap as determined by differing financial markets and the various stages of a small business lifecycle. The SBA provides loans through its 7(a) loan, 504 loan, and Microloan programs, as well as equity and mezzanine financings through its SBIC program.

The Agency has placed its focus on providing financing assistance that is effective and at the lowest possible cost to the taxpayer. It achieves this by managing well three major areas — processing, servicing, and liquidation. Processing represents reviewing and approving, screening out for incompleteness, or declining loan applications from lenders. Servicing activities include reviewing and either approving or declining loan modifications from lenders such as collateral releases or substitutions, ensuring that lenders are reporting the status of their loans correctly, reviewing purchase requests from lenders, and reviewing lenders' plans to liquidate the collateral securing a defaulted loan. Liquidation activities include seeking recoveries and writing-off non-performing loans.

7(a) Loan Program

Table 12.

Performance Statement

Program Level Assistance

Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	7(a) Loans Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1	New Loans Approved: Start-up SB (Number)	Output	15,588	18,134	29,587	33,024	32,983	0% G
2.1	New Loans Funded (number): SSB	Output	13,559	15,945	27,522	29,400	30,753	5% G
2.1	Start-up Small Businesses Assisted (Number) [a]	Intermediate Outcome	13,122	15,351	25,806	28,224	27,368	-3% G
2.2	New Loans Approved: Existing SB (Number)	Output	51,793	62,999	66,313	73,536	64,307	-13% R
2.2	New Loans Funded (Number) :ESB	Output	45,981	56,234	61,323	65,900	59,730	-9% G
2.2	Existing Small Businesses Assisted (Number) [b]	Intermediate Outcome	43,023	53,544	57,296	62,144	52,935	-15% R
2.3	New Loans Approved: SCOG (Number)	Output	41,605	60,787	74,307	76,690	71,326 [c]	-7% G
2.3	New Loans Funded (Number): SCOG	Output	36,705	54,250	68,540	68,561	66,300 [d]	-3% G
2.3	SCOGs Assisted (Number) [f,g]	Intermediate Outcome	35,203	52,075	64,390	64,377	60,691 [e]	-6% G
Small Businesses Assisted [h]			56,145	68,895	83,102	N/A [i]	80,303	N/A [j]
New Loans Funded [k]			59,540	72,179	88,845	N/A [l]	90,483	N/A [m]

7(a) Loans Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 [n] Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$216,516	$188,995	$73,238	$67,581	$72,485
Loan Approving ($000)	$165,405	$162,812	$49,672	$45,865	$41,741
Loan Servicing ($000)	$19,013	$13,436	$16,362	$14,943	$17,190
Loan Liquidation ($000)	$32,098	$12,747	$7,205	$6,773	$13,554

(Table and footnotes continued on next page)

7(a) Loans Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded ($)	$2,778	$2,256	$559	N/A	$461
Per Loan Liquidated ($) [o]	$5,081	$2,012	$1,175	N/A	$1,614 [p]
Per Business Assisted ($)	$3,856	$2,743	$881	N/A	$903

a,b This represents the number of unique firms receiving 7(a) loans as of September 30 of the fiscal year. It is lower than Net Loans Funded, because some firms receive more than one loan in a fiscal year.

c, d, e SCOG loans made in economically distressed areas maybe overstated due to errors in geo-coding.

f This represents the number of unique firms receiving 7(a) loans as of September 30 of the fiscal year. It is lower than Net Loans Funded, because some firms receive more than one loan in a fiscal year.

g SCOGs are a subset of startup and existing small businesses.

h This is the sum of start-ups and existing small businesses with loans funded during the fiscal year.

k Calculated as loans originated for start-ups and existing firms, minus cancelled for the fiscal year as of September 30.

i, j, l, m The total is used only to calculate the unit cost. It does not constitute a performance indicator.

n Total program cost declined as net default subsidies became fully funded by borrower and lender fees in FY 05 and in subsequent years.

o Targets are not set for liquidating loans.

p Calculated based on the number of loans purchased during the fiscal year. Historical numbers were changed as a result of the data validation process.

The financial vulnerability of small businesses can make SBA 7(a) loans a vital resource at any given time. The program serves as the Agency's primary business loan program to help qualified start-up and existing small businesses obtain financing when they might not be eligible for business loans through normal lending channels. It is also the Agency's most flexible business loan program because financing under this program can be guaranteed for a variety of general business purposes, can be revolving or non-revolving, and can have a maturity as short as a couple of months or as long as 25 years.

Sources of financing are a critical need at the beginning stages of a small business, and the type of financing has long-lasting effects on the success or failure of the business. Because most start-ups are unincorporated [17] (frequently sole proprietorships), important sources of funds to nascent entrepreneurs are personal savings and debt. As a result of perceived shortage of credit and inefficient operation of credit markets, these small businesses often use an owner's own personal and business credit cards. This type of debt is a costly option for an entrepreneur. High-cost debt can cause strains in everyday operations, cash-flow problems, and, in the worst case, lead to bankruptcy.

In FY 2006, the SBA approved 97,290 7(a) loans. Small business start-ups accounted for 32,983, or 33.9%, of those approved, substantially meeting the goal of 33,024 loans to entrepreneurs within two years of starting their business. After accounting for cancellations by loan applicants, the total net loans funded for start-ups were 30,753, which exceeded the FY 2006 goal by 5%.

In FY 2006, the SBA funded 59,730 7(a) loans to 52,935 existing businesses [18]. This number, while not meeting the goal of 65,900 7(a) funded loans still represents a sizable source of growth capital to existing businesses. The number of existing small businesses assisted fell short by 15%. This may have been due to the dramatic increase during FY 2006 in the cost of

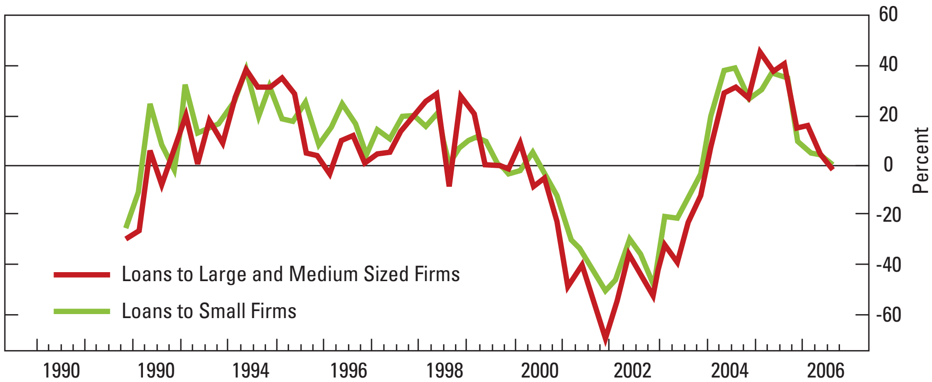
17 Michelle White, *Bankruptcy and Small Business, Will Reform Harm Small Business*, September 2001. http://www.cato.org/pubs/regulation/regv24n2/white.pdf

18 Some businesses received more than one 7(a) loan to meet their financial needs, usually a term loan for fixed assets or real estate and a separate revolving loan for working capital.

borrowing, with the movement of prime from a low of 6.75% at the beginning of the fiscal year to the current high of 8.25%, resulting in small business owners delaying establishment or expansion of their businesses.

Figure 1.

Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



The following figure (Figure 1) from the July 2006 Senior Loan Officer Opinion Survey on Bank Lending Practices [19] shows how in FY 2006 the net demand by small firms [20] for commercial and industrial (C&I) loans decreased from FY 2005.

In response, a large percentage of domestic banks indicated that they had trimmed the spread of loan rates over their cost of funds for such firms during the same period, while some also eased their lending standards. Two of the main reasons cited by lenders were a more favorable or less uncertain economic outlook, and increased tolerance for risk. The willingness of lenders to decrease their spread without tightening their lending standards, while experiencing an increased tolerance for risk, may have reduced the need for SBA loans among existing businesses that were seeking credit. Yet, during this same period for another segment of businesses, the cost of credit was too high even with the cap in the interest rates of 7(a) loans with respect to the prime rate.

An effort by the SBA to reach out to more small businesses is SBA*Express*. This program reduces the cost to lenders of using the SBA's guaranty by permitting them to use, to the greatest extent possible, their own documents and processes. SBA*Express* also permits lenders to charge a higher interest rate to small business borrowers than the traditional 7(a) loan program.

During FY 2006, the SBA successfully increased the capital available to certain segments of society that face special competitive opportunity gaps. These segments include African Americans, Asian Americans, Hispanics, Native Americans, other minorities, women, and rural and small businesses in economically distressed areas.

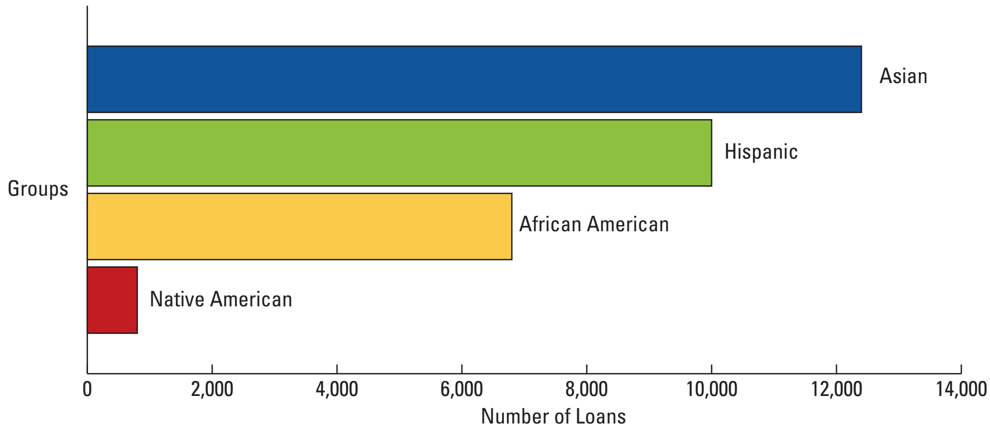
In an attempt to reduce barriers to groups in these categories, the SBA funded 66,300 loans through its 7(a) loan program in FY 2006, 3% below both the FY 2006 goal and FY 2005 performance. The breakdown of these loans is as follows: 7(a) loans to minority-owned small businesses represented 33% of all the 7(a) approved loans. This continues an upward trend since FY 2000, when minority-owned small businesses received 25% of all approved 7(a) loans. Women-owned businesses were 22%, and rural businesses were 20% of the 7(a) approved loans. Figure 2 shows the breakdown by race and national origin for the

19 Senior Loan Officer Opinion Survey on Bank Lending Practices, The Federal Reserve Board, http://www.federalreserve.gov/boarddocs/SnLoanSurvey/

20 The Federal Reserve Board considers small firms to be those with annual sales of less than $50 million.

Figure 2.

7(a) Loans to Minorities by Race and National Origin FY 2006



7(a) loans guaranteed to minorities in FY 2006. The numbers are not additive since the same loan may be present in more than one category.

In FY 2006 the SBA made a conscious effort to adopt processes that ensure the most efficient, streamlined use of resources to achieve its goals. The Agency continued to move from direct loan management to lender management, a process that has required it to place more responsibility on participating lenders and to centralize the loan purchasing and liquidation responsibilities that the SBA retained. Through the implementation of new technologies that enable prudent risk management and more efficient use of SBA resources, the Agency has taken charge of the loan liquidation process. During FY 2006 the SBA continued to implement portfolio management practices including:

Centralized Operations — The SBA has moved most of the loan processing, servicing, liquidation and guaranty purchase functions from district offices to centers for both 7(a) and 504 loans. Only a small fraction of loan processing remains with the district offices. Centralizing these remaining functions will take place during FY 2007. To date, centralized operations have allowed for more consistent application of SBA requirements, resulting in more efficient operations. Centralizing loan liquidation processes has shifted scarce SBA resources towards ensuring efficient and effective oversight of lender liquidation activity, thereby freeing up resources to assist small businesses.

National Preferred Lender Program Status — National status for preferred lenders has been implemented, allowing any preferred lender to make loans anywhere in the Nation. This change eliminates the need to coordinate approvals and renewals of the preferred status with the 68 SBA district offices and allows lenders to determine where they want to use their preferred status. Streamlining has given more authority to participant lenders to further simplify the loan-making and servicing process and encourage more loan activity.

Liquidation Backlog Reduction — After the SBA purchases a non-performing 7(a) loan, it must decide whether to try to recover the funds or to charge off the loan. At the beginning of FY 2006, the Agency had a backlog of 6,700 loans that were purchased two or more years ago and totaling in excess of $800 million. The SBA addressed this backlog in liquidations of 7(a) loans by reviewing and charging off over 6,000 loans for which the SBA determined it had exhausted all pre-charge off recovery efforts, allowing the Agency to pursue potential post-charge off recoveries of $50 million.

The streamlining of operations had to overcome some significant challenges, especially in the area of Human Capital. According to the OIG and the GAO, the SBA applied some key practices important to successful organizational change but overlooked aspects that emphasize transparency and communication. For example, the Agency did not develop a comprehensive transformation plan, to inform and make employees aware of major workforce changes that would affect them until after the changes had been implemented. This resulted in problems establishing the National Guaranty Purchase Center. The SBA recognized that lack of employee involvement in the decision-making process or timely communication of a transformation strategy can breed uncertainty and mistrust, resulting in poor employee morale and reduced commitment and productivity. This may have been reflected in the FY 2004 government-wide employee survey that revealed substantial morale problems at the SBA.

To correct this situation, the Agency has now drafted, and plans to issue to employees, a transformation strategy including staffing and training plans to support the transformation process. The SBA also developed a staffing plan and continues to analyze the tasks performed, skills required, and time standards for each of the major tasks to determine the appropriate staffing required to eliminate the backlog and to manage estimated future workload. However, the turnover of experienced loan officers has been a significant challenge since higher-graded federal positions are readily available in the Washington DC area. In addition, an online training course on the purchase process was implemented, which was complemented with periodic on-site training and individualized instruction by experienced personnel.

Lender Oversight

Because the SBA guarantees up to 85% of each 7(a) loan made by its lending partners, there is risk to the Agency if the loans are not repaid. Since FY 2003, the SBA's portfolio of 7(a) loans has grown over 18% to the point that the outstanding balance of the 7(a) guaranteed loan portfolio exceeded $32.9 billion by the end of FY 2006. Over the past decade, a combination of increased loan volume and limited SBA resources has put a strain on the SBA's operations and the Agency's ability to efficiently perform loan making, servicing and liquidation activities. In addition, the SBA services the $6.8 billion (as of 9/30/06) portfolio of direct disaster loans that it has made to assist victims of disasters. Portfolios of these sizes are significant by any measure and constitute potential risk to the taxpayer.

As the largest gap lender for small businesses, SBA necessarily takes more risk than a conventional lender. While SBA must determine the level of credit risk it will tolerate, it must do so within the context of its mission and its programs' structures. To do so, it requires an effective participant oversight program to mitigate the increased risk of financial loss to SBA. The SBA's implementation of lender oversight monitoring and analyses is typical of "best practices" among major lenders, and recommended by financial institution regulators.

The Loan and Lender Monitoring System is a state-of-the-art portfolio monitoring system that incorporates credit scoring metrics for portfolio management purposes. During FY 2006, credit scores combined with current and historical performance of lenders allowed the SBA to assign risk ratings to lenders. This was the primary basis by which lower-volume lenders were evaluated, while at the same time providing an assessment and a monitoring tool for the most active SBA lenders. In addition, lenders were given access to their risk ratings and performance metrics, allowing them to take the initiative to address data quality and performance issues in order to improve their risk ratings. The Lender

Oversight Committee, composed mostly by senior SBA officials, reviewed lender-oversight activities, discussed lender trends and proposed corrective actions for poor performing lenders.

The Portfolio Analysis Committee, composed of staff from the Office of Capital Access and the Office of the Chief Financial Officer, met monthly to review and assess portfolio trends. The committee decided on which areas to focus resources and identified policy issues for further evaluation and discussion.

The Agency takes its fiduciary responsibilities very seriously. The SBA financial and legal staff review problems brought to management attention by the OIG and the GAO. For example, during FY 2006, the Office of the Inspector General, as part of an overall evaluation of SBA's Loan and Lender Monitoring System, reviewed the Guaranty Loan Status and Remittance Report (1502 report) to determine whether reliable data was being incorporated into the system via this report. Lenders report the status of all SBA 7(a) loans in their portfolio using the 1502 report and the Agency extracts the data from the Loan Accounting System for use in assessing its loan portfolio risk level. The OIG concluded that the SBA had not established adequate internal controls to ensure that the lender loan status data reported in the 1502 report was reliable. Two of the elements used by the SBA in its risk assessment process, loan status and outstanding loan guarantee balances, could be impacted by unreliable 1502 reporting data.

