

U.S. DEPARTMENT OF THE TREASURY

Press Center



Written Testimony of Secretary Tim Geithner before the Senate Small Business and Entrepreneurship Committee

10/18/2011

“The Small Business Jobs Act of 2010, One Year Later”

Chair Landrieu, Ranking Member Snowe, thank you for the opportunity to talk with you today about the Administration’s efforts to support small business.

Creating stronger economic growth and helping more Americans get back to work is today’s biggest challenge. We have succeeded in preventing the collapse of the financial system, restarting economic growth, and creating 2.6 million private sector jobs; however, economic growth remains slow and significant economic challenges remain.

America’s small businesses still face a very tough economy. They are experiencing more challenges than larger businesses in the wake of the recession. Small businesses are more concentrated in construction and retail, industries that were at the epicenter of the crisis and have not returned to pre-recession levels, and they export much less than larger businesses.

Small businesses have also been hurt by tightening credit. Unlike larger firms, small businesses rely on bank loans, personal savings, credit card debt, and mortgage finance. The fall in asset and real property values during the recession reduced the amount of resources that small business owners can draw on to invest in starting and growing their businesses.

Since January 2009, we have worked with Congress to take a multi-pronged approach to helping small businesses address these challenges. My testimony today includes an appendix with a comprehensive overview of these measures.

The main elements of our strategy are the following:

- **Providing Tax Relief for Small Businesses**. The Administration has supported 17 direct tax breaks that are designed to support small businesses’ ability to invest, innovate, and expand. For example, the Small Business Jobs Act allowed small businesses to immediately write off \$500,000 in capital investments. Additionally, the bipartisan December tax compromise included 100 percent expensing through 2011, expanding on previous bonus depreciation measures and allowing businesses to immediately deduct the full cost of qualified capital investments. The President has also signed tax relief into law that helps small businesses and the self-employed afford health care for their employees and themselves; increased the deduction for start-up expenses to help innovators turn an idea into a thriving business; and allowed greater flexibility and streamlining of small businesses’ ability to claim certain tax incentives.
- **Helping Small Businesses Access Capital**. From emergency programs implemented during the financial crisis to new public-private partnerships that leverage federal resources with private investment and community expertise, we are committed to helping small businesses navigate difficult credit conditions and access the capital they need to grow, invest, and hire. During the financial crisis, almost \$14 billion was invested in small banks through TARP, while modifications to SBA’s programs in 2009 and 2010 supported \$42 billion in additional lending. In 2009 and 2010, CDFI Fund program awards resulted in almost \$4 billion of public/private investments in our nation’s most distressed communities. We expect the Small Business Lending Fund (SBLF) to leverage approximately \$9 billion in additional lending by the end of 2014, and the State Small Business Credit Initiative (SSBCI) to leverage at least \$15 billion by the end of 2016.

These two programs have created important new channels to expand access to credit. Tom Swenson, the Chief Executive Officer and President of the Bank of Montana, which received SBLF funds, said, “The SBLF capital comes at a perfect time for Bank of Montana to green-light important loans to several small- and mid-sized businesses in our community.” Additionally, 50 states and territories have already been approved for more than \$1.3 billion in SSBCI funds to help support their local small business lending programs. As Governor Jay Nixon said when Missouri’s SSBCI funding was approved, “These new resources will help Missouri entrepreneurs grow their operations and turn their dreams into bricks and mortar.” Missouri’s state-run venture capital fund, for example, has already completed its first round of funding with SSBCI support, investing a total of approximately \$7 million to 18 small businesses.

