



Bipartisan Policy Center

From Pandemic to Prosperity

**BIPARTISAN SOLUTIONS TO SUPPORT
TODAY'S SMALL BUSINESSES**

March 2022

Key Takeaways

- The last two years have been challenging for small businesses across America. The COVID-19 pandemic exacerbated preexisting obstacles while also creating new ones. Uncertainty, lockdowns, supply chain disruptions, and inflation have posed tremendous hurdles to small businesses. Through it all, small businesses have remained dynamic and resilient.
 - In early 2022, the Omicron variant was surging—yet small business owners responded with strength and optimism.
 - According to a Goldman Sachs *10,000 Small Businesses Voices* national survey released in January, 42% of small business owners said they were struggling financially due to the continued impact of the pandemic.¹
 - In that same survey, 73% said they were optimistic about the financial trajectory of their business in 2022.
 - Millions of small businesses received government support during the pandemic in the form of loans, grants, and tax credits. Continuing struggles underscore the need for additional support from Congress, federal agencies, and the White House to boost recovery and growth. As one small business owner said, “small businesses are not looking for a handout. We’re looking for a hand up.”
 - To help small businesses recover, build resilience, create jobs, and be positioned for growth, policymakers should focus on four key areas where small businesses have faced longstanding challenges. The pandemic exacerbated these challenges. Those key areas are access to capital, workforce and competitiveness, government contracting, and child care.
 - This report looks at trends in each area and proposes a series of actionable, bipartisan policy options that will support small businesses and, in turn, strengthen local communities and the broader economy.
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- **Access to Capital:** Finding flexible, affordable sources of external credit is both a crucial step and a consistent challenge for small business owners. Access to capital should remain a priority for policymakers seeking to help small businesses. Capital can help small businesses expand payrolls, pivot business models, and navigate inflation and supply chain disruptions.
 - During the pandemic, the federal government disbursed around a trillion dollars to small businesses through the Paycheck Protection

Program (PPP) and COVID Economic Injury Disaster Loan (EIDL) program. That assistance was immensely appreciated as it kept many small businesses from closing for good.

- The pandemic not only increased the need for capital among small businesses but also starkly exposed preexisting gaps in the credit market, especially for small business owners of color.
 - According to the *10,000 Small Businesses Voices* national survey, 94% of small business owners say it's important for policymakers to help ensure that small businesses have access to flexible, affordable capital.
 - Federal policymakers should focus on ways to fill gaps in the credit market for small businesses and ensure that capital meets the needs of small business owners without burdening them with onerous debt.
- **Workforce & Competitiveness:** Small businesses across industries and geographies face substantial hiring and retention challenges. These challenges weigh significantly on small business owners' operations, consciences, and bottom lines.
 - Small business owners would like to do more to support their employees with retirement, paid leave, training, emergency savings, and more. A variety of obstacles make it difficult and often infeasible for small business owners to support employees in these ways.
 - Existing policy incentives in these areas often don't work for small businesses, or they have low take-up because of administrative complexities and insufficient awareness.
 - Policymakers should enable greater access to workplace benefits, such as retirement and paid leave, at small businesses. This can be done through enhancement of existing programs, creation of new incentives (such as tax credits) and changes to existing policies that make adoption easier and more compelling for small businesses.
 - Such reforms would support employees at small businesses and help level the playing field for small businesses struggling to compete for talent with much larger companies.
 - According to the *10,000 Small Businesses Voices* national survey, 88% of small business owners support policymakers taking action to help address their workforce and competitiveness challenges, such as hiring and retention.

“We want to reward the people who’ve stuck around. We’re constantly trying to ensure we’re incentivizing them, making them happy.”

KHARI PARKER, Connie's Chicken & Waffles (Baltimore, MD)

- **Procurement/Government Contracting:** Each year, the federal government spends hundreds of billions of dollars buying—or, procuring—products and services from the private sector. Tens of thousands of small businesses participate in the procurement marketplace. By law, 23% of annual federal spending must go to small businesses.
 - Expanding small business opportunities in federal procurement is an important way to strengthen resilience and growth among small businesses. It also supports local job creation, diverse small business owners, and a robust defense industrial base.
 - For a decade, the number of small businesses participating as government contractors has shrunk considerably even as procurement spending has risen steadily. From 2010 to 2019, the number of small businesses providing common products and services to the federal government shrank by 38%. Even more alarming, the number of new small business entrants into the federal procurement marketplace fell by 79% over that time period.
 - Existing small business contractors cite burdensome processes and misaligned incentive structures as key challenges in doing business with the federal government.
 - Procurement can be especially challenging for women-owned small businesses. Though the federal government has consistently met its overall 23% small business prime contracting goal, it has only met its women-owned small business procurement goal twice since it was established in 1994.
 - Recent government efforts represent meaningful steps toward improving small business procurement participation. Yet more should be done to remove obstacles and increase contracting opportunities for small businesses.
 - Nine out of 10 respondents in the *10,000 Small Businesses Voices* national survey support action by policymakers to increase opportunities and reduce barriers for small businesses interested in government contracting.
 - Positive steps have been taken under the Biden administration by federal agencies such as the Office of Management and Budget, Small Business Administration, Department of Defense, and Department of Veterans Affairs. Other actions have received bipartisan support in Congress. Yet additional measures have the potential to substantially increase and improve small business participation in procurement.
- **Child Care:** Small businesses play an enormously important role in the child care ecosystem: 95% of child care providers in the United States are small businesses. The basic business model of child care was broken even before COVID-19. The pandemic brought restrictions, uncertainties, and economic challenges facing small business child care providers to new heights.

- For other small business owners and their employees who struggle to find consistent, affordable, high quality child care, the pandemic underscored the significance of child care as a workforce issue and the economic imperative of finding new ways to expand access.
- Over half of small business owners in the *10,000 Small Businesses Voices* survey said they or their employees had faced child care challenges during the pandemic.
- Existing policies and programs intended to help employers support their employees with child care often aren't used by many small businesses because of insufficient awareness, high costs, and market gaps.
- More broadly, small business child care providers face difficulty in balancing the high cost of providing quality care with most parents' inability to afford such care. This imbalance creates a system riddled with frustration and inequities. Consequently, many providers operate on thin margins, and countless parents are stretched to afford care or find quality child care altogether.
- Federal policymakers should enhance and bolster policies and programs designed to help small business employers and employees with child care. At the same time, they should look to address the deficiencies in the child care business model.
- Eighty percent of small business owners in the *10,000 Small Business Voices* national survey said they support Congress taking action to increase access to affordable child care.
- Congress and the Administration should also consider more general advancements that will support small business owners across these four key focus areas.
 - The Small Business Administration plays an important role in supporting small businesses, but it was last reauthorized by Congress over two decades ago. It is time to reauthorize the SBA and use the opportunity to address areas of improvement and enhance aspects of the SBA that are working well.
 - Small businesses would also benefit greatly from additional resources and more practical technical assistance programs designed to increase awareness of existing programs, simplify complex government processes, and enable small business peer-to-peer support.
 - Whether related to access to capital, workforce and competitiveness, procurement, or child care, such actions will help small businesses recover and grow.

“The rest of the world can’t get back to work without child care providers.”

**MARIA DAVALOS, Baby Sitters’ Guild
(New York, NY)**

Executive Summary

Small businesses, which employ close to half of America's private sector workforce, have endured considerable volatility during the COVID-19 pandemic. For many, the pandemic and its associated challenges spelled the end of their business. For others, the past two years have entailed oscillation between uncertainty and hope. The experience has not been completely uniform, with some sectors faring worse than others.

For all small businesses, the pandemic revealed longstanding challenges. COVID-19 exacerbated them, but they bedeviled small businesses for years prior to the pandemic. As small businesses look toward recovery and growth—and as policymakers seek to help strengthen small business resilience—those challenges must be addressed. This report looks at four such challenges. The pandemic has also heightened the importance of Congress finding bipartisan agreement on reauthorization of the Small Business Administration, which hasn't occurred in over 20 years. Reauthorization can be an important vehicle for modernizing the policy infrastructure that supports small businesses.

The issues focused on in this report emerged from conversations with small business owners, national surveys conducted by Goldman Sachs' *10,000 Small Businesses Voices*, and discussions with current and former government officials. The four areas are:

- Access to Capital
- Workforce & Competitiveness
- Procurement/Government Contracting
- Child Care

Access to capital is a perennial challenge for small businesses. Even as small business lending grew to hundreds of billions of dollars prior to the pandemic, many small businesses still faced difficulty accessing affordable, flexible sources of credit. Emergency lending programs in response to COVID-19 helped many small businesses survive and pivot to more robust business models. They also revealed stark gaps in the credit market that are critical to fill if more small businesses are going to start, recover, and grow.

Prior to the pandemic, small businesses faced hiring and retention challenges. Policymakers have sought to enhance small businesses' ability to, for example, offer retirement plans or paid leave to help small businesses stay competitive and supportive of their workers. Those efforts have had mixed effects, as many small businesses still find it very difficult to offer such benefits—or are unaware

of what resources are available to help them. Existing programs often have low uptake among small business owners because they aren't always designed with the realities of small business in mind. The pandemic has heightened hiring and retention challenges, with many small business owners having significant difficulty finding and retaining qualified employees.

Procurement—contracting with the federal government—offers an important opportunity for small businesses of all types to increase revenues and enhance resilience. Over the last 10 years, however, the small business base of the federal procurement marketplace has shrunk considerably. Fewer and fewer small businesses are serving—or newly entering—as government contractors. Yet having small businesses involved in government procurement is crucial to expanding innovation, job creation, and competition. Addressing the barriers to expanded small business participation in procurement—such as enhancing and streamlining procurement processes—is an important way to spur inclusive economic development across the country and advance national priorities.

Child care has been a persistent challenge for small businesses, affecting both child care providers and small businesses in other sectors whose employees rely on child care to participate in the workforce. Small business owners are acutely aware that their employees need access to affordable, high quality child care to be able to do their jobs—and they'd like to help them. Yet there are formidable barriers to offering such support and what child care options are available. The supply side of child care, too, is a small business challenge. The vast majority of child care providers are small businesses. Within the current operating environment and public policy framework, many find it difficult to stay in business, let alone grow.

In each of these areas, this report explores the nature of the challenges and presents policy options for the federal government and policymakers to consider.

How We Prepared This Report

This report is based on four workstreams.

1. Review of academic literature and public data sources.
2. Roundtable discussions with small business owners who are part of the Goldman Sachs *10,000 Small Businesses Voices* program, as well as conversations with other small business owners. Statements from those discussions are noted as such.
3. A national survey of small businesses by Goldman Sachs *10,000 Small Businesses Voices*, fielded in January 2022.
4. Consultations with policy experts—including those at BPC—government officials, members of Congress and their staff, and former government leaders.

“Small” business: Throughout this report, we adhere to the Small Business Administration’s general definition of a small business as one with fewer than 500 employees. Nearly every small business owner we spoke with, however, has between five and 100 employees, and many of the recommendations are aimed at this group. While not included in our recommendations, the need to revisit small business size standards was raised by several people we spoke to.

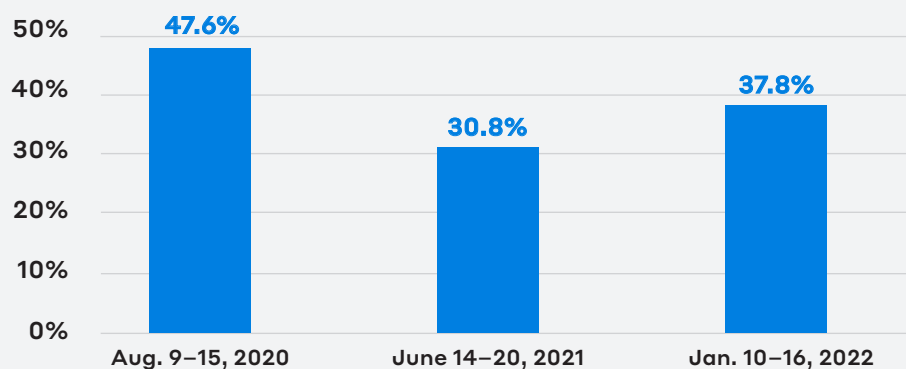
Introduction

The last two years have been a rollercoaster for small businesses, with volatile turns and dives that exacerbated preexisting challenges and created new ones. Small businesses have had to adapt and adjust amidst these changing conditions and expectations.

In June 2021, less than one-third of American small businesses said they expected resumption of normal operations to take at least six months.² That, according to the Census Bureau’s Small Business Pulse Survey, was the most optimistic reading at any point during the pandemic. A year earlier, during the summer of 2020, nearly half of small businesses expected to have to wait at least six months for a return to normal. By mid-2021, things were looking up for small businesses. Two-thirds reported that demand was steady, and over half said they faced no delays or difficulties.

