

Pursuant to Executive Order 13985 (January 20, 2021) on "Advancing Racial Equity and Support for Underserved Communities Through the Federal Government"

## Equity Action Plan Summary

# U.S. Small Business Administration

The U.S. Small Business Administration (SBA) helps entrepreneurs start, build, grow, and, if needed, recover their businesses. Created in 1953, SBA is the only cabinet-level federal agency fully dedicated to small business owners and entrepreneurs in their pursuit of the American dream. Since its founding, SBA has delivered millions of loans, loan guarantees, contracts, counseling sessions, and other forms of assistance to small businesses.

## Delivering equity through SBA

Each year, SBA serves thousands of small businesses across the country. Many of these businesses are owned by entrepreneurs who are members of communities that have been traditionally underserved. These underserved entrepreneurs include people of color; people with disabilities; LGBTQ+ individuals; individuals who are religious minorities; people who live or do business in rural communities; veterans, Service members and military spouses; women; and individuals who are otherwise affected by persistent poverty or systemic inequality. By supporting these entrepreneurs to launch and sustain small businesses, including through access to capital, SBA's actions contribute to closing the racial and gender wealth gaps and addressing other disparities.

## New strategies to advance equity

- **Invest in additional technology to optimize the marketplace to match underserved borrowers and Community Financial Institutions (CFIs), including Community Development Financial Institutions (CDFIs)**

Undercapitalized business owners are more likely to have revenues below \$100,000, to seek loans less than \$150,000, to be sole proprietors, and to occupy lower-profit industries such as childcare. They are also likely to have thin consumer and business credit files due to barriers to establishing banking or debit history. By investing in technologies such as LenderMatch and the Community Advantage Pilot, SBA may be able to meet the credit and technical assistance needs (e.g., borrower assessment and underwriting process) of these small businesses in underserved markets. By prioritizing these actions, underserved communities will have a more focused resource that meets them where they are today, making the marketplace and capital more accessible. Lenders that are servicing underserved communities will be able to better fill the gaps to access to capital and expand their impact.

- **Improve access to Federal procurement and contracting opportunities for small and disadvantaged businesses**

In 2020, Small and Disadvantaged Businesses (SDB) represented only 25 percent of all businesses participating in government contracting, but SDBs received only roughly 10 percent of total federal procurement dollars. Increased SDB spending would prepare the contracting base for the next set of 21st-century challenges, from addressing climate change to strengthening public health, and would help to decrease wealth disparities. SBA recognizes that consolidated buying practices—as emphasized over the past half-decade—can squeeze out smaller vendors, including some SDBs and socioeconomically disadvantaged businesses. Balancing those buying practices with socioeconomic goals requires a renewed focus on recruiting and retaining SDBs. To address these barriers, the SBA Administrator will assign ambitious but attainable goals to each agency that represent an improvement over the agency’s historical SDB spending. To reach those goals, agencies—with help from SBA—will need

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to make concerted efforts to lower barriers to entry and incentivize their workforces to attract more SDB contractors. SBA will also enroll more disadvantaged small businesses into SBA's business development and contracting programs (including the 8(a) Business Development program) and strengthen those businesses' capabilities to compete and perform contracts. The agency will do so by maximizing application education and assistance by offering quarterly trainings to educate firms on 8(a) program eligibility and the application process. These trainings will aim to improve the quality of application submissions and, thereby, lead to more approved firms in the program. For certified 8(a) Program participants, concentrated training is planned for the developmental years one through four and the transition years five through nine of the program's term. This support will position the firms for successful growth. SBA will also open to the public a monthly conference call to further enhance its customer service.

### ● **Improve access to disaster assistance**

SBA provides low-interest disaster loans directly to survivors (e.g., SDBs but also private nonprofits, homeowners, and renters) to help them recover. The lending criteria for disaster loans (credit/cashflow/income to debt ratio), although less stringent than private lenders, can make it more difficult for disaster survivors of underserved communities (compared to adequately served communities) to actively participate in the disaster assistance programs due to financial disparities. SBA disaster loan applicants who do not meet underwriting criteria fail to obtain disaster loans. SBA does not regularly have resources in position to assist applicants who are declined a loan and who need financial counseling. To address this barrier, SBA will work with its field and program offices to develop a systematic and formal process with SBA Resource Partners (i.e., Small Business Development Centers, SCORE (the nation's largest network of volunteer, expert business mentors), Women's Business Centers, Veterans Business Outreach Centers) to assist businesses with application completion, reconsiderations, credit repair, and managerial and technical services. These partnerships foster direct engagements with disaster survivors and will help them to obtain financial and credit counseling services such as how to prepare income statements and balance sheets;

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how to manage debt to improve credit scores; and, how to apply for disaster loans. These actions will increase the likelihood of disaster survivors receiving recovery funds from SBA. SBA will also identify and develop formal and informal relationships with financial institutions and local community support groups to arrange for additional assistance.