SUCCESS STORY

She Rang and the SBA Answered

Hola Corp., a Voice Over Internet Protocol company, started with only three employees, but CEO Carmen Lizola would not stand for that! She worked from dusk till dawn handling office management and even operations until, in November 2004, Hola! Corp. had eight sales representatives.

Recognizing its potential, the company immediately started taking advantage of SBA resources by way of its 7(a) loan and SBDC programs. With this assistance, Hola! Corp. now operates online and is working on its business marketing plan. The company provides Internet telephony, encouraging family bonds through unlimited communication.

Hola! Corp. has Ip-Phones, which look and operate just like analog telephones. The difference is that Ip-Phones are connected directly to an Internet modem. Best of all, its featured HOLA to HOLA is unlimited worldwide! "Families being separated by international distances can talk to each other as much as they want," says Carmen. Carmen even went so far as to test the product herself. She has brothers and sisters throughout Mexico, but with Hola! they now have a family network. Each one can make unlimited calls from the U.S. to Mexico and vice versa. According to Carmen, this simple communication has made all the difference. Their family relationships have never been stronger.

In response, the SBA hired outside auditors to assess the internal control effectiveness of the 1502 reporting process. The auditors concluded that the 1502 errors had no material impact on the Loan and Lender Monitoring System risk assessment process.

Over the years, SBA has implemented many GAO and OIG recommendations for lender oversight and continues to make improvements toward addressing others [21].

Systems Modernization

During FY 2006, the SBA initiated the modernization of Loan Management and Loan Accounting Systems. These are the systems that support loan origination, servicing, liquidation and financial management for the Agency's loan and loan guarantee programs. The current systems are dependent on obsolete technology, and some were developed 50 years ago. While state-of-the-art when designed, these mainframe-based legacy systems impede SBA's ability to rapidly meet the expanding current and future needs of small businesses. These systems require expensive data reconciliation resulting in high maintenance costs.

The SBA needs a modern loan management and financial management system that is secure, scalable, flexible, available and cost effective, and that complies with federal regulatory requirements to support its loan lifecycle. The system needs to have non-redundant, high quality data, and be capable of real-time or near real-time processing. The modernization of these systems is a key element for the SBA to perform online loan processing, minimize data redundancy, maximize reuse, and reduce maintenance costs. Modern technologies can significantly improve the way services are delivered to small businesses and disaster victims through the Agency's financial assistance programs and make it easier for small businesses to gain access to capital and credit when it is not available to them in the commercial marketplace.

Goals Not Met

Indicator: 7(a) Loans Approved: Existing Small Businesses		
Target	**Result**	**Below Target by**
73,536	64,307	-13%
Indicator: 7(a) Existing Small Business Assisted		
Target	**Result**	**Below Target by**
62,144	52,935	-15%
Reasons for performance result		
In past years, the SBA has significantly grown loan volume to existing small businesses. While SBA projected continued loan growth in FY 2006 at a similar rate, that rate was not achieved. Rising interest rates and other economic factors had an impact on demand for SBA loans. That said, in FY 2006 SBA's loan volume exceeded that of fiscal years 2003 and 2004.		
Steps being taken to improve performance or targets		
The SBA is considering revising the methodology for establishing loan goals to ensure that they are consistent with current lending trends.		
Impact of result		
The SBA had sufficient loan authorization to make additional loans. Therefore, no small businesses were prevented from obtaining financing if they qualified.		

21 GAO-06-605T, April 6, 2006, Small Business Administration -Improvements Made, but Loan Programs Face Ongoing Management Challenges http://www.gao.gov/new.items/d06605t.pdf

504 Loan Program

Table 13.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	504 Loans Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	New Loans Approved: Existing SB (Number)	Output	5,542	6,897	7,904	8,592	8,343	-3% G
2.2	New Loans Funded (Number)	Output	4,956	6,383	7,712	7,938	8,162	3% G
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	4,956	6,329	7,629	7,874	7,569	-4% G
2.3	New Loans Approved (Number)	Output	3,962	6,207	6,853	7,539	6,989 [a]	-7% G
2.3	New Loans Funded (Number)	Output	3,513	5,742	6,679	6,873	**6,812** [b]	-1% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	3,486	5,637	6,611	6,887	6,673 [c]	-3% G
Small Businesses Assisted			4,956	6,329	7,629	N/A [d]	7,569	N/A [e]
New Loans Funded			4,956	6,383	7,712	N/A [f]	8,162	N/A [g]

504 Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$38,003	$34,139	$21,812	$19,811	$21,424
Loan Approving ($000)	$26,947	$28,668	$14,190	$12,802	$16,046
Loan Servicing ($000)	$5,329	$3,764	$5,452	$4,949	$3,636
Loan Liquidation ($000)	$5,726	$1,707	$2,170	$2,059	$1,742

504 Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded ($)	$5,437	$4,491	$1,840	N/A	$1,966
Per Business Assisted ($)	$7,668	$5,394	$2,859	N/A	$2,830

[a] SCOG loans made in economic distressed areas maybe overstated due to errors in geo-coding.
[b] Ibid.
[c] Ibid.
[d] The total is used only to calculate the unit cost. It does not constitute a performance indicator.
[e] Ibid.
[f] Ibid.
[g] Ibid.

The 504 program serves small businesses that are generally at a point where owning the building in which the business operates, rather than renting space, permits them to expand their operations and create jobs. A typical 504 loan project includes a loan secured from a private-sector lender with a senior lien, and a loan secured from a Certified Development Company (CDC). Thanks to particular features of this program, such as a statutorily-mandated job creation component, a community development goal, and a public policy goal achievement component, the program helps the SBA facilitate job creation and meet the Agency's mission to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses.

In FY 2006, the Agency funded 8,162 new loans under the 504 program to existing small businesses, slightly exceeding its goal for this fiscal year and 5.8% over FY 2005. However, the number of small businesses facing special competitive opportunity gaps that received 504 loans was 3% below the FY 2006 target. The breakdown of the 504 loans to minority-owned small businesses — African Americans, Hispanics, Asian Americans and Native Americans — totaled 2,407. Loans to women were 1,475, and 2,586 loans went to small businesses in rural areas. These categories are not additive since one small business may qualify for more than one category.

The SBA believes the success of the 504 loan program can be attributed to several factors, including the significant changes made in FY 2004 when SBA published a final rule automatically expanding any CDC's area of operations that was less than statewide to statewide. This change affected most CDCs. In addition, it permitted CDCs to expand their area of operations beyond their state of incorporation to contiguous states far more easily. This significantly increased the CDCs' potential market and generated competition among them, which expanded their respective marketing and servicing efforts. These changes greatly stimulated interest in becoming a CDC by community organizations. The SBA approved 12 new CDCs in the last two years, eight of them in FY 2006, increasing the total number of CDCs to approximately 275. Beginning in FY 2003, the SBA began centralizing the 504 loan processing function. The function was completely centralized by the end of FY 2004. Centralization greatly improved and expedited the 504 loan approval process and applied much more consistent loan policy interpretation. The SBA has continued to review the 504 application process, looking for ways to further streamline it. For example, as a pilot program, the Agency revised and reduced the 504 loan application submission process for its best performing CDCs.

SUCCESS STORY

Improving Health Care One Test at a Time

How does a woman from China become the owner of a medical devices manufacturing company in America? She believes! — In herself, in her family, and in America. Dr. Naishu Wang obtained her MD in China and, after completing her education, was highly recruited and moved to San Diego, California. She was initially employed by a public biomedical company, but after the company sold she made a choice to start her own business. She was confident that she could produce a better medical test product, and in 1996 founded Alfa Scientific, a company that develops high quality and advanced in-vitro rapid medical diagnostic devices for the detection of a variety of diseases. Within eight years, Alfa Scientific Designs, Inc. grew from a company of three to over 45 employees.

The business was destined to expand — it needed space. So, in 2005, with the assistance of the SBA's 7(a) and 504 loan programs, the company moved into a three times larger facility. What's more, Alfa was able to purchase new automated equipment, hire key personnel and double its inventory.

Wang's primary goal is to do everything in her business better and faster, and with sales increasing each year since its inception, she is on the fast track to accomplishing this goal. And she is very grateful to the SBA. As she always says, without the SBA's support, "Alfa would not be today's Alfa."

International Trade

Table 14.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	International Trade [a] Key Performance Indicators [b]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1	New Loans Approved: Start-up SB	Output	N/A	N/A	479	504	801	59% B
2.1	New Loans Funded (Number): SSB	Output	127	198	444	467	747	60% B
2.1	Start-up Small Businesses Assisted (Number)	Intermediate Outcome	125	192	420	454	686	51% B
2.2	New Loans Approved: Existing SB (Number)	Output	1,553	2,113	2,335	2,448	2,503	2% G
2.2	New Loans Funded (Number): ESB	Output	1,395	1,938	2,194	2,235	2,335	4% G
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	1,313	1,872	2,064	2,123	2,165	2% G
2.2	Existing Small Businesses Counseled (Number)	Intermediate Outcome	N/A	3,250	3,788	3,800	3,568	-6% G
2.3	New Loans Approved: SCOG (Number)	Output	N/A	N/A	2,288	2,399	2,584 [c]	8% G
2.3	New Loans Funded (Number) SCOG [d]	Output	N/A	N/A	2,145	2,249	2,404 [e]	7% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	933	1,624	2,026	2,125	2,227 [f]	5% G
Small Businesses Assisted			1,438	2,064	2,484	N/A [g]	2,851	N/A [h]
New Loans Funded			1,522	2,136	2,638	N/A [i]	3,082	N/A [j]

International Trade Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$5,811	$5,447	$5,400	$5,038	$4,304

International Trade Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Loan Funded ($)	$3,818	$2,550	$2,047	N/A	$1,396
Per Business Assisted ($)	$4,041	$2,639	$2,174	N/A	$1,510

[a] International Trade is a subset of 7(a) and 504 loans.

[b] New indicators established in FY 2005.

[c, d, e, f] SCOG loans made in economic distressed areas maybe overstated due to errors in geo-coding.

[g, h, i, j] The total is used only to calculate the unit cost. It does not constitute a performance indicator.

According to Commerce Department data, 97% of all U.S. exporters are small businesses. The SBA estimates that in 2005 these businesses accounted for over $300 billion of U.S. exports, equivalent to nearly 30% of total exports. Time constraints related to planning the exporting logistics and shortage of capital are two of the barriers to exporting that small business owners must overcome. Lenders are often hesitant to provide loans to start-ups in international trade because of the inherent high degree of uncertainty related to start-ups and the complicated industry characteristics of international trade. The SBA attempts to reduce these barriers by providing small businesses with trade assistance loans; technical assistance dealing with trade policy, regulatory and legislative issues; and management assistance.

In FY 2006, the SBA, through its Office of International Trade (OIT), met or exceeded all of its loan production targets for the year. Specifically, the SBA exceeded its international trade loan goals to start-up small businesses by 60%, while meeting all its targets for existing small businesses. This loan production may be due in part to a combination of successful work done by SBA's U.S. Export Assistance Center (USEAC) representatives, increased small business counseling and the recently implemented centralized loan booking process. However, the goals were exceeded so far beyond the target values that the SBA will review its goal-setting methodology for this program

Export trade loan dollars are important to existing small businesses because these loans have a direct correlation to export transactions with foreign buyers and the dollars of export sales that support a small business's growth and sustainability. During FY 2006, international trade financing manifested $2.1 billion in export sales for U.S. small business exporters. The corresponding increase in revenues and taxes helps local and state governments, while the revenues from exports also help to offset the U.S. trade deficit.

Goals Exceeded

Indicator: International Trade: Loans Approved: Start-up SB (number)		
Target	**Result**	**Above Target by**
504	801	59%
Indicator: International Trade: Net Loans Funded: Start-up SB (number)		
Target	**Result**	**Above Target by**
467	747	60%
Indicator: International Trade: Start-up Small Businesses Assisted		
Target	**Result**	**Above Target by**
454	686	51%
Reasons for performance result		
The performance targets were based on historical averages which were exceeded in FY 2006. Increased travel funds for field representatives allowed increased marketing efforts and production.		
Steps being taken to improve performance or targets		
Future targets will be established based on historical production and travel funds available for field representatives.		
Impact of result		
Increased loans will increase export sales for small businesses.		

SUCCESS STORY

SBA –Helping the Balance of Trade by Exporting the Seeds of Success!

In a small Iowa town, The Seed Company, Inc. has quietly joined the ranks of Iowa's successful small business exporters. With the hard work and dedication of Harrison and Grace Copper, and with some assistance from the SBA's Export Working Capital Program, the company's "Supreme Soy" brand of food grade soybeans may not be a household name in Iowa, but it's in high demand overseas.

The Lynnville Seed Company had been a part of the Central Iowa community since1935. In 1975 improvements were made to the handle food grade soybeans, but the company did not take advantage of the international demand for U.S. soybeans. In 2002 Harrison and Grace Copper purchased The Seed Company and made even more improvements and new additions to the facility, notably a color sorter which vastly improves the quality of soybean output.

However, it was in 2003 that this story takes off! The great old Seed Company of Central Iowa received an order from a customer in Japan, a customer that needed longer payment terms than usual. The Coppers were not capable of financing the order on their own, but they refused to let the customer go with anything less than total satisfaction. They turned to the SBA. With the help of John Blum at the SBA's U.S. Export Assistance Center in St. Louis, the Coppers were able to put together a $250,000 line of credit that enabled them to successfully complete the business transaction.

Harrison said the SBA assistance helped the company expand in ways they might not have been able to, adding new customers from China, Japan and the Philippines. It also helped the firm grow from three employees and minimal sales to 13 employees and more than $6 million in sales in 2006.

Microloan Program

Table 15.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	**Microloan Key Performance Indicators**	**Type of Measure**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**	**FY 2006 Goal [a]**	**FY 2006 Actual**	**FY 2006 % Goal Variance [b]**
2.1	New Loans Funded (Number)	Output	1,118	1,022	948	N/A	895	N/A
2.1	Start-up Small Businesses Assisted [c]	Outcome	1,118	1,022	948	N/A	895	N/A
2.2	New Loans Funded (Number)	Output	1,324	1,377	1,488	N/A	1,500	N/A
2.2	Existing Small Businesses Assisted [d]	Intermediate Outcome	1,324	1,377	1,488	N/A	1,500	N/A
2.3	New Loans Funded (Number)	Output	2,073	1,936	1,833	N/A	2,099	N/A
2.3	SCOGs Assisted [e]	Intermediate Outcome	2,073	1,936	1,833	N/A	2,099	N/A
Small Businesses Assisted			2,442	2,399	2,436	N/A	2,395	N/A
New Loans Funded			2,442	2,399	2,436	N/A	2,395	N/A

Microloan Budgetary Resources	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual [15]**	**FY 2006 Budget**	**FY 2006 Actual**
Total Program ($000)	$25,008	$24,831	$18,489	$17,122	$15,873
Loan Approving ($000)	$6,122	$8,399	$3,859	$3,397	$3,043
Loan Servicing ($000)	$3,708	$366	$387	$430	$20
Loan Liquidation ($000)	$51	$125	$115	$116	$0
Tech Asst ($000)	$15,127	$15,940	$14,129	$13,179	$12,810

Microloan Efficiency Measures	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**	**FY 2006 Budget**	**FY 2006 Actual**
Per Loan Funded ($)	$2,507	$3,501	$1,584	N/A	$1,271
Per Business Assisted ($)	$10,241	$10,350	$7,590	N/A	$6,628

[a] As no funding has been requested for this program, no performance goals were developed for FY 2006.
[b] Ibid.
[c] Each small business receives one loan; therefore, the number of new loans funded equals the number of businesses assisted.
[d] Ibid.
[e] Ibid.

Through its Microloan Program, the SBA provides very small loans to start-up and newly-established small businesses that need small-scale financing and technical assistance. Under this program, the Agency lends funds directly to nonprofit community-based lenders, which are called financing intermediaries, at a discounted rate. Intermediaries then make loans to eligible borrowers in amounts up to $35,000. Unlike other SBA programs, microloans to small business borrowers are not guaranteed by the Agency.

In FY 2006, microloans to existing small businesses represented 62.7% of total microloans approved. The average loan to an existing business was $12,773, and the average loan to a start-up was $13,714. Typical small businesses that receive microloans are mom-and-pop businesses and sole-proprietorships working out of a home office.

The SBA's Microloan program is often sought by businesses that have fewer than five employees, very small capital needs and frequently are located in low-income communities. A significant number of microloans are accessed by small businesses that face special opportunity gaps, with nearly 45% or 1,066 loans going to women-owned firms, 662 African American- and 463 Hispanic-owned companies in FY 2006.