By late 2021 and early 2022, the COVID-19 roller coaster had plunged again, taking small business sentiment down with it. In January 2022, almost 40% of small business owners now expected recovery to take longer than six months.

Figure 1. Share of Small Businesses Saying They Expect Resumption of Normal to Take Longer than 6 Months



Source: U.S. Census Bureau, Small Business Pulse Survey.

By January 2022, one-third were experiencing weekly declines in revenue—a sharp jump in just a matter of weeks. (In mid-November, only 22% had been experiencing weekly declines in revenue.) And although just 12% expressed doubt that their business would ever return to pre-pandemic levels, that was a 71% increase from summer 2021.³

It has been a rough time for small business owners and their employees. The onset of the COVID-19 pandemic in early 2020 shifted consumer demand away from many small businesses, especially in certain sectors. Government restrictions and lockdowns added to the pressure. By the end of April 2020, the number of “active business owners” in the United States had fallen by 3.3 million, a 22% contraction, compared with February of that year.⁴

While there was a rebound during the summer of 2020, with many business owners restarting their businesses or starting new ones, the negative effects of the pandemic’s early months weighed heavily on many small businesses. Among Black Americans, for example, there was a 19% drop in the number of active business owners from February to June 2020, compared with an 8% drop overall.⁵

The ensuing months of 2020 and 2021 brought bouts of optimism followed by dashed hopes, a ceaseless cycle of up-and-down for small businesses and their employees. With the arrival of 2022, the United States found itself in the midst of yet another surge in COVID-19 cases, this one driven by the Omicron variant. New restrictions and consumer fears weighed on small business fortunes and forecasts. “This current surge is a beast,” one small business owner said of Omicron in a roundtable. “We’re not out of anything yet. We’re far from out of the woods.”

Small business owners feel stuck, said another, “struggling to make it through another phase of open-close-open-close, subsidy, no-subsidy.” Most small businesses benefited from assistance efforts such as the Paycheck Protection Program (PPP) and COVID Economic Injury Disaster Loan (EIDL) program. By the end of 2021, those efforts had largely run their course: “The money is gone,” a small business owner observed.

42% of small business owners
are struggling financially due
to the continued impact of the
pandemic.

but: **73%** are optimistic about
the financial trajectory of their
business in 2022.

**GOLDMAN SACHS 10,000 Small
Business Voices national survey,
January 2022**

These sentiments are reflected in the latest Goldman Sachs *10,000 Small Business Voices* national survey, the findings of which were released in January 2022. In that survey of nearly 1,500 small business owners across the nation, four in 10 said they were struggling financially due to the continued impact of the pandemic. Twice that many (86%) said broader economic trends (such as inflation and supply chain delays) were negatively affecting their business.⁶

Nevertheless, small business owners continue to show tremendous tenacity and resilience. Nearly three-quarters (73%) of respondents said they are optimistic about the financial trajectory of their business in 2022.

Policymakers in Washington and state capitals are looking for ways they can further help small businesses. The challenge for policymakers is to identify actions that can meet present difficulties, support future small business growth, and address pre-pandemic challenges that continue to hamper small business recovery. One crucial component of supporting small businesses is to find a bipartisan path for reauthorization of the SBA.

Why Should Government Support Small Business?

Given the role small businesses play in our communities and economy, many consider it self-evident that public policy should support small businesses. Still, before presenting policy options that seek to allocate additional public resources—whether in money, time, or diversion from other areas—to support small business, it is worth remembering the ways in which small businesses are the backbone of this nation.

- Small businesses employ a lot of Americans—nearly half of the private-sector workforce.
- A subset of small businesses—those younger than 10 years old—accounts for the lion's share of net job creation each year.
- Another subset of small businesses—those growing rapidly—drives a disproportionate share of productivity and innovation.
- Small businesses are a key labor market entry point—including for young workers, those on the margins of the labor force, and others.
- Small businesses help support competition and dynamism, which contribute to overall economic growth and productivity.

Some skeptics point out that small businesses often pay lower wages than larger companies. This is more a function of sector than size, and it ignores these other important economic roles that small businesses play.

Supporting small businesses is especially important in the present environment given that challenges brought about by the pandemic have disproportionately affected small businesses. It is more challenging for small businesses to absorb negative impacts such as lockdowns, a tighter labor market, inflation, and supply chain disruptions.

Based on surveys by *10,000 Small Businesses Voices* and conversations with small business owners across the country, we identified four areas where policymakers should focus their efforts to help small businesses in 2022 and beyond. These are:

- Access to Capital
- Workforce & Competitiveness
- Procurement / Government Contracting
- Child Care

Each of these areas posed a challenge for many small businesses prior to COVID-19. The pandemic intensified them. Addressing them will help small businesses support their employees, create jobs, and strengthen their communities.

Access to Capital

Key Takeaways

- External credit is important for small businesses, especially as many look for opportunities to pivot and grow. Capital plays a crucial role in enabling small businesses to hire, serve customers, and adapt to changing circumstances.
- Prior to COVID-19, even as overall small business lending expanded, gaps persisted for many, especially small businesses owned by people of color.
- Pandemic relief efforts, such as the Paycheck Protection Program (PPP) and the COVID Economic Injury Disaster Loan (EIDL) program, disbursed roughly \$1 trillion to small businesses in 2020-21.
- Those programs helped many small businesses survive the pandemic—yet they also highlighted in stark ways those preexisting gaps in the small business credit market.
- New entrants to small business credit—such as online lenders—have helped bring innovation and greater access, especially for business owners of color.
- There are a number of existing federal efforts that seek to expand small business access to credit. This includes the 7(a) loan guarantee program operated by the Small Business Administration. These programs are intended to help small businesses that can't obtain “credit elsewhere.”
- As small businesses seek to recover and grow, federal policymakers should consider a number of steps that will help expand their access to patient and flexible credit. This includes:
 - Renewing the COVID EIDL program to help those small businesses that continue to struggle with the pandemic's impact.
 - Enhancing technical assistance for small businesses to ensure that more are “credit ready” when approaching lenders.
 - Exploring ways to broaden the base of lender participation in the 7(a) program.
 - Extending—and considering making permanent—the Community Advantage program, which helps expand access to credit for small business owners not well served by traditional financial institutions.

Access to capital for small businesses has been at the forefront of national consciousness for the last two years because of the pandemic. With lockdowns, restrictions, and customer retrenchment, revenues for millions of small businesses evaporated. Congress responded with alacrity, creating the Paycheck Protection Program (PPP) and expanding the Economic Injury Disaster Loan (EIDL) program to help address the challenge. By its conclusion, PPP had helped disburse \$800 billion in lending through nearly 12 million loans. Another \$200 billion, across almost 4 million loans, was distributed through COVID EIDL. By January 2022, about 85% of the PPP total loan value had been forgiven, partially or in full.⁷

Small business owners we spoke with were enormously appreciative of capital support programs like PPP and COVID EIDL. Many said they would have lost their business without these programs. Others said the funds enabled them to pivot to more robust business models and hire additional workers.

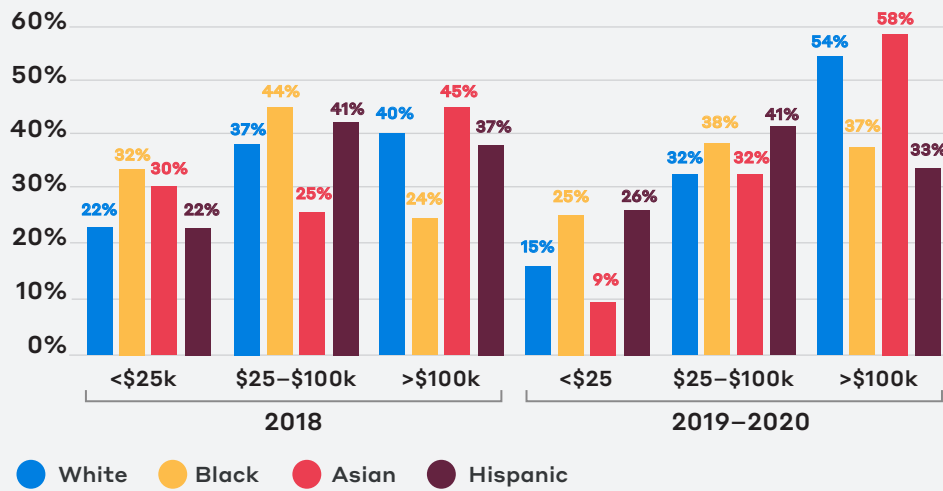
Despite the widespread take-up of programs like PPP and COVID EIDL, external credit is not always the first avenue for small business owners, irrespective of size, age, or owner characteristics. In any given year, fewer than half of small businesses seek external financing.⁸ Even to cope with financial challenges during the pandemic, many business owners were more likely to turn first to their own personal funds, then to cut staff or operations, and then to seek nondebt funds such as grants or donations.⁹

Some emphasized that taking on debt can be a slippery slope: “You can easily overextend yourself through loans,” one small business owner said at a roundtable. Another reason small businesses are often hesitant about loans is that, with many lenders, a personal guarantee from the business owner is required—including for SBA-backed loans. The “personal guarantee is a challenge,” observed another small business owner.

External credit is nevertheless important for many small businesses. They access it for starting up, for growing, for sustaining through difficult times, and more. In the latest Goldman Sachs *10,000 Small Businesses Voices* national survey, 94% of respondents said it was important for policymakers to help ensure that small businesses have access to flexible, affordable capital.

Financing differences during the COVID-19 crisis highlighted in stark ways pre-pandemic gaps in the small business lending market. Black- and Hispanic-owned small businesses tend to have fewer employees and lower revenues—and were much less likely to seek external financing.¹⁰ When they do seek external financing, Black- and Hispanic-owned businesses tend to ask for lower amounts.

Figure 2. Black and Hispanic Businesses More Likely to Seek Smaller Amounts of External Financing



Source: Federal Reserve SBCS on Minority-Owned Firms (2019) and Firms Owned by People of Color (2021).

Notably, between 2018 and 2019-20 (the years of the Federal Reserve Small Business Credit Survey), the share of Black small businesses seeking credit for more than \$100,000 rose by 13 points. COVID-19, however, halted such positive trends for business owners of color.

Black business owners have been disproportionately hurt by the pandemic. In the January 2022 *10,000 Small Businesses Voices* national survey, of those small businesses saying broader economic trends are negatively impacting them:

- 44% of Black small business owners had paused paying themselves, compared with 30% overall
- 38% of Black small business owners had dipped into their personal savings, compared with 23% overall

Prior to the pandemic, the world of small business lending, while still characterized by some difficulties, had been transformed by the rapid expansion of online lenders and other fintech companies. Even as the volume of commercial and industrial (C&I) loans below \$1 million—a frequent proxy for small business lending—recovered slowly from the 2008-09 recession, overall access to credit for small businesses expanded with new fintech entrants. To maintain their position in small business lending, some traditional banks invested heavily in technology to accelerate loan processing. Others forged partnerships with online lenders, using the latter’s technology to streamline loan applications and decisions.¹¹

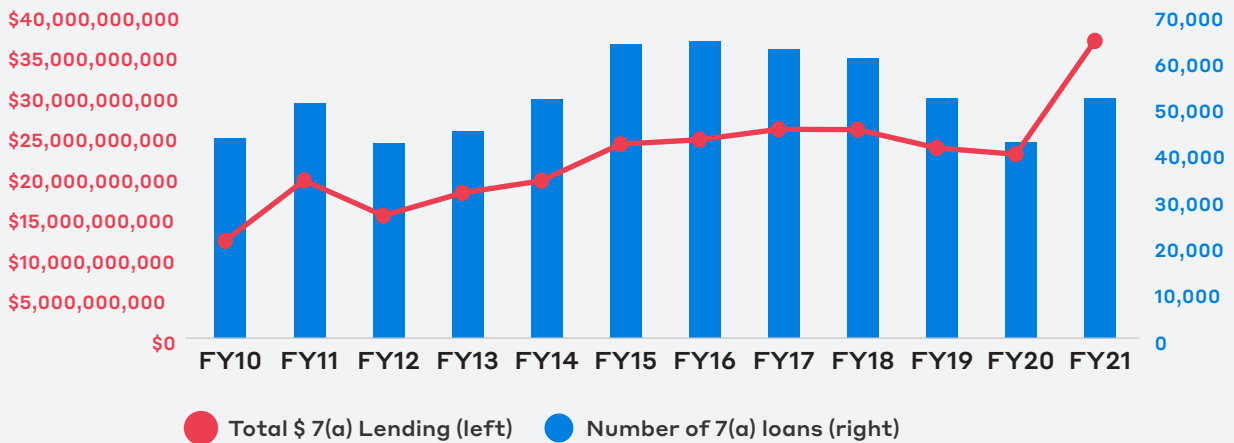
By 2019, one-third of small business applicants for a loan, line of credit, or cash advance had applied through an online lender.¹² Online lenders are more likely to serve small business borrowers that are higher credit risks, as well as Black-owned businesses.¹³ The pandemic helped further increase the role and profile of online lenders in small business credit. These companies were permitted to participate in PPP and helped distribute billions of dollars in emergency loans, proving particularly effective at reaching Black business owners.¹⁴ At the same time, credit from online lenders often comes at higher interest rates for borrowers, with the potential to trap small businesses in high-cost products.

