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## SBA's Rural Activities

The U.S. Small Business Administration's (SBA's) mission is to "aid, counsel, assist, and protect" the interests of small businesses. While SBA generally helps small businesses regardless of location, small businesses may constitute a larger proportion of businesses in rural areas. According to SBA's Office of Advocacy (Advocacy), as of August 2023, nearly 85% of establishments in rural counties nationwide are small businesses, and small businesses in those rural counties employ roughly 54% of workers in those counties. However, rural small businesses can face particular challenges. According to the same Advocacy study, between 2012 and 2019, rural small business employment increased by 1%, while rural non-small business employment increased nearly 13%.

Although many SBA programs are available to small businesses in any U.S. location, some programs target rural small businesses. Some Members of Congress have stated that SBA should expand its service to rural small businesses. Members of the 118<sup>th</sup> Congress have introduced several bills pertaining to SBA's rural activities. Some of these bills focus on SBA's Office of Rural Affairs (ORA). Congress authorized ORA in the Small Business Administration Reauthorization and Amendments Act of 1990 (P.L. 101-574), but the office appears to have been mostly dormant since.

This In Focus summarizes select SBA programs targeting rural small businesses, outlines coordination between SBA and the U.S. Department of Agriculture on rural small business issues, discusses the history of ORA, highlights recently proposed legislation, and presents considerations for Congress.

### Selected SBA Programs for Rural Small Businesses

Some SBA programs may target rural small businesses. Some of these preferences are established in law. The statute authorizing SBA's State Trade Expansion Program, (STEP; 15 U.S.C. § 649(l)), which makes grants to states to help expand the number of small business exporters and the dollar value of those exports, says that SBA may prioritize STEP applications from states proposing a program that "demonstrates intent to promote trade expansion" by rural small businesses, among other entities.

Similarly, the statute authorizing the Federal and State Technology Partnership Program (FAST; 15 U.S.C. § 657d), which awards grants to entities to increase Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) program applications from certain small business owners, says that SBA "shall consider" whether a FAST application "addresses the needs of" small businesses "located in areas that have historically

not participated in SBIR and STTR programs." SBA has clarified in FAST notices of funding availability that this provision typically refers to rural states.

SBA's Growth Accelerator Fund Competition (GAFC), which makes grants to entities assisting small businesses and startups working in the science, technology, engineering, and math and research and development (R&D) fields, does not have specific statutory authority. However, SBA's FY2025 budget request noted that GAFC "identifies groups and/or geographies that traditionally have difficulty obtaining R&D funding and investment capital, such as rural communities."

SBA's FY2025 budget request identified several areas where SBA intends to expand its assistance to rural small businesses. The budget request noted that SBA's Historically Underutilized Business Zone (HUBZone) contracting preference program "will continue to work with governors' offices to expand the program's reach to rural areas across the country through a new category of HUBZones known as 'Governor-Designated Covered Areas.'" The budget request also stated that SBA would work with the U.S. Department of Agriculture (USDA), the Department of Commerce, and other federal agencies to "assist small businesses in rural areas to increase their participation in exporting, government procurement, tourism, access to credit, incubators, innovation, technology, and other small business programs."

### SBA and USDA Cooperation

SBA has previously worked with USDA on issues concerning rural small businesses. The two agencies signed a memorandum of understanding (MOU) in April 2018. The MOU stated that SBA and USDA had mutual interests in issues including "improving investment opportunities in rural areas" and "aiding rural businesses in providing tools to export products around the world." Among other activities, the MOU established that SBA and USDA may work together to:

- provide joint trainings and technical assistance for rural small business owners;
- help rural small businesses find export opportunities; and
- expand collaboration between the USDA Rural Partners Network and SBA's resource partners, which provide management and technical assistance to small businesses.

The MOU also established interagency working groups to examine capital access and investment in rural areas and

how to grow businesses in rural areas. The MOU expired in April 2023, but SBA and USDA signed a new, nearly identical MOU in October 2023. As of April 2024, the working groups have not produced any publicly available reports.

