

## SMALL BUSINESS ADMINISTRATION

### The President's Proposal:

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

### Small Business Administration

Hecto V. Barreto, Administrator

*www.sba.gov* 202-205-6605

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

**2002 Spending:** \$1.1 billion

**Field Offices:** 93 nationwide

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

### Providing Access to Capital

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

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

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

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

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

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

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

President George W. Bush  
December 3, 2001

### **Disaster Assistance**

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

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

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

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

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

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

### Technical Assistance

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



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

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

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

### Federal Procurement

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

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

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

### Small Is Beautiful

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

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

## Status Report on Select Programs

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

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

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

### Strengthening Management

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

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

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

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

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

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

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

## SMALL BUSINESS ADMINISTRATION

### The President's Proposal:

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

### The Agency's Major Challenge:

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

### Small Business Administration

Hector V. Barreto, Administrator

[www.sba.gov](http://www.sba.gov) 202-205-6605

**Number of Employees:** 3,927

**2003 Spending:** \$1.6 billion

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

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

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

### Capital Needs of Small Businesses

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

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

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

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

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

## Disaster Loans

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

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

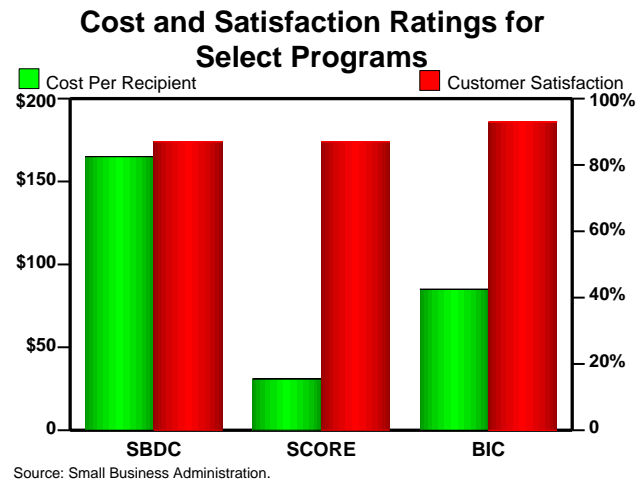
## Technical Assistance

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

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

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

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



## Federal Procurement

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

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

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

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

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

### Update on the President's Management Agenda

	Human Capital	Competitive Sourcing	Financial Performance	E-Government	Budget and Performance Integration
<b>Status</b>	●	●	● ↓	●	●
<b>Progress</b>	●	●	●	●	●
<p><i>Arrow indicates change in status since baseline evaluation on September 30, 2001.</i></p> <p>With the exception of setbacks in financial management, SBA has made solid progress in implementing the President's Management Agenda. In order to improve service to the public, the agency has undertaken an assessment of its staff's skills, contracted for training, and identified positions for competitive sourcing in 2003. As the leader of the BCOS initiative, SBA has launched the website <i>BusinessLaw.gov</i>, which helps small business owners easily find, understand, and comply with myriad regulations. In May 2002, the site won the prestigious Pioneer award from the E-Gov group. In addition, the agency is implementing an advanced cost accounting system. However, SBA's financial management status slipped in the past year due to inconsistencies in asset sale accounting and weak management of credit programs. The agency has made remediation of these deficiencies a top priority.</p>					

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

## Performance Evaluation of Select Programs

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

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

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

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

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