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Small Business Administration: Overview and Issues

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Summary

Legislation creating the Small Business Administration (SBA) was signed into law (P.L. 83-163) in 1953, early in President Eisenhower's first term in office. Successor to several agencies created during the "Great Depression" and World War II, the SBA was created on a "temporary basis" to address several perceived problems facing small business — problems that were accentuated by large-scale mobilization of American industry for national security. The enabling law declared it to be the policy of Congress that the federal government should aid, counsel, assist, and protect insofar as is possible the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for supplies and services for government be placed with small business enterprises, and to maintain and strengthen the overall economy of the nation.

Over its 46-year history the SBA has generated considerable criticism, particularly regarding the quality—or lack thereof—of its management. Increasingly during the 1990s, however, the agency has been seen to have made significant improvements in many areas, including leadership and efficiency. While some observers continue to question whether the SBA and its programs make sense from a public policy perspective, the agency enjoys a strong constituency and broad bipartisan support in the Congress. This report will be updated as required by legislative activity.

Appropriations Highlights in the 106th Congress. Funding for the SBA is included in appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and other related agencies (often referred to as CJS appropriations). On June 26, 2000, the House passed the CJS appropriations bill (H.R. 4690, H.Rept. 106-680). It would provide SBA with $860.7 million for FY2001, including $304.1 million for Salaries and Expenses (a category which includes funding for the agency's non-credit programs). This compares to a total CJS appropriation for SBA of $873.7 million for FY2000, or a reduction of $13 million from previous year funding.

For FY2001, the Administration requested a total appropriation of $1,057.8 million — a figure which included $50.5 million in an emergency supplemental appropriation to support the agency's disaster loan program. This compared to a $847 million CJS appropriation for SBA for FY2000. The House CJS bill (H.R. 4690) followed the recommendation of the Appropriations Committee. An amendment, however, added $4.5 million for the Women's Business Centers program. The result: a total FY2001 appropriation for SBA of $860.7 million. For its part, the Senate Appropriation Committee recommended a total FY2001 appropriation for SBA of $887.5 million. The conference agreement provides a total FY2001 appropriation for SBA of $$859.5 million. H.R. 4690 is awaiting final action in Congress, possibly as an omnibus appropriations bill.

SBA Reauthorization in the 106th Congress. The agency and many of its programs were last reauthorized in 1997 (see following section), and both chambers are currently working on bills which would authorize programs through FY2003.[1]

Among the programs addressed in the major House reauthorization bill (H.R. 3843), the SBA's 7(a) program would be authorized at $14.5 billion in FY2001, $15 billion in FY2002, and $16 billion in FY2003. This compares to an authorized level of $9.8 billion for the current fiscal year.

Another bill, H.R. 2614, would make several changes to the agency's 504 Certified Development Company (CDC) program. In the closing days of the 106th Congress, H.R. 2614 became a vehicle for major tax legislation. On October 26, the House passed the legislation which contains a $240 billion tax cut that would reform pension laws, revise tax rules for foreign sales corporations, expand healthcare-related tax breaks, and provide new tax breaks to help poorer communities, among other changes. Majority Leader Trent Lott announced on October 31 his intention to file cloture on the bill at an unspecified later date. President Clinton has announced he will veto the bill.

Agency Reauthorized in the 105th Congress. The "Small Business Reauthorization Act of 1997" (S. 1139, S.Rept. 105-62; H.R. 2261, H.Rept. 105-246) reauthorized the agency through FY2000; it was signed into law (P.L. 105-135) by President Clinton on December 2, 1997. Among a host of provisions, including ones intended to help SBA adopt more standard business practices when dealing with its lenders and its loan portfolio, the legislation incorporated the "HUBZone Act of 1997" (S. 208), an initiative designed to stimulate economic development in the nation's most disadvantaged urban and rural communities as well as facilitate welfare-to-work.[2]

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[1] Testimony of SBA's Administrator, Aida Alvarez, on the agency's FY2001 budget request and reauthorization before the Senate Small Business Committee on February 24, 2000 is available at: [http://www.sba.gov/regulations/testimony/alvarez2-24-00.html]

[2] More specifically, the HUBZone (Historically Underutilized Business Zone) legislation should make it easier for small businesses located in, and hiring employees from, economically distressed areas to get federal government contracts. To be eligible, a business must be small, must be located in a HUBZONE (as defined by Census data), and must hire not less than 35% of its workforce from a HUBZone. [http://www.sba.gov/hubzone/]

SBA Programs.[3] The SBA administers a wide variety of loan programs and offers management counseling and training to all types of small firms. Eligibility for SBA assistance requires that the businesses be independently owned and operated, not dominant in their field, and meet SBA's size standards. Space limitations in this report preclude a discussion of all of the agency's programs; the following are among its most important.