- **Encouraging High-Growth Small Businesses.** We are working to address regulatory and administrative requirements that can have a disproportionate impact on start-up companies and small businesses, while the President's Council on Jobs and Competitiveness and Startup America continue to support entrepreneurs' efforts in an evolving economy. These efforts are aligned with the President's call for a government-wide review to update the regulatory system so it protects the public welfare and most efficiently promotes economic growth, innovation, competitiveness, and job creation. In August, 26 agencies released their final regulatory review plans that include over 500 initiatives to reduce costs, simplify the regulatory system, and eliminate redundancies or inconsistencies. Initiatives finalized or publicly proposed by the Department of Labor, the Environmental Protection Agency, the Department of Transportation, and the Department of Health and Human Services are expected to save more than \$6 billion over the next five years. We expect that the savings from the numerous initiatives government-wide will exceed \$10 billion.
- **Expanding Export Opportunities for Small Businesses.** Small businesses face unique challenges exporting their goods and services, ranging from difficulties navigating foreign markets to fewer resources to address trade barriers and access to credit. We are implementing a number of programs to help small businesses take advantage of export opportunities, as well as making progress through the President's National Export Initiative, which places a priority on helping small businesses access key export markets that might otherwise be difficult to reach. The new bilateral free trade agreements with South Korea, Panama, and Colombia, approved by Congress last week, will help expand export markets for businesses both small and large.
- **Increasing Federal Contracting with Small Businesses.** In the 2010 fiscal year, the Federal government's contracts with small businesses totaled nearly \$100 billion. We have made substantial strides towards reaching our small business contracting goals, including those for small businesses owned by minorities and women, or located in economically disadvantaged areas. At Treasury alone, 30 percent of our nearly \$2.2 billion procurement budget went to small businesses in the 2010 fiscal year. These contracts have a powerful impact at the community level. For example, Genesis Business Systems, a minority-owned small business in San Antonio, Texas, was awarded \$4.3 million in new contracts this year from the Treasury for information technology development and modernization work. As a result, Genesis Business Systems was able to hire 10 new employees and expand its business into new technology areas.

The most important thing we can do today to help small businesses thrive and hire is pursue policies that result in a sustained period of stronger economic growth. Since September 2008, monthly surveys have found consistently that small business owners see lack of demand and poor sales as their single biggest challenge in this difficult economic environment.

Private independent estimates suggest that the American Jobs Act will add up to 1.9 million new jobs, many of which will be created by small businesses that serve their communities across the country.

That's why the American Jobs Act includes specific provisions targeted towards small businesses that provide direct support for firms to hire, invest, and expand. The American Jobs Act will:

- **Expand and Extend the Payroll Tax Cut.** The American Jobs Act will halve businesses' payroll taxes on the first \$5 million in payroll, reducing their payroll tax rate from 6.2 percent to 3.1 percent. These tax cuts would be available to all businesses, but are designed to target smaller firms. Tax relief would be focused on the 98 percent of businesses with less than \$5 million in payroll.
- **Encourage Firms to Hire and Increase Wages for Existing Workers.** The American Jobs Act will completely offset employer payroll taxes on newly hired workers or on pay increases for current workers, compared to the previous year. This will encourage businesses to both grow their workforces and raise wages for existing employees. This tax relief will be capped at \$50 million in new wages to target the benefit towards small and mid-size firms. In addition, the American Jobs Act includes generous, targeted tax incentives for firms of all sizes to hire individuals who have experienced long periods of unemployment and veterans returning from the conflicts in Iraq and Afghanistan.
- **Reward Firms for Making New Investments.** The American Jobs Act will extend 100 percent business expensing through 2012, allowing companies to deduct the full value of new investments from their tax obligations.
- **Support Entrepreneurship.** The American Jobs Act supports Americans trying to start their own businesses by allowing states to use federal unemployment insurance funds to support self-employment assistance programs for long-term unemployed workers who want to start their own business. Participants in these programs are 19 times more likely to be self-employed at some point after being unemployed, and four times more likely to obtain employment of any kind, than eligible non-participants.
- **Help Small Businesses Access Capital to Grow.** The President has also called for policy changes that will make it easier for entrepreneurs and small companies to raise capital and go public in ways that are consistent with investor protections. First, we support raising the cap on the exemption from SEC registration for small public offerings from \$5 million to \$50 million through changes to the SEC's Regulation A. Second, we propose establishing a "crowdfunding" exemption from SEC registration requirements for firms raising less than \$1 million (with individual investments limited to \$10,000 or 10 percent of investors' annual income). Third, we will work with the SEC to explore ways to address the costs that small, newly public firms face in complying with Sarbanes-Oxley disclosure and auditing requirements. These changes would improve small businesses' ability to grow and create jobs.

