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SBA Assistance to Small Business Startups: Client Experiences and Program Impact

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Summary

The Small Business Administration (SBA) administers several programs to support small businesses, including loan guaranty and venture capital programs to enhance small business access to capital; contracting programs to increase small business opportunities in federal contracting; direct loan programs for businesses, homeowners, and renters to assist their recovery from natural disasters; and small business management and technical assistance training programs to assist business formation and expansion.

Congressional interest in these programs, and the SBA's assistance provided to small business startups in particular (defined as new businesses that meet the SBA's criteria as small), has increased in recent years, primarily because these programs are viewed by many as a means to stimulate economic activity and create jobs.

Economists generally do not view job creation as a justification for providing federal assistance to small businesses. They argue that in the long term such assistance will likely reallocate jobs within the economy, not increase them. In their view, jobs arise primarily from the size of the labor force, which depends largely on population, demographics, and factors that affect the choice of home versus market production (e.g., the entry of women in the workforce). However, economic theory does suggest that increased federal spending on small business assistance programs may result in additional jobs in the short term.

Congressional interest in assistance to business startups is derived primarily from economic research suggesting that startups play a very important role in job creation. That research suggests that business startups create many new jobs, but have a more limited effect on net job creation over time because fewer than half of all startups remain in business after five years. However, that research also suggests that the influence of small business startups on net job creation varies by firm size. Startups with fewer than 20 employees tend to have a negligible effect on net job creation over time whereas startups with 20-499 employees tend to have a positive employment effect, as do surviving younger businesses of all sizes (in operation for one year to five years).

This report examines small business startups' experiences with the SBA's management and technical assistance training programs, focusing on Small Business Development Centers (SBDCs), Women Business Centers (WBCs), and SCORE (formerly the Service Corps of Retired Executives); the SBA's 7(a), 504/CDC, and Microloan lending programs; and the SBA's Small Business Investment Company (SBIC) venture capital program. Although data collected by the SBA concerning these programs' impact on economic activity and job creation are somewhat limited and subject to methodological challenges concerning their validity as reliable performance measures, most small business owners who have participated in these programs report in surveys sponsored by the SBA that the programs were useful. Given the data limitations, however, it is difficult to determine the cost effectiveness of these programs.

The report also discusses the SBA's growth accelerators initiative, which targets entrepreneurs looking to "start and scale their business" by helping them access "seed capital, mentors, and networking opportunities for customers and partners," and the recently sunset SBIC early stage debenture program, which focused on providing venture capital to startups.

Contents

The SBA's Missions 1
Small Business Startups and Job Creation 2
Report Overview 3
SBA Management and Technical Assistance Training Programs 4
SBDCs, WBCs, and SCORE 5
Program Performance 6
Extent of SBA Management and Technical Training Assistance, By Developmental Stage 6
Impact of the SBA's Management and Technical Training Assistance, by Developmental Stage 7
The SBA's Growth Accelerators Initiative 9
SBA Lending Programs 11
The SBA's 7(a), 504/CDC, and Microloan Programs 12
7(a) Loan Guaranty Program 12
504 Certified Development Company Loan Guaranty Program 13
The Microloan Program 14
Program Performance 15
Extent of SBA Lending Assistance, By Developmental Stage 15
SBA Venture Capital Programs 15
The SBIC Program 16
Extent of SBIC Financial Assistance, by Developmental Stage 17
Early Stage Debenture SBIC Initiative 17
Concluding Observations 19

Tables

Table 1. SBA Management and Technical Assistance Training Programs' Clients, Percentage by Client Business Development Stage, 2011 7
Table 2. Usefulness of SBA Management and Technical Assistance Training Programs, Percentage by Client Business Development Stage, 2011 7
Table 3. Percentage of Businesses That Changed Their Management Practices/Strategies As a Result of the SBA Management and Technical Assistance Training Received, by Client Business Development Stage, 2011 8
Table 4. Percentage of Businesses That Retained Current Staff As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011 8
Table 5. Percentage of Businesses That Hired New Staff As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011 9
Table 6. Percentage of Businesses That Experienced an Increase in Their Profit Margin As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011 9

Contacts

Author Information..... 20

The SBA's Missions

The Small Business Administration (SBA) administers several programs to support small businesses, including the 7(a), 504/CDC, and Microloan lending programs to enhance small business access to capital; the Small Business Investment Company (SBIC) program to enhance small business access to venture capital; contracting programs to increase small business opportunities in federal contracting; direct loan programs for businesses, homeowners, and renters to assist their recovery from natural disasters; and small business management and technical assistance training programs to assist business formation and expansion.[1] Congressional interest in these programs, and the SBA's assistance to small business startups in particular (defined as new businesses that meet the SBA's criteria as small), has increased in recent years, primarily because these programs are viewed by many as a means to stimulate economic activity and create jobs.

The Small Business Act specifies four missions for the SBA:

> It is the declared policy of the Congress that the 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 or subcontracts for property and services for the Government (including but not limited to contracts or subcontracts for maintenance, repair, and construction) be placed with small-business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation.[2]

As part of its mission to maintain and strengthen the overall economy of the nation, the SBA has always been interested in promoting job creation and job retention.[3] For example, the SBA currently gathers data from its clients concerning the number of jobs either created or retained as a result of the assistance they receive from the SBA. The SBA refers to these self-reported data as the number of "jobs supported."[4] The SBA also regularly sponsors research on the role of small businesses in job creation and retention, and considers that research when designing its programs.

Economists generally do not view job creation as a justification for providing federal assistance to small businesses. They argue that in the long term such assistance will likely reallocate jobs

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[1] U.S. Small Business Administration (SBA), *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, pp. 18-20, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report. For further analysis of the SBA's loan guaranty programs, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger; and CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger. For further analysis of the SBA's Small Business Investment Company program, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger. For further analysis of the New Markets Venture Capital program, see CRS Report R42565, *SBA New Markets Venture Capital Program*, by Robert Jay Dilger. For further analysis of the SBA's disaster loan programs, see CRS Report R41309, *The SBA Disaster Loan Program: Overview and Possible Issues for Congress*, by Bruce R. Lindsay. For further analysis of the SBA's contracting programs, see CRS Report R41268, *Small Business Administration HUBZone Program*, by Robert Jay Dilger.

[2] 15 U.S.C. §631; and P.L. 83-163, the Small Business Act of 1953 (as amended).

[3] U.S. Senate, Select Committee on Small Business, Citation of Statement by Wendell B. Barnes, SBA Administrator, *Annual Report*, 83rd Cong., 2nd sess., March 25, 1954, H.Rept. 83-1092 (Washington: GPO, 1954), p. 60.

[4] The SBA reports that in FY2019 the 7(a) loan guarantee program supported 482,083 jobs, the 504/CDC loan guarantee program supported 52,701 jobs, the Microloan lending program supported 21,235 jobs, and the Small Business Investment Company venture-capital program supported 111,201 jobs. SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, p. 28, 31, 35, and 38, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report.

within the economy, not increase them. In their view, jobs arise primarily from the size of the labor force, which depends largely on population, demographics, and factors that affect the choice of home versus market production (e.g., the entry of women in the workforce). However, economic research does suggest that increased federal spending on small business assistance programs may result in additional jobs in the short term.[5]

Small Business Startups and Job Creation

The SBA's interest, and congressional interest, in providing assistance to small business startups is derived primarily from economic research indicating that startups play an important role in job creation.[6] That research suggests that startups create many, and in some years almost all, net jobs in the national economy.