7(a) General Business Loans. While the SBA administers numerous programs that provide financial and technical assistance to small firms, its 7(a) General Business Loan Guaranty Program is far and away the agency's largest and most important in terms of number of loans and program level supported. It provides loan guarantees to eligible small businesses that have been unsuccessful in obtaining private financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that provide loans which are, in turn, guaranteed by the SBA–the Agency has no funds for direct lending or grants.

Under the 7(a) guaranty loan program, the SBA is authorized to provide guarantees ranging from 75% to 80% of loans made by private lenders with the average guaranty being approximately 76%. Nearly 7,000 banks and non-bank lenders are now approved to participate in the program. At present, SBA guaranteed loans are generally limited to amounts of $750,000 or less. The proceeds from an SBA loan may be used for virtually any business purpose.

Since its inception, the SBA has made or guaranteed more than 600,000 7(a) loans totaling approximately $80 billion. The size of the 7(a) program has grown dramatically in recent years, with loan approvals as follows:

Fiscal Year	Number of Loans	Dollar Amount
1991	19,057	4.4 billion
1992	24,284	5.9 billion
1993	26,811	6.7 billion
1994	36,480	8.2 billion
1995	55,596	7.8 billion
1996	45,845	7.7 billion
1997	45,288	9.5 billion
1998	42,268	9.0 billion
1999	43,639	10.1 billion

SBA's supporters maintain that the 7(a) program addresses the financing needs of small firms that are often not met in the private capital markets because commercial lenders do not provide loans for the purposes, in the amounts, and with the terms required by small business borrowers. Critics say the SBA serves only a tiny fraction of the nation's small businesses, and most of the program's borrowers could obtain their financing without the SBA's help. [http://www.sba.gov/financing/fr7aloan.html]

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[3] Detailed information on all SBA programs is available on the agency's website. Program descriptions below conclude with specific program URLs.

504 Certified Development Company Program. The 504 program provides permanent fixed rate financing for businesses needing to acquire industrial or commercial buildings or heavy equipment and machinery. The program is delivered by local Certified Development Companies (CDCs) working in partnership with private lenders and the SBA. The CDC agrees to provide financing to a small business borrower as part of a larger financing package.

Generally, a private lender agrees to provide 50% of the project cost in exchange for a first lien on the property or equipment being financed. The CDC (there are currently 290 in the nation) provides 40% of the project cost and receives a second lien position on the collateral. The borrower provides 10% of the project cost in the form of personal or business investment. The CDC finances its loan by the sale of a debenture to private institutional investors with the SBA guaranteeing the repayment of the debenture. Thus, the CDC is able to offer favorable rates and terms for the loans that it makes to the small business. The CDC's share of a project is limited to $750,000 ($1 million, if the project meets a public policy goal). The borrower repays its debt directly to the CDC over a period of either 10 or 20 years. Since 1980, more than $20 billion in fixed asset financing for over 25,000 small business concerns has been arranged by CDCs. This represents $7.4 billion in CDC debenture authorizations, and $12.6 billion in private sector and other financing. [http://www.sba.gov/financing/frcdc504.html]

Disaster Loan Program. SBA's disaster loans are the primary form of federal assistance for nonfarm, private sector disaster losses caused by hurricanes, floods, earthquakes, and the like. Consequently, the disaster loan program is the only form of SBA assistance *not* limited to small businesses. It is also the agency's largest direct loan program. The loan program's low interest rates and long terms (up to 30 years) are intended to make recovery affordable. Disaster victims repay the loans to the Treasury.

Inasmuch as the need is unpredictable, the number and amount of SBA disaster loans have varied greatly over the years. Since 1953, the agency has approved over 1,274,000 disaster loans for more than $22.4 billion. In the aftermath of California's Northridge earthquake in 1994, SBA approved over 125,000 loans for more than $4.1 billion. [http://www.sba.gov/disaster/]

Minority Enterprise Development (MED). The Office of Government Contracting and Minority Enterprise Development, under Section 8(a) of the Small Business Act, assists in the expansion of minority-owned and -controlled small businesses by awarding them government contracts.[4]

Regulations limit program participation to firms at least 51% owned, controlled and operated by U.S. citizens who are socially and economically disadvantaged and have an adjusted personal net worth of $250,000 or less. If accepted, firms submit business plans and become eligible to seek 8(a) contracts from the federal government on a sole source or limited competition basis.

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[4] For a comprehensive discussion of this subject, see CRS Report RL30059, *Small and Disadvantaged Business Programs of the Federal Government*, by Mark Eddy.