All the measures listed above aim to provide direct support to small businesses. But many of the American Jobs Act's other provisions – such as those that will help modernize our schools, repair our infrastructure, and deploy wireless high-speed internet – have multiple benefits, one of which is generating new business for small firms or helping them grow and compete in communities nationwide. And although these investments will help get our economy firmly on the right track today, they will also make lasting improvements in communities across the country to support our economic strength for decades to come.

The Administration is also pursuing a number of common-sense steps that do not require legislation to help small businesses. These measures include:

- **Accelerating Government Payments to Small Contractors.** Last month, the Administration launched QuickPay, which calls on federal agencies to pay contractors for the products and services they provide within 15 days, rather than 30 days, after receipt of an invoice. This change will put billions of dollars into the hands of small businesses more quickly, eliminate their need to make interest payments necessary to finance their operations, and help put and keep small businesses on stronger financial footing.
- **Improving Small Businesses' Access to Government Programs and Services.** President Obama will ask his Chief Information Officer and Chief Technology Officer to stand up BusinessUSA, an online platform through which businesses can access the full range of government programs and services necessary for them to compete globally.
- **Helping Small Businesses Compete for Infrastructure Projects.** To help small firms compete and win bids on infrastructure projects, we support temporarily increasing the limit on surety bonds guaranteed by the Small Business Administration (SBA) from \$2 million to \$5 million.

Last month, the President summarized our approach to healing our economy during his address to a joint session of Congress. He said:

What's guided us from the start of this crisis hasn't been the search for a silver bullet. It's been a commitment to stay at it – to be persistent – to keep trying every new idea that works, and listen to every good proposal, no matter which party comes up with it.

The ideas in the American Jobs Act demonstrate that commitment. The approaches we've taken to support small businesses demonstrate that commitment. We will continue to stand by it. And we've seen results from it – 2.6 million private-sector jobs created since March 2010. We hope Congress will take the opportunity to pass the provisions in the American Jobs Act, which independent economists estimate will create up to 1.9 million new jobs and increase GDP by up to two percent.

I join the President in urging this Congress to work together and take action – to support the specific provisions in the American Jobs Act, which both Democrats and Republicans have embraced in the past. The government needs to act to strengthen overall growth to improve the conditions for our small businesses, so that they have the confidence and the resources to put Americans across the country back to work.

Thank you.

THE OBAMA ADMINISTRATION'S SMALL BUSINESS AGENDA

Programs and Policies to Date

Providing Tax Relief for Small Businesses

The Administration is strongly committed to supporting small businesses through targeted tax incentives that provide increased capital and key incentives for small business investment and growth. In addition to the tax relief proposed in the American Jobs Act, since taking office, the President has signed 17 tax cuts into law that benefit small businesses.

Tax Credits to Help Small Businesses Hire. The Hiring Incentives to Restore Employment Act (HIRE Act) provided billions of dollars in tax relief for businesses – both small and large – by providing an offset of the employer share of payroll taxes for hiring unemployed workers, and an additional tax credit of up to \$1,000 if a worker is retained for more than one year.

Expansion of Limits on Small Business Expensing to Encourage Investment. The Administration has worked with Congress to make it easier for small businesses to immediately deduct the cost of machinery, equipment, and other qualifying property. The Recovery Act increased the amount that a small business could expense from \$133,000 to \$250,000 for the 2009 tax year. The HIRE Act extended the \$250,000 level for the 2010 tax year. The Small Business Jobs Act increased this amount further, from \$250,000 to \$500,000, for 2010 and 2011.