The SBA set no program goals for the Microloan program because it requested no funds as part of the FY 2006 Agency's budget.

SUCCESS STORY

Young Entrepreneur Delivers More Than Just Pizza

Ryan Ipsa's journey to owning his own business and being selected as the SBA's 2006 Wisconsin Entrepreneur of the Year started in 1999 when he was a sixteen-year-old high school student. With a push from his mom, Ryan got a job at the local pizza restaurant. Unbeknownst to him, this was the beginning of his entrepreneurial ride to owning Arturo's Pizzeria. Soon after he started working at the Pizzeria, the owner, Arthur Reuter, took him under his wing, taught him the ropes and showed him every aspect of the business. Ryan worked diligently and quickly became Arthur's right hand man.

Ryan remembers many conversations with Arthur about one day owning his own business. He always knew he wanted a career in food service, as he loved to cook. However, at his age, the dream of owning a food service business seemed far, far away.

But in 2003, an unfortunate event pushed his dream to the forefront. Arthur Reuter, the owner and Ryan's mentor, passed away. After serious thought, Ryan decided now was the time to fulfill the dream that had seemed so far away when he was 16. In June of 2003, with the help of an SBA Microloan, Ryan became the proud owner of Arturo's Pizzeria.

Ryan has welcomed young people into his business and now seeks to mentor, empower and educate other young people on the possibilities of entrepreneurship. He is currently pursuing a bachelor's degree in business and plans to open another Arturo's location in Milwaukee in the next five years.

New Markets Venture Capital Program

Table 16.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	NMVC Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	N/A	22	14	12	22	83% B
2.3	SCOGs Assisted [a] (Number)	Intermediate Outcome	N/A	22	20	15	34 [b]	127% B
Small Businesses Assisted			N/A	22	14	12	22	N/A [c]

NMVC Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$12,626	$472	$349	$317	$26

NMVC Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted ($)	N/A	$21,474	$24,927	$26,400	$1,182

[a] Small businesses facing special competitive opportunity gaps are a subset of start-up plus existing businesses.
[b] This value is higher than the number of existing small business assisted, because it includes start-up small businesess assisted.
[c] The total is used only to calculate the unit cost. It does not constitute a performance indicator.

Equity capital is crucial to an innovative and productive business community, especially in lower-income areas. During FY 2006, the SBA used its New Market Venture Capital (NMVC) program to address the unmet equity needs of low-income communities. The Agency addressed these needs by providing NMVC equity assistance, through NMVC companies, to 34 small businesses. The NMVC program is a small program and investments made within it can fluctuate substantially on a year-to-year basis as seen by performance trends presented in Table 16.

Businesses in these areas have traditionally lacked access to capital and the NMVC program is helping to address this need. Through its unique combination of equity capital and technical assistance, NMVC companies now provide these previously neglected small businesses an enhanced opportunity to succeed. So in addition to capital, the NMVC program provides small businesses in these areas with operational assistance, which allows the recipient businesses to more effectively use the resources available to them and increases the likelihood of ultimate success. By improving the potential for businesses in low-income areas, the program can improve the quality of life in these areas by increasing income and job opportunities for the resident population.

Goals Exceeded

Indicator: NMVC Existing Small Business Assisted		
Target	**Result**	**Above Target by**
12	22	83%
Indicator: NMVC SCOGs Assisted (number)		
Target	**Result**	**Above Target by**
15	34	127%
Reasons for performance result		
This reflects the relatively small volume for a program where a slight deviation can cause a dramatic change in the percentage. Additionally, the program is relatively new with little history to guide the projections so estimating projected activity is difficult.		
Steps being taken to improve performance or targets		
As the investment period comes to an end in the near future for most of the NMVC funds, goal levels should more closely approximate actual program activity although fluctuations will still occur given the small size of the program.		
Impact of result		
The impact on small businesses is positive since estimated performance exceeds goal levels and actual levels achieved in FY2005.		

Small Business Investment Companies Program

Table 17.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	SBIC Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Existing Small Businesses Assisted (Number)	Intermediate Outcome	1,675	1,675	1,559	1,442	1,488	3% G
2.3	SCOGs Assisted (Number)	Intermediate Outcome	580	405	351	325	285	-12% R
Small Businesses Assisted			1,675	1,675	1,559	1,442	1,488	N/A [a]

SBIC Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$12,987	$13,490	$15,874	$14,552	$15,169
Approving Admin Cost ($000)	N/A	N/A	N/A	N/A	$3,648
Servicing Admin Cost ($000)	N/A	N/A	N/A	N/A	$8,385
Liquidation Admin Cost ($000)	N/A	N/A	N/A	N/A	$3,136

SBIC Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted ($)	$7,753	$8,053	$10,182	$10,092	$2,452 [b]

[a] The total is used only to calculate the unit cost. It does not constitute a performance indicator.

[b] The formula for calculating the "per Business Assisted" cost was revised in FY 2006 to include only the cost for approving a loan. Previously, this measure was calculated using total program costs.

In addition to providing loan guarantees, the SBA provided long-term loans and equity investments to small businesses through its Small Business Investment Company (SBIC) program.

In FY 2006, the SBA slightly exceeded its SBIC goal of assisting 1,442 existing small businesses. However, it failed to meet its SBIC goal for assisting small businesses facing special competitive opportunity gaps. This is a reflection of the continued larger than anticipated fall-off in the Debenture program. Although the program is shrinking overall, it still plays a role in providing capital to areas not well served by the traditional venture capital industry. The SBIC program is more diverse by geography and industry and makes more substantial investments in low and moderate income areas than private industry.

Due to deficiencies in the Participating Securities (PS) instrument and poor overall SBIC performance, the PS program re-estimates indicated significant losses. As a result, the program was terminated after FY 2004. This in effect removed the primary method by which the SBA can provide access for small businesses to equity capital. In order to help minimize the losses in the PS program and to ensure the Debentures program remains financially sound, in FY 2006, the Investment Division continued to increase its financial monitoring efforts in the Office of SBIC Operations. As a result of its efforts, the Investment Division achieved the lowest percentage of capitally-impaired PS SBICs in the Office of SBIC Operations since FY 2000.

As of June 2006, less than 2% of the SBICs that issued PS leverage were capitally-impaired. This is a significant improvement from the highest point of over 20% of the active PS SBICs capitally-impaired. Towards its financial monitoring efforts, the Investment Division achieved several tasks in FY 2006, including improving its core analytical document, used to evaluate financial performance and regulatory compliance of an SBIC; utilization of the Valuation Contract awarded in FY 2005 to help the program value its portfolio; improving access to data and automation; drafting new operations and licensing standard operating procedures; and re-evaluating its data requirements including new accounting rules and incorporating data needed to better assess private equity portfolios.

Increased failures in PS SBICs and actions taken by the SBA to minimize the cost to taxpayers resulted in a large influx of SBICs transferred into the Agency between 2002 and 2006. This created a considerable receivable backlog resulting in $1.7 billion in leverage under management. The SBA contracted with a leading secondary market private firm and formed a task force to evaluate an efficient process for dealing with the backlog. Their recommendations will be considered for implementation during FY 2007.

Since the mid-1990s, the Debentures program has been a small program relative to the PS program, both in terms of licenses issued and leverage committed each year. Because the PS program was the largest program within the SBIC program, the discontinuation of the PS program has been misconstrued by many in the general public and the private equity press as the discontinuation of the entire SBIC program. Also, the type of funds for which the Debenture security would be appropriate is different from those that used the PS security. Licensing of new SBICs declined from 37 new licenses in FY 2004 to 13 in FY 2006. SBA began an effort in FY 2006 to market its Debenture program in private equity venues. It also began looking at ways to improve the Debenture program to make it more attractive to SBICs and potential applicants, while maintaining the program's financial integrity. In FY 2006, one action taken towards this effort was removing the prepayment penalty on Debenture securities (leverage) after receiving requests from industry and assessing any financial impact. In addition, SBA re-evaluated certain SBIC program regulations that were in conflict with industry norms. The SBA also updated its website to be more reflective of the Debenture program and make it easier to find information regarding the program and its application process.

Goals Not Met

Indicator: SBIC SCOGs Assisted		
Target	**Result**	**Below Target by**
325	285	-12%
Reasons for performance result		
The SBIC program is undergoing a significant transition. The participating securities program ceased licensing SBICs as of 9/30/04. However, SBICs licensed up until that time had and continue to have significant funds to invest in subsequent fiscal years. There has generally been reduced activity in the area of SCOGs assisted particularly among debenture SBICs.		
Steps being taken to improve performance or targets		
SBA is reassessing the definition of SCOGs within the SBIC program to make it more consistent with the way SCOGs are defined in other program areas.		
Impact of result		
As SBA transitions from a large participating securities SBIC program to exclusively a debenture SBIC program, this number will continue to contract. Nonetheless, the SBIC program will continue to provide needed capital to businesses generally not well served by the traditional venture capital industry and on a more diversified base in terms of geography and industry.		

MANAGEMENT ASSISTANCE

At the prospective, nascent and start-up stages in the business lifecycle, management and technical assistance is crucial because it helps to fill in the gaps in knowledge and experience many new entrepreneurs encounter—deficiencies that can be costly, if not lethal, for a start-up enterprise if not addressed immediately.

During FY 2005, the SBA worked to improve the Nation's economy by providing management and technical training and counseling to help start-ups become successful. It did this principally through SBA's Office of Entrepreneurial Development (OED), relying in large part on three resources: SCORE, the Small Businesses Development Centers (SBDCs), and the Women's Business Centers (WBCs). Each of these resource partners focuses on a different segment of the small business community.

Small Business Development Centers

Table 18.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.								
LTO	Small Business Development Centers Key Performance Indicators [a,b]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Startup SB Assisted (Number)	Intermediate Outcome	419,396	442,737	430,965	424,364	422,460	0% G
2.1	Jobs Created/ Retained (Number) [c]	Intermediate Outcome	99,825	102,834	127,665	105,904	N/A	N/A
2.1	Revenue Growth ($ Millions)	Intermediate Outcome	$4,364	$5,879	$4,223	$4,630	N/A	N/A
2.2	Existing SB Assisted (Number)	Intermediate Outcome	268,139	283,062	275,536	271,315	280,559	3% G
2.2	Jobs Created/ Retained (Number)	Intermediate Outcome	63,822	65,796	81,622	67,709	N/A	N/A
2.2	Revenue Growth ($ Millions)	Intermediate Outcome	$2,791	$3,759	$2,700	$2,874	N/A	N/A
Total Business Assisted (Number)			687,535	725,799	706,501	695,679	703,019	
Total Jobs Created/Retained (Number)			163,647	168,630	209,287	173,613	UNAVAIL	
Total Revenue Growth ($ Millions)			$7,155	$9,638	$6,923	$7,504	UNAVAIL	

SBDC's Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$92,760	$103,541	$105,593	$103,233	$103,005

SBDC's Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted ($)	$135	$143	$150	$148	UNAVAIL
Per Job Created/Retained ($)	$567	$614	$505	$595	UNAVAIL
Per Millon of Revenue ($)	$0.01	$0.01	$0.02	$0.01	UNAVAIL

[a] This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported.

[b] The division of results between start-ups and existing businesses are calculated estimates based on historical values.

[c] This economic impact value is available three months after the close of SBDC financial cycle.

To better assess performance and focus the program toward increasing economic impact, the SBA made a dramatic shift in its focus for the SBDC program in FY 2006 by revising performance measurements for 2007. Technological advancements, such as improved data collection through EDMIS II, and a centralized database to collect client data and demographics enabled the SBA to place more emphasis on intermediate outcome and impact measures. These new measurements are: the number of long-term counseling clients; the number of new business starts; and the dollar amount of capital infusion (to include SBA loans, non-SBA loans and equity investment). Each of the 63 SBDC grant recipients from all 50 states, the District of Columbia, and the U.S. territories will use these new performance measurements as leading indicators of economic impact for the program going forward.

The SBA has worked diligently to improve relationships with its stakeholders, in particular with the Association of Small Business Development Centers (ASBDC). The effectiveness of this improved relationship was demonstrated by recent collaboration in many areas ranging from redefining client data for program performance criteria to providing assistance to Hurricane Katrina victims. During the aftermath of Hurricane Katrina, the SBA and the ASBDC worked to redefine program statutory restrictions to allow 45 SBDC counselors from 16 states to travel to the Gulf Coast to assist small businesses in their recovery efforts.

In response to the inception and start-up of three new lead centers, host institutions and networks, the SBA revised its early stage relationship with new lead centers and host institutions. SBA initially analyzed and identified factors contributing to start-up difficulties and rectifying actions that would contribute to survivability and sustainability of brand-new SBDC networks host institutions. This was followed by SBA weekly conference calls with key stakeholders, training, troubleshooting, periodic site visits, and establishing mentorships by seasoned SBDC state directors.

The SBA also made plans, in collaboration with the ASBDC to conduct SBA bimonthly conference calls between headquarters and new state directors as a direct response to the 27% turnover of SBDC directors over the past two years.

Another area of stakeholder improvement has been in the professional development of field staff. Funding was earmarked this year to conduct SBDC project officer training in Orlando, Florida, where field personnel were updated on their duties and responsibilities and on the many changes in program policy and procedures. With a recent turnover of almost two-thirds of current project officers, this project was given critical priority with the intended result of improved levels of capability and customer service between the SBDCs and SBA field staff.

During FY 2006, the SBDC program committed extensive resources to making functional organizational improvements to its programs and office structures. It examined management and oversight processes aimed at reviewing, revising, and cross-referencing program and financial reviews and report follow-ups resulting in a desk audit capability for those centers with good past performance records. Introduction of desk audits enables the SBA to continue a responsible level of financial oversight while remaining cost efficient and improving its ability to judge overall performance of each individual SBDC, in both the financial and service delivery areas, while allowing and correlating each center's budget with performance.

Work also progressed on the development of an electronic model that collects information on various aspects of individual SBDC activity, providing information on the quality of each lead center and the overall network. Once fully deployed in FY 2007, the model will serve as the Agency's main source of integrated reference documentation for each center, identifying common challenges in the areas of compliance and statistically tracking changes in the SBDC network over periods of time. This will allow for early detection of trends and problem areas, as well as best practices of SBDCs, and will affect the type of review an SBDC receives.

SUCCESS STORY

SBA — Where the Rubber Meets the Road and the Environment is The Winner

When Terry Harris started Rubber Wholesalers, Inc. nine years ago, as a producer of scrap rubber "buffings" that come from the top of recapped truck tires, he could hardly give the stuff away. Now, it is the most sought after part of used tires. The rubber recycling firm did over $9 million in sales last year, and Terry was honored as the SBA's 2006 Small Business Person of the Year in Georgia.

In the early days, stuck with piles of tire buffings, Terry realized he had to find a use for his raw material. After studying the industry, he created a line of products that now includes rubber walking trails, rubber flex curbs, rubber safety surfaces for playgrounds and loose-fill rubber mulch that has become his fastest selling product.

The reinvention of Rubber Wholesalers into a manufacturer of recycled rubber products has bounced sales up 140% over its 2004 sales of $4 million!

And the SBA helped too — with two guaranteed loans from the Agency's 7(a) loan program and with assistance from the University of Georgia Small Business Development Center in Dalton, which played a vital role in helping Terry find his initial financing. The first loan provided working capital and money that was used to purchase the company's 40,000 square-foot plant. The second SBA-backed loan was used to buy additional equipment that made production more automated and less labor intensive. The SBDC also helped Terry improve his internal accounting and cash flow management.

Terry says he expects to increase production of his rubber mulch by about 50% this year. And, looking overseas, he has met with a potential joint venture partner to take the product into the European market.

SCORE

Table 19.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	SCORE Key Performance Indicators [a, b]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal [c]	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Start-up SB Assisted (Number)	Output	393,677	388,566	335,090	Baseline	317,674	N/A
2.2	Existing SB Assisted (Number)	Output	80,633	79,586	68,634	Baseline	65,066	N/A
Total Business Assisted (Number)			474,310	468,152	403,724	—	382,740	

SCORE Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$11,284	$17,209	$18,507	$17,442	$16,932

SCORE Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Business Assisted ($)	$24	$37	$46	N/A	$44

[a] This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported.

[b] The division of results between start-ups and existing businesses are calculated estimates based on historical values.

[c] The number of start-up small businesses assisted include businesses that were counseled and/or trained. SCORE has set up FY 2006 as a baseline for clients counseled, because it is implementing the client counseled definition change. Consequently, the aggregate number is also a baseline.

The primary goal of SCORE is business formation and sustainability, and SCORE accomplishes this by getting to as many clients as possible. The organization's core competency is counseling; however, it also delivers training services. The program's $5 million appropriation supports all administrative expenses including leases, equipment, salary and expenses for national SCORE staff, recruitment of volunteers, preparation of all training and marketing materials, per diem reimbursements (for SCORE volunteers), and supporting EDMIS and other projects.