Through the 7(j) Management and Technical Assistance Program, 8(a) firms and other eligible small businesses receive help from professional management consultants. This program provides assistance in areas crucial to a firm's success, growth and development, including but not limited to, accounting, marketing, bid and proposal preparation, executive education and industry-specific technical assistance. [http://www.sba.gov/MED/]

Contracting. Section 2(a) of the Small Business Act, 15 U.S.C. 631(a), sets forth as congressional policy that the federal government should ensure that a fair proportion of its procurement needs be placed with small business enterprises. The SBA establishes the appropriate size standards applicable to particular industries, and the agency determines which concerns qualify as *small* under the appropriate size standard, based either upon number of employees or annual receipts. [See the Code of Federal Regulations (CFR)—specifically, 13 CFR Part 121.] [http://www.sba.gov/GC/]

Small Business Investment Companies. The Small Business Investment Company (SBIC) program is a partnership of public and private funds, in which SBA supplements the capital of private venture capital investment firms. The additional funds made available through SBA guarantees are referred to as "leverage." So long as SBICs operate within the regulations under which they are licensed by SBA, these investment companies are controlled by their private owners and managers, who make all investment decisions. The entire private capital of an SBIC is always at risk ahead of the funding guaranteed by SBA.

Specialized SBICs (SSBICS) invest only in companies owned by persons whose participation in the free enterprise system is believed to be hampered by social or economic disadvantages. In return, SSBICs have been offered special incentives in the form of preferred stock and debentures subsidized by SBA.

Over the past 35 years, SBICs have provided nearly $13 billion in over 100,000 financings of small business concerns, including more than $1 billion the past year. Through investments in new technologies, the program has enabled the conversion of scientific discoveries into high-growth businesses. Some SBICs invest in the equity or other permanent capital of small concerns, while others make long term loans, often with some equity rights. These "lender" SBICs provide expansion capital for businesses which can afford to pay interest, but need growth financing in excess of what is available from conventional lenders. [http://www.sba.gov/INV/]

MicroLoan Program. SBA's Microloan Program is intended to fill a gap in the commercial marketplace, which makes obtaining financing especially difficult for those small businesses with the smallest borrowing needs and for those that require additional guidance and support to achieve competitive success. It also represents one of the first elements of the continuum of services that SBA provides to entrepreneurs and small business owners to assist them to start and grow their enterprises. SBA's Microloan Demonstration Program was authorized by P.L. 102-140, enacted in 1991. The program was modified several times by legislation, and was made permanent in 1997 as part of SBA's Reauthorization Act, P.L. 105-135. The microloan program has three components:

- SBA provides loans to organizations, "intermediaries" that, in turn, make loans to microenterprises in amounts up to $25,000. What makes this loan program unique is that SBA is also authorized to provide grant funding to the intermediaries allowing them to provide technical assistance and support to their borrowers. This grant funding supports the technical assistance that is provided as part of the microloan funding as well as the two other technical assistance components of the SBA Microloan Program.

- SBA is authorized to provide grants to experts in the microenterprise field, enabling them to train other microenterprise organizations to increase their skills in assisting microbusinesses.
- SBA is authorized to provide separate grant funding to additional "non-lending technical assistance providers." This enables these organizations to provide assistance to small entrepreneurs to enable them to secure private sector funding.

[http://www.sba.gov/financing/frmicro.html]

Small Business Development Centers (SBDC). The SBA administers the SBDC program to provide management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community and federal, state and local governments. Its purpose is to enhance economic development by providing small businesses with management and technical assistance.
[http://www.sba.gov/SBDC/mission.html]

Other SBA Programs. Other specialized programs administered by SBA:

Small Business Innovation Research [http://www.sba.gov/SBIR/]
Surety Guarantees [http://www.sba.gov/osg/]
Office of International Trade [http://www.sba.gov/OIT/]
Veterans Affairs [http://www.sba.gov/VETS/]
Women's Business Ownership [http://www.sba.gov/womeninbusiness/]

SBA's Advocacy Role. Created by Congress in 1976, SBA's Office of Advocacy is assigned the role of representing the views and interests of small business whenever those interest are affected by federal policy. The Chief Counsel for Advocacy testifies before Congress on behalf of the nation's small businesses and often comments on the effects of proposed and final rules affecting small business.

The Small Business Regulatory Enforcement Fairness Act of 1996 (P.L. 104-121) requires the SBA to convene panels of small business representatives to consult with certain federal agencies—specifically, the Environmental Protection Agency, the Occupational Safety and Health Administration and other agencies in the Department of Labor—on the impact of draft proposed rules.

Additional Information. The World Wide Web is an invaluable resource for information on the SBA and small business issues. The agency's website is: [http://www.sbaonline.sba.gov/] Information about SBA programs, new releases, testimony, links, etc., can readily be accessed from its expanded web site map: [http://www.sbaonline.sba.gov/map.html] Information concerning laws and regulations affecting small business, statistics, research, and a host of other subjects are available from SBA's Office of Advocacy at: [http://www.sba.gov/ADVO/]