Bonus Depreciation Tax Incentives to Support New Investment. The Administration has also supported more general bonus depreciation measures that allow all businesses, both small and large, to immediately write off more of their investments. The Recovery

Act authorized 50 percent bonus depreciation for 2009, and the Jobs Act extended that level through 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 raised the amount to 100 percent, effective immediately for qualified investment, for the last quarter of 2010 and through 2011. The American Jobs Act would extend 100 percent expensing to 2012.

Tax Incentives for Investing in Small Businesses. The Administration has supported tax incentives to help increase the attractiveness of investments in small businesses, thus helping these businesses access additional capital. The Recovery Act increased the fraction of gain that could be excluded on sales of qualified small business stock from 50 percent to 75 percent, and the Small Business Jobs Act completely eliminated the tax on gain from qualified small business stock issued from its enactment through the end of 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act extended this 100 percent exclusion for qualified small business stock issued through 2011. The President has proposed making this provision permanent.

Tax Cuts to Help Small Businesses Keep More Cash on Hand. The Recovery Act authorized small businesses to elect to carryback their 2008 tax losses five years instead of the usual two, which allowed small businesses to immediately use these losses to generate cash refunds instead of waiting to use them to offset taxes due on future profits. Another Recovery Act provision gave relief to small businesses on estimated tax payments, allowing small businesses to keep needed cash on hand to invest and hire. The Recovery Act also reduced the built-in gains holding period for subchapter S corporations, allowing some S corporations to dispose of assets and access needed cash without triggering payment of corporate income tax. The Small Business Jobs Act allowed small businesses to carryback their 2010 general business credits five years, which let small businesses convert tax credits which could not be used in the current year into cash. The Small Business Jobs Act also provided a deduction in 2010 for health insurance costs in computing self-employment income, to match the existing income tax deduction for such costs – reducing tax payments for small business owners and helping them conserve cash.

Tax Credits to Help Small Businesses Provide Health Care to Employees. In total, the Patient Protection and Affordable Care Act (Affordable Care Act) invests an estimated \$40 billion over the next decade in tax credits that enable small businesses to invest, compete, and hire. The Affordable Care Act offers a tax credit that covers up to 35 percent of employer contributions to healthcare premiums to help small businesses extend coverage to their employees. By 2014, this tax credit will cover up to 50 percent of employer contributions to healthcare premiums for these employees of small firms. Not only is health care coverage critical for workers and their families, but, by extending coverage, small businesses will also gain an edge on their competitors – by helping recruit top talent, retain successful employees, and increasing the overall productivity of their businesses.

Adjustments and Simplifications of Tax Rules. The Small Business Jobs Act permanently limited a penalty rule for investments in reportable transactions that have the potential for tax avoidance or evasion that was perceived to be disproportionately affecting small businesses who may have failed to disclose such investments. The Small Business Jobs Act also permanently simplified the manner in which businesses may claim deductions for cell phones, making it easier for small business owners to claim deductions for legitimate business expenses without burdensome documentation.

Start-Up Cost Deductions to Support Small Business Entrepreneurs. The Small Business Jobs Act temporarily increased the amount of start-up costs that new firms could immediately write off from \$5,000 to \$10,000, providing an incentive for entrepreneurs to turn an idea into a new business.

Budget Proposals that Provide Additional Tax Relief for Small Businesses. Since some of the tax relief in the HIRE Act, Recovery Act, and Small Business Jobs Act was temporary in nature, the Administration's FY 2012 budget proposes additional, longer-term tax relief for small businesses to encourage sustained growth and investment. First, the budget baseline assumes that the amount of small business expensing permitted each year is permanently increased to \$125,000, instead of allowing it to fall to \$25,000 as it would under current law. This would reduce taxes on small businesses by \$44 billion over the next 10 years, and provide a continued incentive for them to invest in plants and equipment. Second, the budget proposes to permanently eliminate the tax on gain from the sale of qualified small business stock, making investments in certain small businesses more attractive. And third, the budget proposes doubling the small employer retirement plan start-up credit. In conjunction with the automatic IRA proposal, the budget proposes to increase the maximum credit for small employers' start-up expenses for establishing a new retirement plan from \$500 to \$1,000 per year.