Although there is a consensus that startups have an important role in job creation and retention, economic research suggests that startups have a more limited effect on net job creation over time because fewer than half of all startups are still in business after five years. That research also suggests that the influence of startups on net job creation varies by firm size. Startups with fewer than 20 employees tend to have a negligible effect on net job creation over time whereas startups with 20-499 employees tend to have a positive employment effect, as do surviving younger businesses of all sizes (in operation for one year to five years).[7]

Given the relatively high rate of firm deaths among startups, providing SBA assistance to startups, especially in the form of a SBA guaranteed loan or venture capital investment, is generally viewed as a relatively "high risk-high reward" endeavor, with advocates focusing on the possibility of job creation and opponents focusing on the risk of default. For example, opponents point to the SBA's experiences with its SBIC Participating Securities program as an example of the risk in providing venture capital to startups. The SBIC Participating Securities program was established in 1994, with congressional authorization, to encourage the formation of participating

[5] For further information concerning economic research and small business assistance, see CRS Report RL32254, *Small Business Tax Benefits: Current Law and Arguments For and Against Them*, by Gary Guenther and CRS Report R41523, *Small Business Administration and Job Creation*, by Robert Jay Dilger. For an economic argument to repeal the SBA, see Veronique de Rugy, *Why the Small Business Administration's Loan Programs Should Be Abolished*, American Enterprise Institute for Public Policy Research, AEI Working Paper #126, April 13, 2006, at http://www.aei.org/wp-content/uploads/2011/10/20060414_wp126.pdf.

[6] Charles Brown, James Hamilton, and James Medoff, *Employers Large and Small* (Cambridge: Harvard University Press, 1990); Zoltan Acs, William Parsons, and Spencer Tracy, "High-Impact Firms: Gazelles Revisited," SBA, Office of Advocacy, June 2008, at http://www.massmac.org/newsline/0902/high_impact_firms.pdf; Dane Stangler and Robert E. Litan, "Where Will The Jobs Come From?" Kaufman Foundation Research Series: Firm Formation and Economic Growth, November 2009, at https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2009/11/where_will_the_jobs_come_from.pdf; and Dane Stangler and Paul Kedrosky, "Neutralism and Entrepreneurship: The Structural Dynamics of Startups, Young Firms, and Job Creation," Kaufman Foundation Research Series: Firm Formation and Economic Growth, September 2010, at https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2010/09/firmformationneutralism.pdf.

[7] Zoltan Acs, William Parsons, and Spencer Tracy, "High-Impact Firms: Gazelles Revisited," SBA, Office of Advocacy, June 2008, at http://www.massmac.org/newsline/0902/high_impact_firms.pdf; Dane Stangler and Robert E. Litan, "Where Will The Jobs Come From?" Kaufman Foundation Research Series: Firm Formation and Economic Growth, November 2009, at https://www.kauffman.org/-/media/kauffman_org/research-reports-and-covers/2009/11/where_will_the_jobs_come_from.pdf; John Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who Creates Jobs? Small vs. Large vs. Young," Cambridge, MA: National Bureau of Economic Research, Working Paper 16300, August 2010, at http://www.nber.org/papers/w16300; and Ian Hathaway, "Small Business and Job Creation: The Unconventional Wisdom," *Bloomberg Government*, October 31, 2011.

securities SBICs that would make equity investments in startup and early stage small businesses.[8] The SBA created the program to fill a perceived investment gap created by the SBIC debenture program's focus on investments in mid- and later-stage small businesses.[9] The SBA stopped issuing new commitments for participation securities on October 1, 2004, following relatively major losses (exceeding $2.7 billion in losses on investments of just over $6.0 billion) in the program following the burst of the "technology stock market bubble" from 2000 to 2002.[10] The SBA's action began a process to end the program, which continues today.

Report Overview

This report examines startups' experiences with the SBA's management and technical assistance training programs, focusing on Small Business Development Centers (SBDCs); Women Business Centers (WBCs); SCORE (formerly the Service Corps of Retired Executives); the SBA's 7(a), 504/CDC, and Microloan lending programs; and the SBA's SBIC venture capital program. The SBA's growth accelerators initiative, which targets entrepreneurs looking to "start and scale their business" by helping them access "seed capital, mentors, and networking opportunities for customers and partners," and the recently sunset SBIC early stage debenture program, which focused on providing venture capital to startups, are also discussed.[11]

With some notable exceptions, such as the Microloan lending program and SBA's growth accelerators initiative, these programs are designed to assist small businesses at all developmental stages, as opposed to targeting startups for special attention. Nonetheless, all of these programs provide assistance to startups, and report both outcome data (e.g., the number of small businesses receiving training and the number and amount of loans and venture capital provided) and performance data (e.g., the usefulness of the training and the number of jobs supported by the loan) based on the age of the business. As a result, the experiences of startups can be compared with the experiences of older firms both within and across the SBA's programs. For example, as will be shown, the SBA programs that specifically target startups for special attention provide a relatively larger share of its assistance to startups than other SBA programs.

Although the data collected by the SBA concerning these programs' impact on economic activity and job creation are somewhat limited and subject to methodological challenges concerning their validity as reliable performance measures, most small business owners who have participated in these programs report in surveys sponsored by the SBA that the programs were useful. Given the data limitations, however, it is difficult to determine the cost effectiveness of these programs.

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[8] P.L. 102-366, the Small Business Credit and Business Opportunity Enhancement Act of 1992 (Title IV, the Small Business Equity Enhancement Act of 1992). For further information and analysis of the SBIC program, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger.

[9] Debenture SBICs are required to pay interest and SBA annual charges semiannually on their debentures through maturity. As a result, although debenture SBICs make a broad range of equity investments, they generally invest in later-stage and mezzanine companies which demonstrate an ability to make early and regular payments on the investment. Participating securities SBICs were not required to make these semiannual payments to encourage investments in firms, such as startups, which had not yet established an ability to make early and regular payments on the investment.

[10] U.S. Congress, House Committee on Small Business, *Proposed Legislative Remedy for the Participating Securities Program*, 109th Cong., 1st sess., July 27, 2005, Serial No. 109-27 (Washington: GPO, 2005), p. 3; and SBA, Office of Inspector General, "The SBIC Program: At Significant Risk For Losses," May 24, 2004, at https://www.sba.gov/sites/default/files/oig/oig_4-21.pdf.

[11] SBA, *Fiscal Year 2018 Congressional Budget Justification and FY2016 Annual Performance Report*, p. 75, at https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL_SBA_FY_2018_CBJ_May_22_2017c.pdf.

SBA Management and Technical Assistance Training Programs

The SBA has provided management and technical assistance training "to small-business concerns, by advising and counseling on matters in connection with government procurement and on policies, principles and practices of good management" since it began operations in 1953.[12] Initially, the SBA provided its own management and technical assistance training programs. Over time, the SBA has relied increasingly on third parties to provide that training. The SBA reports that more than 1 million aspiring entrepreneurs and small business owners receive training from an SBA-supported resource partner each year.[13]

The SBA has argued that its support of management and technical assistance training for small businesses has contributed "to the long-term success of these businesses and their ability to grow and create jobs."[14] It currently provides financial support to about 14,000 resource partners, including 63 small business development centers (SBDCs) and over 900 local SBDC service locations, 125 women's business centers (WBCs), and 350 chapters of the mentoring program, SCORE (Service Corps of Retired Executives).[15]

The SBDC, WBC, and SCORE programs are the SBA's three largest management and technical assistance training programs.[16] These programs provide training assistance to small businesses at all stages of development, and do not target their assistance exclusively at startups.

All three of these programs provide assistance to small businesses, as defined by the SBA's size standards and regulations.[17] However, there are some differences in the small businesses that tend to seek their services. For example, businesses owned by SBDC clients tend to be somewhat larger, both in terms of annual revenue and employment, than those owned by SCORE and WBC clients.[18] Also, as expected given their mission, WBCs' clients are more likely to be female than SBDC and SCORE clients.[19]

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[12] U.S. Congress, Senate Committee on Banking and Currency, *Extension of the Small Business Act of 1953*, report to accompany S. 2127, 84th Cong., 1st sess., July 22, 1955, S.Rept. 84-1350 (Washington: GPO, 1955), p. 17.