During the pandemic, small business owners have battled rising costs, lower revenues, and greater uncertainty, making access to capital all the more important. As we look toward helping more small businesses start, recover, and grow, expanding access to capital while addressing preexisting challenges related to equity in access to capital as well as obstacles exacerbated by the pandemic should be top priorities.

POLICY LANDSCAPE

The federal government operates a number of programs intended to expand access to capital for small businesses. The purpose of lending support programs at the SBA is to help expand access to capital for those small businesses unable to find “credit elsewhere.”^a The flagship program, the 7(a) loan guarantee, helps make possible tens of thousands of small business loans each year. In fiscal year 2021, a record \$37 billion in loans was supported through the 7(a) program. (This excludes PPP.)

Figure 3. Trends in SBA 7(a)-Backed Lending

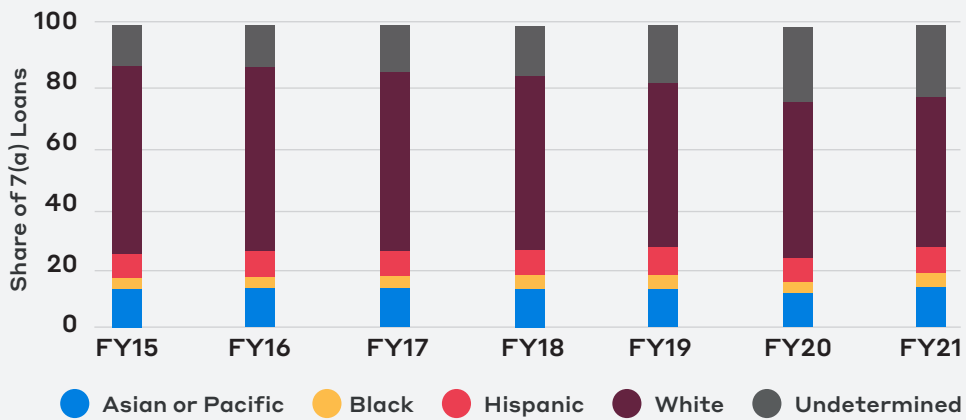


Source: Small Business Administration. Note: excludes PPP.

^a Under the statutory provisions of the Small Business Act, the governing legislation for the Small Business Administration, the agency is charged with providing loan assistance “only” to small business borrowers “for whom the desired credit is not otherwise available on reasonable terms” from other sources.

As the dollar amount of 7(a)-backed lending soared in fiscal year 2021, the mean and median loan size also rose. Small business borrowers sought larger amounts of credit. This reflected a number of factors, one of which was PPP. Small businesses seeking smaller amounts of credit during the pandemic applied for PPP loans rather than traditional 7(a)-backed loans. In PPP, 87% of loans in 2020, and 95% of loans in 2021, were for less than \$150,000. Thus, smaller-sized loans that, in prior years, might have received a 7(a) guarantee were provided through PPP in 2020 and 2021. This helped increase the average size of 7(a)-backed loans.

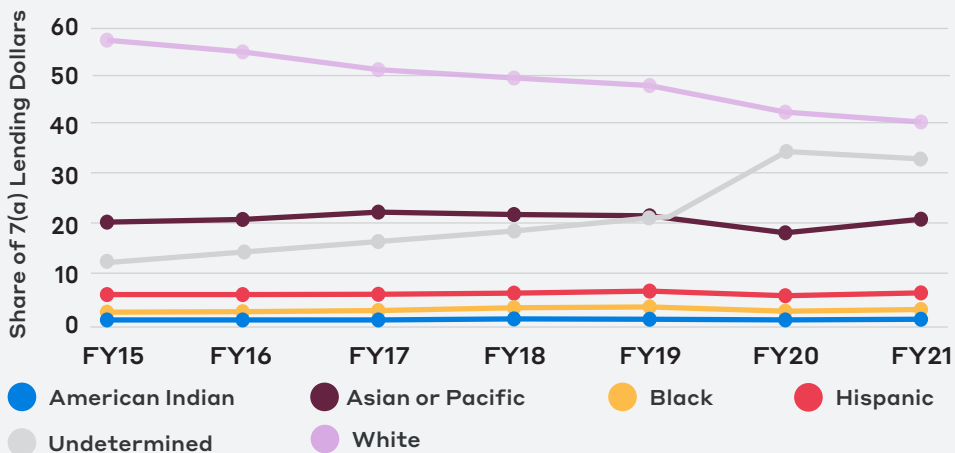
Figure 4. Black and Hispanic-Owned Small Businesses Account for Small Share of 7(a) Loans



Source: Small Business Administration.

Loans made with support from the 7(a) program also display differences along racial and ethnic lines, according to data from SBA.

Figure 5. Share of 7(a) Lending Totals by Race and Ethnicity



Source: Small Business Administration.

The pandemic exacerbated these gaps. In the latest *10,000 Small Businesses Voices* national survey, 48% of Black small business owners said they expect to take out a loan or line of credit for their business in 2022—yet just 19% were “very confident” in their businesses’ ability to access capital. That compared with 33% and 31% overall, respectively. That ambition-confidence gap is undoubtedly related to research finding that Black-owned businesses deemed to be “low credit risks” are nonetheless less likely than other small businesses to receive all the financing they seek.¹⁵

The Community Advantage Program, which has been in pilot phase for a decade, helps fill some of these gaps. In FY2021, for example, Black-owned small businesses received 16.5% of Community Advantage loans and 14.5% of Community Advantage loan dollars. That compares with 4.9% and 2.6%, respectively, in overall 7(a) guaranteed lending.

Given the central role that small business financial struggles have played during the pandemic, it’s not surprising that this is where policymakers have directed their energies. During the 117th Congress, many bipartisan bills have been introduced seeking to expand access to capital.¹⁶ It is important that small business access to capital remains a priority.

PRINCIPLES

Public policy action to expand access to capital for small businesses should be guided by the following principles:

- Pandemic programs such as PPP and COVID EIDL were a valuable source of support for small businesses, but many small businesses continue to face a range of challenges when it comes to accessing affordable capital.
- Small businesses need access to loans of various sizes depending on their situation and sector. While it’s crucial to enable small businesses to access sizable loans, it’s also important to ensure that small dollar loans are within reach.
- Reforms should bear in mind that most small businesses use personal funds, consumer credit (home equity, credit cards), and friends and family as their initial sources of capital.
- Small businesses approach external credit rationally, calculating whether the cost of bearing debt will be outweighed by what the debt can help them achieve. Public policies should take this into account.
- Private innovation in capital and credit markets continuously runs ahead of public policy. Policymakers should seek ways to gain better information and ways to protect small business borrowers without disincentivizing innovation.

POLICY OPTIONS

Renew the COVID-19 EIDL program.

- **Insight:** The expansion of the Economic Injury Disaster Loan (EIDL) program in response to COVID-19 was popular with small business owners. It “helped me stay in business,” more than one small business owner has reported. Yet just as PPP expired in mid-2021, COVID-19 EIDL concluded at the end of 2021. Many small businesses continue to struggle with pandemic impacts and foresee a long road to full recovery. Nearly 90% of small business owners in the *10,000 Small Businesses Voices* national survey expressed support for reauthorization of the COVID EIDL program.
- **How:** Congress should renew the COVID EIDL program. The original COVID-19 EIDL had bipartisan support, as did subsequent reauthorizations and extensions. Additional funding would require congressional approval. The program was meaningfully enhanced in September 2021—including a higher cap and greater flexibility—so these improvements should be retained if it is renewed. One modification Congress might consider if renewing COVID EIDL is subordination of the SBA’s lien on EIDLs. This, said one small business owner, has “made it harder to qualify for more traditional loans.”
 - If renewed, additional oversight and safeguards should also be included. The SBA’s Inspector General has repeatedly identified fraud and compliance gaps in the EIDL program during the pandemic.¹⁷ These must be addressed in the event of renewal.
- **Impact:** Given that nearly three-quarters of small businesses that anticipate taking out a loan or line of credit this year will use it, at least in part, to grow their business, addressing the subordination challenge should have a big impact. Renewing the COVID EIDL program, as we enter the third year of the disaster, would help many small businesses sustain themselves and accelerate recovery.

72% of small businesses who expect to take out a loan or line of credit in 2022 will do so for the purpose of **“growing my business.”**

GOLDMAN SACHS 10,000 Small Business Voices national survey January 2022

Enhance technical assistance to help more small businesses, especially the smallest, get “credit ready.”

- **Insight:** Technical assistance provided through the Microloan and Community Advantage programs helps small businesses use credit in

productive ways. Many small businesses, when seeking external capital, would benefit from greater insight as to the state of their business and its prospects. Such assistance could seek to help more small businesses get “credit ready.”

- *How:* The SBA should build off the Microloan and Community Advantage programs, as well as what the most effective Small Business Development Centers (SBDCs) do, in designing such resources.
- *Impact:* According to many of the small business owners we spoke with, credit is not always the first or right answer. Greater assistance in determining cash flow projections, for example, would enable them to better understand when to seek credit and how to best use it.

Streamline, structure, and clarify loan application processes for small businesses.

- *Insight:* “Business owners need to be experts in their own work, not application processes.” That observation, from a small business roundtable participant, captures a common sentiment among small business owners. “What’s broken,” said another, “is the process of [loan] application, who approves and does the underwriting.” These and other small business owners are not complaining about loan denials; many are confident in their ability to access new credit. The target of their frustration is the burdensome nature of the loan application process—they perceive there to be very little clarity or transparency around decisions, how long processes will take, and no guidance on what information is needed.
- *How:* The SBA, together with lenders, could work to put together more clearly organized information about what is needed when a small business applies for a loan. Crucially, that structured information needs to be easily accessible and widely disseminated to small businesses. One small business owner noted that, “OMB contractor forms do contain an estimate for how long it will take to complete them. SBA should do this for any forms small businesses need to fill out.” Another owner noted that a centralized webpage including key information would be immensely helpful.
- *Impact:* Greater transparency and information would not necessarily result in higher rates of loan approval, but it would make the process less painful for small business borrowers. More clarity on what is needed for a loan could also help small businesses get credit-ready.

Share success stories of small business owners who received SBA-backed loans.

- *Insight:* “Small business owners have limited time,” a small business owner observed. “If I don’t see success stories, my own motivation to pursue something diminishes.” Aside from occasional high-profile stories in the

media, highlights from lenders, and economic analyses of SBA programs, there is not much easily accessible information about 7(a) success stories.

- *How*: On average, since FY2015, the SBA has guaranteed about 56,000 7(a) loans each year. Tracking the fortunes of each borrower is probably infeasible. The SBA could work with the most prolific 7(a) lenders—as well as those in Community Advantage—and others to identify and share success stories.
- *Impact*: While the impact on other small businesses might not be easy to measure, more success stories from 7(a) (and other SBA lending support programs) could help increase small business owner take-up of these programs and buttress political support for them. Illustrating the many pathways that small businesses can take, and the role of government support, will also help inform further policymaking.

Consider ways to broaden the base of lender participation in the 7(a) loan guarantee program.

- *Insight*: The opportunities for online lenders to participate in SBA lending support programs are very limited. Their role in helping distribute PPP loans—especially to small business borrowers not historically well-served by traditional institutions—raised the possibility of these companies becoming a permanent part of, for example, the 7(a) program.
- *How*: A bipartisan bill introduced in 2021, the Expanding Access to Affordable Credit for Small Businesses Act, would lift the existing cap on Small Business Lending Company (SBLC) licenses and permit online lenders to participate in 7(a).^b The SBA should also continue to work with existing guaranteed lenders to adopt technological tools that will allow them to reach all types of small businesses.
 - One hurdle to broadening lender participation in 7(a) to include online lenders is where responsibility for regulatory oversight resides. The bill lifting the SBLC cap would have re-directed unused COVID stimulus funds to the SBA for oversight.
- *Impact*: The PPP experience demonstrated that online lenders are able to provide credit to small businesses not usually reached by traditional institutions. This includes small businesses with little collateral, no relationship with a bank, and those owned by people of color. While there are many questions to untangle in how inclusion of online lenders in 7(a) would work, PPP demonstrates that the impact for small businesses could be substantial.