SCORE wants to increase, enhance and develop more online counseling, and is fully integrated into other Agency initiatives such as Community Express and is the provider of technical assistance for the SBA's Faith and Community Based Initiatives. SCORE is also the technical assistance provider for the White House Asian American Initiative.

In FY 2006, SCORE counseled and trained over 317,000 nascent/start-up small businesses and over 65,000 existing small businesses. During this year SCORE finalized the implementation of the new client definitions for counseling and training, and will use FY 2006 results as the baseline to set future targets.

Of particular note is SCORE's focus in increasing its outreach by using its web-based counseling tools. The organization plans to increase "cyber" counseling in 2007 by expanding the database of expertise and types of business skill sets. Both online and hard copy materials are currently available in English and Spanish; plans are to add at least two more languages, one of which will be Vietnamese.

Women's Business Centers

Table 20.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	Women's Business Centers Key Performance Indicators [a, b]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Estimate	FY 2006 % Goal Variance
2.1	Startup SB Assisted (Number)	Intermediate Outcome	85,290	98,170	115,453	101,599	101,044	-1% G
2.1	Jobs Created/ Retained (Number)	Output	6,538	7,921	9,442	9,725	9,630	-1% G
2.2	Existing SB Assisted (Number)	Output	21,322	24,542	28,863	25,400	25,261	-1% G
2.2	Jobs Created/ Retained (Number)	Intermediate Outcome	3,592	3,570	4,295	3,787	3,738	-1% G
Total Small Businesses Assisted (Number)			106,612	122,712	144,316	126,999	126,305	
Toal Jobs Created/Retained (Number)			10,130	11,491	13,737	13,512	13,368	

Women's Business Centers Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$16,653	$21,671	$23,555	$22,614	$22,033

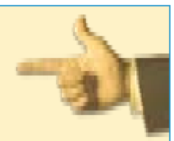
Women's Business Centers Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Business Assisted ($)	$156	$177	$163	$178	$174

[a] This program serves all small businesses including those facing special competitive opportunity gaps (SCOGs); however, the data source for SCOGs is being evaluated. Consequently, no results are being reported

[b] The division of results between start-ups and existing businesses are calculated estimates based on historical values.

Under the Women's Business Center program, centers are only eligible for SBA assistance for a maximum of 10 years. Grants are renewed annually and grant amounts are performance-based. The mature centers that are the most successful, efficient and popular eventually graduate out of the program because of this time limitation. To compensate, the SBA must grow the network by initiating centers into the program at a greater rate than those graduating and encourage faster and better transition to self-reliance in mature centers.

DID YOU KNOW?



America's 9.1 million women-owned businesses employ 27.5 million people and contribute $3.6 trillion to the economy.

Budget and performance integration is a serious challenge for the WBC program, as funding does not drive performance in the respective funded year. The WBC program is the only entrepreneurial development program that bases its grant award amount on the previous fiscal year's performance. This process rewards the centers that are doing the best job and provides an incentive for continued improvement of the grantees' performance. The Office of Women's Business Ownership did a productivity analysis in FY 2006 that will allow the program to set better goals for the centers. Based on that analysis, the WBC is taking steps to integrate budget and productivity, and performance.

In FY 2006, the SBA awarded grants to 19 nonprofit organizations to start new Women's Business Centers, thereby reaching numerous new communities. To ensure continued service to their communities, 13 sustainability grants were awarded to existing WBCs that had completed the initial five-year grant period. With the newly funded centers, the SBA will have 99 WBCs nationwide.

SUCCESS STORY

SBA Rolls to the Rescue!

What kind of company sells "fun and freedom?" Well, according to Shelby Stirrat, owner of Scoot Over, Tucson, Arizona's leading scooter shop, hers does. "We supply full body smiles and increase the joy in our customers' lives," Shelby says.

The idea for the store came from Shelby's husband. One day he bought a scooter and, after Shelby took a spin on it—her first scooter ride ever—she was hooked! She was inspired her to get a scooter of her own, but when trying to buy one in Tucson proved difficult, she decided to look into opening her own store.

Shelby turned to SCORE, the SBA's resource partner, and sought guidance from the SBA's Women's Business Center (WBC). SCORE connected her with University of Arizona graduate students who created the software currently used in Scoot Over's service department.

The WBC, also known as the Microbusiness Advancement Center (MAC), ran her through a 16-week training course designed to move a budding entrepreneur from business concept to completed business plan. Shelby describes her training as extremely intensive and thorough. She explains, "I received the kind of structured guidance in market research needed to break into a new market with a new product."

Having completed her plan, Shelby needed capital. With a $25,000 SBA microloan and money from personal savings, she was able to gather the necessary capital to get things rolling. Not only did the SBA and its resource partners bring her vision to life, they provided access to experts and community resources and helped her understand the value of networking.

Today, Scoot Over is jammed wheel-to-wheel with various sizes and brands of scooters and is growing stronger by the customer. Scoot Over isn't "scootin' over" for anybody!

Drug Free Workplace

Table 21.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	**Drug Free Work Place Key Performance Indicators**	**Type of Measure**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**	**FY 2006 Goal**	**FY 2006 Estimate**	**FY 2006 % Goal Variance**
2.2	Existing SB Educated (Number)	Output	11,873	19,400	5,150	11,800	531	-96% R
2.2	Programs Implemented (Number)	Output	1,500	1,075	1,029	1,029	62	-94% R

Drug Free Work Place Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$1,941	$1,025	$1,033	$1,034	$1,165

Drug Free Work Place Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Estimate
Per Program Implemented ($)	$1,294	$954	$1,003	$1,005	$18,790

The Drug Free Workplace (DFWP) program requires the SBA to award grants to eligible intermediaries to provide financial and technical assistance to small businesses seeking to establish drug free workplace programs. The grantees are also expected to educate working parents on how to keep their children drug free. The program also requires the SBA to award contracts to Small Business Development Centers (SBDC) to provide information and assistance to small businesses with respect to establishing drug free workplace programs.

Currently, there are five grantees that are carrying out the requirements of the program. Additionally, the SBA issued another Program Announcement for the DFWP and expects to add approximately five more grantees for a total of 10 grantees in the program during FY 2007. In FY 2008, the 10 DFWP grantees will continue to provide technical and financial assistance to small businesses that are interested in implementing drug free workplace programs and continue to provide training to those small businesses that are maintaining a DFWP program.

Goals Not Met

Indicator: Existing Small Businesses Educated (Number)		
Target	**Result**	**Below Target by**
11,800	531	-96%
Indicator: Programs Implemented (Number)		
Target	**Result**	**Below Target by**
1,029	62	-94%
Reasons for Performance Result		
The methodology used for setting the goals did not accurately consider the effect of historical performance, together with decreases in the number of grantees and the incorporation of new grantees into the program		
Steps Being Taken to Improve Performance or Targets		
The program is developing a methodology for setting targets based on historical performance and the other factors identified as having an effect on performance.		
Impact of Result		
A better goal setting methodology should help in the management of the program		

District Offices Counseling and Training

Table 22.

Performance Statement
Agency Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	District Offices Counseling and Training Key Performance Indicator	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1, 2.2[a]	Small Business Assisted (Number)	Output	N/A [b]	329,270	409,276	293,639	315,665	8% G

Counseling and Training Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program Cost ($000)	$0	$0 [c]	$32,119	$29,623	$16,208

Counseling and Training Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted ($)	N/A	$0	$78	$101	$51

[a] The program was not able to differentiate between start-ups and existing businesses.

[b] This activity was not tracked in FY 2003.

[c] Until FY 2004 the cost of counseling and training by district offices was allocated as program overhead.

The SBA district offices provide counseling and training services to individuals and/or businesses that aid in the formation, management, financing, and/or operation of a small business enterprise. Counseling, as opposed to training, is one-on-one and is specific to the client's individual needs. Training is delivered via a structured program on a business-related subject to one or more attendees at events lasting at least one hour. In FY 2006, SBA field office employees counseled and trained 315,665 small businesses or would be entrepreneurs. The topics of the counseling and training were as diverse as the clientele itself.

There is no overlap in the collection of data or services provided with SBDC, SCORE and WBC, because the populations served are different, and the services provided are tailored to their individual populations. The SBA field offices also provided local direction and oversight to the local SBDC, SCORE and WBC.

SUCCESS STORY

When the Going Gets Rough, the SBA Gets You Going

When Mike Adrian started Horizon Medical Technologies, LLC, a small medical equipment supplier and diagnostics company in Morgantown, West Virginia, the future seemed bright. Then, within the first seven months, disaster struck with the overnight foreclosure of the contractor who managed purchases and billing for 14 of Horizon's hospitals; the receivables from their previous sales would never be collected. "We had this rather large black hole in our receivables which presented a major cash flow problem," said Adrian.

As if that wasn't enough, Horizon's second largest health care client filed for protection under bankruptcy. "In 75 days we had lost 70% of ongoing revenue and 60% of our current receivables," continued Adrian. "We had less than 90 days in operating cash."

That's when Adrian decided to redirect the company's emphasis from a supplier of medical equipment to a provider of employee diagnostic services and pursue an SBA guaranty 7(a) loan. "My efforts with several banks fell on deaf ears," stated Adrian. With little time left before the inevitable, Adrian sought help from the SBA.

Sharon Weaver of the SBA West Virginia district office turned out to be Adrian's contact. "Sharon focused on the issue at hand – the refinancing of my debt and the providing of operating capital that would provide the means to restructure the company," said Adrian. After the meeting, Adrian was brimming with newfound encouragement and approached Mark Randalls of Bruceton Bank. Randalls agreed that an SBA guaranty would be ideal; a loan was approved and the financing was established. Since then, Horizon has also received assistance from SBA's HUBZone program, and latest reports show the company is strong and stable.

PROCUREMENT ASSISTANCE

The SBA offers established businesses opportunities to sell products and services to the Federal Government. Purchases by military and civilian installations amount to nearly $300 billion a year and include everything from complex space vehicles to janitorial services to cancer research. In sum, the Federal Government buys just about every category of commodity and service available.

Four of the small business programs at the SBA that provide procurement assistance are the 8(a) Business Development program, the HUBZone program, the 7(j) Management and Technical Assistance program and the Surety Bond Guaranty program. Each of these programs has a very different objective, yet their missions complement one another. The 8(a) program is a business development program whose primary objective is to increase small business ownership among individuals who own and control little capital. The HUBZone program is a procurement assistance program whose primary objective is job creation and increasing capital investment in distressed communities. The 7(j) is a program that enters into grants, cooperative agreements or contracts with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance. This assistance is delivered to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low income, or firms owned by low-income individuals. Through the Surety Bond Guarantee (SBG) Program, the SBA provides small businesses with the opportunity to compete in the contracting industry. Under this program, the SBA guarantees bid and final bonds that enable small businesses to bid on and perform on projects for which they would not otherwise qualify.

8(a) Program

Table 23.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

LTO	8(a) Key Performance Indicators [a,b,c]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Existing SB Assisted	Intermediate Outcome	8,431	8,900	9,458	9,500	9,600	1% G

8(a) Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$33,374	$34,945	$31,387	$29,053	$29,582

8(a) Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Small Business Assisted	$3,959	$3,926	$3,319	$3,058	$3,081

[a] Represents all 8(a) certified small businesses.
[b] To be eligible for 8(a) certification a small business must be in existance for at least two years.
[c] Any small business that is 8(a) certified is considered to be facing special competitive opportunity gaps.

The SBA's 8(a) program, named for a section of the Small Business Act, is a business development program created to help small disadvantaged businesses compete in the American economy and gain access to the federal procurement market. Firms receiving assistance from the program must meet the following criteria:

- Must be a small business;
- Must be unconditionally owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and citizens of the United States; and
- Must demonstrate potential for success.

Table 23 shows the number of small business assisted by the 8(a) program during FY 2006. In FY 2007, the SBA intends to explore and implement new methodologies for measuring the impact of the program on the success of small business. The previously used survey methodology did not allow the measurement of the impact of the program in the whole population served by the program.

In 2006 the SBA worked to fine tune the 8(a)/SDB e-application, which is the first phase of the new Business Development Management Information System (BD-MIS). The BD-MIS will replace the current SACS/MEDCOR data base which utilizes outdated technology and does not meet the needs of the program. The SACS/MEDCOR system was created in 1995. It consists of two parts: the Servicing and Contracting System (SACS) and the Minority Enterprise Development Central Office Repository (MEDCOR). Basic information about 8(a) firms, including such demographic data as the location, minority status, and gender of the owners, is stored in SACS. Data about proposed and awarded contracts resides in MEDCOR. The BD-MIS was developed, in response to the President's Management Agenda on E-Government, to expand the use of electronic tools and the Internet as a means of service delivery.

The e-application module of the BD-MIS experienced operational problems during the first year of the pilot. The system could not generate some reports, was not user-friendly and there were problems processing applications within the system. The SBA immediately took control of the problem by hiring a contractor to review the system to identify weaknesses and to suggest improvements. The weaknesses are being addressed, and the system will be re-engineered to make it more user-friendly. The re-engineered e-application will be available in FY 2007. Additionally, it became evident in the pilot that some programmatic requirements were not being addressed by the paperless e-application process.

The Agency also began a program to train Business Development Specialists (BDSs) in the district offices who deliver the 8(a) program in the field. The reason for training the BDSs was to enable them to provide better customer service to the 8(a) firms they service. Each month, training is provided to BDSs on topics pertaining to the 8(a) program such as annual reviews, mentor-protégé and calculating size. Furthermore, in 2006, the SBA held a very successful four-day training conference for the lead BDSs from each district office and branch office. The conference provided an opportunity for training and also provided a dialogue between headquarters and the field on 8(a) issues.

The following actions are being taken to improve performance of the 8(a) program:

- Strengthening criteria relating to economic disadvantage;
- Developing and implementing new information technology management systems including electronic applications and annual review processing, as well as a dynamic management reporting system;
- Automating 8(a) annual review process to reduce costs;
- Awarding a contract at the end of FY 2006 to perform Lean Six Sigma business process reengineering for BD's programs. Lean Six Sigma is a management model that improves process flow in both speed and quality to enhance efficiency.

8(a) Program: District Offices Support

Table 24.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	District Offices 8(a) Program Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Annual 8(a) Reviews %	Output	55%	60%	77%	100% [a]	56% [b]	-44% R
2.2, 2.3	New Certifications	Intermediate Outcome	1,351	1,328	1,473	N/A [c]	889	N/A

District Offices 8(a) Program Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Field - 8(a) Reviews ($000)	$26,363	$18,339	$11,422	$10,263	$9,563
Total Field 8(a) Marketing and Outreach ($000)	$0	$9,499	$11,614	$10,738	$12,727

District Offices 8(a) Program Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Review ($)	$687	$415	$182	$113	$188
Per New Certification ($)	$0	$7,153	$7,885	N/A	$14,316

[a] The SBA is required by statute to review 100% of the 8(a) firms each year.
[b] SBA completed 5,081 (56%) of the 9,050 reviews required in FY 2006.
[c] The SBA does not set targets for new certifications.

The Agency is statutorily mandated to review 100% of its 8(a) portfolio annually. During FY 2006, 56% of the reviews were completed, down from 77% in FY 2005. This continued a downward trend that began in FY 2003. A significant contributing factor was the distribution of staff resources at the district office level. The Agency, as part of its transformation, will consider re-allocating resources from 8(a) Marketing and Outreach to Program Reviews to comply with the statutory mandate of 100% portfolio review. Based on cost, this would be a more effective and efficient use of resources, since the marketing cost per newly certified firm has increased from $7,885 in FY 2005 to $14,316 in FY 2006. Meanwhile, the per-review cost has remained essentially flat between the two years; $182 per review in FY 2005, and $188 in FY 2006.

Goals Not Met

Indicator: 8(a) Reviews		
Target	**Result**	**Above/Below Target by**
100%	56%	-44%
Reasons for performance result		
Limited staff resources are a significant contributing factor to the below target performance.		
Steps being taken to improve performance or targets		
The performance goal was set based on a statutory requirement. OFO is concerned with the ability of the district offices to complete the annual reviews of Section 8(a) firms in a timely manner. OFO is working closely with the Office of Business Development to identify and implement procedures to streamline the process and ensure that all reviews are completed on time and in compliance with the statutory requirements.		
Impact of result		
There was no indication that the overall program was adversely affected. However, SBA is committed to reaching 100 % compliance and ensuring the integrity of the program.		