[13] SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, p. 83, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report.

[14] SBA, *Fiscal Year 2011 Congressional Budget Justification and FY2009 Annual Performance Report*, p. 4, at https://www.sba.gov/sites/default/files/aboutsbaarticle/Congressional_Budget_Justification.pdf.

[15] SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, pp. 83-100, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report; SBA, "Women's Business Centers Directory," at http://www.sba.gov/about-offices-content/1/2895/resources/13729; and SCORE, "About SCORE," at https://www.score.org/about-score.

[16] For further information and analysis concerning the SBA's management and technical assistance training programs, see CRS Report R41352, *Small Business Management and Technical Assistance Training Programs*, by Robert Jay Dilger.

[17] For further information and analysis concerning the SBA's size standards, see CRS Report R40860, *Small Business Size Standards: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

[18] In 2012, SBDC clients had average revenue of $762,962 and, on average, 10.05 employees; SCORE clients had average revenue of $465,828 and, on average, 5.56 employees; and WBC clients had average revenue of $192,734 and, on average, 4.67 employees. See SBA, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2013, p. 26, at https://www.sba.gov/sites/default/files/files/OED_ImpactReport_09302013_Final.pdf.

[19] In 2012, 82% of the businesses served by WBCs were owned by a female compared to 47% of the businesses served by SBDCs and 47% of the businesses served by SCORE. See SBA, Office of Entrepreneurial Development, "Impact

SBDCs, WBCs, and SCORE

SBDCs are "hosted by leading universities, colleges, and state economic development agencies" to deliver management and technical assistance training "to small businesses and nascent entrepreneurs (pre-venture) in order to promote growth, expansion, innovation, increased productivity and management improvement."[20] These services are delivered, in most instances, on a nonfee, one-on-one confidential counseling basis and are administered by 63 lead service centers, with at least one located in each state (four in Texas and six in California), the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa.[21] These lead centers manage over 900 local SBDC service centers, located throughout the United States and the territories.[22] In FY2019, SBDCs provided technical assistance training services to 254,821 unique clients.[23] In addition, 14,422 new businesses were formed with assistance from SBDC counselors in FY2019.[24]

WBCs are private, nonprofit organizations that provide financial, management, and marketing assistance to small businesses, including startup businesses, owned and controlled by women. Since its inception, the program has targeted the needs of socially and economically disadvantaged women.[25] In FY2019, WBCs provided management and technical training assistance training services to 64,527 unique clients.[26] They also assisted in the formation of 2,087 new businesses in FY2019.[27]

SCORE is a national volunteer organization which provides management and technical assistance training to small business owners and prospective owners.[28] In FY2019, SCORE's volunteer network of business professionals provided management and technical assistance training

Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2013, p. 17, at https://www.sba.gov/sites/default/files/files/ OED_ImpactReport_09302013_Final.pdf.

[20] SBA, "Small Business Development Center FY/CY 2011 Program Announcement for Renewal of the Cooperative Agreement for Current Recipient Organizations," p. 3, at https://www.sba.gov/sites/default/files/files/ 2011%20Program%20Announcement.pdf.

[21] SBA, "OSBDC Program Announcement FY/CY 2016 Program Announcement No. OSBDC-2016-01 & OSBDC-2016-02," p. 5, at https://www.sba.gov/sites/default/files/files/2016_Program_Announcement.pdf.

[22] Association of Small Business Development Centers, "About Us," Burke, Virginia, at http://americassbdc.org/about-us/.

[23] SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, p. 85, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report (hereinafter SBA, *Fiscal Year 2021 Congressional Budget Justification*."

[24] Ibid.

[25] U.S. Congress, House Committee on Small Business, *Review of Women's Business Center Program*, 106th Cong., February 11, 1999, Serial No. 106-2 (Washington: GPO, 1999), p. 4.

[26] SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, p. 87, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report.

[27] Ibid.

[28] U.S. Congress, Senate Select Committee on Small Business and House Select Committee on Small Business, *1966 Federal Handbook for Small Business: A Survey of Small Business Programs in the Federal Government Agencies*, committee print, 89th Cong., 3rd sess., January 31, 1966 (Washington: GPO, 1966), p. 5; and U.S. Congress, House Committee on Small Business, Subcommittee on Rural Development, Entrepreneurship, and Trade, *Subcommittee Hearing on Legislative Initiatives to Modernize SBA's Entrepreneurial Development Programs*, 111th Cong., 1st sess., April 2, 2009 (Washington: GPO, 2009), p. 6.

services to 195,242 unique clients.[29] SCORE also assisted in the formation of 480 new businesses in FY2019.[30]

Program Performance

In addition to compiling program output data, such as the number of unique clients served, from 2003 to 2012, the SBA's Office of Entrepreneurial Development commissioned an annual "multi-year time series study to assess the impact of the programs it offers to small businesses."[31] The survey asked questions about several aspects of the client's experiences with these programs, including the impact of the programs on their staffing decisions and management practices. The survey is sent each year to a stratified random sample of clients participating in the SBDC, WBC, and SCORE programs. The SBA's 2012 survey included responses from nascent clients (individuals who have taken one or more steps to start a business), startup clients (individuals who have been in business one year or less), and in-business clients (individuals who have been in business more than one year and their business was classified as small by the SBA).

The 2012 survey was released in February 2013. There were 8,263 SBDC client respondents (19% response rate), 7,217 SCORE client respondents (16% response rate), and 340 WBC client respondents (15% response rate).

The survey data reported in **Table 1** through **Table 6** indicate that (1) these programs assisted small businesses at all stages of development, (2) most of the respondents reported that the assistance they received was useful, and (3) most of the respondents reported that the assistance they received resulted in them changing their management practices or strategies. However, relatively few of the respondents reported that the assistance they received resulted in them hiring new staff, retaining staff, or increasing their profit margin.

A statistical analysis of the survey data conducted by the survey's authors suggested that clients receiving three or more hours of counseling, female clients, startups, and clients owning relatively large small businesses were more likely, at a statistically significant level, than clients receiving less than three hours of counseling, male clients, nonstartups, and clients owning relatively smaller businesses to report positive results concerning the financial impact of the assistance they received.[32]

Extent of SBA Management and Technical Training Assistance, By Developmental Stage

As shown in **Table 1**, the survey indicated that SBDCs, WBCs, and SCORE served businesses at all three stages of development, with 44% of SBDC clients being either a nascent (25%) or startup (19%) client; 55% of SCORE clients being either a nascent (33%) or startup (22%) client; and 47% of WBC clients being either a nascent (32%) or startup (15%) client.

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[29] SBA, *Fiscal Year 2021 Congressional Budget Justification and FY2019 Annual Performance Report*, p. 89, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report.

[30] Ibid.

[31] SBA, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Development Resources," September 10, 2009, p. 2, at https://www.sba.gov/sites/default/files/2009%20ED%20Impact%20Report.pdf.

[32] SBA, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, p. 70, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Table 1. SBA Management and Technical Assistance Training Programs' Clients, Percentage by Client Business Development Stage, 2011

SBA Resource Partner	Nascent	Startup	In-Business	Total
Small Business Development Centers	25%	19%	56%	100%
SCORE	33%	22%	45%	100%
Women Business Centers	32%	15%	53%	100%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 5, 9, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined nascent clients as individuals who have taken one or more steps to start a business; startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

Impact of the SBA's Management and Technical Training Assistance, by Developmental Stage

The survey asked SBA management and training assistance participants if they thought that the information they received from counselors was extremely useful, useful, no opinion, somewhat useful, or not useful. As shown in **Table 2**, most of the SBDC, WBC, and SCORE clients that responded to the survey, including both nascent and startup clients, rated the usefulness of the information provided during their face-to-face management and technical assistance training as either extremely useful or useful.

