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**OFFICE OF ENTREPRENEURIAL DEVELOPMENT**

**An Introduction to the U.S. Small Business Administration  
(SBA)**

## **The U.S. Small Business Administration (SBA):**

*With a portfolio of business loans, loan guarantees, and venture capital instruments worth more than \$45 billion - in addition to a disaster loan portfolio of \$5 billion -- the SBA is the nation's largest single financial backer of small businesses.*

### **What is the SBA?**

- A small, independent federal agency of the United States government.
- Mandate: Aid, counsel, assist and protect the interests of small business concerns, preserve free competitive enterprise, and maintain and strengthen the overall economy of the nation.
- The Fiscal Year 2003 budget – approximately \$ 800 million. The SBA's budget is appropriated annually through Congress. See <http://www.sba.gov/aboutsba/indexreports.html>.
- This represents 6/100 of 1% of the total federal budget, yet the SBA is one of the 5 largest federal credit agencies.

### **History:**

- Created by the Small Business Act in 1953 . See <http://www.sba.gov/regulations/sbaact/sbaact.html>
- Predecessor Institutions: The Smaller War Plants Corporation, the Reconstruction Finance Corporation, Office of Small Business, and the Small Defense Plants Administration. See <http://www.sba.gov/aboutsba/history.html>
- Service Delivery Structure: Through SBA's 90 regional and district and branch offices: See <http://www.sba.gov/regions/states.html>. Also through SBA's financial participants and resource partners.

### **U.S. Small Businesses:**

- Represent more than 99.7 percent of all employers
- Generate 60 to 80 percent of net new jobs annually
- Employ more than half of all private sector workers
- Pay 44.5 percent of the total U.S. private payroll
- Provide over 50 percent of non-farm private gross domestic product (GDP)
- See <http://www.sba.gov/advo/stats/sbfaq.pdf>

**DEFINITION OF A “SMALL BUSINESS”**

**Eligibility for SBA Programs:**

<b>For Eligibility for SBA Programs:</b>	Size standards by industry category.
<b>Specifically:</b>	The size of a small business is defined by SBA’s Office of Size Standards <a href="http://www.sba.gov/size">http://www.sba.gov/size</a> . Size standards are based on the North American Industrial Classification System (NAICS). Each industry is assigned size standards based on the number of people employed or sales over a given period of time.
<b>Important:</b>	The business is “small” <i>relative to all the businesses within that industry</i> . In general, the following criteria are used by SBA to determine if a concern qualifies as a Small Business: <i>Wholesale:</i> Not more than 100 employees <i>Retail or Service:</i> Average (3 years) sales not to exceed annual sales or receipts of more than \$4.0 to \$30.0 million <i>Manufacturing:</i> Not more than 500 employees, but up to 1,500 in some cases. <i>Construction:</i> Average (3years) annual sales or receipts at not more that \$12.0 to \$28.5 million, depending on the specific business type. See <a href="http://www.sba.gov/businessop/standards/smallbus.html">http://www.sba.gov/businessop/standards/smallbus.html</a> .
<b>Important:</b>	In order to qualify for SBA lending and government contracting programs, a small business MUST meet the specified SBA-designated definition of “Small Business.”

**DEFINITION OF A “SMALL BUSINESS”**

**For Research Purposes:**

<b>SBA’s Office of Advocacy defines a small business for research purpose as:</b>	An independent business having fewer than 500 employees.
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## **SBA'S FOUR PROGRAMMATIC FUNCTIONS**

### **I. *ACCESS TO CAPITAL* (Business Financing)**

SBA provides small businesses with an array of financing for small businesses from the smallest needs in microlending --- to substantial debt and equity investment capital (venture capital.)

### **II. *ENTREPRENEURIAL DEVELOPMENT* (Education, Information, Technical Assistance & Training)**

SBA provides free individual face-to-face, and internet counseling for small businesses, and low-cost training to nascent entrepreneurs and established small businesses in over 1,580 locations throughout the United States and US territories.

### **III. *GOVERNMENT CONTRACTING* (Federal Procurement)**

In keeping with the mandate of Section 5(j) of the Small Business Act, SBA's Office of Government Contracting sets goals with other federal departments and agencies to reach the statutory goal of 23 percent in prime contract dollars to small businesses. This office also provides small businesses with subcontracting procurement opportunities, outreach programs, and training.