^b BPC Action endorsed the bill.

Strengthen the capacity of Community Development Financial Institutions (CDFIs) to distribute more small business credit in their target communities.

- *Insight:* Community development financial institutions (CDFIs) account for a small share of the overall small business credit market. But they serve as a key resource for small businesses in underserved communities and can build strong relationships with business owners. During the pandemic, CDFIs had the highest satisfaction scores among financial institutions participating in PPP.
- *How:* A principal source of capital for CDFIs is banks. Dedicated support from banks for small business lending at CDFIs, as well as further support for CDFIs from the federal government, can increase lending to underserved areas.
- *Impact:* CDFIs are well positioned to help address credit gaps. Strengthening their capacity to serve small businesses will increase equity when it comes to access to capital.

Continue to extend—and consider making permanent—the Community Advantage program.

- *Insight:* For 10 years, the Community Advantage program has been a pilot within the 7(a) loan guarantee program. Its pilot phase status has not kept it from growing into a key piece of the small business lending ecosystem. From FY2011 through FY2021, Community Advantage lenders made nearly 7,000 loans worth almost \$1 billion. Interest rates on these loans are higher than for traditional 7(a)-backed loans (by about two points), but they are smaller (FY21 median loan amount, \$149,000), and are accompanied by technical assistance to help the borrowers use the credit wisely and transition to conventional lenders.
- *How:* Bills to either extend Community Advantage (for another five years) or make it permanent have consistently drawn bipartisan support in Congress. The SBA should also commission a study of the local economic impact of Community Advantage loans and lenders. And, the SBA should consider program enhancements based on small businesses' experience with Community Advantage lenders over the past decade.
- *Impact:* Whether Community Advantage is continuously extended or made permanent, additional resources for technical assistance and training will help enhance its impact. Notably, Community Advantage is more likely to expand access to credit for Black and Hispanic business owners and those seeking smaller amounts of money.

Workforce & Competitiveness

Key Takeaways

- Hiring and retention have consistently been cited by small businesses as their top challenges in seeking to escape the effects of the pandemic.
- Two-thirds of small business owners in the Goldman Sachs *10,000 Small Businesses Voices* national survey are currently hiring—yet almost 90% say it is difficult.
- Some reasons for that difficulty relate to the pandemic: rising costs and worker fears, for example. Yet small businesses also face a challenge that predates the pandemic: competing with larger businesses on pay and benefits.
- In the aggregate, employees at small businesses have less access to benefits such as retirement plans and paid leave.
- Small business owners recognize that providing these benefits would improve their ability to attract and retain qualified workers. Yet a number of barriers and disincentives limit their ability to offer them.
- Federal policymakers should consider a number of actions—many of which already enjoy bipartisan support—to help small businesses hire and retain employees. This includes:
 - Renew the employee retention credit for small businesses.
 - Remove regulatory barriers to help small businesses offer retirement plans and help their employees build emergency savings.
 - Improve mechanisms to better market the availability of paid leave tax credits.

Since mid-2021, in survey after survey, small businesses have cited hiring and retention as among their biggest challenges. From August 2021 through January 2022, at least 40% of small businesses in every weekly reading of the Small Business Pulse Survey said identifying and hiring new employees was their greatest need.¹⁸ Surveys by Goldman Sachs' *10,000 Small Business Voices*, MetLife and the U.S. Chamber of Commerce, and the National Federation of Independent Businesses have also found workforce to be a top challenge.

In the latest national survey by Goldman Sachs *10,000 Small Businesses Voices*, half of respondents said finding and retaining qualified employees was the most significant problem facing small business. Two-thirds (67%) of small businesses said they were actively hiring employees—yet 87% of those hiring said it was difficult to recruit qualified employees. What’s even more notable is that the negative impact of the workforce challenge has worsened. Among small businesses having difficulty hiring (87% in both September 2021 and January 2022), the share saying that hiring difficulty was affecting their bottom line rose by 17 points (to 97% in January 2022).¹⁹

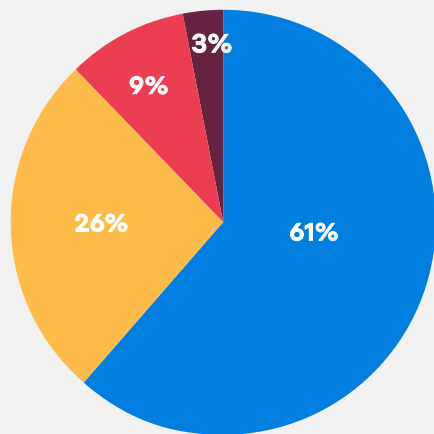
Why such difficulty? Macro trends have certainly played a role. Millions of Americans have left the labor force during the pandemic. Millions more are seeking new opportunities, whether through starting their own businesses or quitting a job and looking for a new one. In the last quarter of 2021, the “quit rate”—the share of American workers voluntarily leaving a job—hit all-time

highs.²⁰ The tight labor market has put upward pressure on wages. Signs abound in windows and at intersections announcing hiring bonuses, especially among larger firms. “How can we be competitive with big companies and their incentives?” asked one small business owner during a roundtable.

“Labor costs are really high,” said another small business owner, “and I cannot financially afford to compete with the starting salaries and benefit packages that big businesses can provide.”

The specific reasons that small businesses cite for hiring difficulties are revealing from a long-term perspective. In the *10,000 Small Businesses Voices* national survey, about two-thirds of small business owners say present trends are behind the difficulty: lack of qualified workers, limited labor supply/worker mobility, high labor costs. Most of all, small businesses say, “Competition with larger employers on pay and benefits” explain their hiring challenge.

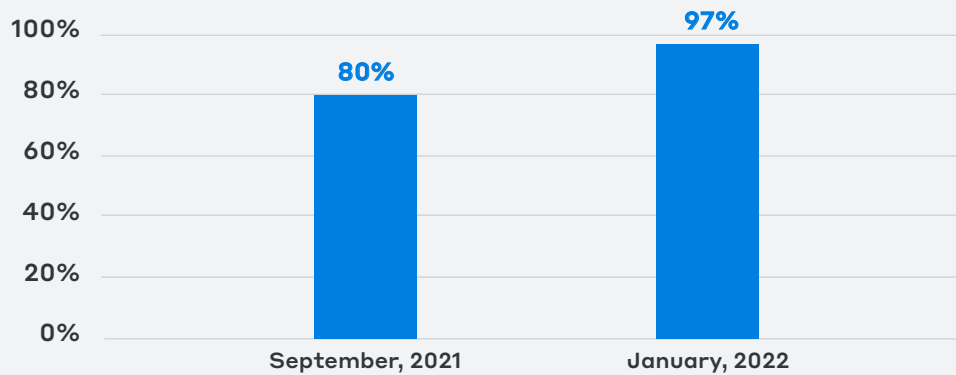
Figure 6. Nearly Ninety Percent of Small Businesses Face Difficulty Recruiting Qualified Employees



- Very difficult
- Somewhat difficult
- Only slightly difficult
- Not at all difficult

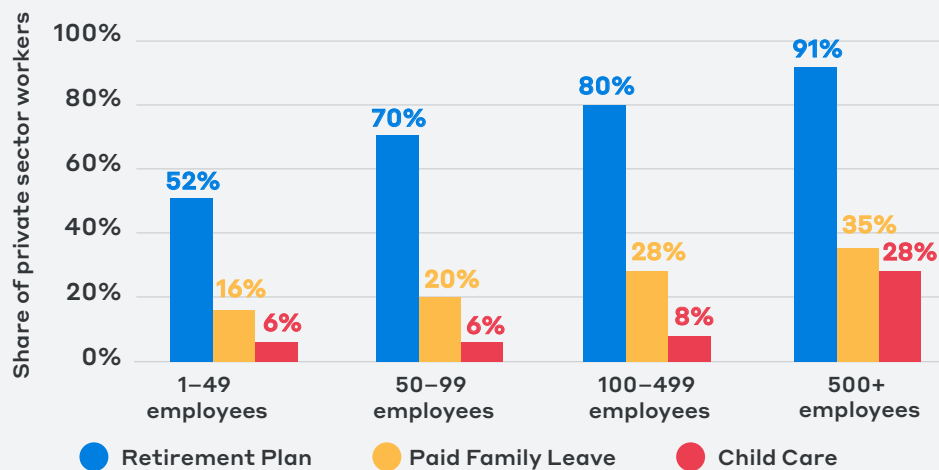
Source: Goldman Sachs *10,000 Small Businesses Voices* national survey. Results reflect responses among those small businesses hiring full-time or part-time employees.

Figure 7. More Small Businesses Say Difficulty Hiring Affects Bottom Lines



Source: Goldman Sachs, *10,000 Small Businesses Voices*, national survey. Results show, among small businesses having difficulty hiring, the share saying that difficulty has had a major or minor impact on their bottom line.

Figure 8. Employees at Smaller Companies Less Likely to Have Access to Certain Benefits

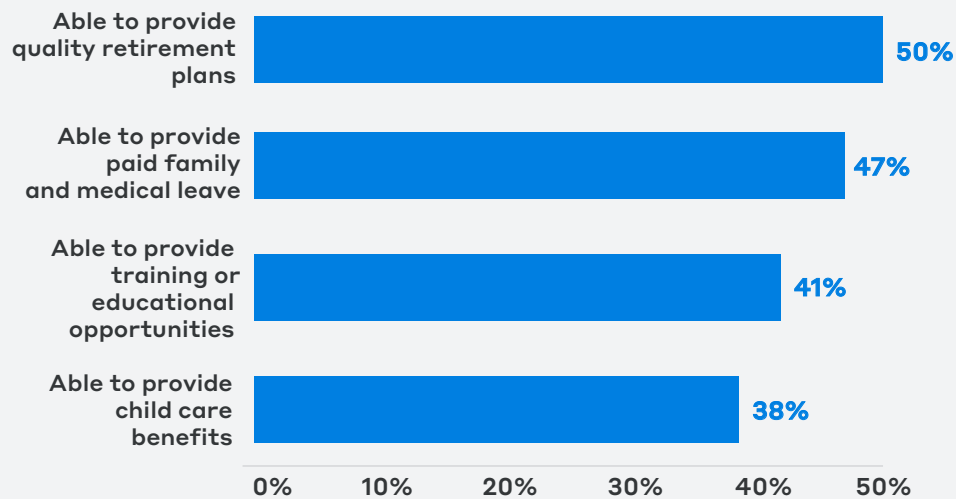


Source: Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States," September 2021. Employment size categories pertain to establishments.

Prior to COVID-19, small businesses also struggled to compete with larger companies on pay and benefits. On average, the largest U.S. companies pay higher wages and salaries than the smallest companies. The differential reflects many factors: line of business, workforce composition, market power, and so on. Small businesses acknowledge the unevenness but cite cost and complexity as barriers to offering benefits on par with larger companies. Two-thirds of respondents in the *10,000 Small Businesses Voices* national survey who

were having difficulty retaining employees said they “can’t afford to compete on benefits,” and 39% say they can’t afford to offer a retirement plan. Small businesses also realize that, to compete and survive and grow, they need to offer these types of benefits.

Figure 9. What Would Most Help Small Businesses Hire and Retain Employees?



Source: Goldman Sachs 10,000 Small Businesses Voices national survey, January 2022.

Many of them, however, need help to offer such benefits. With retirement plans, for example, small business owners cite compliance costs: “setting them up and administering them is very expensive,” and the “risks to getting calculations wrong are very significant.” Some small business owners are simply unaware of what benefits, such as tax credits, might be available to them. Small business owners we spoke to said they were seeing more of their peers offer paid family leave, but others said they had never heard of tax credits that would help them do so.

While cost and complexity appear to be the biggest hurdles for small businesses in offering retirement plans or child care support (see below for more on child care), there is a different type of challenge for paid leave. For small companies, it is often “unbelievably disruptive” to have an employee out for a few months. “Small businesses don’t take advantage of certain paid leave credits; not because they don’t want to, but because they can’t afford to have an employee be out for 12 weeks,” said one small business owner.

This reflects the inherent challenges of running a small business. Small business owners, according to surveys and discussions, want to provide benefits for their employees. They recognize the competitive advantage such benefits bring. Beyond the bottom line, small business owners have “a strong sense of duty to their workers” and “view their employees as ‘family.’”²¹

Small business owners are also trying to balance retention and culture with the realities of running a business. The cost of offering paid family leave in terms of business disruption may, unfortunately, outweigh the organizational benefit of offering it. Public policies that seek to expand access to retirement plans, paid leave, and more at small businesses must address these realities and the circumstances of small businesses.