Table 2. Usefulness of SBA Management and Technical Assistance Training Programs, Percentage by Client Business Development Stage, 2011

(percentage responding extremely useful or useful)

SBA Resource Partner	Nascent	Startup	In-Business	Overall
Small Business Development Centers	81%	81%	76%	79%
SCORE	76%	72%	71%	73%
Women Business Centers	75%	84%	78%	79%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 38, 50, 62, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined nascent clients as individuals who have taken one or more steps to start a business; startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

The survey also asked SBA management and training assistance participants if they had changed their management practices or strategies as a result of the SBA management and technical assistance training they received. As shown in **Table 3**, more than half of SBDC and SCORE startup clients that responded to the survey reported that they had changed their management practices or strategies as a result of the SBA management and technical assistance training they received, slightly less than the percentages reported by in-business clients. In comparison, three-quarters of WBC startup clients that responded to the survey reported that they changed their management practices or strategies as a result of the assistance they received, somewhat higher than the percentage reported by in-business clients.

Table 3. Percentage of Businesses That Changed Their Management Practices/Strategies As a Result of the SBA Management and Technical Assistance Training Received, by Client Business Development Stage, 2011

(percentage responding yes)

SBA Resource Partner	Startup	In-Business
Small Business Development Centers	56%	60%
SCORE	57%	61%
Women Business Centers	75%	59%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 40, 52, 64, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

As shown in **Table 4**, 14% of SBDC startup clients, 11% of SCORE startup clients, and 12% of WBC startup clients of survey respondents reported that they agreed or strongly agreed with the statement that the management and technical assistance training they received enabled them to retain current staff, somewhat less than the percentages reported by in-business clients.

Table 4. Percentage of Businesses That Retained Current Staff As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011

(percentage responding agree or strongly agree)

SBA Resource Partner	Startup	In-Business
Small Business Development Centers	14%	26%
SCORE	11%	19%
Women Business Centers	12%	22%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 42, 54, 66, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

As shown in **Table 5**, 13% of SBDC startup clients, 10% of SCORE startup clients, and 10% of WBC startup clients that responded to the survey reported that they either agreed or strongly agreed with the statement that the SBA management and technical assistance training they received enabled them to hire new staff, somewhat less than the percentages reported by in-business clients.

Table 5. Percentage of Businesses That Hired New Staff As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011

(percentage responding agree or strongly agree)

SBA Resource Partner	Startup	In-Business
Small Business Development Centers	13%	20%
SCORE	10%	16%
Women Business Centers	10%	15%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 42, 54, 66, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

As shown in **Table 6**, 30% of SBDC startup clients, 24% of SCORE startup clients, and 31% of WBC startup clients that responded to the survey reported that they either agreed or strongly agreed with the statement that the SBA management and technical assistance training they received had a positive impact on their profit margin, somewhat less than the percentages reported by in-business clients.

Table 6. Percentage of Businesses That Experienced an Increase in Their Profit Margin As a Result of the SBA Management and Training Technical Assistance Received, by Client Business Development Stage, 2011

(percentage responding agree or strongly agree)

SBA Resource Partner	Startup	In-Business
Small Business Development Centers	30%	32%
SCORE	24%	28%
Women Business Centers	31%	34%

Source: U.S. Small Business Administration, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2012, pp. 42, 54, 66, at https://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

Notes: The survey's authors defined startup clients as individuals who have been in business one year or less; and in-business clients as individuals who have been in business more than one year and their business was classified as small by the SBA.

The SBA's Growth Accelerators Initiative

Growth accelerators are organizations that help entrepreneurs start and scale their business. Accelerators are typically run by experienced entrepreneurs and help small businesses, especially startups, "access seed capital, mentors, and networking opportunities" and provide "targeted advice on revenue growth, job growth, and sourcing outside funding."[33] In 2012, the SBA hosted four regional events (Northeast, Midwest, South, and Mid-Atlantic), which were attended by

[33] SBA, *FY2016 Congressional Budget Justification and FY2014 Annual Performance Report*, p. 81, at https://www.sba.gov/sites/default/files/1-FY%202016%20CBJ%20FY%202014%20APR.PDF.

representatives "from over 100 universities and accelerators to discuss working with high-growth entrepreneurs."[34] These meetings "culminated in a White House event co-hosted by the SBA and the Department of Commerce which will help formalize the network of universities and accelerators, provide a series of 'train the trainer' events on various government programs that benefit high-growth entrepreneurs, and provide a playbook of best practices on engaging universities on innovation and entrepreneurship."[35]

The Obama Administration requested $5.0 million, and Congress recommended an appropriation of $2.5 million, for the SBA's growth accelerator initiative for FY2014. The SBA proposed to use the funding to provide matching grants to universities and private-sector accelerators "to start a new accelerator program (based on successful models) or scale an existing program."[36] The SBA also indicated that it planned to request funding for five years ($25 million in total funding) and feature a required 4:1 private-sector match.[37] However, because it received half of its budget request ($2.5 million), the SBA decided to reconsider the program's requirements. As part of that reconsideration, the SBA dropped the 4:1 private-sector match in an effort to enable the program to have a larger effect.[38]

On May 12, 2014, the SBA announced the availability of 50 growth accelerator grants of $50,000 each. It received more than 800 applications by the August 2, 2014, deadline. The 50 awards were announced in September 2014.[39]

Congress subsequently recommended that the program receive $4 million in FY2015, $1 million in FY2016, FY2017, and FY2018, and $2 million in FY2019 and FY2020.[40] Congress also

[34] SBA, *FY2014 Congressional Budget Justification and FY2012 Annual Performance Report*, p. 59, at http://www.sba.gov/sites/default/files/files/1-FY%202014%20CBJ%20FY%202012%20APR.PDF.

[35] Ibid., pp. 59-60.

[36] Ibid., p. 60.

[37] Ibid.

[38] SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," May 6, 2014.

[39] SBA, "SBA Launches Accelerator Competition to Award $2.5 million for Small Business Startups," May 12, 2014, at https://www.sba.gov/content/sba-launches-accelerator-competition-award-25-million-small-business-startups-0; SBA, "More than 800 Small Business Startups Compete for 50 Cash Prizes in SBA's Growth Accelerator Competition," August 4, 2014, at https://www.sba.gov/content/more-800-small-business-startups-compete-50-cash-prizes-sbas-growth-accelerator-competition; and SBA, "SBA Spurs Economic Growth, Announces 50 Awards to Accelerators," September 4, 2014, at https://www.sba.gov/content/sba-spurs-economic-growth-announces-50-awards-accelerators.

[40] Rep. Harold Rogers, "Explanatory Statement Submitted by Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations Regarding the House Amendment to the Senate Amendment on H.R. 83," *Congressional Record*, vol. 160, part 151 (December 11, 2014), p. H9740; Rep. Harold Rogers, "Explanatory Statement Submitted By Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations Regarding House Amendment No. 1 to the Senate Amendment on H.R. 2029 Consolidated Appropriations Act," *Congressional Record*, vol. 161, no. 184-Book II (December 17, 2015), p. H10139; Rep. Rodney Frelinghuysen, "Explanatory Statement Submitted By Mr. Frelinghuysen of New Jersey, Chairman of the House Committee on Appropriations Regarding the House Amendment to the Senate Amendments on H.R. 244 [the Consolidated Appropriations Act, 2017]," *Congressional Record*, vol. 163, no. 76-Book II (May 3, 2017), p. H3786; "Explanatory Statement Submitted by Mr. Frelinghuysen, Chairman of the House Committee on Appropriations Regarding the House Amendment to the Senate Amendments on H.R. 1625 [the Consolidated Appropriations Act, 2018] (Division E – Financial Services and General Government Appropriations Act, 2018)," p. 87, at http://docs.house.gov/billsthisweek/20180319/DIV%20E%20FSGG%20SOM%20FY18%20OMNI.OCR.pdf; P.L. 116-6, the Consolidated Appropriations Act, 2019, and H.Rept. 116-9, conference report accompanying the Consolidated Appropriations Act, 2019; and Rep. Nita M. Lowey, "Explanatory Statement Submitted by Mrs. Lowey, Chair-Woman of the House Committee on Appropriations Regarding H.R. 1158, Consolidated Appropriations Act, 2020," House debate, *Congressional Record*, vol. 165, part No. 204-Book II (December 17, 2019), p. H10994.