### **IV. *ADVOCACY* (Voice for Small Business)**

Created in 1978, this Office reviews Congressional legislation and testifies on behalf of small business, and assesses the impact of the regulatory burden on behalf of small businesses. Additionally, it conducts a vast array of research on American small businesses and the small business environment. The Chief Counsel of this office is appointed by the President of the United States.

## ACCESS TO CAPITAL

### **A. *Lending Programs***

1. 7(a) Loan Guaranty Program
2. 504 Lending Program
3. Microloan Program

### **B. *Investment (Venture Capital)***

1. Small Business Investment Company (SBIC) Program

### **C. *Emergency Recovery***

1. Disaster Loan Program

#### **A.1. 7(a) Loan Guaranty Program**

- For FY 2002 the SBA approved more than 51,650 loan guaranties amounting to a record \$12.2 billion in the 7(a) General Business Loan Guaranty Program.
- Guarantees approximately 75% of short and long-term loans of up to \$1 million through commercial lending institutions
- This program covers many loan products and applications, from working capital to export financing.
- Approximately 6,000 commercial banks can provide SBA guaranteed 7(a) loans in coordination with SBA's District Offices.
- Average loan amount under this program is \$240,000.
- See: <http://www.sba.gov/financing/fr7aloan.html>

#### **A.2. 504 (CDC) Loan Program**

- Through a network of Certified Development Companies (CDCs), the SBA provides growing businesses with long-term financing for major fixed assets such as land and buildings.
- A Certified Development Company is a nonprofit corporation set up to contribute to the economic development of its community, and to create and retain jobs in the communities they serve. CDCs work with the SBA and private-sector lenders to provide financing to small businesses.
- There are about 270 CDCs nationwide. Each CDC covers a specific geographic area.
- See <http://www.sba.gov/financing/frcdc504.html>
- For Fiscal Year 2002, SBA approved 5,480 loans worth \$2.47 billion under the Certified Development Company (CDC) Loan Program.

#### **A.3. Microloan Program**

- Promotes economic empowerment at the smallest levels.
- Provides small loans of up to \$35,000 to small businesses through a network of local community-based intermediary lenders (NGOs)
- SBA provides financing at a discount rate to the microlender intermediary (NGO) who re-lends to the micro-borrower.
- Each loan must be accompanied by a grant for technical assistance (training)
- 170 intermediaries disburse SBA-funded micro-credit loans
- See <http://www.sba.gov/financing/frmicro.html>
- In Fiscal Year 2002, SBA's Microloan Program provided \$34.2 million in loans to more than 2,400 borrowers. Since 1992, more than \$184 million has been loaned under the Microloan Program to more than 16,500 micro-borrowing entrepreneurs.

## **B.1. Small Business Investment Company (SBIC) Program**

- The SBIC Program is the Agency's premier vehicle for providing venture capital to small, growing companies.
- The SBA licenses professional venture capitalists, who form SBICs, either in the form of limited partnerships (LPs) or limited liability companies (LLCs). The SBA then leverages the SBICs' private funds through loan guarantees.
- SBICs make equity or debt/equity investments in small businesses and help the businesses grow. Once the businesses "exit" successfully, the SBICs repay SBA with the profits. The funding period usually lasts from seven to ten years.
- High-risk, "non-traditional" financing
- Delivery structure: 446 private venture capitalist entities, called Small Business Investment Companies (SBICs)
- In Fiscal Year 2002, the SBIC Program produced \$2.66 billion in equity and debt capital investments during the year. The program's licensed SBICs made more than 4,000 investments in almost 2,000 different small businesses. Approximately 60 percent of the actual venture capital transactions in the United States during the first six months of calendar year 2002 were done by licensed SBICs participating in the SBA's venture capital program.
- See <http://www.sba.gov/INV>