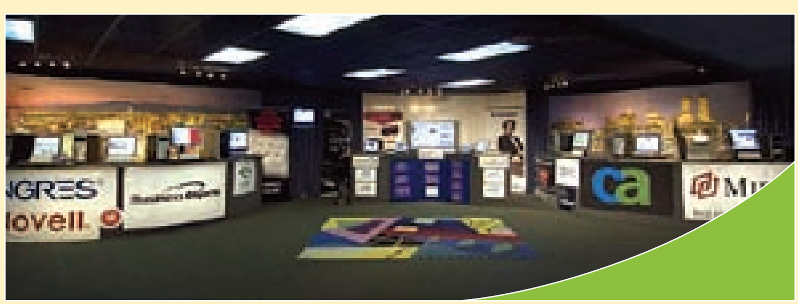
SUCCESS STORY

SBA Helps Makes the Country Safer

Ellie Nazemoff emigrated from Iran to the United States in 1977, seeking opportunities not available to women in her native country. After earning a master's degree from Strayer University, she started her own consulting business, DataTech Enterprises, marketing an office management software program for doctors that she designed and developed. Marketing brought the realization that many doctors did not yet have computers in their offices, so she bundled hardware and software together and began to sell packages. Four years later, in1989, she started seeking out government contracts.

By 2001 the company had sufficient credentials to become a prime contractor. However, the business suffered a setback after the 9/11 terrorist attacks when the Federal government cancelled some of its contracts. Ellie knew she had to do something. She applied for and received an SBA Disaster Assistance loan and redirected the firm's emphasis to include security technology. The strategy paid off! DataTech was ranked No. 2 in the Fast Growth 100 for the 12 months ending June 30, 2004. In 2004, the company was certified under the SBA's 8(a) and HUBZone programs

Today the firm has a new name, Acolyst, has grown to 15 employees, reported over $2 million worth of business last year, and has a string of contracts to its credit. "We listen to our clients," Ellie says. "More and more they are requesting Commercial Off The Shelf (COTS) products, integration tools and methodologies." The firm's new name, Acolyst, was chosen as a combination of the words "acolyte" and "catalyst," the combination signifying Acolyst's growth and evolution into a qualified COTS Integrator.



HUBZone Program

Table 25.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	**HubZone Key Performance Indicators**	**Type of Measure**	**FY 2003 Actual**	**FY 2004 Actual**	**FY 2005 Actual**	**FY 2006 Goal**	**FY 2006 Actual**	**FY 2006 % Goal Variance**
2.2, 2.3	Small Businesses Assisted	Intermediate Outcome	2,338	2,294	2,960	4,900	5,044	3% G
2.2, 2.3	Annual Value of Federal Contracts ($ Billion)	Intermediate Outcome	$3.4	$4.8	$6.1	$7.0	UNAVAIL[a]	N/A

HubZone Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$5,649	$6,825	$7,769	$7,304	$7,496

HubZone Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted	$2,416	$2,975	$2,624	$1,491	$1,486
Per Contract Dollar	$0.002	$0.001	$0.001	$0.001	UNAVAIL

[a] Final data is not available from FPDS until April 2007.

The HUBZone contracting program is a community-based program that encourages economic development in historically underutilized business zones, "HUBZones." Its mission is to increase employment, promote capital investment, and foster economic development in distressed urban and rural communities throughout the Nation. Eligible communities include qualified census tracts, non-metropolitan counties experiencing high unemployment or low household income, Indian Country, difficult to develop areas outside the contiguous United States, and areas affected by military base realignments.

Economic Impact measures - The SBA measures the economic impact it is having in eligible HUBZone communities with two individual evaluations, one that is done by the Agency and one that is done by a congressionally mandated independent review of the HUBZone Program. The latter report is due in FY 2008.

Securing HUBZone Contracts – If the first step of the community-based economic development effort is acquiring a portfolio of capable HUBZone-certified firms to perform on government contracts, the next step is acquiring set-aside HUBZone contracts from federal contracting officers. Recognizing that the HUBZone Program's utility as an economic development tool hinges upon award of substantive federal contracts to certified firms, the SBA continued implementation of the HUBZone Procurement Query and Reporting System. The system assists acquisition agencies in identifying opportunities to set-aside for award to HUBZone firms, and to help agencies in meeting the three percent statutory contracting target. The system queries the FedBizOps database daily to identify opportunities that could have been set-aside for HUBZone competition, but were not, and notifies appropriate contracting officers and Offices of Small and Disadvantaged Business Utilization in the relevant federal agencies. The objective of this effort is to educate contracting officials of their statutory and regulatory obligations to set-aside contracts for HUBZone competition, and thereby increase awards to HUBZone-certified firms to promote job growth, investment, and economic development in distressed communities.

Mapping more geographic HUBZone areas – Congress identified additional areas (outside the continental U.S.) which were considered difficult development areas in need of economic development. In FY 2006, the HUBZone program provided outreach to these communities by updating and modifying HUBZone geocoding mapping systems to identify these areas and areas affected by base realignments and closures.

Surety Backing – Under the Surety Bond Guarantee Special Initiatives, HUBZone-certified firms, along with firms owned by those deemed "socially and economically disadvantaged," are eligible to receive a 90% SBA guarantee. Feedback from discussions with the HUBZone Contractors National Council, a private sector trade organization, and SBA public outreach events during FY 2005 and 2006 established that many HUBZone firms felt more information on surety options was needed within the general HUBZone contracting community.

There were two main reasons – some HUBZone-certified concerns are unaware of this special consideration, and those HUBZone contractors aware of the surety initiative felt contracting officers were overlooking the firms for construction contract opportunities based in part on a concern with surety considerations. Surety backing is required under the Miller Act for federal construction projects.

Therefore, SBA conducted an outreach and marketing campaign during FY 2006 that involved targeted marketing to the HUBZone Council members, as well as the overall HUBZone portfolio. In addition, a training session was conducted for all HUBZone district office liaison staff.

Regulatory Definition of "Employee" – Over the past few years there has been confusion dealing with the specific definition of "employee," how the HUBZone program defines "temporary" and "permanent" employee, and how this affects the 35% employee eligibility requirement. During FY 2006, a working group that included Office of General Counsel (OGC), HUBZone and Office of Inspector General staff was convened to review the current regulatory definition of employee and draft a proposed rule that defines employee in simple terms that both meets the statutory objectives of the program and is easily understood by the public. The HUBZone program has been in consultation with representatives of the OGC and others within the Office of Government Contracting to insure that the proposed definition is consistent with use of the term in other Agency programs. This regulatory clarification will result in greater customer understanding of program eligibility requirements, expand the base of eligible firms, and result in an increased number of applications and resulting certifications.

The SBA awarded a multiyear contract for a major system upgrade of the HUBZone Certification and Tracking System (HCTS) valued at approximately $1.3 million. The goal is to procure necessary software, systems, and services to upgrade and maintain (and in limited instances create) the electronic systems of the existing system to ensure efficient, effective, and customer-centric administration and operation of the HUBZone Contracting Program. This upgrade will allow the SBA to better manage and administer the HUBZone program. It can be noted that the contract was solicited as a HUBZone set-aside. The successful offeror, Sycamore Associates, was featured in the FY 2005 Performance Accountability Report as a HUBZone success story.

DID YOU KNOW?

Procurement center representatives can be found at each major agency and military installation. They help increase the small business share of federal procurement awards by initiating small business set-asides; reserving procurements for competition among small business firms; providing small business sources to federal buying activities; and counseling small firms.

HUBZone: District Offices Support

Table 26.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	District Offices HubZone Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2, 2.3	Reviews	Output	N/A [a]	510	593	668	703	5% G
2.2, 2.3	New Existing SB Certifications	Intermediate Outcome	2,237	2,216	2,208	2,200	2,211	0% G

District Offices HubZone Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Field - Hubzone Reviews ($000)	$3,070	$404	$1,460	$1,337	$1,515
Total Field -Marketing & Outreach ($000)	$0 [b]	$2,837	$2,925	$2,685	$2,770

District Offices HubZone Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Review ($)	N/A	792	2,462	2,002	2,155
Per New Certification ($)	N/A	1,280	1,325	1,221	1,253

[a] This activity was not tracked in FY 2003.
[b] FY 2003 cost data for this activity is not available.

The SBA district offices are responsible for the marketing of the HUBZone program at the local level. This marketing results in new firms applying for HUBZone certification. Increasing the size of the portfolio is important because increases the diversity and density of small businesses in a HUBZone. This in turn increases the possibilities of federal contracts being awarded to HUBZone firms. During FY 2006, the SBA certified 2,211 new firms at marketing and outreach cost of $1,253 per certification. This figure does not include the allocated resources at headquarters level.

District offices are also responsible for annually reviewing five percent of HUBZone portfolio. The SBA had a goal of ensuring that 668 Hub-Zone reviews were completed during FY 2006. By the end of FY 2006, 703 reviews had been conducted by the district offices, representing an 18% increase over the FY 2005 accomplishment. Furthermore, the cost per review fell slightly from $2,462 in FY 2005 to $2,155 in FY 2006 –representing a 14% reduction in per-review cost. Part of this decrease can be explained by the larger percentage of overhead being allocated to the disaster loans because of the unusually large volume of loans in FY 2006.

7(j) Program

Table 27.

Performance Statement Program Level Assistance Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs								
LTO	7(j) Key Performance Indicators [a,b]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2,2.3	Existing SB Assisted	Intermediate Outcome	N/A	5,776	2,107	2,200	2,317	5% G

7(j) Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$2,803	$4,626	$3,116	$2,905	$2,289

7(j) Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Business Assisted ($)	N/A	$801	$1,479	$1,320	$988

[a] This is the number of small businesses that received face-to-face training.
[b] Only 8(a) certified firms receive training under the 7(j) program. Any small business that is 8(a) certified is considered to be facing special competitive opportunity gaps.

Under Section 7(j) of the Small Business Act, the SBA is authorized to enter into grants, cooperative agreements or contracts with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance under the Act. This assistance is delivered through the 7(j) Management and Technical Assistance program to 8(a) certified firms, small disadvantaged businesses, businesses operating in areas of high unemployment or low-income, or firms owned by low-income individuals. The 7(j) training helps small businesses close the competitive opportunity gap by preparing them to better compete in the mainstream marketplace.

The 7(j) program grants, cooperative agreements, or contracts are awarded to service providers who have the capability to provide business development assistance to the eligible clients. The 7(j) program funding is not available to finance a business; purchase a business; or use as expansion capital for an existing business.

Financial assistance under the 7(j) program may be given for projects that respond to needs outlined in a program solicitation announcement, or for an unsolicited proposal that could provide valuable business development assistance for 8(a) and/or other socially and economically disadvantaged small businesses. The management and technical assistance may include accounting and marketing services, feasibility studies, marketing/presentation analyses and advertising expertise, loan packaging, proposal/bid preparation, industry specific technical assistance and other specialized management training and technical services. Additionally, an executive education program is offered for owners and senior officers of 8(a) firms to take part in intensive week-long training sessions.

In FY 2006 the 7(j) Management and Technical Assistance program provided training to more firms than ever before. Through two contracts awarded under the program, the SBA provided Basic and Advanced CEO Training and Cost and Price Analysis to 7(j) eligible firms nationwide. The assistance was provided through face-to-face training. Web-based seminars and DVDs were provided to those firms that could not attend the face-to-face sessions.

Surety Bond Guarantee Program

Table 28.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.

LTO	SBG Key Performance Indicators [a]	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.2	Bid Bonds: Existing SB (Number)	Output	N/A	N/A	3,998	5,408	3,508	-35% R
2.2	Final Bonds: Existing SB (Number) [b]	Output	N/A	N/A	1,680	2,317	1,706	-26% R
2.3	Bid Bonds: SCOG (Number)	Output	N/A	N/A	931	1,382	953	-31% R
2.3	Final Bonds: SCOG (Number) [c]	Output	N/A	N/A	530	777	638	-18% R
Small Businesses Assisted [d]			N/A	N/A	1,680	2,317	1,706	N/A [e]

SBG Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$3,666	$3,818	$4,882	$4,608	$7,006

SBG Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Bid Bond ($)	N/A	N/A	$1,221	$852	$1,997
Per Final Bond ($)	N/A	N/A	$2,906	$1,989	$4,107

[a] Final bonds represent the actual bonds guaranteed by the SBA and equates to the number of businesses assisted.
[b] New indicator for FY 2005.
[c] Ibid.
[d] This is equal to the number of existing businesses receiving bonds. Surety bonds program is limited to existing business.
[e] The total is used only to calculate the unit cost. It does not constitute a performance indicator.

The SBA did not meet its FY 2006 surety bond goals, which were very aggressive. The FY 2006 goal represented a 35% increase over FY 2005 actual program activity. Other factors that negatively affected the achievement of surety bond goals were: a 30% surety fee increase; a decrease in Preferred Surety Bond Program activity that resulted from an earlier program shutdown and an obsolete rate cap on these sureties; and limited marketing and outreach.

During FY 2006, the SBA began the development and implementation of the following program improvements: an electronic application processing system; a reorganization of the surety bond Area Offices; a regulatory change that removes a 1987 rate cap on Preferred Surety Bond sureties and increases the guarantee percentage for veteran-owned and service-disabled veteran-owned businesses; a re-engineering of claims processes and more intensive marketing and outreach efforts.

Goals Not Met

Indicator: Bid Bonds: Existing SB (number)		
Target	**Result**	**Below Target by**
5,408	3,508	-35%
Indicator: Final Bonds: Existing SB (number)		
Target	**Result**	**Below Target by**
2,317	1,706	-26%
Indicator: Bid Bonds: SCOG (number)		
Target	**Result**	**Below Target by**
1,382	953	-31%
Indicator: Final Bonds: SCOG (number)		
Target	**Result**	**Below Target by**
777	638	-18%
Reasons for performance result		
The Surety Bond Guarantee program has been affected by significant events that have had an impact on production performance. In FY2005, the preferred security program was shut down as legislative authority for the program expired and was not reinstated for several months. Several significant producing companies in the preferred security program chose not to resume operations with SBA when the program was reinstated which continued to have an impact in FY2006. In addition, a fee increase was implemented in FY2006 that further depressed activity this year.		
Steps being taken to improve performance or targets		
The SBA has set goals for FY2007 in the surety bond program more in line with production in FY2005 and FY2006. Further, a number of initiatives including an electronic application and regulatory changes governing fees a surety company may charge should have a positive impact making more bonds available to small businesses in FY2007.		
Impact of result		
The SBA's actual production in FY2006, while not meeting the goaled established for FY2006, did exceed FY2005 in most all categories.		

SUCCESS STORY

SBA “Trusses” Business by Bonding It

Marty Hortman is President and owner of Metalite Inc., a Georgia-based fabricator and erector of metal roof trusses for commercial buildings. His company, based in Oakwood, Georgia, has used the SBA's Surety Bond Program for performance bonds on several million dollars in roofing contracts over the past year alone.

“The SBA's Surety Bond Program has definitely worked for us. I would recommend the program to other small building contractors.” says Hortman

The U.S. Small Business Administration's Surety Bond Guarantee Program is catching on fast with small contractors that have reached the size where bonding is critical to winning a government contract or a subcontract with a major construction company.

Hortman started his career in the home construction business in 1977 in Douglas County. For several years he did home remodeling in Douglas County before starting his own roof truss design and engineering company in 1985. Later in 1989, he established Metalite Inc., and began to specialize in truss systems for commercial warehouses, shopping centers and other commercial buildings.

Metalite posted sales of about $2.5 million in 1998. This year, the company expects to reach nearly $12 million in sales, with a backlog of several dozen jobs stretching from Mississippi into North Carolina and the Florida Panhandle.

Metalite Inc. got its SBA guaranteed bonds through The Surety Group, a commercial bonding company in Atlanta. For Hortman, the SBA-backed performance bonds covered Metalite's work in Georgia and several other states. These bonds ensure that the company pays subcontractors, related suppliers and successfully completes the project.

TARGETED ASSISTANCE

Targeted Assistance					
Targeted Assistance Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
PRIME Technical Assitance [a]	$4,558	$5,105	$5,063	$2,154	$1,926
National Women's Business Council [a]	$917	$953	$701	$890	$831
Native American Outreach [a]	$2,536	$4,440	$3,530	$4,347	$3,739
Veteran's Business Corporation [a]	$1,729	$3,167	$3,253	$3,009	$3,590
Small Business Training Network [a]	$0	$1,379	$204	$309	$268
Total Targeted Assistance ($000) [b]	$9,740	$15,044	$12,752	$10,709	$10,354

[a] Indicators have not been identified for these programs.
[b] Data source is being evaluated; consequently no indicators are provided.

Some of the SBA's programs focus on specific small business populations that face special competitive opportunity challenges. Three of these programs are the Native American Outreach Program, the Veterans Business Development Program and the Center for Faith-Based and Community Initiatives.