directed the SBA in its explanatory statements accompanying P.L. 113-235 and P.L. 114-113 to "require $4 of matching funds for every $1 awarded under the growth accelerators program."[41]

The SBA announced the award of 80 growth accelerator grants of $50,000 each on August 4, 2015 ($4 million), 68 growth accelerator grants of $50,000 each on August 31, 2016 ($3.4 million), 20 growth accelerator grants of $50,000 each on October 30, 2017 ($1 million), and 60 growth accelerator grants of $50,000 each on September 26, 2019 ($3 million).[42] The SBA did not issue a competitive announcement for Growth Accelerator awards in FY2018.

Reports from the first round of awardees indicated that more than 1,000 small businesses graduated from the accelerators initiative, with each accelerator graduating about 10 small businesses per year. Award recipients also reported supporting the creation or retention of nearly 4,800 jobs.[43]

The Trump Administration requested that the program receive no funding in FY2018, FY2019, FY2020, and FY2021.[44]

SBA Lending Programs

The SBA's business lending programs are designed to encourage lenders to provide loans to small businesses "that might not otherwise obtain financing on reasonable terms and conditions."[45] Historically, the SBA's lending programs have been justified on the grounds that small businesses can be at a disadvantage, compared with other businesses, when trying to obtain access to sufficient capital and credit.[46] As an economist explained,

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[41] Rep. Harold Rogers, "Explanatory Statement Submitted by Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations Regarding the House Amendment to the Senate Amendment on H.R. 83," *Congressional Record*, vol. 160, part 151 (December 11, 2014), p. H9741; and Rep. Harold Rogers, "Explanatory Statement Submitted By Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations Regarding House Amendment No. 1 to the Senate Amendment on H.R. 2029 Consolidated Appropriations Act," *Congressional Record*, vol. 161, no. 184-Book II (December 17, 2015), p. H10140.

[42] SBA, "SBA Boosts Economic Impact of Accelerators with $4.4 Million in Prizes," August 4, 2015, at https://www.sba.gov/content/sba-boosts-economic-impact-accelerators-44-million-prizes-0; SBA, "SBA Announces $3.4 Million for Small Business Startups," August 31, 2016, at https://www.sba.gov/content/sba-announces-34-million-small-business-startups; SBA, "SBA Announces 20 Growth Accelerator Fund Competition Recipients," October 30, 2017, at https://www.sba.gov/node/1594788; and SBA, "SBA Announces $3 Million for 60 Growth Accelerator Fund Competition Recipients Supporting Startups and STEM Focused Entrepreneurs," September 26, 2019, at https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/sba-announces-3-million-60-growth-accelerator-fund-competition-recipients-supporting-startups-and.

[43] SBA, *FY2017 Congressional Budget Justification and FY2015 Annual Performance Report*, p. 85, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

[44] SBA, *FY2018 Congressional Budget Justification and FY2016 Annual Performance Report*, p. 12, at https://www.sba.gov/sites/default/files/aboutsbaarticle/FINAL_SBA_FY_2018_CBJ_May_22_2017c.pdf; SBA, *FY2019 Congressional Budget Justification and FY2017 Annual Performance Report*, p. 13, at https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_2019_CBJ_APR_2_12_post.pdf; SBA, *FY2020 Congressional Budget Justification and FY2018 Annual Performance Report*, p. 11, at https://www.sba.gov/sites/default/files/2019-04/SBA%20FY%202020%20Congressional%20Justification_final%20508%20%204%2023%202019.pdf; and SBA, FY2021 Congressional Budget Justification and FY2019 Annual Performance Report, p. 11, at https://www.sba.gov/document/report—congressional-budget-justification-annual-performance-report.

[45] SBA, *Fiscal Year 2010 Congressional Budget Justification*, p. 30, at https://www.sba.gov/sites/default/files/aboutsbaarticle/Congressional_Budget_Justification_2010.pdf.

[46] Proponents of providing federal funding for the SBA's loan guarantee programs also argue that small business can promote competitive markets. See P.L. 83-163, §2(a), as amended; and 15 U.S.C. §631a.

> Growing firms need resources, but many small firms may have a hard time obtaining loans because they are young and have little credit history. Lenders may also be reluctant to lend to small firms with innovative products because it might be difficult to collect enough reliable information to correctly estimate the risk for such products. If it's true that the lending process leaves worthy projects unfunded, some suggest that it would be good to fix this "market failure" with government programs aimed at improving small businesses' access to credit.[47]

In FY2019, the SBA enhanced small business access to capital by approving about $28.2 billion in loans to small businesses. The SBA's two largest loan guaranty programs are the 7(a) loan guaranty program (nearly $23.2 billion approved in FY2019) and the 504/CDC loan guaranty program (nearly $5 billion approved in FY2019). In addition, the SBA's Microloan program, which includes startups among its targeted audiences, provides direct loans to 144 active nonprofit intermediary Microloan lenders to provide "microloans" of up to $50,000 to small business owners, entrepreneurs, and nonprofit child care centers. The Microloan program provided $81.5 million in loans to small businesses in FY2019.[48]

The SBA's 7(a), 504/CDC, and Microloan Programs

7(a) Loan Guaranty Program[49]

The SBA's 7(a) loan guaranty program is considered the agency's flagship loan guaranty program.[50] It is named from Section 7(a) of the Small Business Act of 1953 (P.L. 83-163, as amended), which authorizes the SBA to provide business loans to American small businesses. The SBA provides participating, certified lenders a guaranty of repayment in the case of a default of up to 85% of qualified loan amounts of $150,000 or less and up to 75% of qualified loan amounts exceeding $150,000 to the program's loan limit of $5 million.

Proceeds from 7(a) loans may be used to establish a new business or to assist in the operation, acquisition, or expansion of an existing business. Specific uses include to acquire land (by purchase or lease); improve a site (e.g., grading, streets, parking lots, and landscaping); purchase, convert, expand, or renovate one or more existing buildings; construct one or more new buildings; acquire (by purchase or lease) and install fixed assets; purchase inventory, supplies, and raw materials; finance working capital; and refinance certain outstanding debts.[51]

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[47] Veronique de Rugy, *Why the Small Business Administration's Loan Programs Should Be Abolished*, American Enterprise Institute for Public Policy Research, AEI Working Paper #126, April 13, 2006, at http://www.aei.org/wp-content/uploads/2011/10/20060414_wp126.pdf. Also, see U.S. Government Accountability Office, *Small Business Administration: 7(a) Loan Program Needs Additional Performance Measures*, GAO-08-226T, November 1, 2007, pp. 3, 9-11, at http://www.gao.gov/new.items/d08226t.pdf.

[48] SBA, "Microloan Nationwide Loan Report, October 1, 2018 through September 30, 2019," October 8, 2019.

[49] For further information and analysis concerning the SBA's 7(a) program, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger.

[50] U.S. Congress, House Committee on Small Business, Subcommittee on Finance and Tax, *Subcommittee Hearing on Improving the SBA's Access to Capital Programs for Our Nation's Small Business*, 110th Cong., 2nd sess., March 5, 2008, H.Hrg. 110-76 (Washington: GPO, 2008), p. 2.

[51] 13 C.F.R. §120.120.