POLICY LANDSCAPE

In the years leading up to the pandemic, federal policymakers sought different ways to support small businesses in offering employee benefits. The 2017 Tax Cut and Jobs Act (TCJA) created, as a two-year pilot, the Paid Family and Medical Leave tax credit. Prior to the TCJA, the credit had been proposed in the bipartisan Strong Families Act. The credit, which in 2021 was extended through 2025, offers employers 12.5-25% of the cost of paid family leave benefits if they pay at least half of an employee's wages during leave for at least two and up to 12 weeks. It is only available for workers employed at least one year and making less than \$78,000 per year.

It is difficult to ascertain take-up of the credit among small businesses. Some small business owners we spoke to were unaware of this credit. Prior to the 2021 extension, the credit was only renewed one year at a time. Some small business owners likely saw little benefit in taking advantage of a credit that might not last. The extension, along with greater awareness, could increase adoption.

In March 2020, as a first response to the pandemic, Congress passed the Families First Coronavirus Response Act (FFCRA). Among other things, the bill required all employers with fewer than 500 employees to offer paid leave, providing a fully refundable tax credit to do so.^c There was an exemption for businesses with fewer than 50 employees. After periodic extensions, the FFCRA paid leave provision expired at the end of September 2021; from March 2021, FFCRA paid leave had been voluntary rather than mandatory.

Utilization of the FFCRA credit by employers was low. The Government Accountability Office (GAO) estimated that only about 4% of employers claimed it in 2020.²² Later analysis found that, through the first quarter of 2021, just \$6.7 billion of the tax credit had been claimed, compared with initial estimates of over \$100 billion.²³ Low take-up was due in part to the FFCRA credit's interaction with other forms of assistance. Small businesses could not claim the FFCRA for wages paid with a PPP loan. Both PPP and expanded unemployment assistance provided "more generous support" for businesses and workers, respectively.²⁴ Awareness among employers was also low because other programs, such as PPP, were marketed more aggressively.²⁵ For those

^c The requirement was to provide paid leave for reasons relating to COVID-19, as well as for employees without adequate child care due to the pandemic.

small businesses that did take advantage of the FFCRA credit, advocates cited administrative complications and processing delays in claiming it.²⁶

Several states offer paid leave programs, some of which have existed for many years. Evaluations of California's paid leave program have found that employers reported little negative impact of the policy.²⁷ In New York, small businesses found it easier to manage employee absences thanks to the state paid leave policy.²⁸ Support for paid leave programs increased among small employers during COVID-19—perhaps, not surprisingly, since small businesses' struggle to manage employee absences persisted for months.²⁹

To expand access to retirement plans, Congress in 2019 overwhelmingly passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The legislation boosted the three-year tax credit for employers starting a retirement plan and added a tax credit for those plans that include automatic enrollment. Significantly for small businesses, the SECURE Act permitted them to pool together in Multiple Employer Plans (MEPs) to gain economies of scale in the cost of administering retirement benefits. Bipartisan bills currently in the House and Senate would build on the automatic enrollment and MEP features of the SECURE Act.^d The new bills would also allow employers to apply their employees' student loan payments toward retirement plan matches, thereby increasing plan participation.

Another idea that's been proposed and attracted bipartisan interest in Congress would create a new option, modeled on the Thrift Savings Plan (TSP) available to federal employees.³⁰ With automatic enrollment, simple plan options, matching contributions, and low fees, the TSP-modeled idea would be broadly available, designed to provide additional support to low-income workers, and likely help many small businesses offer a retirement benefit. According to Goldman Sachs' *10,000 Small Businesses Voices* national survey, 77% of respondent small business owners who support such a program said this type of program would make it easier for them to attract and retain employees.

State governments have also explored ways to assist small business owners with expanding access to workplace retirement plans. Secure Choice programs are state-facilitated savings plans that require employers above a certain size to provide workers with the opportunity to save for retirement. Employers can sign up for the state plan or comply by adopting a private-sector alternative such as a 401(k). These programs take the form of an auto-IRA, in which businesses sign up and automatically enroll their employees, who can opt out at any time. California, Illinois, and Oregon were the first states to establish them. More states have enacted legislation in recent years. Currently, more than 400,000

d In the House, the Securing a Strong Retirement Act and the Retirement Improvement and Savings Enhancement Act; in the Senate, the Retirement Security and Savings Act and the Improving Access to Retirement Savings Act. The Bipartisan Policy Center has expressed support for all these bills while highlighting room for improvement.

workers nationwide have such accounts. This is projected to increase as more states formally adopt these programs.³¹

In addition to the FFCRA paid leave tax credit, during the pandemic, Congress also created the Employee Retention Credit (ERC). Like PPP, the ERC was intended to help employers keep employees on the payroll. For some small businesses, the ERC was a boon: “I truly loved the ERC,” one small business owner said. “That was a life saver,” said another. Overall utilization of the ERC among small businesses, however, was low. By July 2021, just 3% had taken advantage of it—and the Census Bureau stopped asking about it in subsequent Small Business Pulse Surveys.³²

Low take-up can partially be explained by restrictions, similar to the FFCRA paid leave credit. Until early 2021, employers could not take advantage of both the ERC and PPP. Most small businesses opted for the latter because of PPP’s rapid access to funds. Congress subsequently removed that restriction and allowed retroactive claiming of the ERC for 2020, though without permitting the ERC to offset payroll covered with a PPP loan. But then, the bipartisan Infrastructure Investment and Jobs Act accelerated the expiration of the ERC from the end of 2021 to September 2021. This created yet another layer of administrative complexity as well as uncertainty for small businesses that had already received advanced payment or planned to claim the ERC for the fourth quarter of 2021. Persistent “program changes and delays in IRS guidance,” along with complexities in determining qualifications and exclusions, help explain why few small businesses used the ERC.³³

Two bipartisan bills, one in each chamber of Congress, have been introduced to amend that accelerated expiration. The Employee Retention Tax Credit Reinstatement Act would permit claiming of the credit through the fourth quarter of 2021.

Congress has also sought to help small businesses in hiring qualified employees. The bipartisan Supporting Small Business and Career and Technical Education Act, for example, would charge Small Business Development Centers (SBDCs) with helping small businesses hire graduates from technical education programs. The need for additional help with education and training for new or existing employees is consistently highlighted by small business owners in discussions. Overall, 88% of small businesses in the *10,000 Small Businesses Voices* national survey say they support action by government to help them address workforce challenges. Hiring and retention challenges are major obstacles for small businesses across the country.

Small business owners want to do more to support their employees – and realize they need to offer more benefits to compete, survive and grow – but existing policy programs and incentives often have low-take up because they aren’t always designed with the realities of small businesses in mind. Such programs and incentives are intended to address significant small business challenges, so should be enhanced and revitalized rather than abandoned.

PRINCIPLES

In developing policies to respond to that need, policymakers should keep three principles in mind:

- Policies should be flexible and administratively simple.
- Hiring incentives and support for employee retention should be equally prioritized.
- Policies that help deliver immediate or periodic support are more helpful than those that take time to be realized.

POLICY OPTIONS

Renew the employee retention credit or create a similar incentive for small businesses.

- *Insight:* The issue, said one small business owner, “is really retention. Small businesses can’t throw money at people.” Another small business owner pointed to the relative value of policy support for retention versus hiring: “We want to reward the people who’ve stuck around. We’re constantly trying to ensure we’re incentivizing them, making them happy.” Especially in the present labor market, small businesses need help keeping employees on board.
- *How:* The employee retention credit (ERC) was created as part of the federal government’s initial response to COVID-19. A refundable credit available to help cover wages paid to employees, the ERC was well-designed and popular among small business advocates and those companies that used it. In creating a new one, Congress should ensure that the claiming process is as simple as possible, and that the IRS has the capacity to issue guidance and prompt payments.
- *Impact:* A tight labor market will likely continue to characterize the U.S. economy for the foreseeable future. Turnover is more disruptive for small business than for larger companies, and many are already using different tools to retain workers. Offering support for small businesses’ efforts to retain employees will help both employers and employees.

Increase awareness of paid leave options for small businesses and collect more data on effects.

- *Insight:* Over three-quarters (77%) of small businesses in the *10,000 Small Businesses Voices* national survey support partial subsidization by the government for paid family leave at small businesses. Many have found it difficult to take advantage of existing public support. This is due both to low awareness of what options exist and competing public programs that diminished the utility of the paid leave credit.

- **How:** The SBA should increase its marketing and promotion of the Paid Family and Medical Leave tax credit among small businesses. Together with the Treasury Department, the SBA should also undertake research on usage of paid leave among small businesses and its effects for employers and workers.
- **Impact:** Enhanced awareness among small businesses should improve take-up of existing paid leave provisions. Better understanding of the utilization and effectiveness of those options—of both the federal credit and state programs—will improve the ability of the government to support small businesses. One challenge, as noted above, is that while many small businesses want to provide paid leave, they struggle with how to deal with the consequences of having an employee out for several weeks. Many incur costs in hiring a temporary employee during the leave period—or end up dealing with “declining services and growth opportunities,” said one. Better data will allow policymakers to consider additional, targeted ways to help small businesses offer leave and minimize disruptions.

Support the ability of small businesses to offer retirement plans and leverage student debt repayments for retirement contributions.

- **Insight:** Forty-one percent of respondents in the *10,000 Small Businesses Voices* national survey say they do not currently offer a retirement plan because it is too expensive. Another 6% say it is too administratively burdensome. Most small businesses recognize that the ability to offer a retirement plan would improve their employee retention capabilities. To do so, they seek help with plan administration, flexibility, and support for matching contributions.
- **How:** The bipartisan bills in the House and Senate serving as successors to the 2019 SECURE Act contain several important provisions that would benefit small businesses and their employees:
 - Increasing tax credits to help young, small businesses establish retirement plans using best practices.
 - Providing more flexibility for small businesses that want to establish a retirement plan but cannot afford to make contributions on their employees’ behalf.^e
 - Permitting tax-exempt organizations to join MEPs and benefit from their economies of scale.

^e The bipartisan Retirement Security Flexibility Act, initially introduced in 2018 and reintroduced in 2021, would ease requirements for small employers that wish to take advantage of an automatic enrollment safe harbor. By providing small businesses with additional legal flexibility to opt out of IRS-mandated “non-discrimination” testing requirements, the provision would make it possible for more small businesses to establish retirement plans for their employees using industry best practices (e.g., auto features) at an affordable cost. BPC has endorsed this bill.

- Implementing a new tax credit to help small businesses expand retirement plan eligibility for military spouses.
- Establishing a grace period for employers to correct honest mistakes related to automatic enrollment.
- Eliminating unnecessary notification requirements for employers sponsoring retirement plans.
- **Impact:** The biggest gap in employer retirement plans is among the smallest businesses, with only half of American workers at these firms having access to one. Of those small businesses, in the *10,000 Small Businesses Voices* national survey that offer retirement benefits, 88% either make automatic or matching contributions. Continuing to fill gaps—while maintaining flexibility for small employers—will help increase equity and inclusion, shore up retirement savings for employees, and help small businesses stay competitive.

Permit employers to automatically enroll workers in short-term, emergency savings accounts.

- **Insight:** Many Americans lack the savings to respond to unplanned expenses. As a result, they often prematurely dip into retirement funds or turn to high-cost forms of credit (such as payday loans) to cover such expenses. Having emergency savings can help—and employers have a vested interest in improving their workers’ financial resilience. As a workplace benefit, an emergency savings plan allows employees to select a portion of each paycheck to be deposited into an emergency account, similar to a 401(k) election. Employees can access the funds quickly and penalty-free at any time. These accounts can either be connected to the retirement plan or standalone savings accounts with a financial institution.
- **How:** Certain laws and regulations at the state and federal levels currently hamper adoption of these plans. State wage garnishment and Know Your Customer (KYC) banking laws make it unclear whether businesses can automatically enroll employees in emergency savings accounts. The Employee Retirement Income Security Act of 1974 (ERISA), which governs most retirement plans offered by private employers, simply wasn’t designed to keep up with industry evolution, including emergency savings accounts.
- Congress, together with federal agencies, should work to clarify rules around emergency savings plans using automatic enrollment to allow more employers, especially small businesses, to offer them as a benefit.^f

^f The bipartisan Strengthening Financial Security Through Short-Term Savings Accounts Act, initially introduced in 2018 and reintroduced in 2021, would facilitate access to this type of workplace savings plan. By clarifying rules around ERISA, state wage garnishment laws, KYC requirements, and default investments, the legislation would provide employers with flexibility to automatically enroll employees into either a standalone product through a financial institution or an account within their 401(k)-type plan. Employees would have the ability to opt out or withdraw funds at any time. BPC has endorsed this bill.

- *Impact:* The strength of automaticity in workplace retirement plan enrollment has been shown to dramatically increase participation. That same impact can be replicated to support small business owners in helping their workers save for short-term emergencies. Three-quarters of workers, in a 2018 survey, said they would likely enroll in such a program.³⁴

Subsidize the costs of workforce-related training and certification for small business owners.