Helping Small Businesses Access Capital

Access to capital is critical to helping small businesses thrive and hire, especially as the economy continues to recover. The Obama Administration has used an array of policy tools to help improve the flow of capital to small businesses throughout different stages of their growth.

Maintaining Access to Capital During the Crisis. In early 2009, our first priority was supporting financial institutions' access to capital and breaking the back of the financial crisis. The Troubled Asset Relief Program (TARP) and other emergency programs created during that time helped stabilize the financial system, supported banks' abilities to serve their communities, and bolstered the securitization market for small business loans. While the Bush Administration invested \$165 billion of the \$234 billion in TARP funds it committed in the eight largest financial institutions, we broadened its reach and invested in smaller banks – ones that provide critical access to credit for small businesses in countless cities, rural areas, and communities across the country. Of the financial institutions receiving Capital Purchase Program and Community Development Capital Initiative investments, 90 percent were small banks.

But the depth and severity of the financial crisis – and the stigma that soon became associated with TARP investments – required us to try new tools to support small banks and help small businesses access capital.

Working with Congress, we have implemented a broad variety of policies and programs to help small businesses access the capital they need to grow, expand, and hire.

Increasing Loan Guarantees and Reducing Fees. The Recovery Act in February 2009 and the Small Business Jobs Act in 2010 temporarily increased loan guarantees and decreased fees for the Small Business Administration's 7(a) and 504 loan guarantee programs, supporting \$42 billion in lending to small businesses. The Small Business Jobs Act also permanently increased SBA loan limits, which supported over \$2.6 billion in loans within the first three months after the increase that otherwise would not have been awarded.

Implementing New Public-Private Partnerships. In addition to the provisions in the Small Business Jobs Act that cut taxes and supported SBA's loan programs, the Act created two new public-private partnerships designed to increase lending to small businesses around the country. The State Small Business Credit Initiative (SSBCI) funds state programs that support small business lending and investing to businesses that have had difficulty accessing credit and capital as a result of the economic crisis, collateral deterioration, and other issues. The Small Business Lending Fund (SBLF) provides capital to healthy community banks that are well-positioned to increase loans to small businesses, which are overwhelmingly reliant on banks to access capital. Congress designed these two programs to have maximum impact by combining the resources of government with the local knowledge held by the community banks and state programs they support.

- **The State Small Business Credit Initiative.** SSBCI supports new and existing state small business programs at a time when many of these programs are facing cuts from state budget shortfalls. SSBCI allocates \$1.5 billion to innovative state programs across the country that support loans and investments to small businesses and small manufacturers, including capital access, collateral support, loan guarantee, loan participation, and state-run venture capital programs.

Forty-seven states, five U.S. territories, and the District of Columbia applied to participate in SSBCI. Fifty of these applicants have been approved to receive funds, and 46 have already received the first of three funding disbursements. We expect this support to result in nearly \$13 billion in new small business lending. Alaska, North Dakota, and Wyoming did not apply for state-wide programs, but municipalities in each of these states have submitted applications to access the funds that Congress allocated them. In this way, municipalities can still benefit from SSBCI, even if they are located in states that did not apply for funding.

Approved state programs in California (\$168 million), Kansas (\$13 million), Michigan (\$78 million), Missouri (\$27 million), and North Carolina (\$46 million) have already begun using SSBCI funding to increase lending to small businesses, while other states have begun establishing pipelines of loans now that funds are available. Missouri's state run venture capital fund, for example, has already completed its first round of funding with SSBCI support, investing a total of approximately \$7 million to 18 small businesses.

- **The Small Business Lending Fund.** Treasury's Small Business Lending Fund provides capital to community banks with assets of less than \$10 billion that are well positioned to expand their small business lending. The SBLF provided more than \$4 billion through Treasury purchases of preferred stock or debt instruments to 332 banks and loan funds located across the country. Since banks leverage their capital, we expect the SBLF to increase lending to small businesses in an amount that is multiples of the total capital provided to participating banks, helping small businesses in their communities to expand and create new jobs.