504 Certified Development Company Loan Guaranty Program[52]

The SBA's 504 Certified Development Company (504/CDC) loan guaranty program provides long-term fixed rate financing for major fixed assets, such as land, buildings, equipment, and machinery. A 504/CDC loan cannot be used for working capital or inventory. It is named from Section 504 of the Small Business Investment Act of 1958 (P.L. 85-699, as amended), which authorized the sale of debentures pursuant to Section 503 of the act, which previously authorized the program.[53]

The 504/CDC program is administered through nonprofit CDCs. Of the total project costs, a third-party lender must provide at least 50% of the financing, the CDC provides up to 40% of the financing backed by a 100% SBA-guaranteed debenture, and the applicant provides at least 10% of the financing.

The SBA's debenture is backed with the full faith and credit of the United States and is sold to underwriters who form debenture pools. Investors purchase interests in the debenture pools and receive certificates representing ownership of all or part of the pool. The SBA and CDCs use various agents to facilitate the sale and service of the certificates and the orderly flow of funds among the parties.[54] After a 504/CDC loan is approved and disbursed, accounting for the loan is set up at the Central Servicing Agent (CSA, currently PricewaterhouseCoopers Public Sector LLP), not the SBA. The SBA guarantees the timely payment of the debenture. If the small business is behind in its loan payments, the SBA pays the difference to the investor on every semiannual due date.

The 504/CDC program is somewhat unique in that borrowers must meet one of two specified economic development objectives. First, borrowers, other than small manufacturers, must create or retain at least one job for every $75,000 of project debenture. Borrowers who are small manufacturers must create or retain one job per $120,000 of project debenture. The jobs created do not have to be at the project facility, but 75% of the jobs must be created in the community where the project is located. Using job retention to satisfy this requirement is allowed only if the CDC "can reasonably show that jobs would be lost to the community if the project was not done."[55]

Second, if the borrower does not meet the job creation or retention requirement, the borrower can retain eligibility by meeting (1) any 1 of 5 community development goals, (2) any 1 of 10 public policy goals, or (3) any 1 of 3 energy reduction goals provided that the CDC's overall portfolio of outstanding debentures meets or exceeds the job creation or retention criteria of at least 1 job

[52] For further information and analysis of the SBA's 504/CDC program, see CRS Report R41184, *Small Business Administration 504/CDC Loan Guaranty Program*, by Robert Jay Dilger.

[53] The 504/CDC program was preceded by a 501 state development company program (1958-1982), a 502 local development company program (1958-1995), and a 503/CDC program (1980-1986). The 504/CDC program started in 1986. There are a small number of for-profit CDCs that participated in these predecessor programs that have been grandfathered into the current 504/CDC program. See SBA, "SOP 50 10 5(G): Lender and Development Company Loan Programs," (effective October 1, 2014), p. 43, at https://www.sba.gov/sites/default/files/sops/SOP%2050%2010%205%20G%20FINALWEB%20VERSION%20-%20CLEAN%20Eff,%2010-1-2014.pdf.

[54] 13 C.F.R. §120.801. 504/CDC debentures are normally sold and proceeds disbursed on the Wednesday after the second Sunday of each month. See SBA, "SOP 50 10 5(I): Lender and Development Company Loan Programs," (effective January 1, 2017), pp. 295-297, at https://www.sba.gov/sites/default/files/sops/SOP_50_10_5_I_FINAL_Clean_Highlighted_Changes.pdf.

[55] SBA, "SOP 50 10 5(J): Lender and Development Company Loan Programs," (effective January 1, 2018), p. 297, at https://www.sba.gov/sites/default/files/2017-12/SOP%2050%2010%205%28J%29_Technical%20Corrections%20%28FINAL%29_1.pdf.

opportunity created or retained for every $75,000 in project debenture (or for every $85,000 in project debenture for projects located in special geographic areas such as Alaska, Hawaii, state-designated enterprise zones, empowerment zones, enterprise communities, labor surplus areas, or opportunity zones).[56] Loans to small manufacturers are excluded from the calculation of this average.[57]

The Microloan Program[58]

The SBA's Microloan program was authorized in 1991 (P.L. 102-140, the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1992) as a five-year demonstration program to address the perceived disadvantages faced by very small businesses in gaining access to capital. The program became operational in 1992, and it was made permanent, subject to reauthorization, in 1997 (P.L. 105-135, the Small Business Reauthorization Act of 1997). Its stated purpose is

> to assist women, low-income, veteran ... and minority entrepreneurs and business owners and other individuals possessing the capability to operate successful business concerns; to assist small business concerns in those areas suffering from a lack of credit due to economic downturns; ... to make loans to eligible intermediaries to enable such intermediaries to provide small-scale loans, particularly loans in amounts averaging not more than $10,000, to start-up, newly established, or growing small business concerns for working capital or the acquisition of materials, supplies, or equipment; [and] to make grants to eligible intermediaries that, together with non-Federal matching funds, will enable such

[56] SBA, "Development Company Loan Program - Job Creation and Retention Requirements; Additional Areas for Higher Portfolio Average," 83 *Federal Register* 55225-55226, November 2, 2018. Previously, P.L. 108-447, the Small Business Reauthorization and Manufacturing Assistance Act of 2004, had set these thresholds as: at least one job opportunity per every $50,000 guaranteed by the Administration and per every $75,000 guaranteed by the Administration for small manufactures. P.L. 111-5, the American Recovery and Reinvestment Act of 2009, increased the $50,000 threshold to every $65,000 guaranteed by the Administration.

The five community development goals are improving, diversifying, or stabilizing the economy of the locality; stimulating other business development; bringing new income into the community; assisting manufacturing firms; or assisting businesses in labor surplus areas as defined by the U.S. Department of Labor.

The 10 public policy goals are revitalizing a business district of a community with a written revitalization or redevelopment plan; expanding exports; expanding the development of women-owned and -controlled small businesses; expanding small businesses owned and controlled by veterans (especially service-disabled veterans); expanding minority enterprise development; aiding rural development; increasing productivity and competitiveness (e.g., retooling, robotics, modernization, and competition with imports); modernizing or upgrading facilities to meet health, safety, and environmental requirements; assisting businesses in or moving to areas affected by federal budget reductions, including base closings, either because of the loss of federal contracts or the reduction in revenues in the area due to a decreased federal presence; or reducing unemployment rates in labor surplus areas, as defined by the U.S. Department of Labor.

The three energy reduction goals are reducing existing energy consumption by at least 10%; increasing the use of sustainable designs, including designs that reduce the use of greenhouse gas-emitting fossil fuels or low-impact design to produce buildings that reduce the use of nonrenewable resources and minimize environmental impact; and upgrading plant, equipment, and processes involving renewable energy sources such as the small-scale production of energy for individual buildings' or communities' consumption, commonly known as micropower, or renewable fuel producers including biodiesel and ethanol producers.

[57] A job opportunity is defined as a full-time (or equivalent) permanent, or contracted, job created within two years of receipt of 504/CDC funds or retained in the community because of a 504/CDC loan. See SBA, "SOP 50 10 5(J): Lender and Development Company Loan Programs," effective January 1, 2018, p. 256, at https://www.sba.gov/document/sop-50-10-5-lender-development-company-loan-programs.

[58] For further information and analysis concerning the SBA's Microloan program, see CRS Report R41057, *Small Business Administration Microloan Program*, by Robert Jay Dilger.