- *Insight:* Many small businesses employ workers who are required to be licensed or certified in a specific trade or skill. In many cases, the requisite license or certification is mandated by government and, in other cases, by private industry bodies. Small business owners expressed support for help with the “out-of-pocket costs for meeting state and industry certification requirements.” Additionally, while existing programs such as the Department of Labor’s apprenticeship program help employers with apprenticeships, they are often geared toward larger employers.
- *How:* Full or partial reimbursement could be provided to small businesses under a certain size threshold, say 100 employees, for:
 - Costs incurred in meeting licensing and certification requirements.
 - Training and education costs incurred by students attending a community college or technical education program who are subsequently hired by a small business.
- *Impact:* For this type of support, small businesses expressed a preference for reimbursement versus a tax credit. Many small businesses already tap local training and education programs for new hires, but often find themselves at a disadvantage relative to larger employers.

Create a clear and concise resource guide for small businesses to navigate the tax credits available to them for workplace benefits.

- *Insight:* “There needs to be better communication of what tax credits are out there,” one small business owner commented at a roundtable to general assent. “They should put something on the back of EIN issuances: ‘here are all the tax credits available to you.’” Advocacy groups and trade associations offer guides and resource pages to help small business figure out what’s available and how they can access them. Yet many small businesses struggle to find such resources. Interpretation and navigation of these resources still requires an understanding of what to look for. Making sense of IRS guidance requires additional knowledge and skill.
- *How:* The SBA, together with the IRS, should create a basic one-page overview of existing tax credits and policy incentives for small businesses as a starting point for determining eligibility and ease of use. Distributing it with EINs could be highly effective.

- *Impact*: Many policymakers express consistent surprise that the benefits they create for small businesses have low utilization. Awareness is also required, as is certainty that a particular benefit won't expire soon after a small business spends time and money taking advantage of it. A simple resource guide should help economize the time of employers and ensure that public policy benefits help those they are intended to reach.

Procurement/Government Contracting

Key Takeaways

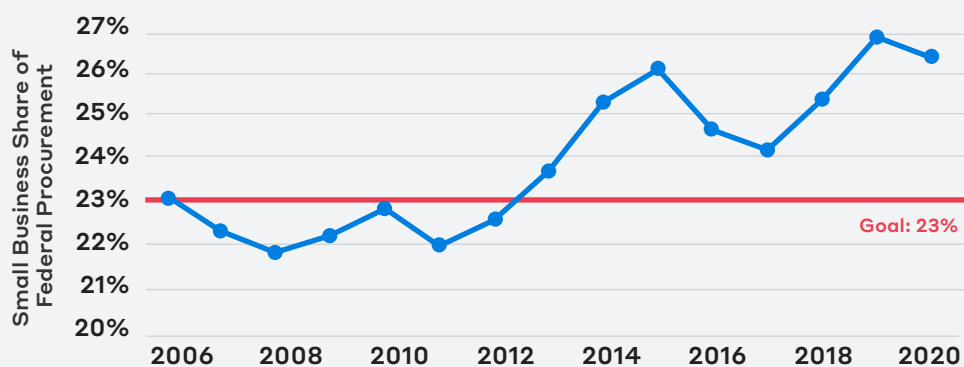
- The federal government spends hundreds of billions of dollars each year on goods and services from the private sector. Each year, tens of thousands of small businesses serve as contractors to the federal government. This creates important economic opportunities for small businesses. It also enables more resilient supply chains, job creation, and more diverse, competitive, and dynamic markets.
- Small business participation in federal procurement also helps advance national security by ensuring that the country's defense industrial base is robust and competitive.
- By law, 23% of annual prime contract dollars must be awarded to small businesses. For eight years in a row, the federal government has met that goal.
- Yet the 23% goal has been met with a shrinking base of small businesses: fewer small businesses overall, and fewer new entrants to procurement, have been seeking and winning federal contracts. From 2010 to 2019, the number of small businesses providing common products and services to the federal government shrank by 38%. Even more concerning, the number of new small business entrants into the federal procurement marketplace fell by 79% over that time period.
- Additionally, the federal government's record in meeting contracting goals for subcategories—including for disadvantaged small businesses and women-owned small businesses—has been mixed. The women-owned small business contracting goal, for instance, has been met just twice since it was established in 1994.
- These trends erode the industrial base, hurt competition, and diminish innovation.
- The Administration, federal agencies, and Congress have recently taken meaningful steps toward expanding small business participation in procurement. More remains to be done.

Key Takeaways *(continued)*

- To ensure that participation in federal procurement remains open to small businesses, and that our national security industrial base remains robust, federal policymakers should consider a number of actions:
 - Improve communications among small business contractors, contracting officers, and program offices.
 - Raise the simplified acquisition threshold.
 - Streamline and simplify procurement processes to promote a more inclusive system and encourage new entrants.
 - Fill gaps in data collection, allowing policymakers to better identify and target policy reforms.

The federal government is an enormous purchaser. Every year, it spends hundreds of billions of dollars buying goods and services, from software and technology to furniture and construction. A certain share of that annual procurement spending must be awarded to small businesses.³⁵ In FY2020, there was \$560 billion in federal procurement spending eligible for small businesses.^g

Figure 10. Federal Government Has Met Small Business Procurement Goal Eight Straight Years



Source: Small Business Administration.

^g Fiscal year 2020 is the most recent year for which this information is available. The SBA does not consider all federal contract awards to be “small business eligible.” Categories not deemed to be eligible include “those awarded to mandatory and directed sources ... contracts not covered by the FAR” (Federal Acquisition Regulation) and more. See footnote for citation.

According to the Small Business Procurement Scorecard, published annually by the SBA, small businesses received \$145.7 billion, or 26%, of the total in fiscal year 2020.³⁶ This was the eighth year in a row that, in the aggregate, the federal government surpassed its statutory goal of 23% for small business. The total amount awarded to small businesses was, said the SBA, “record breaking.”³⁷

Federal procurement is an enormous lever for helping support small businesses because of the sheer volume of government purchasing. Federal contracting is the biggest source of federal funds going into small businesses.³⁸ Reforms, however, are needed to ensure that small business participation in procurement remains robust.

Recently, the federal government made meaningful efforts to improve contracting opportunities for small businesses. Even so, when one small business owner said at a roundtable that, “something’s wrong, something’s broken in small business procurement,” other small business contractors concurred. But if the federal government is meeting its overall small business contracting goal, what do small business contractors think is amiss?

“Somethings broken in small business procurement.”

MERV CUTLER, Cutler Engineering & Technology Services (San Diego, CA)

As BPC has explored in prior work, there is “more than meets the eye” when looking at the headline small business federal procurement goal.³⁹ There is considerable nuance in terms of the number of small businesses participating as well as variation across federal agencies in meeting additional small business goals. The nuance and variation matter for what policy actions might be taken to open more opportunities for small businesses in contracting. If that is an agreed-upon goal—and it does enjoy strong bipartisan support—then achieving it will require smaller actions targeted at leverage points rather than a few sweeping changes.

In work published in 2021, drawing on data from the Federal Procurement Data System and analysis done by the Government Accountability Office (GAO) and Center for Strategic and International Studies (CSIS), BPC highlighted a “steady decline” in the number of small businesses contributing to the overall 23% federal procurement small business goal. From 2010 to 2019, the number of small businesses providing common products and services to the federal government shrank by 38%.⁴⁰ Even more alarming, the number of new small business entrants into the federal procurement marketplace fell by 79% over that time period. Fewer new small business entrants means a less inclusive procurement system. That is problematic for both small business owners and the federal government’s efforts to establish a diverse, robust procurement ecosystem.

17% decline in number of small business prime contractors used by federal agencies, FY16-FY20.

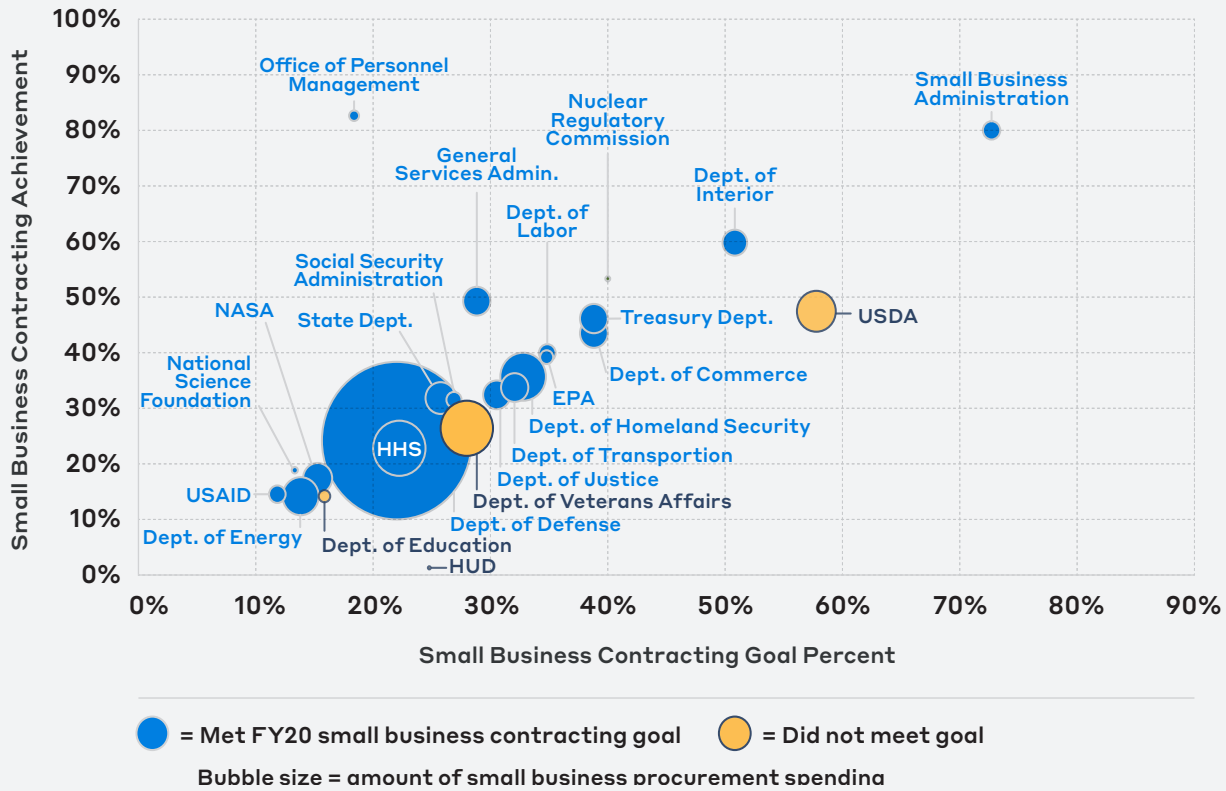
Nearly every federal agency has contributed to this narrowing base of small business contractors. From fiscal years 2016 through 2020, only two out of 24 federal government agencies increased the number of small businesses serving as prime contractors. At the other 22, the number of small businesses serving as prime contractors shrank. The bulk of that decline was driven by the Department of Defense, which accounts for well over half of small business contracting

dollars in any given year. Just four agencies—Defense, Veterans Affairs, Justice, and Interior—drove nearly two-thirds of the governmentwide drop in small business prime contractors. These agencies, particularly Defense and Veterans Affairs, have recently taken meaningful steps seeking to improve small business procurement processes. Creating a system that’s welcoming to new entrants remains a significant obstacle.

Overall, across all federal agencies, the number of small business prime contractors used fell by 17% between fiscal years 2016 and 2020. This decline occurred even as procurement dollars awarded to small businesses rose—by 32% overall and at 21 out of 24 agencies. There is wide variation in procurement spending across federal agencies, and each must attain a different share of small business spending. The small business goal in FY20 for the National Science Foundation, for example, was 13.5%, compared with 73% for the SBA.

Prime contractors lead a project and typically subcontract with other companies. Many small businesses serve as subcontractors on federal contracts, yet for many, prime contracts remain the ultimate objective. Small businesses that serve as prime contractors won’t be at the mercy of larger companies. Many small business contractors we spoke to also expressed frustration with their experience as subcontractors, saying they had “fewer rights” than as prime contractors and that there was “little accountability” for large company prime contractors. One frequent complaint was that small business subcontractors get financially “squeezed” by large company prime contractors. Not every small business in the procurement marketplace can be a prime contractor—but increasing the opportunities for small businesses to be prime contractors is an important objective. Quality resources designed to help small businesses transition from subcontractors to prime contractors can help with this.