### SBA's Office of Rural Affairs

Congress authorized SBA's ORA in the Small Business Administration Reauthorization and Amendments Act of 1990 (P.L. 101-574). ORA's statutory purposes include:

- achieving an equitable distribution of financial assistance available for rural small businesses;
- compiling annual statistics on rural areas, including population, poverty, job creation and retention, unemployment, business failures, and business startups;
- providing information to industries, organizations, and state and local governments concerning the federal assistance available to rural small businesses; and
- assisting rural small businesses with tourism promotion and development.

ORA has been largely inactive despite its statutory authorization. The office has not received funding in annual appropriations bills since its authorization (Congress funds SBA through annual appropriations bills). In July 2019, 16 Members of Congress signed a letter to the acting SBA administrator requesting information on why ORA was never fully established. SBA does not appear to have publicly responded to the letter.

In the 116<sup>th</sup> Congress, the committee report for the Financial Services and General Government Appropriations Act, 2021 (H.R. 7668) directed SBA to submit a report on ORA, "detailing the Office's mission, strategic plan, and staffing and resource requirements, including the costs and potential benefits of establishing an Associate Administrator position for the Office." In the 117<sup>th</sup> Congress, the committee report for the Financial Services and General Government Appropriations Act, 2023 (H.R. 8254) stated, "The Committee is dismayed that SBA has yet to submit the report required in H.Rept. 116-456 on the Office of Rural Affairs, and expects SBA to expeditiously submit this long-overdue report." As of April 2024, the report is not publicly available.

### Recent Legislative Activity

Members of the 118<sup>th</sup> Congress have proposed multiple bills concerning SBA's rural activities. The Investing in Rural Manufacturing Act (H.R. 414) would amend SBA's 7(a) program to establish a program of rural manufacturing loans. The loans would be allowed to be used for certain costs to businesses that manufacture goods essential to critical infrastructure sectors in rural areas. Loan applicants would be required to submit a business plan including a goal for the number of jobs that would be created or expanded with the loan funds. Businesses that meet at least 75% of their job creation goals would be eligible for loan forgiveness.

H.R. 5425 would create new provisions related to ORA. The bill would establish an Assistant Administrator for ORA; increase ORA's outreach activities; and require SBA to submit an annual report on ORA's activities to the House and Senate small business committees.

The Small Business Administration Rural Performance Report Act (H.R. 5265) would require SBA to annually report about ORA's activities, including how it promotes the availability of financial assistance for rural small businesses. H.R. 5265 would require SBA submit the report to the House and Senate small business committees and post it on the agency's website. In addition, H.R. 5265 would require SBA to report on its collaboration with USDA as detailed in the 2018 and 2023 MOUs. The report would be required to include the findings of the working groups established in the MOUs. H.R. 5265 passed the House in February 2024 and was referred to the Senate Committee on Small Business and Entrepreneurship.

### Considerations for Congress

Congress could consider directing SBA to add a greater focus on rural small businesses in some of the agency's existing programs. However, in some cases where SBA programs have requirements to focus on or target rural small businesses, these have not necessarily resulted in increased resources to rural small businesses. For example, the Community Advantage (CA) Pilot Program (a 7(a) subprogram) includes rural areas as one type of market that counts towards the requirement that a CA lender make at least 60% of its loans to underserved markets. But in FY2023, a lower share of CA loans went to rural businesses than did 7(a) loans processed through other methods that do not have any incentive or requirement for rural lending. Congress may want to further study the effectiveness of such rural requirements or incentives.

ORA appears to not have had a director for most of the time since its authorization by Congress. SBA's leadership website does not list any staff associated with ORA. ORA's lack of activity was noted in the committee report for H.R. 5425 in the 118<sup>th</sup> Congress, which stated, "The Office of Rural Affairs has been historically underutilized by the SBA, with its leading position remaining generally vacant." H.R. 5425 would require SBA establish an Assistant Administrator position in charge of ORA. Congress could also require that position, or a different position with responsibility for ORA, to not only be created, but to be filled.

Rather than keeping ORA as a standalone office within SBA with its own leadership, Congress could also decide to fold ORA into one of SBA's existing departments. Options for this could include SBA's Office of Capital Access or Office of Entrepreneurial Development, although those offices tend to operate their own programs. Based on ORA's statutory language, managing programs may not be the purpose of the office as much as it is SBA-wide coordination. Another option may therefore be to place ORA within SBA's Office of the Administrator.

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