## **C.1. Disaster Loan Program**

- The SBA's Disaster Assistance Loan Program is the primary federal program for funding long-range recovery for private-sector, nonagricultural disaster victims.
- The SBA Disaster Loan Program is the major, federal, long-term recovery program for *individual* Disaster losses. Loans are available to qualified homeowners for uninsured losses up to \$200,000 to repair or restore a primary residence to pre-disaster condition.
- Physical Disaster Business Loans are available to qualified applicant businesses of any size for uninsured losses up to \$1.5 million to replace or repair business property to pre-disaster Conditions.
- Loans of up to \$1.5 million are available for small businesses that sustain economic injury as the direct result of a disaster.
- SBA's Disaster Assistance loan program made about 21,829 disaster recovery loans nationwide, amounting to over \$1.3 billion during Fiscal Year 2002
- The total for the World Trade Center/Pentagon victims is more than \$532 million in disaster recovery loans, and more than \$550 million for the Expanded Economic Injury Disaster Loan program for firms that were impacted by the September 11 tragedy.
- See [http://www.sba.gov/disaster\\_recov/index.html](http://www.sba.gov/disaster_recov/index.html).

## ENTREPRENEURIAL DEVELOPMENT

The SBA's *Technical Assistance Programs* provide one-on-one counseling, free of charge to permanent residents and citizens of the United States interested in starting a small business. They also provide training and/or workshops on a wide variety of business related subjects at minimal cost.

### ***Entrepreneurial Development Technical Assistance Programs and Outreach:***

- I. SBDCs –Small Business Development Centers
- II. SCORE-Service Corps of Retired Executive
- III. WBCs- Women's Business Centers
- IV. E-Business Institute –Online at sba.gov

### ***Other SBA Technical Assistance Programs and Outreach:***

- V. USEACS – US Export Assistance Centers
- VI. SBA's Web Site, Online Library, Publications, Research and Articles

### **I. SBDCs: (*Small Business Development Centers*)**

- More than 1,000 centers, most of which are located in universities throughout the country and U.S. territories
- Cooperative effort between the SBA, the academic community, the private sector; and state and local governments
- SBDCs tailor services to the unique needs of local economies - from rural to urban, from marine services to international trade, from government contracting to home-based businesses.
- Provide management and technical assistance
- Assist in preparation of loan applications
- See <http://www.sba.gov/sbdc>

### **II. SCORE: *Counselors to America's Small Business***

- Ten thousand five hundred (10,500) retired and active senior executives and small business owner volunteers in 389 locations.
- Real-life, hands-on experience in starting, owning and operating a business
- Provide expert marketing advice, business-plan preparation, pre-business planning
- Develop and conduct training workshops
- Email counseling – 1,200 experienced businessmen/women handle approximately 10,000 cases per month. See <http://emc.dev.score.org/index.cgi?partner=ASKSCORE&action=skills>
- Service delivery: 389 SCORE chapters for hands-on, face-to-face counseling and SCORE web site for email counseling
- SCORE web site: <http://www.score.org>

### **III. WBCs: (*Women's Business Centers*)**

- Women-owned businesses in the United States employ more than 9million people and contribute nearly \$1.15 trillion to the economy.
- Between 1997 and 2002, women owned businesses outpaced the economy as a whole. Their numbers increased by 14 percent nationwide – twice the rate of all firms – while employment increased by 30 percent – 1½ times the national rate. Sales grew by 40 percent, equaling the national rate.
- Provide counseling and training for women nationwide. Review the web site - in eight languages, including English. See <http://www.onlinewbc.gov/>
- Offer mentor programs for women in the process of running a small business
- Service Delivery: Ninety-one WBCs in 49 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and American Samoa.
- See <http://www.sba.gov/financing/special/women.html>.