The program is structured to encourage community banks to increase their lending to qualified small businesses through a dividend rate incentive. The initial rate is, at most, five percent, but the rate falls as low as one percent if a bank's small business lending increases by 10 percent or more. Banks that increase their lending by less than 10 percent pay rates between two percent and four percent. If a bank's lending does not increase in the first two years, however, the rate increases to seven percent. After four and a half years total, the rate increases to nine percent (if the bank has not already repaid the SBLF funding). In addition to encouraging banks to lend to qualified small businesses, this dividend incentive structure also establishes a clear metric for measuring changes in lending by banks participating in SBLF.

Supporting Small Businesses in Hard Hit Communities. The SBLF program is also open to non-profit loan funds, which are certified as Community Development Financial Institutions (CDFIs) by Treasury's CDFI Fund. These non-profit institutions play a critical role in distressed communities across the country that lack access to mainstream financial services, and engage in activities ranging from offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics. SBLF approved 51 non-profit community development loan funds for SBLF investments totaling \$104.5 million.

Treasury's CDFI Fund is also undertaking other critical initiatives to support small businesses in distressed communities. The Administration launched a new capacity building initiative to expand technical assistance and training opportunities for CDFIs across the country so that they may better engage in small business lending. It also has worked with the SBA to expand the 7(a) loan program to CDFIs with experience lending to small businesses. In February, the SBA launched the Community Advantage Program, which permits CDFIs and other non-profit lenders to apply for authority to issue government-guaranteed 7(a) loans of up to \$250,000. These smaller dollar loans will help support small business formation and growth in underserved communities around the country.

The CDFI Fund also administers the New Markets Tax Credit (NMTC) Program, which has helped deliver \$21 billion in private sector investments into businesses and real estate projects in some of the Nation's most distressed communities. Approximately one-third of those dollars are invested in operating businesses and two thirds are invested in real estate projects.

In June, the IRS proposed significant regulatory reforms to the NMTC Program that will help more operating businesses take advantage of the NMTC. These reforms are designed to help drive additional investment to operating businesses to bring more balance to the investments benefiting from the program. The public comment period for the proposed reforms closed in early September, and the IRS held a public hearing later that month. We expect the IRS to propose a final rule in the coming months.

Encouraging High-Growth Small Businesses

Since start-ups and small businesses capable of rapid growth and innovation create the majority of new jobs, this group of small businesses is especially important. The Administration recognizes their important role in the economy, and has been committed to exploring ways and enacting policies to support this special set of small businesses.

Outreach and Open Dialogue. In March, Treasury co-hosted “Access to Capital: Fostering Growth and Innovation for Small Companies,” a conference to examine challenges facing start-ups and high-growth companies, identify barriers to their success, and find new ways for the private sector and public sector to cooperate. The conference convened policymakers, business leaders, entrepreneurs, and academics to discuss new ideas, such as the Administration’s proposal to permanently eliminate the capital gains tax on small business stock. These ideas will be important for helping small businesses overcome hurdles, particularly in an environment where credit is constrained, to build a more competitive economy over the long term. The SBA also recently conducted roundtables in states around the country to get input from entrepreneurs on how to eliminate burdensome government barriers, and federal agencies are reviewing the feedback participants provided.

Collaboration. The Administration has placed a strong emphasis not only on listening to America’s entrepreneurs, but on working together with business leaders, labor leaders, academics, and other stakeholders to explore policies to help small businesses succeed and support entrepreneurs efforts to launch and cultivate new businesses.

- **The President’s Council on Jobs and Competitiveness.** The President’s Council on Jobs and Competitiveness, created in January 2011, has brought together leaders from business, labor, and academia to offer forward-thinking ideas, with an eye towards the small, high-growth businesses, to increase job growth and make sure our economy can adapt to changing times. In October, the Council held its quarterly meeting with the President in Pittsburgh, where the Members released their interim report on ideas to increase jobs creation and long-term American competitiveness in the global economy, many of which target these smaller, fast-growing enterprises.