Native American Outreach

The Office of Native American Affairs is charged with providing assistance to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa. SBA loan guarantees and technical assistance services are available to members of these constituencies living in urban areas and certain rural communities; but for members living in Indian Country, actual reservation communities where the land is held in trust by the Federal Government, the SBA services provide marginal value at best. In addition to the issue of land ownership, most tribes are located in remote regions of the country, far removed from major metropolitan areas and the potential customers for products and services.

The SBA, in recognition of the broad, strategic challenges facing tribal leaders and decision makers, has embarked upon an initiative to create a web-based "Self Assessment Tool" designed to guide tribal leaders through a series of questions that will identify areas of strength where tribes are likely to enjoy a better chance of success and areas of weakness which require attention or abandonment of investments in business sectors where those weaknesses would threaten success.

The initiative began in earnest late in the third quarter of FY 2006. Through the use of a primary contractor, the SBA has convened an Initiative Oversight Committee made up of approximately 30 people, mostly of Native descent and coming from a wide geographic area. The process will better equip tribes to make informed decisions and enable the Agency to develop relationships with tribes and Indian entrepreneurs seeking specific services.

Veterans Business Development

The mission of the SBA Office of Veterans Business Development is to conduct comprehensive outreach to veterans, service-disabled veterans and Reserve and National Guard small business owners; to formulate, execute and promote policies and programs of the Administration; and to act as an ombudsman for full consideration of veterans in all programs of the Administration.

In carrying this out, the SBA offers programs and services designed to assist small business owners and entrepreneurs in starting, managing and growing successful small business concerns that are a source of competitive American strength in the global economy. The office operates its National Outreach Initiative through direct service delivery, through utilization of funding agreements with resource partners, through coordination of outreach and service delivery with other federal agency partners, and through development of Agency program initiatives.

Faith-Based and Community Initiatives

Faith-based and other community organizations have long performed a critical service by helping people in need. The SBA Center for Faith-Based and Community Initiatives works to help these groups access SBA and Federal Government services and products.

A principal strategy is to reach out to assist these groups in identifying programs and services that will expand their capacity to serve their communities. As part of its outreach effort, in FY 2006, SBA district offices held over 2,300 workshops and meetings attended by more than 200,000 people. The office participated in regional conferences across the Nation and worked with SCORE to help build capacity among non-profit organizations, both secular and faith-based.

DISTRICT OFFICES MARKETING AND OUTREACH

Table 29.

Performance Statement
Program Level Assistance
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps.

LTO	District Office Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1, 2.2, 2.3	Lender Training (Number of Lenders) [a]	Output	N/A	N/A	18,926	8,879	15,448	74% B
2.1, 2.2, 2.3	Marketing and Outreach (Number of Activities) [b]	Output	N/A	N/A	479,098	308,779	460,869	49% B

District Office Budgetary Resources [c]	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Lender Training Total Program Cost ($000)	$0	$0	$10,126	$9,215	$6,088
Marketing and Outreach Total Program Cost ($000)	$41,500	$71,938	$66,223	$60,353	$67,629

District Office Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Lender Training Per Lender ($)	N/A	N/A	$535	$1,038	$394
Marketing and Outreach Per Activity ($)	N/A	N/A	$138	$195	$147

[a] SBA did not track this activity in FY 03 or 04.

[b] Ibid.

[c] These costs have been allocated across the financial, management, and procurement assistance programs.

The SBA district offices provide information on and promote SBA products to our lending partners and to the small business community. To continue improving the quality of the services provided by district offices, the SBA — in conjunction with the America East Lenders' Conference — trained 91 field staff in "Basic Commercial Credit" and "How to Train Lenders". In addition to providing information about SBA loans, district office employees conducted marketing, outreach, and training programs on contracting with the Federal Government and other business development opportunities to the Nation's socially and economically disadvantaged small businesses.

Goals Exceeded

Indicator: Lender Training (number of lenders)		
Target	**Result**	**Above Target by**
8,879	15,448	74%
Indicator: Marketing and Outreach (number of activities)		
Target	**Result**	**Above Target by**
308,779	460,869	49%
Reasons for performance result		
The performance goals were set at an approximate target level.		
Steps being taken to improve performance or targets		
SBA's goal team is reviewing the methodology for setting this goal.		
Impact of result		
Reaching additional lenders and small businesses is viewed as a positive result.		

GROUPS FACING SPECIAL COMPETITIVE OPPORTUNITY GAPS

The Small Business Act states that the broadening of small business ownership among groups that presently own and control little productive capital is essential to provide for the well-being of this Nation. Promoting their increased participation in the free enterprise system of the United States is within the SBA's mission. A significant part of SBA's mandate is to help bridge the gaps for groups facing special competitive opportunity gaps.

While the number of small businesses in the U.S. is growing about 8% per year, minority-owned small businesses are growing about 20% per year [22], according to the latest Census Bureau data. The Center for Women's Business Research reports that from 1997 to 2004, the number of firms that are majority-owned by women increased by 17%, nearly twice the increase of all privately held firms. [23]

However this increase doesn't give the complete picture. Minority-owned businesses are:

- Less likely to remain in business than non-minority-owned businesses[24]
- Younger and smaller in employment, sales, and assets
- More often organized as proprietorships.

Lack of access to capital is one of the main gaps faced by firms whose ownership is African American, American Indian or Alaska Native, Hispanic, Asian, female or who reside in rural or low income areas. These firms are:

- Less likely to use any financial service
- More likely to have unmet credit needs

Personal assets are often important in the decision to extend credit to small businesses. The U.S. Census reports that "More than 6-in-10 of the nation's businesses reported using money or assets of their own or from their families to start or acquire the business." [25] Low levels of assets limit entry into business ownership and increase business exit among disadvantaged groups. [26] In particular, home ownership is associated with approximately a 30% reduction in the predicted probability of loan denial. [27] While home ownership, particularly minority home ownership, has increased significantly in the past five years, gaps still exist.

A common theme that emerges is that SBA may help increase access to capital to disadvantaged businesses by enabling lenders to make loans that would not have been made otherwise. The SBA guarantees loans using business cash flow as a qualifying requirement, as opposed to available collateral, and thereby evens the playing field and has an impact beyond merely providing a source of capital. The SBA guarantee programs can often act as the bridge to overcome a lack of assets and prevent loan denials.

22 This increase may be more valid for small new firms.

23 Lending Programs Offer More Small-Business Aid. Wall Street Journal online. http://www.startupjournal.com/financing/trends/20050201-chozick.html

24 Ying Lowrey (2005), ''Dynamics of Minority-Owned Employer Establishments, 1997–2001: 1997–2001: An Analysis of Employer Data from the Survey of Minority-Owned Business Establishments,'' Research Study, U.S. Small Business Administration, Office of Advocacy (February). www.sba.gov/advo/research/chron.html.

25 U.S. Census Bureau - Survey of Business Owners - Characteristics of Businesses: 2002. http://www.census.gov/csd/sbo/cbsummaryoffindings.htm

26 The Small Business Economy, SBA's Office of Advocacy. http://www.sba.gov/advo/research/rbsb_econ2005.pdf

27 Cavalluzzo, Ken S. and Wolken, John D., "Small Business Loan Turndowns, Personal Wealth and Discrimination" (May 2003). FEDS Working Paper No. 2002-35. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=333580

African Americans

In 2002, there were 1.2 million African American-owned firms in the U.S., employing nearly 754,000 persons and generating nearly $89 billion in business revenues. These African American-owned firms accounted for 5.2% of all non-farm businesses in the U.S. [28] However, only 61% of those established in 1997 were still in business as of 2001, compared to 72.6% for the non-minority-owned businesses. [29]

Figure 3 shows that the percent of SBA's 7(a) loans going to African Americans has nearly doubled from their lowest point at 3.9% in FY 2002. This increase coincides with the expansion of the SBA*Express*, a 7(a) loans delivery system, which enabled lenders to use their own loan documents to ease service delivery and expand SBA impact in smaller loan amounts, an area crucial to nascent entrepreneurs.

Figure 3.

Approved 7(a) Loans
Percent to African Americans

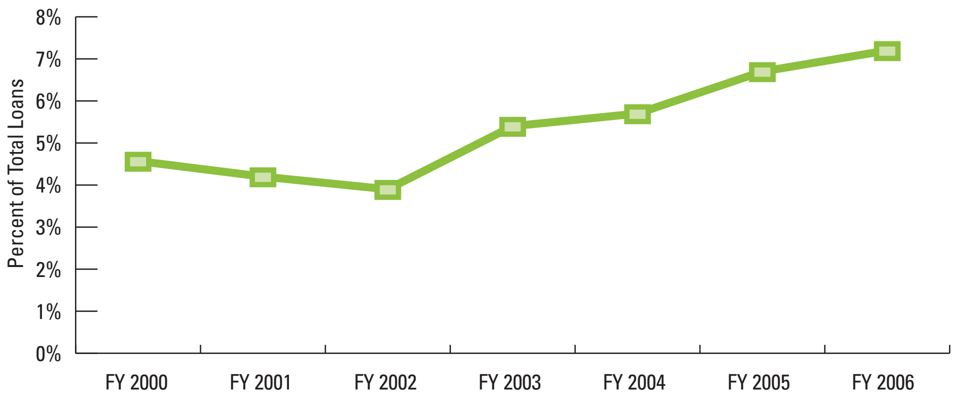
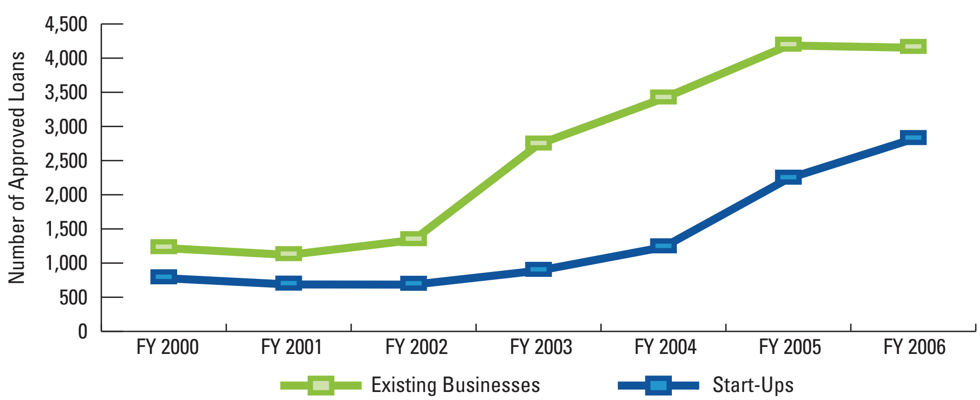


Figure 4 shows that 7(a) loans to African American-owned start-up businesses grew by 300% since FY 2002.

Figure 4.

7(a) Loan Program
African American-Owned Businesses
2000-2006



28 U.S. Census Bureau - Survey of Business Owners - Black-Owned Firms: 2002. http://www.census.gov/csd/sbo/blacksummaryoffindings.htm

29 Ying Lowrey (2005), "Dynamics of Minority-Owned Employer Establishments, 1997–2001: 1997–2001: An Analysis of Employer Data from the Survey of Minority-Owned Business Establishments," Research Study, U.S. Small Business Administration, Office of Advocacy (February). www.sba.gov/advo/research/chron.html

Only 0.5% of African American businesses used a government guarantee loan to start a business, this number is similar to 0.7% for whites.[30] These statistics emphasize the need for and importance of SBA marketing and outreach to disseminate information about alternative sources of capital.

SUCCESS STORY

Business Supplies the Vision, SBA Supplies the Opportunity

For years, Bernadette Morris had a vision to establish a public relations, marketing and advertising firm that would be a leader in its field. This vision, coupled with determination, diligence, and a positive attitude, helped realize her dream in 1993 when she established Sonshine Communications.

It was in 1997 when Bernadette set her sight on the federal marketplace and turned to the SBA's 8(a) business development program for assistance. Sonshine's marketing team researched the federal procurement arena to find out who buys PR related services and targeted the U.S. Army Corps of Engineers, Jacksonville District. With diligence, hard work and a highly creative proposal, Sonshine won the company's first federal contract worth $ 30,000 to provide public relations and community outreach services. With each new federal contract, Sonshine was able to hire between three to five new employees. Operating revenues have increased over 400% since joining the 8(a) program. Sonshine's largest contract to date is with the U.S. Army Corps of Engineers and requires the development of an educational outreach campaign to inform the public about the Corp's efforts to increase awareness of Everglades' restoration.

Since its early and humble beginnings, Sonshine Communications has grown to 27 employees and a client list of over 40 firms. Under Bernadette's leadership and guidance, Sonshine has now blossomed into a corporate mainstay, with annual revenues in excess of $3 million. Located in Miami, Florida Sonshine Communications is the largest Black owned public relations, marketing and advertising firm in Florida.

30 U.S. Census Bureau, 2002 Survey of Business Owners Characteristics of Businesses – Released September 27, 2006. http://www.census.gov/csd/sbo/chartable_h.xls

Hispanics

Hispanics owned 1.6 million non-farm U.S. businesses in 2002, employing 1.5 million persons and generating $222.0 billion in business revenues. These Hispanic-owned firms accounted for 6.8 % of all non-farm businesses in the United States, 1.4% of their employment and 1.0% of their receipts.[31] Estimates from the Census Bureau indicate that more than 40% of African-American and Latino employer firms hire at least 90% minority employees.[32]

In FY 2006, as Figure 5 shows, the percentage of SBA's 7(a) loans to Hispanics was 10.6% of the total for that year. This represents a 40% increase in their share of the 7(a) portfolio since FY 2002.

Figure 5.

**Approved 7(a) Loans
Percent to Hispanics**

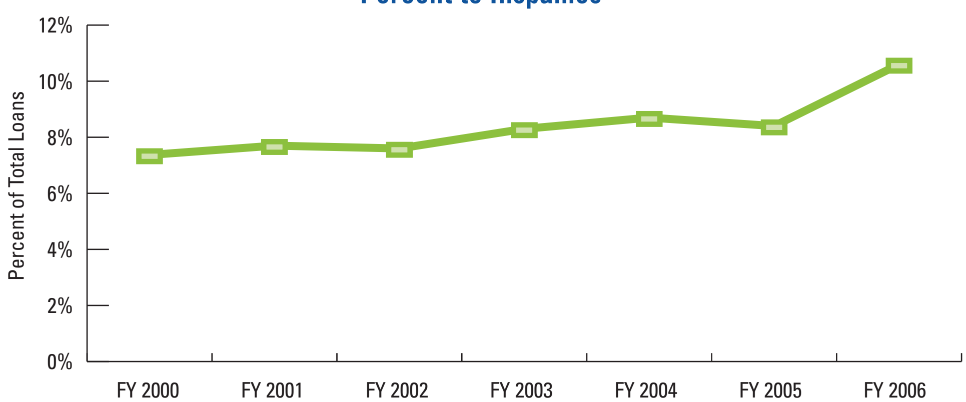
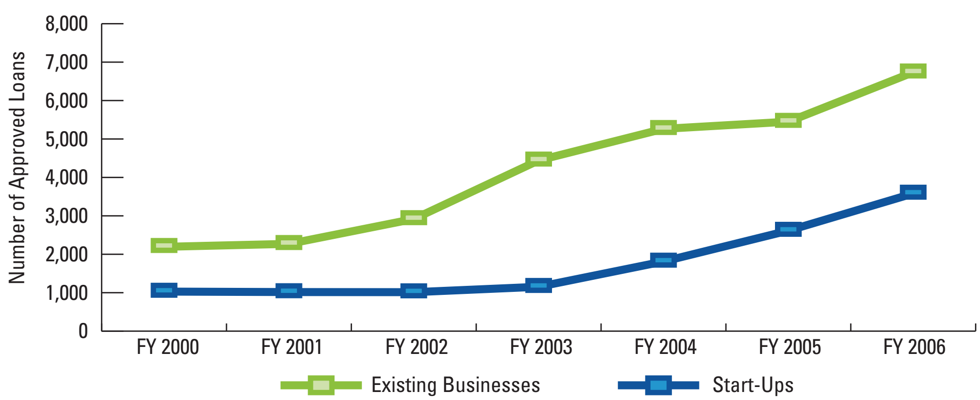


Figure 6.

**7(a) Loan Program
Hispanic American-Owned Businesses
2000-2006**



31 U.S. Census Bureau, Survey of Business Owners - Hispanic-Owned Firms: 2002. http://www.census.gov/csd/sbo/hispanicsummaryoffindings.htm

32 U.S. Census Bureau, 1997. Characteristics of Business Owners. http://www.census.gov/csd/cbo/

In comparison to the general population, according to the Census Bureau, the Hispanic-owned small business share grew from 5.8% in 1997 to 6.9% in 2002 [33]. However, more than half of the Hispanics have reported availability of credit as a significant problem [34]. By contrast, the number of SBA's 7(a) loans to Hispanics has increased by 160% since FY 2002, as shown by Figure 6. Most of this increase came from the increase in the amount of capital made available by 7(a) loans to new Hispanic-owned small businesses, with an increase of 250% since FY 2002.