### **IV. E-Business Institute:**

- A virtual campus housing free training courses, workshops and knowledge resources
- Designed to assist entrepreneurs and other students of enterprise.
- Internet-based learning environment
- Offers online courses, workshops, publications, information resources, learning tools and direct access to electronic counseling, and other forms of technical assistance.
- See <http://www.sba.gov/training/>

### **V. U.S. Export Assistance Centers (USEACs):**

- A combined effort of the SBA, the U.S. Department of Commerce, and EXIM Bank.
- The SBA's role via the Office of International Trade: See <http://www.sba.gov/oit>
- Export working capital pre-qualification
- International trade loans and export working capital loan processing
- Delivery service: 19 U.S. Export Assistance Centers
- See: <http://www.sba.gov/oit/export/useac.html>

### **VI. SBA's Website, Online Library, Articles and Research Papers:**

- SBA maintains over 44,000 pages of information on its website, which has received 18 awards
- The SBA website averaged 17 million hits a week last fiscal year (FY 02)
- The third most popular site is the Online Library at [www.sba.gov/library](http://www.sba.gov/library). The Reports Room at: <http://www.sba.gov/library/reportsroom.html> houses loan statistics and loss reports, as well as extensive small business research conducted by SBA's Office of Advocacy. The library also houses SBA publications, fact sheets and workbooks at <http://www.sba.gov/library/pubs.html>.

## GOVERNMENT CONTRACTING (Federal Procurement)

The United States government is the single largest purchaser of goods and services in the world. The federal procurement is approximately \$200 billion annually. Each year, the SBA's Office of Government Contracting assists small businesses in acquiring approximately 23 percent of this federal procurement budget in prime contract dollars. This is a legislated goal mandated by Congress. This office also provides small businesses with subcontracting procurement opportunities, outreach programs and training.

### Government Contracting (Federal Procurement)

- See Government Contracting: <http://www.sba.gov/GC/indexwhatwedo.html>
- Goaling Program: <http://www.sba.gov/GC/goals/> and <http://www.sba.gov/GC/goals/indexmethod.html>.
- PRO-Net : <http://pro-net.sba.gov/index2.html> and SUB-Net: <http://web.sba.gov/subnet/>.

The status of small business procurement may be verified by looking at the following Federal Procurement Data Center report:

- Federal Procurement Report: <http://www.fpdc.gov/fpdc/fpr.htm> for general information. (The Small Business Administration (SBA) is number 54 in Section III - Agency Views)

### Small Business Innovation & Small Business Technology Transfer Programs (SBIR/STTR), Office of Technology

- Promotes federal high-tech programs to improve competitive capability of small business R&D firms
- Encourages state-of-the-market technology training, technology information exchange, and outreach on federal technology programs
- Encourages private and public resource support for the commercialization of federal R&D efforts
- See <http://www.sba.gov/sbir/indexwhatwedo.html>.
- See TECH-Net at: <http://www.sba.gov/sbir/indextechnet.html>.

## OFFICE of ADVOCACY

- The Office of Advocacy was created in 1976 by an Act of Congress.
- Mandate: Protect, strengthen and effectively represent the nation's small businesses within the federal government's legislative and rule-making processes. See <http://www.sba.gov/advo/about.html>
- The Chief Counsel is appointed by the President of the United States and confirmed by the Senate, and reports directly to the President and to Congress
- Advocacy provides congressional testimony in favor of small business. See recent testimony at <http://www.sba.gov/advo/laws/testimon.html#General>
- Advocacy's Office of InterAgency Affairs pursues regulatory initiatives in accordance with the Regulatory Fairness Flexibility Act, and other policy initiatives that support small business growth. See <http://www.sba.gov/advo/laws/> and [http://www.sba.gov/advo/laws/law\\_fun.html](http://www.sba.gov/advo/laws/law_fun.html)
- Advocacy's Office of Economic Research conducts research and provides statistics on small business; publishes small business reports and data. See: <http://www.sba.gov/advo/stats/>
- Ten Regional Advocates: represent the Eyes and Ears of the U.S. Small Business Community <http://www.sba.gov/advo/region.html>.
- The Small Business State Profiles provide an overview of the important role small businesses play in each state. See: <http://www.sba.gov/advo/stats/profiles/>.

## OFFICE of the NATIONAL OMBUDSMAN

- Established in 1996 by the Small Business Regulatory Enforcement Fairness Act
- Charged to foster a more small business-friendly federal regulatory enforcement environment
- Conduct hearings and roundtables across the country designed to increase input from small business.
- Functions as a liaison between small business and federal agencies.
- Coordinates the activities of 10 regional Regulatory Fairness Boards
- Rates federal regulatory agencies and sends a "Report Card" to Congress.
- See <http://www.sba.gov/ombudsman>