The Obama Administration is already making progress on a number of areas identified in the Council’s strategic recommendations. Last month, the President signed the America Invents Act – the most significant reform to patent law since 1952 – which streamlines and improves processes around intellectual property so entrepreneurs and inventors can commercialize their technologies more quickly and turn them into the core of job-creating businesses. In August of this year, the Administration announced a comprehensive effort to attract and retain highly skilled entrepreneurs by making it easier for talented immigrants to qualify for work-related visas, and by streamlining the visa application process. And last month the Commerce Department – through its Jobs and Innovation Accelerator Challenge – announced \$37 million in awards to 20 private-public partnerships that will form the basis of regional innovation clusters across the country.

- **Startup America.** In addition, in January 2011, the White House launched the Startup America initiative, which promotes entrepreneurship in all parts of the country and commits multiple federal agencies to expand access to capital for startups, reduces barriers to business formation and growth, and fosters mentorships and collaboration between large corporations and startups. At the same time, the President issued a call to action to the private sector to promote high-growth entrepreneurship. In response, an alliance of entrepreneurs, foundations, corporations, and nonprofits launched the Startup America Partnership, an independent entity delivering strategic and substantive resources to help entrepreneurs start and scale companies, accelerate technology commercialization, and support entrepreneurial education and mentoring programs. Most recently, the Startup America Partnership announced its Board of Directors and announced \$730 million in private-sector commitments from corporate partners that provide entrepreneurs and small firms with free or discounted products and services.

Expanding Export Opportunities for Small Businesses

President Obama announced the National Export Initiative (NEI) in his 2010 State of the Union address and set a goal of doubling U.S. exports by the end of 2014, and we are on pace to meet it. In July, nominal exports increased \$6.2 billion, or 3.6 percent, to the highest monthly level on record – \$178 billion. Overall, exports in the first seven months of 2011 have increased 16 percent over the same period in 2010.

The NEI places a priority on supporting small businesses, which face unique challenges ranging from insufficient knowledge of foreign markets to fewer resources to address trade barriers to accessing credit.

Helping Small Exporters Access Financing. For many smaller exporters, public-sector financing is critical for them to successfully compete in foreign markets. The NEI calls on the trade finance agencies, primarily the Export-Import Bank, the SBA, and Department of Agriculture, to increase the availability of credit to small and medium-sized enterprises. In 2010, trade finance agencies supported over 5,000 transactions, with a total export value of \$36.8 billion. Nearly \$11.3 billion came from small firms. And from January to July 2011, the SBA guaranteed 588 of 657 export finance loans for small businesses, for a total export value of \$365 million. The SBA also trained 2,247 individual lenders, primarily community bank representatives, on how to make international trade finance loans.

In January 2011, as part of NEI and in partnership with the Commerce Department, the U.S. Trade Representative, the Small Business Administration, the U.S. Chamber of Commerce, the National Association of Manufacturers, and several lenders, the Export-Import Bank launched a new initiative called Global Access for Small Businesses. The program’s goal is to increase the number of small businesses that export goods and services to create jobs, and it aims to reach \$9 billion in annual small business export financing, add 5,000 small

businesses to its portfolio, and cumulatively approve \$30 billion in transactions to small businesses. Between January and August 2011, the Export-Import Bank generated \$7.3 billion in loan authorizations for over 1,800 small businesses, putting the Ex-Im Bank on track to exceed its \$10.3 billion total from 2010.

The Small Business Jobs Act also focused on helping small businesses benefit from export opportunities. It made the SBA Export Express pilot loan program permanent, with 90 percent guarantees for loans up to \$350,000 and 75 percent guarantees for loans between \$350,000 and \$500,000. It also increased the maximum loan size for SBA's Export Working Capital loans and International Trade Loans from \$2 million to \$5 million.