These figures also illustrate the continued importance of SBA's targeted marketing and outreach to disseminate information about alternative and affordable sources of capital.

SUCCESS STORY

With SBA, Business Can Say "Bull's Eye!"

Do you have any idea how exciting it is to visit a 35,000 square foot facility and be surrounded by missile launchers, tanks, Black Hawk helicopters and other life-size military vehicles? This is the experience of a visit to the offices and facilities of DEI Services Corporation. DEI is an industry-recognized provider of simulation and training devices for the military.

At DEI, although it appears you are looking at a missile launcher, it is actually a shell of the device with a complete computer overhaul within the shell, allowing military personnel to feel as if they are operating the actual device.

After earning an Electrical Engineering Degree, Jose Diaz, President of DEI, worked at different local simulation companies in the Orlando area. In 1996, he started his own consulting company. Today, DEI Services Corporation has a staff of 75 full-time employees. The small business that was financed by personal loans and operated out of a 10x10 office has grown into a high profile company generating $12 to $15 million a year.

And the SBA was there to help! DEI Services received 8(a) certification as part of the SBA's 8(a) Business Development program in 1998. Now, the company is working on 14 different government contracts, a combination of 8(a) set aside contracts and contracts that were sought out directly by DEI. Jose Diaz is right on track with his original business plan. He maintains all of the finances of the business and is very active in all the day-to-day operations.

A turning point for DEI Services occurred in 2003, when it competed for the Navy's NAVAIR, Training Systems Division, 8-year IDIQ contract. DEI was one of 18 companies worldwide and one of four small businesses chosen to participate in this contract.

33 U.S. Census Bureau 2002 SURVEY OF BUSINESS OWNERS (SBO), http://www.census.gov/csd/sbo/hispanicsummaryoffindings.htm.

34 US Chamber of Commerce. *Access to Capital. What funding Sources work for you.* 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

Native Americans

American Indians and Alaska Natives owned nearly 201,400 non-farm U.S. businesses in 2002, employed about 191,300 persons, and generated $26.9 billion in business revenues.[35]

Financing options remain a significant barrier to prospective business entry/expansion for Native Americans entrepreneurs mainly due to geographic isolation. Most tribes are located in remote regions of the country, far removed from major metropolitan areas and the potential customers for products and/or services. The distinctiveness of each Tribe means that no two Tribes operate alike and none possess systems which could be compared to standard business/judicial/government systems anywhere else in the country.

Figure 7.

Approved 7(a) Loans
Percent to Native Americans

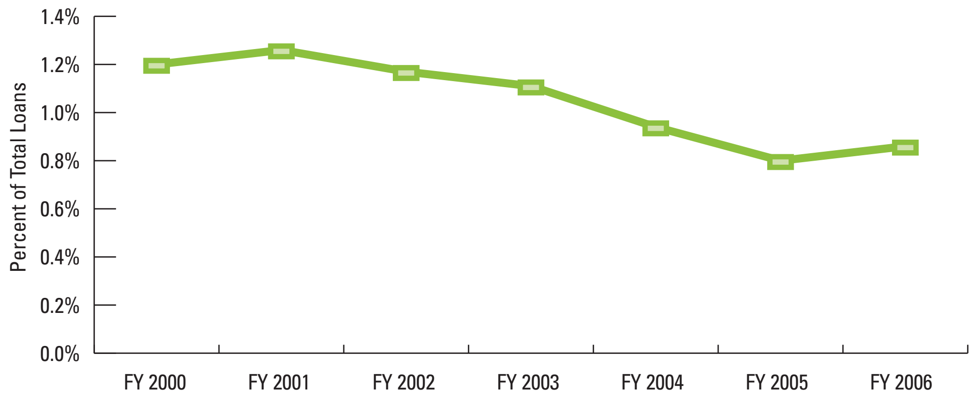
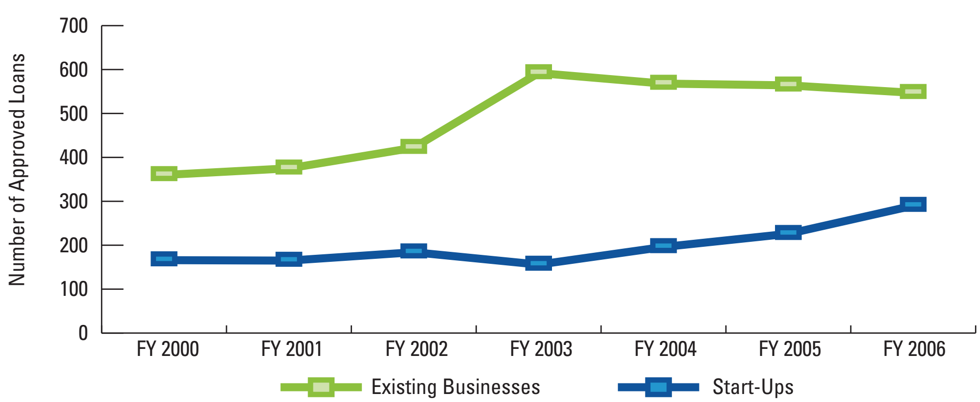


Figure 8.

7(a) Loan Program
Native American-Owned Businesses
2000-2006



35 U.S. Census - Survey of Business Owners - American Indian- and Alaska Native-Owned Firms: 2002. http://www.census.gov/csd/sbo/aiansummaryoffindings.htm

In absolute numbers 7(a) loans to Native Americans have grown from around 500 in FY 2000 to just over 800 this fiscal year. However, as a share of the 7(a) portfolio, this represents less than 1% in FY 2006. In FY 2000 this figure stood at 1.2%. In recognition of the broad strategic challenges facing Tribal leaders and decision makers, SBA is targeting marketing and outreach and training to Native Americans to enhance their business opportunities.

While the number of 7(a) loans to start-up Native American firms continues its healthy upward trend, the number of loans to existing businesses has fallen from their 2003 peak. In total, loans to existing Native Americans went from just over 350 in FY 2000 to a high of around 600 in FY 2003 and 540 for the current fiscal year.

Small business ownership comes with unique challenges for American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa. The Agency has embarked upon an initiative to create a web-based "Self Assessment Tool". The SBA convened an "Initiative Oversight Committee" made up of economists, lawyers, entrepreneurs, Tribal leaders, corporate executives and leaders of not-for-profit organizations engaged in Indian Country. This committee points Tribes into areas of likely success and positive economic impact for all Native Americans no matter their location.

SUCCESS STORY

Dial 504 for Success!

For most of its 20-year existence, Data Management Resources in Hagatna, Guam moved from building to building, paying rent every month to some landlord. But that's all changing, thanks to the helping hand of the SBA and its 504 loan program.

The 504 program is helping Data Management finally buy its own building. Rich C. Taitano, the company's chief technical officer and son of its founder, said he'll be paying significantly less in mortgage payments every month than he currently pays in rent.

What's more, with the SBA program in place, Data Management only had to put about 10% down on the property, as opposed to the 25% required by most banks. "The SBA 504 Loan Program has actually been available for many years," notes SBA Guam Branch Manager Kenneth Lujan. "However, as of right now, only about a dozen local businesses are taking advantage of it." Data Management is one of the lucky ones!

Asians

The Census Bureau reports that between 1997 and 2002 the number of Asian-owned firms grew at twice the national average for all businesses. The 1.1 million businesses generated more than $326 billion in revenues. About a third of these firms had employees numbering 2.2 million and generated revenues of nearly $291 billion. Tellingly, almost 47% of Asian-owned firms are located in just two states: California and New York, with Texas coming in next at about 7%.[36]

Though Asians seem to enjoy remarkable opportunities and success in business ownership, two issues are at times overlooked. For one, Asian-owned firms are more likely than other minorities to have unmet credit needs.[37] Second, the aggregate data masks illuminating differences among Asian groups as Figure 9 below suggests.

Figure 9. **Asian Ownership of Firms by Detailed Group: 2002**[38]

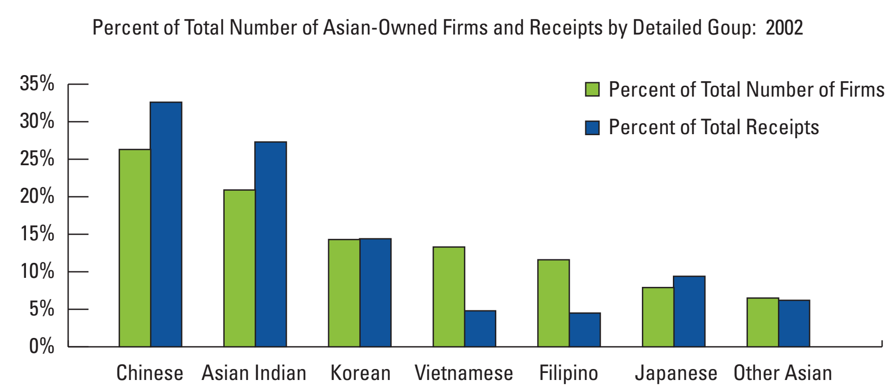
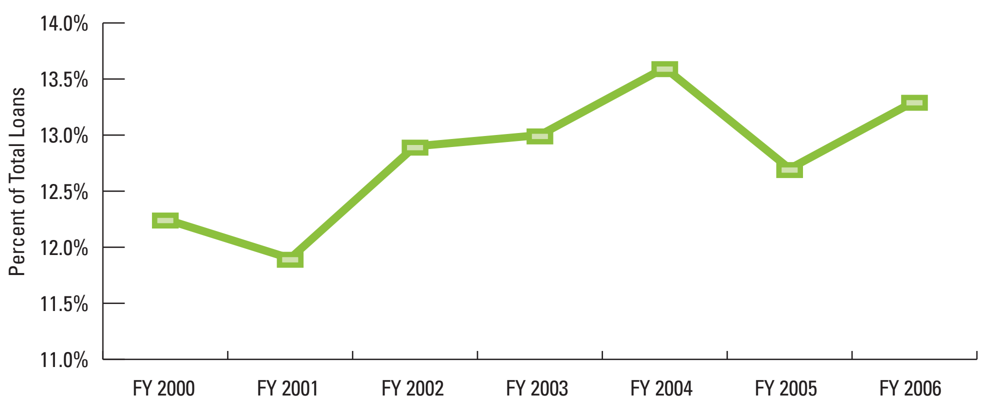


Figure 10. **Approved 7(a) Loans Percent to Asian**



36 U.S. Census - Revenues for Asian-Owned Firms Surpass $326 Billion, Number of Businesses Up 24 Percent. http://www.census.gov/Press-Release/www/releases/archives/business_ownership/006814.html

37 Federal Reserve - Financial Services Used by Small Businesses: Evidence from the 2003 Survey of Small Business Finances. http://www.federalreserve.gov/pubs/bulletin/2006/smallbusiness/smallbusiness.pdf

38 http://www.census.gov/Press-Release/www/releases/archives/business_ownership/006814.html

SBA's Office of Advocacy reports that there is significant potential for ethnic groups such as Filipinos, Vietnamese, other Asians, Hawaiians, and other Pacific Islanders to improve their business earnings.

In FY 2006, Asian-Americans received 13.3% of 7(a) loans compared to 12.7% in FY 2005 and 13.6%in FY 2004.

Figure 11.

**7(a) Loan Program
Asian American-Owned Businesses
2000-2006**

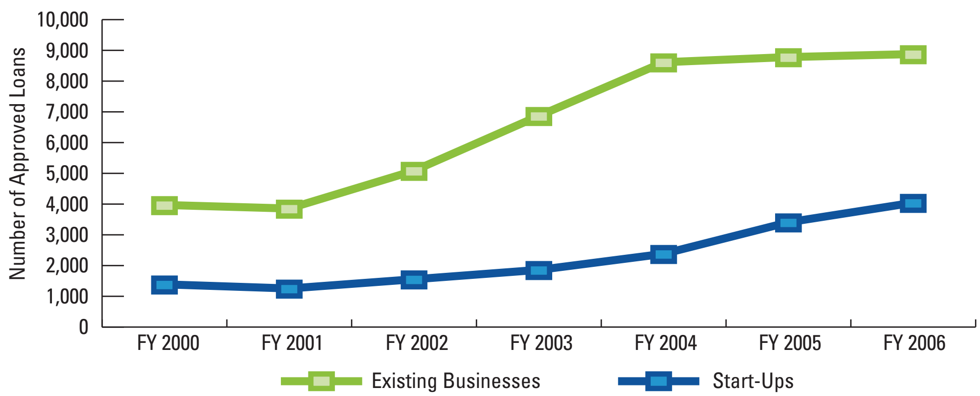


Figure 11 shows that 7(a) loans to Asian American-owned start-up businesses continued to grow during FY 2006. Meanwhile, SBA 7(a) loans to existing Asian American firms have also grown, but at a slower rate. These statistics emphasize the importance for SBA marketing and outreach to all segments of the Asian population to further disseminate information to those segments that might not be accessing the alternate sources of capital that SBA makes available.

SUCCESS STORY

The SBA Gives Business the Tools to be the Best!

Jay Reddy has lofty goals for his company. He not only wants it to be the most successful small business in West Virginia, he wants to be recognized as one of the best in the entire country! Jay is owner and CEO of ProLogic Inc., a small 8(a) business in Fairmont, West Virginia that provides innovative information technology solutions for local, state and federal agencies, and for commercial clients.

ProLogic started as a one-man operation in the West Virginia High Technology Consortiums incubator in 1995. Today, the company has over 75 employees with projects in 10 states. Most of its business is for clients such as NASA, the Air Force and the Army. In fact, 70% of its contracting work is as a prime contractor, with over 90% to government clients. During a three-week period this year, ProLogic signed nearly $13 million in contracts. We doubled in size last year, and by 500% in the past five years," says Jay.

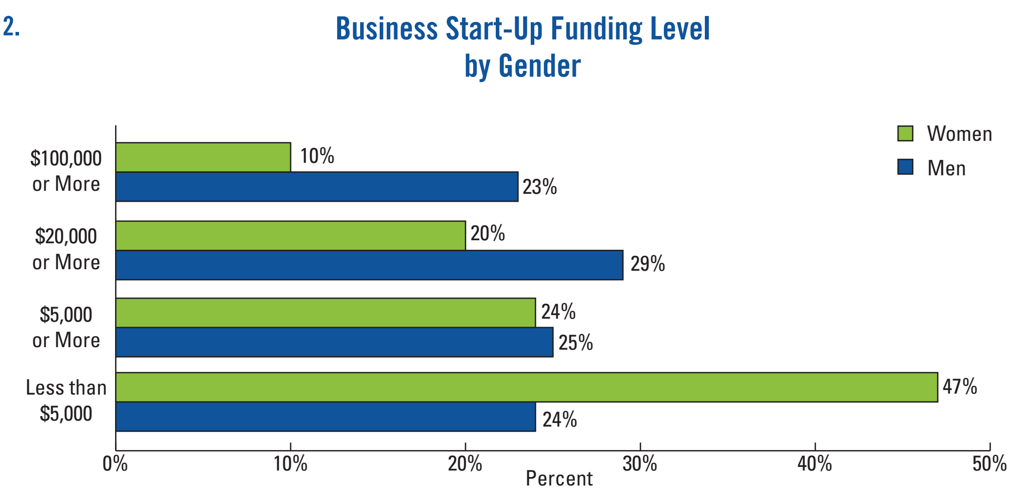
Jay credits his company's growth to the 8(a) program. He explains, "The assistance we received from the SBA has helped us understand the federal contracting process and enables us to bid on and win government contracts. The help and support we've received from West Virginia SBA employees has been outstanding." He continues, "8(a) certification by itself doesn't get you contracts. You need to use it as an enabler. You have to build up your company based on core competencies. [But] the 8(a) program gives you the tools you need to develop and grow; that's what the program is all about." Reddy is currently looking into other areas of the 8(a) program, such as the Mentor-Protégé program. He feels the government contracting knowledge he has gained can help other small companies.

Women

Women currently own 10.4 million — about 40% — of all small-businesses in the U.S., according to the Center for Women's Business Research. As of 2006, these firms accounted for $1.1 trillion in annual sales and 7.2 million employees. The largest share of women-owned firms is in the service sector. Sixty-nine percent of these firms are in services and 14.4% are in retail trade.[39]

While access to capital has improved considerably for women, there still remains a gap between women and men in access to funding to either start or expand their businesses as figure 12 below shows. [40]

Figure 12.