> intermediaries to provide intensive marketing, management, and technical assistance to microloan borrowers.[59]

The maximum Microloan amount is $50,000 and no borrower may owe an intermediary more than $50,000 at any one time.[60] Microloan proceeds may be used only for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. Loans cannot be made to acquire land or property, and must be repaid within seven years.[61] Within these parameters, loan terms vary depending on the loan's size, the planned use of funds, the requirements of the intermediary lender, and the needs of the small business borrower. Interest rates are negotiated between the borrower and the intermediary (within statutory limits), and typically range from 7% to 9%.[62] Each intermediary establishes its own lending and credit requirements. However, borrowers are generally required to provide some type of collateral, and a personal guarantee to repay the loan. The SBA does not review the loan for creditworthiness.[63]

Program Performance

The SBA maintains a relatively extensive output database for its business lending programs (e.g., number and amount of loans approved and disbursed by program and by year; number and amount of loans approved and disbursed by program and by year to various demographic groups, including startups; number and amount of loans approved and disbursed by program by state; amount of loan purchases and recoveries by program and by year). It also asks borrowers to report information concerning the impact the loans have on job creation and retention.

As will be shown, these data suggest that the SBA provides lending support to small businesses at all stages of development, but to varying degrees, with the Microloan program providing a relatively higher share of its lending to startups than the 7(a) and 504/CDC programs. The data also suggest that these programs have a generally positive impact on job creation and retention, but, as will be discussed, the data are self-reported and subject to methodological limitations.

Extent of SBA Lending Assistance, By Developmental Stage

As expected given their missions, the Microloan program provides a greater percentage of its loan proceeds to startups (37.8% of total loan disbursements in FY2019) than do the 7(a) program (17.6% of total approved loan amounts in FY2019) and the 504/CDC program (16.3% of total approved loan amounts in FY2019).[64]

SBA Venture Capital Programs

The SBA has two venture capital programs. The SBIC program, authorized by P.L. 85-699, the Small Business Investment Act of 1958, as amended, is the SBA's flagship venture capital

[59] 15 U.S.C. §636 7(m)(1)(A).

[60] 13 C.F.R. §120.707. P.L. 111-240, the Small Business Jobs Act of 2010, increased the loan limit for borrowers from $35,000 to $50,000.

[61] Ibid; and SBA, "Express Loan Programs; Affiliation Standards," 85 *Federal Register* 7632, February 10, 2020.

[62] In FY2019, Microloan borrowers were charged, on average, an interest rate of 7.513%. See SBA, "Microloan Nationwide Loan Report, October 1, 2018 through September 30, 2019," October 8, 2019.

[63] SBA, "Microloan Program," at https://www.sba.gov/content/microloan-program.

[64] SBA, "Microloan Nationwide Loan Report, October 1, 2018 through September 30, 2019," October 8, 2019; and SBA, "SBA Lending Statistics for Major Programs as of (9-30-2019)," at https://www.sba.gov/sites/default/files/2019-10/WebsiteReport_asof_20190930.pdf.

program.[65] It is designed to "improve and stimulate the national economy in general and the small business segment thereof in particular" by stimulating and supplementing "the flow of private equity capital and long-term loan funds which small business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply."[66] The SBA also sponsors the much smaller New Markets Venture Capital Program, which is not discussed here given its relatively small size ($1.65 million in financing to four small businesses in FY2015, and no new financing since then). It is designed to promote economic development and the creation of wealth and job opportunities in low-income geographic areas by addressing the unmet equity investment needs of small businesses located in those areas.[67]

The SBIC Program

The SBA does not make direct investments in small businesses. It partners with privately owned and managed SBICs licensed by the SBA to provide financing to small businesses with private capital the SBIC has raised (called regulatory capital) and with funds (called leverage) the SBIC borrows at favorable rates because the SBA guarantees the debenture (loan obligation). As of December 31, 2019, there were 299 licensed SBICs participating in the SBIC program.[68]

A licensed debenture SBIC in good standing, with a demonstrated need for funds, may apply to the SBA for financial assistance (leverage) of up to 300% of its private capital. However, the SBA has traditionally approved debenture SBICs for a maximum of 200% of their private capital and no fund management team may exceed the allowable maximum amount of leverage of $175 million per SBIC and $350 million for two or more licenses under common control.[69]

SBICs pursue investments in a broad range of industries, geographic areas, and stages of investment. Some SBICs specialize in a particular field or industry, while others invest more generally. Most SBICs concentrate on a particular stage of investment (i.e., startup, expansion, or turnaround) and geographic area.

SBICs provide equity capital to small businesses in various ways, including by

- purchasing small business equity securities (e.g., stock, stock options, warrants, limited partnership interests, membership interests in a limited liability company, or joint venture interests);[70]

[65] For further information and analysis of the SBA's SBIC program, see CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger.

[66] 15 U.S.C. §661.

[67] For further information and analysis of the SBA's New Markets Venture Capital program, see CRS Report R42565, *SBA New Markets Venture Capital Program*, by Robert Jay Dilger.

[68] SBA, "SBIC Program Overview as of December 31, 2019," at https://www.sba.gov/article/2020/feb/25/quarterly-data-december-31-2019.

[69] 13 C.F.R. §107.1120; 13 C.F.R. §107.1150; P.L. 114-113, the Consolidated Appropriations Act, 2016, which increased the multiple licenses/family of funds limit to $350 million from $225 million; and P.L. 115-187, the Small Business Investment Opportunity Act of 2017, which increased the maximum amount of leverage for individual SBICs to $175 million from $150 million.

[70] 13 C.F.R. §107.800. A SBIC is not allowed to become a general partner in any unincorporated business or become jointly or severally liable for any obligations of an unincorporated business.

- making loans to small businesses, either independently or in cooperation with other private or public lenders, that have a maturity of no more than 20 years;[71]
- purchasing debt securities from small businesses;[72] and
- providing small businesses (subject to limitations) a guarantee of their monetary obligations to creditors not associated with the SBIC.[73]

The SBIC program currently has invested or committed about $31.6 billion in small businesses, with the SBA's share of capital at risk about $14.6 billion. In FY2019, the SBA provided nearly $1.93 billion to SBICs. SBICs invested another $3.94 billion from private capital for a total of $5.87 billion in financing for 1,191 small businesses.[74]

Extent of SBIC Financial Assistance, by Developmental Stage

The SBIC program provides financing to small businesses at all developmental stages, with most of its financing provided to businesses that have been in operation for at least five years. The amount of SBIC financing provided to startups (defined as being in operation for one year or less) as a share of SBIC financing has increased somewhat since FY2014 (16.5% in FY2014, 17.9% in FY2015, 15.3% in FY2016, 19.3% in FY2017, 23.0% in FY2018, and 20.6% in FY2019).[75]

Early Stage Debenture SBIC Initiative

In 2012, the Obama Administration established the early stage debenture SBIC initiative to encourage additional SBIC investments in startups (up to $150 million in SBIC leverage in FY2012, and up to $200 million in SBIC leverage per fiscal year thereafter until the initiative's $1 billion limit was reached).[76] Early stage debenture SBICs are required to invest at least 50% of their financings in early stage small businesses, defined as small businesses that have never achieved positive cash flow from operations in any fiscal year.[77]

In recognition of the higher risk associated with investments in early stage small businesses, the initiative includes "several new regulatory provisions intended to reduce the risk that an early stage SBIC would default on its leverage and to improve SBA's recovery prospects should a default occur."[78] For example, early stage debenture SBICs are required to raise more regulatory capital (at least $20 million) than debenture SBICs (at least $5 million). They are also subject to special distribution rules to require pro rata repayment of SBA leverage when making distributions of profits to their investors. In addition, early stage debenture SBICs are also provided less leverage (up to 100% of regulatory capital, $50 million maximum) than debenture

[71] 13 C.F.R. §107.810; and 13 C.F.R. §107.840.

[72] 13 C.F.R. §107.815. Debt securities are instruments evidencing a loan with an option or any other right to acquire equity securities in a small business or its affiliates, or a loan which by its terms is convertible into an equity position, or a loan with a right to receive royalties that are excluded from the cost of money.

[73] 13 C.F.R. §107.820.

[74] SBA, "SBIC Program: Fiscal Year Data for the period ending December 31, 2019," at https://www.sba.gov/article/2020/feb/25/quarterly-data-december-31-2019.