Helping Small Exporters Access New Markets. Since the start of the NEI, the Department of Commerce's Trade Agreements Compliance Program has initiated over 250 new market access and compliance cases and successfully resolved over 100 specific trade barriers affecting a broad range of industries. Through this program, the Department has worked with other U.S. Government agencies to help U.S. businesses overcome trade barriers, including intellectual property rights problems, by working to remove the foreign government impediments to U.S. exports.

The Small Business Jobs Act also created a new \$90 million grant program to help states expand their trade and export promotion efforts. Awards for the first year of the State Trade and Export Promotion (STEP) grants were announced in September 2011.

Last week Congress took decisive action to pass a trade package that approved trade agreements with Korea, Colombia, and Panama and renewed a strong and robust Trade Adjustment Assistance (TAA) program for American workers displaced by trade. This step will benefit the U.S. economy, American workers, and open up new opportunities for small businesses to compete in the global marketplace. Every \$1 billion in new exports of American goods supports more than 6,000 additional jobs here at home; the same amount of services exports supports more than 4,500 U.S. jobs. These agreements reaffirm U.S. leadership in global trade.

Helping Small Exporters Find New Customers. One difficulty small businesses face is simply identifying new customers in export markets. From January 2011 to July 2011, the Department of Commerce organized 23 trade missions to 19 countries, with the 475 companies participating securing over \$806 million in export sales as a direct result of these trade missions. By comparison, from January 2010 to July 2010, Commerce coordinated 19 trade missions to 24 countries, with nearly 250 companies participating and securing over \$86 million in sales. In addition, the Department of Commerce's International Buyer Program recruited over 10,150 foreign buyers to visit major U.S. trade shows and directly connect with U.S. companies in the first seven months of this year – almost 2,000 more than were recruited during the same period in 2010.

Increasing Federal Contracting with Small Businesses

The Administration has refocused efforts to increase contracting opportunities for small businesses. Congress has set goals for the portion of annual Federal contracting dollars awarded to small businesses, along with subgoals for small businesses owned by women, socially or economically disadvantaged individuals, service-disabled veterans, and small businesses located in Historically Underutilized Business Zones (HUBZones). Since 2006, the Federal government has missed its annual small business contracting goal and most of the subgoals.

However, today we are making substantial progress towards reaching these important goals. In the 2010 fiscal year, the Federal government awarded 22.7 percent of its contracting dollars to small businesses – the largest two-year increase in over a decade. Last year, we awarded higher contracting dollar amounts for small businesses overall – as well as for women, veterans, and other small business subgroups. Nearly a third of all Federal contracting dollars resulting from the Recovery Act went to small businesses. And the Small Business Jobs Act included 19 provisions that improve small business contracting and oversight that the SBA is currently working to implement.

Based on preliminary data, we are very proud that for the 2011 fiscal year, for the first time, Treasury not only met, but exceeded, our overall small business contracting goals and all four small business subgoals.

The SBA is currently working to implement specific recommendations the President's Interagency Task Force on Federal Contracting Opportunities for Small Businesses laid out in September 2010. The Task Force offered 13 recommendations and three core objectives to help close the gap in small business contracting and reach our goals: strengthening and updating policies that help provide contracting opportunities, and create new ones where they are lacking; increasing the knowledge base and efficiency level of the procurement workforce and providing appropriate incentives and accountability for agencies to meet small business goals; and easier access to procurement information and improving accuracy of procurement data.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) highlights our attention on Federal contracting opportunities for small businesses that are owned by women or minorities. Section 342 of DFA created Offices of Minority and Women Inclusion (OMWIs) in the Department of the Treasury headquarters and all Federal financial regulatory agencies. The OMWIs track how each agency's policies and regulations affect minority- and women-owned businesses, and are required to develop procedures to make sure, to the maximum extent practicable, the fair inclusion of minority- and women-owned businesses in all activities of the agency, including procurement and all types of government contracts and subcontracts. The establishment of OMWIs is an important milestone for promoting and maintaining fair inclusion and opportunities for firms owned by minorities and women.

The Administration will continue its efforts to leverage the creativity, innovation, and expertise of small businesses through expanding opportunities for them to benefit from Federal contracts.