Figure 11. Most Federal Agencies in FY20 Met Small Business Contracting Goals, Even Across Varying Levels of Procurement Spending



Source: Small Business Administration, 2021. DOT: Department of Transportation. GSA: General Services Administration. NSF: National Science Foundation. DoD: Department of Defense. VA: Department of Veterans Affairs. USDA: Department of Agriculture. HHS: Department of Health and Human Services. NRC: Nuclear Regulatory Commission. Comm.: Department of Commerce. DHS: Department of Homeland Security. Ed.: Department of Education. HUD: Department of Housing and Urban Development. DOE: Department of Energy. DOJ: Department of Justice. SSA: Social Security Administration. OPM: Office of Personnel Management.

Most agencies meet their small business contracting goal each year. As shown in the chart above, in FY20, just four agencies fell short. (In FY16, seven agencies failed to meet their goals.) Goal achievement is true even for those agencies—such as Defense, Health and Human Services, and Energy—that spend the most on procurement. Policy reforms that seek to increase overall small business participation in federal procurement must be tuned to this variation. Government-wide reforms (such as changes to category management; see below) are necessary but will need to be accompanied by agency-specific actions. Procurement Technical Assistance Centers (PTACs), for example, serve small businesses across every agency but fall entirely within the budget of the Defense Department.

Individual agencies play a crucial role in increasing small business procurement opportunities—the task cannot solely be the responsibility of one department or office. Many agencies have made meaningful improvements in supporting small business owners, but more reform is warranted.

In addition to overall small business procurement goals, each agency is expected to award a certain share of prime contracts to specific types of small businesses.^h These subcategory goals are:

- Small disadvantaged businesses (SDB): 5% of the total value of all small business eligible prime contract awards.ⁱ
- Women-owned small businesses (WOSB): 5% of the total value of all small business eligible prime contract awards.
- Service-disabled veteran-owned small businesses (SDVOSB): 3% of the total value of all small business eligible prime contract awards.
- HUB Zone small businesses (HUBZone): 3% of the total value of all small business eligible prime contract awards.

Just as federal agencies vary in whether they achieve their overall small business contracting goals, they also vary in meeting these sub-goals for specified types of small businesses.

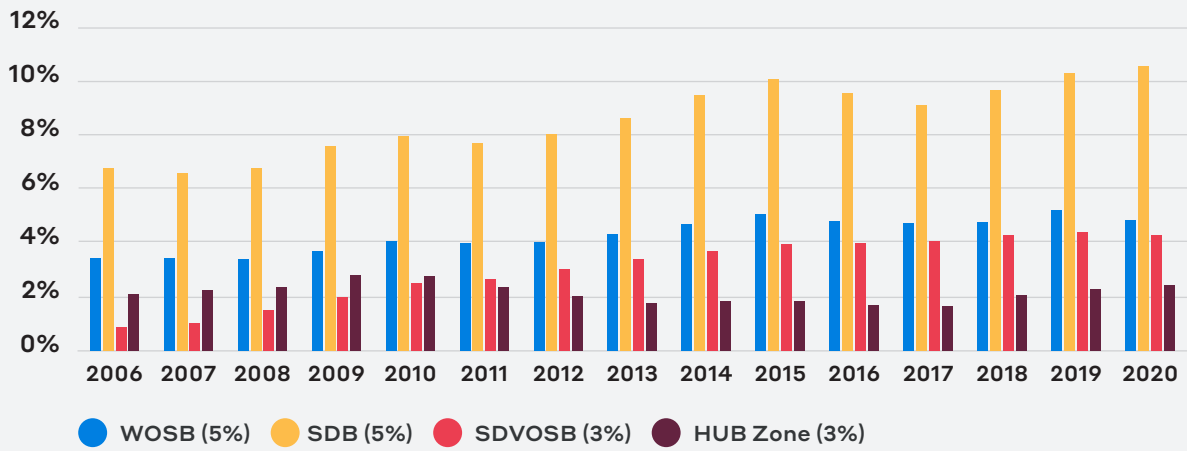
Federal agencies most consistently meet the small disadvantaged businesses goal, with nearly all of them achieving the five percent threshold in both FY2016 and FY2020. The share of agencies meeting the women-owned small businesses goal rose from 71% in FY16 to 79% in FY20. Fewer agencies, however, met the service-disabled veteran-owned small businesses goal.

As shown in the nearby table, the federal government's record in meeting small business procurement goals is mixed. The small disadvantaged businesses goal of 5% has been met for 12 years in a row. The women-owned small businesses goal, however, has been met just twice since it was established in 1994.

h The federal government must also meet sub-goals regarding subcontract awards. The discussion here is focused on prime contracts.

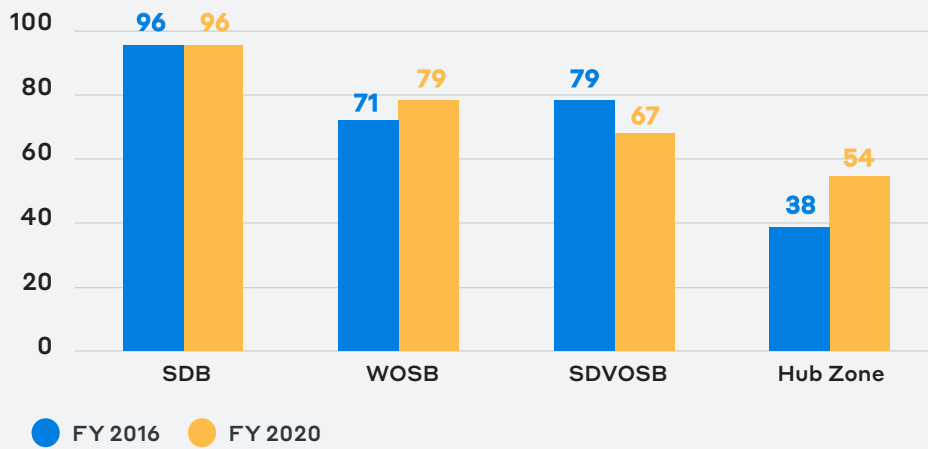
i The Biden Administration announced in December 2021 that the SDB goal would increase to 11%, effective for fiscal year 2022.

Figure 12. Federal Government Spends More with Small Disadvantaged Businesses, But Falls Short of Other Goals



Source: Small Business Administration.

Figure 13. Share of Federal Agencies Meeting Small Business Contracting Sub-Goals



Source: Small Business Administration.

Table 1. Federal Government Track Record in Meeting Small Business Prime Contract Goals

Fiscal Year	Overall: 23%	SDB: 5%	WOSB: 5%	SDVOSB: 3%	HUBZone: 3%
2020	✓	✓	✗	✓	✗
2019	✓	✓	✓	✓	✗
2018	✓	✓	✗	✓	✗
2017	✓	✓	✗	✓	✗
2016	✓	✓	✗	✓	✗
2015	✓	✓	✓	✓	✗
2014	✓	✓	✗	✓	✗
2013	✓	✓	✗	✓	✗
2012	✗	✓	✗	✓	✗
2011	✗	✓	✗	✗	✗
2010	✗	✓	✗	✗	✗
2009	✗	✓	✗	✗	✗
2008	✗	✗	✗	✗	✗
2007	✗	✗	✗	✗	✗
2006	✗	✗	✗	✗	✗

WOSB: women-owned small business; **SDB:** small, disadvantaged business; **SDVOSB:** service-disabled, veteran-owned small business; **HUBZone:** small business in historically underutilized business zone.

Source: Small Business Administration.

Procurement goals are important: they set targets and communicate priorities. The SBA's annual scorecard is an important monitoring tool, but there is no enforcement around goal achievement. Small business contractors often emphasize the need for greater accountability when goals are missed. "Procurement goals are just that: goals," said one small business contractor. "There is no accountability for any agency" when goals aren't met, they said.

Goals have upsides and downsides but, as small business owners and former agency officials told us, it is important to align them with the diversity of small business ownership. Women, for example, own about 20% of employer businesses in the United States—yet the women-owned small businesses goal has remained at five percent for over 20 years.

Agency performance against the subcategory goals is slightly complicated by double counting. If a small business falls into more than one subcategory and wins a federal contract, it is counted toward each subcategory goal. For example, a Black women-owned small business located in a HUBZone would count toward the SDB, WOSB, and HUBZone goals.^j In fiscal year 2020, \$27.1 billion in federal contracts was counted toward the WOSB goal. Without double counting, that total falls to \$26.4 billion. That difference may not appear to be large, but it is half a billion dollars in small business contracts. For small businesses that could be on the receiving end of those contracts, the difference is substantial.

Despite billions of dollars in small business procurement awards, and despite statutory goals for federal agencies, small business contractors sense that something isn't quite right. "We open up our life, our net worth to these people, and there's no accountability on the government side," one commented at a roundtable. Maybe "if the federal government prioritized small business," said another, "things might be different." Some accountability concerns may be tied to insufficient communication between the federal government and small business owners. This creates an opportunity for the government to more clearly communicate the tools the agencies have for meeting small business contracting goals.

Overall small business goals have been met with a shrinking base of participation. Some subcategory goals (such as the WOSB goal) are rarely met. Part of the problem has been the move toward more efficient purchasing in the federal government, called category management, which has shifted incentives for those in government responsible for spending and awarding contracts.⁴¹ "If you're a small business that a contracting officer isn't familiar with," said one small business contractor and former contracting officer, "that's the path of most resistance for them."

Procurement reforms that seek to expand small business participation must target leverage points. For years, for example, there have been calls to raise the subcategory goals. Doing so sends a signal of prioritization, but without enforcement the effects may be limited. Reforms must seek to create a "path of least resistance" for contracting officers and program offices (those that have budgetary authority). Quality control and robust processes must be maintained. But processes must also be streamlined, and incentives properly aligned, to ensure that contracting officers and program offices are open to actively engaging with new or less established small business contractors.

^j The contract with the small business is only counted once toward the overall federal small business procurement goal.

POLICY LANDSCAPE

In December 2021, the Biden administration announced a number of positive steps aimed at expanding small business participation in federal contracting.⁴² These included:

- *Increasing the small disadvantaged businesses goal from 5% to 11%—* federal procurement awards to SDBs have averaged 8.6% since 2006 and came close to 11% in FY19 and FY20. The administration also suggested there would soon be changes to the other subgoals (such as the women-owned small businesses goal). Its stated ambition is to raise the SDB goal to 15% by 2025.
- *Revised guidance from the Office of Management and Budget (OMB) on category management—* federal agencies will, for example, receive automatic “credit” under category management for awards “made to socioeconomic small businesses.” The SBA was also made a voting member of the interagency Category Management Leadership Council.
- *Management reforms to enhance government accountability—* achievement of the SDB, WOSB, SDVOSB, and HUBZone goals will be included in evaluation criteria for senior-level civil servants across agencies.
- *Establishing goals for new small business entrants into the procurement marketplace—* the administration directed agencies to create benchmarks for “inclusion of new entrants.”

These actions were premised on new analysis by the Council of Economic Advisers and SBA on the demographic distribution of federal procurement spending.⁴³ Although it is too early to discern meaningful effects of these actions, one small business contractor said that, thanks to the higher SDB goal, he had recently been receiving calls from Office of Small and Disadvantaged Business Utilization (OSDBU) representatives, whereas he “never got calls like this in the previous 10 to 15 years.” Agencies are seeking consultants who can help them “cast a wider net” to satisfy an 11% SDB goal and, potentially, higher WOSB, SDVOSB, and HUBZone goals.

The fiscal year 2022 National Defense Authorization Act (NDAA), passed by Congress in late 2021, included provisions concerning small business procurement. One section directs the Department of Defense to submit a report on the effects on small businesses of the Cybersecurity Maturity Model Certification (CMMC). This had bipartisan support in both the House and Senate and will benefit small businesses down the road. The CMMC seeks to ensure that defense contractors meet certain levels of cybersecurity and have adopted processes. Yet it has been cited as a hurdle by both small business owners and former agency officials: “it’s really expensive to become compliant,” one former agency official told us, and “can be limiting for small business participation.” Here, again, it is important to effectively balance establishing robust processes with building inclusive ones.

During congressional negotiations over the NDAA, several bipartisan amendments were adopted in the House that sought to increase small business participation in federal procurement. One would have raised sole source contracting thresholds for 8(a), HUBZone, service-disabled veteran-owned, and women-owned small businesses. Another would have exempted some small business awards from category management. These amendments failed to survive in the Senate, though many observers cited procedural barriers as the cause. Because they enjoy bipartisan support, such amendments are expected to be proposed again.

PRINCIPLES

Prior work from BPC, in partnership with the Goldman Sachs *10,000 Small Businesses Voices* program and small businesses, has emphasized that expanding small business participation in federal procurement aligns with national priorities. These priorities include competition and economic dynamism, resilient supply chains, job creation, inclusion, and an innovative and vibrant defense industrial base that is vital for national security.