[75] SBA Office of Congressional and Legislative Affairs, "Correspondence with the author," December 20, 2018 and March 26, 2019.

[76] SBA, "Small Business Investment Companies - Early Stage SBICs," 77 *Federal Register* 25043, 25050, April 27, 2012.

[77] Ibid., pp. 25051-25053.

[78] Ibid., p. 25043.

SBICs (up to 200% of regulatory capital, $150 million maximum per SBIC and $225 million for two or more SBICs under common control).

On May 1, 2012, the SBA announced its first annual call for venture capital fund managers to submit an application to become a licensed early stage debenture SBIC.[79] Thirty-three venture capital funds submitted preliminary application materials. After these materials were examined and interviews held, the SBA announced on October 23, 2012, that it had issued Green Light letters to six funds, formally inviting them to file license applications.[80]

The SBA's second, third, fourth, and fifth annual calls for venture capital fund managers to submit an application to become a licensed early stage debenture SBIC took place on December 18, 2012, February 4, 2014, January 12, 2015, and February 2, 2016, respectively.[81]

Five of the 63 investment funds that applied to participate in the program were granted an early stage SBIC license.[82] As of September 30, 2019, the five early stage SBICs had raised $251.3 million in private capital, received $152.5 million in SBA-guaranteed leverage, had $29.7 million in outstanding commitments, and invested $307.1 million in 88 small businesses. In FY2019, early stage SBICs invested $39.6 million in 30 small businesses.[83]

On September 19, 2016, the SBA published a notice of proposed rulemaking in the *Federal Register*, which included proposed changes to the early stage SBIC initiative to "make material improvements to the program" and "attract more qualified early stage fund managers."[84] The SBA, at that time, indicated its intention to continue the initiative beyond its initial five-year

[79] The deadline for completing the four-step application process for applicants with signed commitments for at least $15 million in regulatory capital and evidence of their ability to raise the remaining $5 million in regulatory capital was July 30, 2012. The deadline for all other applicants was May 15, 2013. Applicants must first complete a Management Assessment Questionnaire (MAQ), then, if invited, complete an interview process, then receive a Green Light letter, and, finally, submit the SBIC license application, consisting of SBA Form 2181 and SBA Form 2182. See SBA, "Small Business Investment Companies—Early Stage SBICs," 77 *Federal Register* 25775-25779, May 1, 2012.

[80] SBA, "SBA's Growth Capital Program Sets Record For Third Year in a Row $2.95 Billion in Financing for Small Businesses in FY12," at https://www.sba.gov/content/sbas-growth-capital-program-sets-record-third-year-row; and SBA, "The Small Business Investment Company (SBIC) Program: Annual Report FY2012," p. 20, at https://www.sba.gov/sites/default/files/files/SBIC%20Program%20FY%202012%20Annual%20Report.pdf.

[81] SBA, "Small Business Investment Companies—Early Stage SBICs," 77 *Federal Register* 74908-74913, December 18, 2012; SBA, "Small Business Investment Companies—Early Stage SBICs," 79 *Federal Register* 6665, February 4, 2014; SBA, "Small Business Investment Companies—Early Stage SBICs," 79 *Federal Register 18750*, April 3, 2014; SBA, "Small Business Investment Companies—Early Stage SBICs," 80 *Federal Register 1575-1579*, January 12, 2015; and SBA, "Small Business Investment Companies—Early Stage SBICs," 81 *Federal Register 5508-5511*, February 2, 2016.

[82] SBA, "Small Business Investment Companies–Early Stage," 80 *Federal Register* 14034, March 18, 2015; and SBA, Office of Innovation and Investment, slides, "SBIC Early Stage Innovation Program," at https://www.sba.gov/sites/default/files/articles/OII_Early_Stage_Slide_Deck_January_2016.pdf.

[83] SBA, Office of Congressional and Legislative Affairs, "Correspondence with the author," March 26, 2020.

[84] SBA, "Small Business Investment Companies (SBIC); Early Stage Initiative," 81 *Federal Register* 64075-64080, September 19, 2016. The proposed changes were based in part on feedback received on an earlier, advance notice of proposed rulemaking. See SBA, "Small Business Investment Companies–Early Stage," 80 *Federal Register* 14034, March 18, 2015. The proposed changes would have allowed early stage applicants to apply at any time, similar to other SBIC applicants, instead of only during limited time frames identified in the *Federal Register* (which the SBA has published on an annual basis since 2012); allowed early stage SBICs to obtain an unsecured line of credit without SBA approval under specified conditions; allowed an application from an applicant under common control with an existing early stage SBIC that has outstanding debentures or debenture commitments; and increased the initiative's maximum leverage commitment of 100% of regulatory capital or $50 million, whichever is less, to 100% of regulatory capital or $75 million, whichever is less.

term.[85] However, the SBA, under the Trump Administration, stopped accepting new applications for the early stage SBIC initiative in 2017. In addition, on June 11, 2018, the SBA withdrew the September 19, 2016, proposed rule that included provisions designed to encourage qualified SBICs to participate in the initiative.[86] The SBA indicated that it took this action "because very few qualified funds applied to the Early Stage SBIC initiative, the costs were not commensurate with the results, and the comments to the proposed rule did not demonstrate broad support for a permanent Early Stage SBIC program."[87]

It is too early to determine the extent to which the SBA's decision to stop accepting new applications for the early stage debenture initiative may affect the share and amount of total SBA financing provided to startups.

Concluding Observations

The SBA has indicated, from the very start of the agency, that assisting small businesses to create and retain jobs is part of its mission. However, the SBA also has a long-established tradition of providing assistance to all qualifying small businesses. With some exceptions, the SBA has generally not taken actions or requested authorization to focus its assistance solely onto those businesses, such as startups, that are judged to be the ones most likely to contribute to job growth or wealth creation. The tradition of providing SBA assistance to all qualified small businesses without regard to their potential for job growth or wealth creation is perhaps understandable given that the tradition aligns with one of the SBA's primary missions, which is to promote free markets—by limiting monopoly and oligarchy formation within all industries. In addition, the tradition of providing assistance to all qualified small businesses has, for the most part, never been challenged by Congress or interested small business organizations.

The SBA's recent initiatives to focus increased attention to assisting startups (e.g., the Growth Accelerators initiative and the recently sunset early stage debenture SBIC initiative) are less of a challenge to the SBA's tradition of assisting all qualified small businesses than a recognition of the potential role of startups in job creation and concerns about the pace of job growth during the current economic recovery.[88] For example, the SBA has offered the initiatives as supplements to, rather than replacements of, existing programs.

As mentioned previously, the relatively "high risk-high reward" of targeting SBA assistance to startups makes it tempting for some and controversial for others. Most who have participated in these programs report in surveys sponsored by the SBA that the programs were useful. However, determining if the risk of financial losses associated with targeting SBA assistance to startups outweighs the startups' potential for job growth is difficult because the data collected by the SBA concerning these programs' impact on economic activity and job creation are somewhat limited and subject to methodological challenges concerning their validity as reliable performance measures.

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[85] SBA, "Small Business Investment Companies (SBIC); Early Stage Initiative," 81 *Federal Register* 64075, September 19, 2016.

[86] SBA, "Small Business Investment Companies (SBIC); Early Stage Initiative," 83 *Federal Register* 26875, June 11, 2018.

[87] Ibid., p. 26875.

[88] For additional information concerning the recently sunset early stage debenture SBIC initiative see SBA, "Small Business Investment Companies - Early Stage SBICs," 76 *Federal Register* 76907-76917, December 9, 2011; SBA, "Small Business Investment Companies - Early Stage SBICs," 77 *Federal Register* 25042-25055, April 27, 2012; and CRS Report R41456, *SBA Small Business Investment Company Program*, by Robert Jay Dilger.

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