A 2006 SBA research report[41] showed that almost 85% of women-owned firms are sole proprietorships, compared to about 73% for all businesses. An added challenge is the growth faced by these women-owned firms, as almost 80% have receipts less than $50,000. Only 3% of all women-owned small companies generate more than $1 million annually, compared with 6% of all men-owned enterprises. These smaller women-owned businesses continue to have lower levels of credit and are less likely to seek financing than male-owned businesses. Those that do seek credit often turn to personal lines of credit rather than commercial loans like their male counterparts.

As the chart below illustrates, while women turn to personal lines of credit, their male counterparts are more likely to pursue commercial credit[42]. The SBA continues to fill the access to capital gap with a variety of loan programs that meet the diverse needs of women entrepreneurs.

	Intial Funding		Ongoing Funding	
	Bank Loan	Credit Card	Bank Loan	Credit Card
Men	23%	16%	43%	30%
Women	13%	15%	21%	29%

39 Center for Women's Business Research. http://www.cfwbr.org/facts/index.php

40 *Access to Capital: What funding sources work for you?* US Chamber of Commerce. May 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

41 SBA, Office of Advocacy, Women in Business A Demographic Review of Women's Business Ownership. http://www.sba.gov/advo/research/rs280.pdf

42 US Chamber of Commerce. *Access to Capital. What funding Sources work for you.* 2005. http://www.uschamber.com/publications/reports/access_to_capital.htm

Figure 13 below shows that in FY 2006, the percentage of approved 7(a) loans to women has tended to hover between 20% and 25%. The FY 2006 figure of 22.5% represents a dip from the high reached in FY 2005 of just over 25%. Furthermore, the components of SBA loans to women show a decline in those using the 7(a) program by 1.7% from FY 2005 while the 504 Program shifted up a little more than 1%. The 504 Program provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. The slight shift into this program might well account for the decrease in the number of women in the 7(a) loan program.

Figure 13.

Approved 7(a) Loans
Percent to Women-Owned

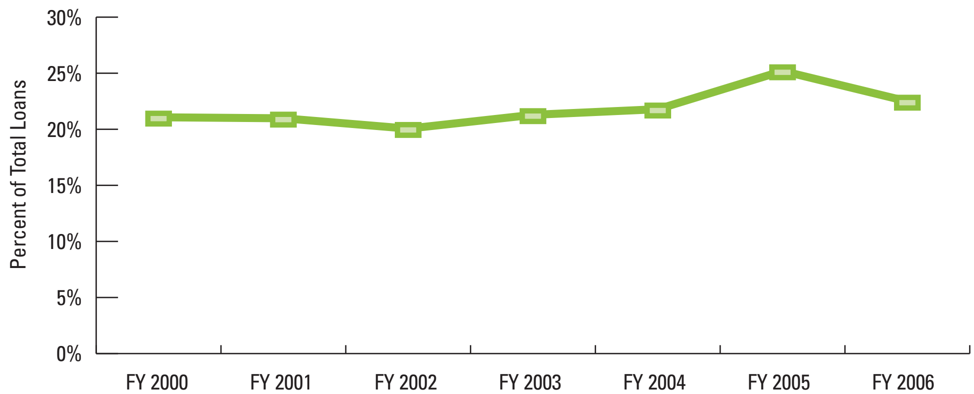
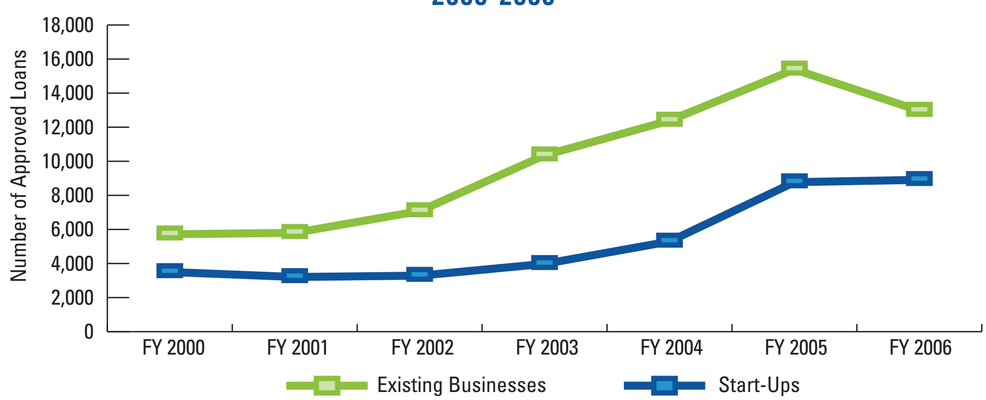


Figure 14 shows the trend of 7(a) loans to both women-owned start-up and existing businesses.

Figure 14.

7(a) Loan Program
Woman-Owned Businesses
2000-2006



In the general population, the wholesale and retail trades accounted for 38.2% of women-owned business revenue. SBA's 7(a) loan portfolio, on the other hand, shows 25% of women-owned businesses in these trades. The difference is illustrative of the diversity in industries SBA clients occupy and a move towards the more lucrative sectors.

Figure 15. **2006 Industry Distribution of 51% or More Women-Owned Firms**

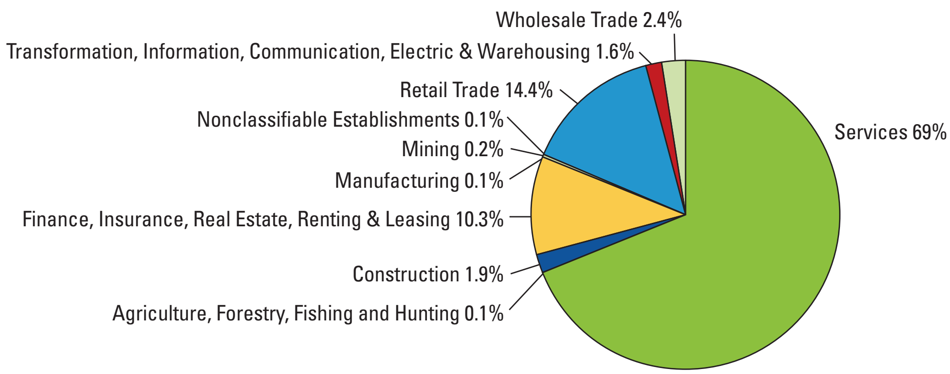


Figure 16. **FY 2006 SBA Assisted Women-Owned Firms by Industry**

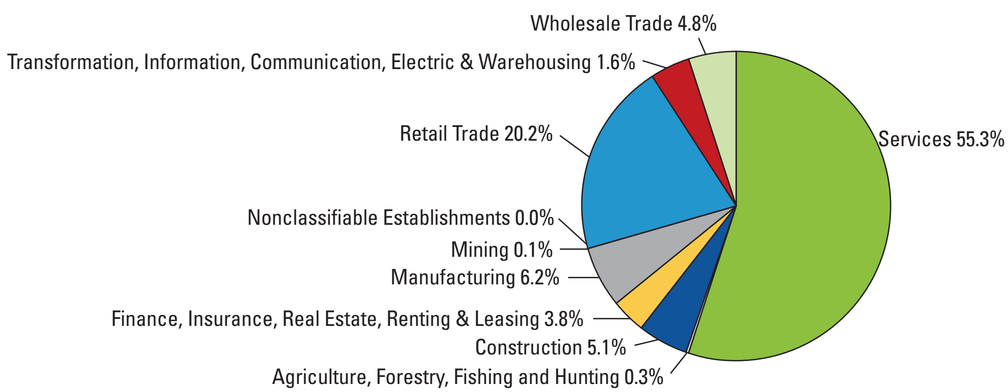
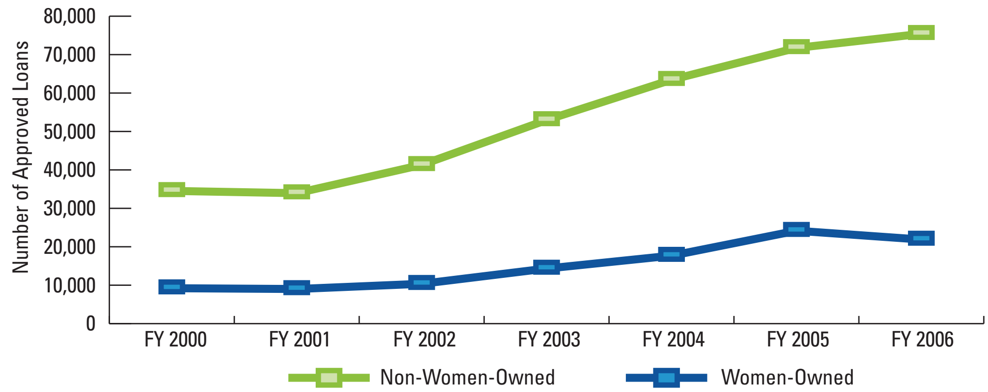


Figure 17 below shows the comparison of how non-women-owned businesses are faring in the 7(a) loan program compared to firms controlled by women. Loans to women have been increasing at a lower rate than those to non-women-owned firms.

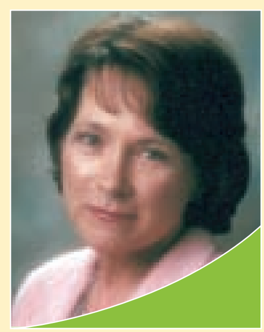
Figure 17.

7(a) Loan Program
Women-Owned vs. Non-Women-Owned Businesses
2000-2006



SUCCESS STORY

SBA Makes the Business Purr with Profits



Before moving to Portland, Oregon, Dr. Elizabeth Colleran had been a feline specialist for eight years. She recalls, "When I began my search to relocate, I was looking for two things — first, a place with good market demographics; and second, a city that reminded me of my earlier life in Boston, a city of trees and water." She found both in Portland.

Then Elizabeth went to the SBA and applied for a 7(a) loan. "Through the SBA we met bankers and other supporters of business growth in Oregon… My husband is a builder with a designer's eye. He could see a state-of-the-art feline hospital where all I saw was rubble in an empty old antique warehouse… With the financial team lined up behind us, we bought the old thing and sure enough, he was right!" The Cat Hospital of Portland opened in March of 2004.

However, let us take a moment to note that this is no ordinary veterinary establishment. But that's SBA's favorite part! Not only is the hospital specifically for the kitty variety, it recognizes the special needs of cats. The hospital realizes that a trip to the vet can be stressful for a cat, and demands a formal code of conduct from all employees, including the lowering of voices, no strange odors and gentle handling. Elizabeth notes, "The cat is a unique species and demands a different sort of medicine." With regard to conduct, she continues, "No position in the office is exempt — from receptionist to doctor."

With this philosophy, the SBA's help, and the hospital's highly skilled staff, the Cat Hospital of Portland is sure to remain cat's best friend and will continue on its already impressive road of success!

Veteran-Owned Businesses

Small business ownership comes with many challenges as veterans, service-disabled veterans and reserve component members of the United States Armed Forces must balance their civilian and self-employment careers with their commitment to defend the Nation. Reserve and National Guard Service has transformed into a commitment to serve in an operational force for the global war on terror. Every veteran has had a portion of their life procured and deployed by the government for common defense of the Nation. This deployment can have a direct effect on a veteran's ability to accrue earnings, education, savings, home equity, credit, lender experience, private experience, and other personal assets critical to successfully starting a small business. Approximately 10% of veterans endure life-long effects of service incurred disabilities, and reservists are being called from their small businesses at historic rates with sometimes dramatic negative effect on the financial health of their small business, especially the market they previously succeeded in.

A major obstacle veterans and veteran entrepreneurs, in particular, have to overcome after military discharge is establishing or re-establishing good credit.

Figure 18.

Approved 7(a) Loans
Percent to Veteran-Owned

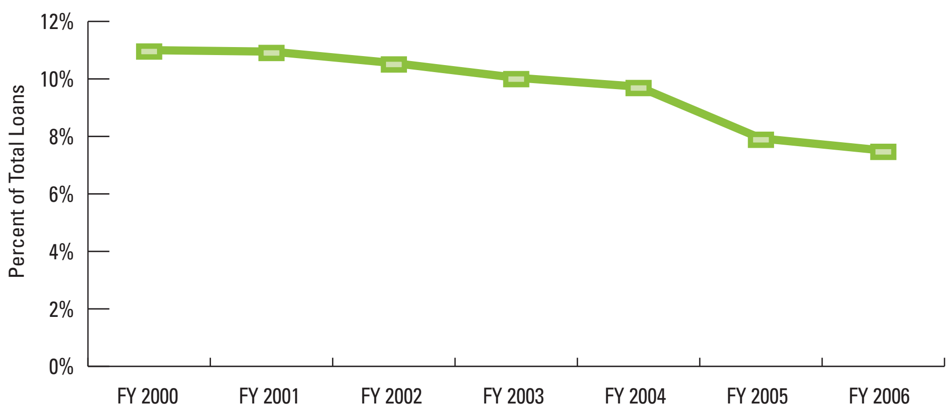
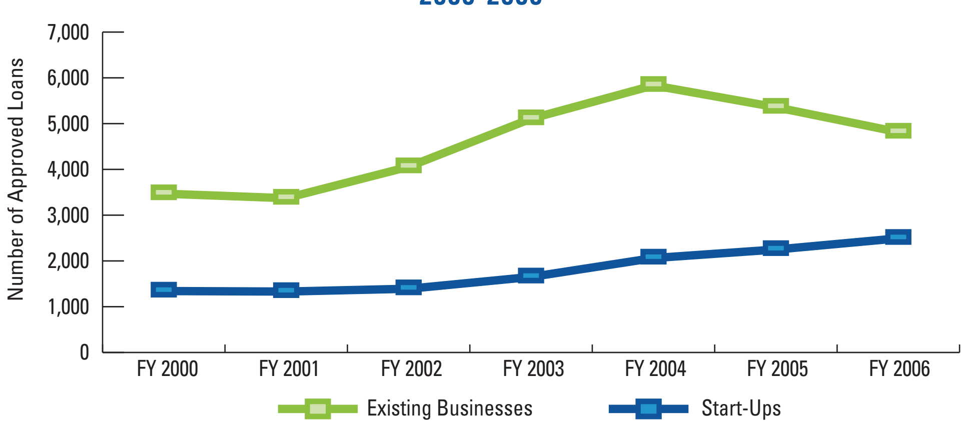


Figure 19.

7(a) Loan Program
Veteran-Owned Businesses
2000-2006



Though the absolute numbers of loans to veterans have grown from around 4,800 in FY 2000 to approximately 7,300 in FY 2006, the percentage of approved 7(a) loans accruing to veterans continued to decline. While veterans made up 11% of the 7(a) loan portfolio in FY 2000, the number by the end of FY 2006 stood at around 7.5%. Meanwhile, SBA research suggests the most cited hurdles for prospective and current veteran entrepreneurs were access to financing and information about small business programs that might be beneficial to them.[43]

As Figure 19 illustrates, 7(a) loans to veterans reveal opposing trends between start-ups and existing businesses. Loans to start-ups continue their steady growth from around 1,300 loans in 2000 to almost 2,500 loans in 2006. Loans to existing veteran-owned firms, however, peaked at about 5,800 in FY 2004.

America owes a tremendous obligation and responsibility to its veterans. The SBA responds to the special needs of veterans both internally and externally to the Agency through its Office of Veterans Business Development. This office manages a business outreach program focused on addressing the needs of veterans.

SUCCESS STORY

Former Marine Armed with SBA Wins the Battle

After five years in the Marine Corps, Chris Price was ready to start his own business. He wanted to do something connected to the housing industry. Chris had worked in the steel erection business before he joined the Marines, and he liked the idea of going into gutter installation.

In late 2004, Chris started talking to banks in the Douglasville, Georgia area about getting a loan to start his company. Time soon became a factor when he learned that a friend, who installed residential gutters, was ready to leave the business and sell him his used equipment.

"I told the banks I didn't have a lot of money to put down on a small business loan," recalls Chris. "That's when one of them referred me to Appalachian Community Enterprises (ACE)." ACE is an SBA microloan lender that makes loans of up to $35,000 to small businesses for working capital or the purchase of equipment and supplies. Chris also needed help preparing a business plan, so he contacted the SBA's Small Business Development Center in nearby Carrollton.

With the loan, Price was able to buy a 1994 one-ton truck equipped with a large storage cab. The loan also funded two used gutter-forming machines that can roll out either five or six-inch wide aluminum gutters. "It can take from four to six hours to put gutters on an average size house," explained Chris. "And I use some part-time helpers depending on the type of job I'm involved with."

The referral to ACE and the SBA paid big dividends for this young entrepreneur. "It would have been impossible for me to start my business without the Microloan," said Chris.

Chris Price with Terri Denison, SBA District Director for Georgia.

43 Entrepreneurship and Business Ownership In the Veteran Population. SBA # 242. November 2004. http://www.sba.gov/advo/research/rs242tot.pdf