● **Improve access to business counseling, training, and services**

At the forefront of all SBA programs is outreach - connecting entrepreneurs to information on how to start, grow, manage, and recover their businesses. Often this information is provided through business counseling, training, and services. At times, however, communication and information gaps can prevent SBA clients and potential clients from receiving information on the benefits of SBA products and services. For entrepreneurs of underserved communities, communication and information gaps can be more critical. Underserved business survival rates are below the national average. This makes the window of opportunity shorter for providing relevant, accurate, and timely information that could increase how long a business survives. To strengthen the lines of communication with underserved communities, all SBA offices are investigating new approaches for reaching clients. SBA is launching the Community Navigator Pilot Program, as established in the American Rescue Plan Act of 2021. The program aims to strengthen and expand outreach to underserved businesses by partnering with organizations with deep roots in their communities. SBA is also requiring Small Business Development Centers to enhance collaboration with Minority Serving Institutions. This includes onboarding new SBDC service centers that best support historically underserved communities. Finally, SBA is securing on-demand translation services to meet the immediate needs of disaster survivors with limited English proficiency (including through translators and document translation services) and hiring local staff within the impacted community to facilitate understanding of the disaster loan process.

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● **Invest in resources to help advance civil rights**

Advancing equity rests on the presumption of equal opportunities and protection under the law. As noted in the Executive Order, government programs are designed to serve all eligible individuals. To meet this objective and to enhance compliance with existing civil rights laws, agencies were obligated to address the operational status and level of institutional resources available to offices or divisions within the agency that are responsible for advancing civil rights or whose mandates specifically include serving underrepresented or disadvantaged communities. To meet this mandate, the SBA Administrator is implementing a reorganization plan to create a more proactive Diversity and Inclusion component to the Office of Diversity, Inclusion, and Civil Rights (ODICR). The plan includes hiring a Chief Diversity Officer and, over time, increasing the number of Diversity and Inclusion staff. This additional capacity will allow ODICR to provide programs that address diversity, inclusion, equity, and accessibility not only to the agency but also to other Program Offices that work directly with SBA entrepreneurs and small business owners. ODICR is also exploring the opportunity to work more collaboratively with the SBA National Ombudsman. The National Ombudsman assists small businesses, small government entities, and small nonprofits when they are subject to excessive enforcement by a federal agency. This includes, but is not limited to, repetitive audits or investigations, excessive fines, penalties, threats, or other unfair enforcement action.

## Building on SBA's progress

**This equity action plan builds on SBA's progress delivering on equity and racial justice in the first year of the Biden-Harris Administration.**

- **Meeting the needs of small and disadvantaged underserved communities, including during the pandemic**

SBA funded small businesses across key demographic groups, including: rural Americans (\$58 billion+), Black and African Americans (\$17 billion+), Hispanics and Latinos (\$15 billion+), Native Americans (\$699 million+), and Asian American, Native Hawaiian and Pacific Islanders (\$23 billion+). SBA also distributed \$15.2 billion in critical Restaurant Revitalization Fund relief aid to women-owned (\$7.5 billion), veteran-owned (\$1 billion), and socially and economically disadvantaged-owned (\$6.7 billion) small businesses. In low-income communities, over 500,000 small businesses received a lifeline of up to \$15,000 in relief grants through the COVID Economic Injury Disaster Loan Targeted and Supplemental Advance programs, while 22 percent of Paycheck Protection Program loans went to those in rural areas.

- **Increasing whole-of-government investments in Small and Disadvantaged Businesses**

Along with the federal Interagency Policy Committee (IPC) on Executive Order 13985, SBA worked with agencies to raise the governmentwide goal for spending with Small Disadvantaged Businesses to 11 percent, from 5 percent. Further, SBA and the IPC finalized reforms— issued by OMB in December—to help grow the small-business industrial base. These reforms include tailoring OMB's Category Management program to serve disadvantaged businesses, adding SBA to the governmentwide Category Management Leadership Council, and adding new entrants to government contracting. SBA also issued a proposed rule in the Federal Register that, when finalized, will open up possibilities for new and nontraditional small business contractors to compete for contract opportunities. The rule would allow contractors without direct experience in government contracting to count experience gained through participating as a joint venture member

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or first-tier subcontractor. This addresses a common complaint from small businesses that they cannot get their first contract until they have their first contract. For the first time, the SBA released disaggregated data across industries and sectors by race and ethnicity and helped deliver contracting reforms that will require federal agencies to track and publicly report how they are bringing in new contractors, develop diversification strategies, and open doors for more socioeconomic, underserved firms to sell their goods and services to the Federal marketplace.

- **Supporting the capacity of Minority Serving Institutions to host small business development centers**

Additionally, SBA has allocated nearly 30 percent of its Small Business Development Center Program funding to Minority Serving Institutions to host Small Business Development Centers. This action will lead to over 280 small business development centers increasing their access to and impact within underserved communities. SBA also supported the implementation of three Women's Business Centers on the campuses of Historically Black Colleges and Universities and elevated the issue of women's entrepreneurship through public engagement. Of the 24 new WBCs announced in March 2021, 60 percent were in rural communities.

- **Enhancing stakeholder engagement**

SBA reconvened the Council on Underserved Communities under the authority of the Federal Advisory Committee Act. The restoration of the Council will help support the SBA's prioritization of equity across its programs and initiatives. The Council consists of 20 diverse stakeholders from every region of the country tasked with advising the SBA on strengthening and improving its strategies to help underserved communities.