These national priorities frame our recommendations here and are supported by two guiding principles that must be kept in mind for any policy actions aimed at expanding small business contracting.

- Small business contracting can be thought of as a triangle, with each side a stakeholder—and each stakeholder having a responsibility for making it work. The three sides of the triangle are: the small business, the contracting officer, and the program office with budgetary authority.
- Small businesses excel at many things. Navigating complex government processes is often not one of them, given significant constraints on their time and resources. They need assistance in increasing capacity to manage these processes. Small businesses have a huge amount to offer the federal government—the fact of needing some assistance should not be counted against them.

POLICY OPTIONS^k

Increase connectivity among the three sides of the small business procurement triangle.

- *Insight:* The COVID-19 pandemic has disrupted many of the ways that federal agencies interact with small business contractors, including Industry Days gatherings. Even prior to the pandemic, however, connectivity needed

^k Several of these recommendations were also included in BPC's June 2021 report on small business procurement.

improvement. “The biggest thing small businesses will run into is not knowing how to get in touch with the economic decider,” said one small business contractor. “You want to talk to the customer, the person with the need. You have to know: Do they buy what you sell?” In most cases, the contracting officer is executing against a budget and request from a program office. Small businesses need more opportunities to engage with not only contracting officers but also program offices.

- **How:** A new model of small business procurement implemented by the Air Force, AFWERX, offers a promising approach. Focused on agility and speed, AFWERX includes sessions for small businesses to connect with those in the service who will be using what the small business sells. The initiative “connect[s] operators closer to acquisition.” Other agencies should adopt a similar approach.
 - The SBA could also further strengthen connectivity by expanding its 7(j) Management and Technical Assistance Program, which helps small businesses compete for contracting opportunities as a prime or subcontractor.
- **Impact:** It’s difficult for any business to sell if they don’t have a good idea of customer need and how a potential customer might use a product or service. In federal procurement, small businesses are often separated by several degrees from the ultimate user of what they’re selling—and the user may not be the person or office with budgetary authority. Helping small businesses with the question posed by the contractor above—“do they buy what you sell?”—will get a boost from greater connectivity among all participants.

Improve training and technical assistance for contracting officers and small business contractors.

- **Insight:** Resources exist for small businesses looking to enter the procurement marketplace or who already engage in contracting. Many small businesses remain unaware of these resources, or how to access them, or how to navigate what’s there. There needs to be “more time spent helping small businesses connect dots,” one former procurement official told us. At the same time, as a small business contractor observed, small businesses “need to do their part as well,” in terms of being precise about what they need and seeking out corresponding resources.
- **How:** Coordination can be improved between Small Business Development Centers (SBDCs), Women’s Business Centers, the Office of Government Contracting at the SBA, the OSDBUs, and the PTACs. In some cases, one SBDC might excel in procurement while another doesn’t, or input from a PTAC could help improve what an SBDC offers.
 - One former contracting officer suggested that the SBA, working across these entities, create a simple, readily accessible resource for small

businesses so they can better direct their energies in using government resources. In a lot of cases, particularly for small businesses newer to contracting, he said, “that might just be telling them to go online and watch free videos about the basics of becoming a federal contractor.”

- For small businesses with more experience in federal procurement, more detailed technical assistance about effectively targeting potential opportunities would be more beneficial. As the same former contracting officer said, clarity on which agencies to target is important: otherwise, “you can easily get sucked into a vortex of regulations that don’t apply to you.”
- Training programs for contracting officers would be improved by incorporating more content on the experience of small businesses seeking to win contracts. This could help create a better understanding of the challenges and obstacles small business owners face related to procurement. Contracting officers are well-informed about what they need to do to buy products and services. But there is, according to small business contractors, insufficient understanding of the challenges on the sales side. As one small business contractor said at a roundtable, “There is a knowledge gap at agencies. They don’t understand small business needs.”
- *Impact:* Technical assistance resources often go to waste if the intended recipients don’t know how to use them or, as is the case for many small businesses, aren’t aware of them or aren’t sure which resources will be most beneficial. Resources can be better optimized if government agencies improve coordination and if additional guidance is given to small businesses about what resources to use and when.

Raise the simplified acquisition threshold.

- *Insight:* The simplified acquisition threshold (SAT) is currently set at \$250,000. This means that, below this amount, contracts are generally reserved for small businesses (including the specific small business subcategories of SDB, WOSB, SDVOSB, and HUBZone). Under the SAT, their award is also subject to fewer procedural requirements. Raising the SAT would widen the scope of procurement opportunities for many small businesses.
- *How:* While Congress could include this in legislation, changes to the threshold can also be done through the Federal Acquisition Regulation.
- *Impact:* Many existing small business contractors seek larger contracts. Raising the threshold would be an important step for expanding the pipeline of new small business entrants into procurement and for awarding contracts in the SDB, WOSB, SDVOSB, and HUBZone subcategories.

Lower specific bonding thresholds or strengthen the SBA's Surety Bond Guarantee Program.

- *Insight:* Small business contractors that work with the federal government are generally required to obtain surety bonds. These guarantee performance and payment in the event of default. In many cases, small businesses may not have the experience or financial track record to obtain such bonds commercially. The SBA's Surety Bond Guarantee Program helps small businesses with such bonds and, thus, access to federal contracts.
- *How:* Specific bonding thresholds should be lowered. Additionally, the SBA could strengthen its guarantee program.
- *Impact:* Enhancing access to surety bonds would help more small businesses seek and obtain federal contracts.

Enforce prompt pay for small business contractors across agencies.

- *Insight:* The federal government is already legally committed to paying contractors within 30 days of invoice. Some small business contractors reported no issues in payment timing. Others, however, said “no one enforces” prompt pay and it “causes a lot of hardship.” There is evidently variability across agencies in the speed of payment. Prompt pay is often a greater challenge for small business subcontractors, who are paid by the prime contractor rather than directly by the government. Small business subcontractors, like prime contractors, have bills to pay and payroll to meet. There are, however, fewer prompt payment protections. As one small business owner said in a roundtable, “with tiered subcontractor work, we’re already getting paid 90 days later when working as third tier.”
- *How:* The Office of Federal Procurement Policy should look into deviations from prompt pay and determine how every agency can comply. The federal government should also encourage prime contractors to promptly pay small business subcontractors. Better information and data related to small business subcontracting would also help—see discussion below.
- *Impact:* Many small businesses operate on tight margins without much free cash flow. Delayed payment “causes problems in payment, payroll, and planning,” one small business contractor pointed out. Enforcing prompt pay would relieve the burden for many.

Increase the number of procurement center representatives who support small businesses.

- *Insight:* Procurement center representatives (PCRs) are dedicated to helping small businesses acquire federal contracts and working with agencies to ensure sufficiency of small business set-asides and other opportunities. They help enhance small business procurement accountability. Yet there “just aren’t enough of them,” one former agency official said.

- *How*: More PCRs should be hired, which would require either additional spending or budget reallocation. PCRs should also have access to data on small business success rates when pursuing contracts so they can help small business owners better understand the practicalities of contracting opportunities as well as support greater inclusion. According to one small business owner, “We need more data on when and how often minority-owned businesses are getting contracts.”
- *Impact*: Small business contractors frequently voice complaints about the lack of accountability within government regarding procurement, and bemoan the lack of a champion. PCRs are intended to be those champions, but they can’t fulfill their function when they’re overstretched and don’t have the capacity to provide oversight. More PCRs and better publicly available data wouldn’t solve everything, but it will strengthen an existing mechanism by which small business interests are meant to be accounted for in federal contracting.

Expand small business awareness of and involvement in federal procurement councils so the small business perspective can be integrated into processes.

- *Insight*: Some small business contractors participate in federal councils on procurement. Yet many small business contractors we spoke to were either unaware of such opportunities or had no idea how to get involved. Small businesses are eager to share their perspective with government so their input can be incorporated into procurement reforms. As one small business owner said, “everyone will learn from having a small business at the table.”
- *How*: The SBA and Defense Department could form a new small business procurement council charged with specific tasks. For example, many small business contractors would like better feedback from contracting officers as to why they were turned down for a contracting opportunity. This joint council could focus on one area at a time, seek input from all stakeholders, and make recommendations for how, in this case, the feedback process might be improved.
- *Impact*: Small business contractors often complain that their relationship with the federal government is one-way: they provide reams of information about themselves, their businesses, and their proposed work, yet often receive little in return that would help them improve and grow. More dedicated vehicles to incorporate the small business voice would help assuage these concerns and improve the communications process.

Improve information collected in the Electronic Subcontracting Reporting System and Contractor Performance Assessment System.

- *Insight:* Many people we've spoken to describe the Contractor Performance Assessment Reporting System (CPARS) as robust regarding prime contractors. The breakdown for many small businesses is often not with the government but rather in the prime-subcontractor relationship. Small business subcontractors often describe poor treatment, slow payment, and financial "squeezing" as primes put pressure on subcontractors to fit the overall budget. The Electronic Subcontracting Reporting System (eSRS), which tracks data on subcontracting, is an important tool in that its purpose is to give subcontractors more of a voice, but it is need of improvement. The system was described by one former procurement official as "garbage in, garbage out."
- *How:* Improving data reporting and collection could be done through incentives, better reporting options for subcontractors, and greater accountability for failing to report accurately.
- *Impact:* Improving data collection should enhance transparency for all contracting processes but especially regarding the performance of prime contractors on their subcontracting plans and how they treat their subcontractors. Small business subcontractors play a crucial role in procurement not only because of their work on projects but also as the pipeline for future prime contractors.

Make improvements to the 8(a) small business contractor program.

- *Insight:* The 8(a) program is dedicated to assisting socioeconomically disadvantaged business owners with business development and growth through procurement preferences such as sole-source awards and technical assistance. The 8(a) program is hugely important to promoting an inclusive and dynamic procurement system. Even so, the "barriers to become certified are tremendous," one small business contractor said. That's for good reason, but "there's often not a lot of payoff in terms of contracts." Other small business owners observed that some contracting officers are either unfamiliar with the 8(a) program or reluctant to award contracts through it.
- *How:* Several changes, both legislative and regulatory, could improve the 8(a) program and help fulfill its intended purposes:
 - Simplify initial certification processes: socioeconomically disadvantaged businesses—the intended 8(a) beneficiaries—should not have to spend thousands of dollars on consultants and lawyers to get certified.
 - Shift annual renewal to every three years during the eligibility period—or require only an annual affidavit for renewal, rather than a complex recertification process.

- Allocate more resources for business opportunity specialists to assist 8(a) firms with business development.
- Increase sole-source thresholds for 8(a) awards—an NDAA amendment to this effect passed the House in 2021 with bipartisan support.
- Once a firm is 8(a)-certified, provide a period of training for how they can best take advantage of 8(a), before the nine-year eligibility clock starts ticking.
- Remove restrictions on mergers and acquisitions of 8(a) firms.
- *Impact:* The 8(a) program is a key entry point for many small business contractors. To fulfill its intended purpose of helping certain types of small businesses, additional reforms are needed. These steps will help contracting officers get more comfortable with 8(a) awards, reduce compliance burdens, and increase opportunity.

Child Care

Key Takeaways

- Over half of small business owners in the *10,000 Small Businesses Voices* national survey said they or their employees have faced child care challenges during the pandemic.
- “The rest of the world can’t get back to work without child care providers,” said one owner of a small child care business.
- COVID-19 underscored the essential nature of child care for most employers and employees—and the difficulties in ensuring that high quality care is accessible and affordable for all.
- For small child care providers, the pandemic also highlighted the deficiencies in the basic business model of child care. The cost of providing quality care exceeds what most parents and families can afford to pay—even with existing means of government support.
- Small business owners who want to help their employees with child care face a complex policy landscape that often doesn’t work for small businesses.
- Federal policymakers should consider ways to help small businesses support their employees’ child care needs while addressing the flaws in the child care business model. This includes:
 - Supporting small businesses in pooling together to expand employee access to child care.
 - Improving assistance for small child care providers to improve technology, operations, and management.
 - Enhancing tax credits designed to support child care so they work better for small businesses and their employees.

Child care is one of the most significant economic vulnerabilities highlighted by the pandemic. While schools shut down in many states, child care providers were urged to remain open, deemed critical in helping “essential workers”

stay on the job. Yet many child care providers had to operate at lower levels of capacity and saw many parents pull their children out for fear of virus exposure. The exodus of many workers from the labor force has been attributed, in part, to child care challenges for many parents. Over half (55%) of small business owners in the Goldman Sachs *10,000 Small Businesses Voices* national survey said they or their employees have dealt with child care challenges during the pandemic. Among business owners between the ages of 35 and 44, that share was 68%.

As one small business owner said in a roundtable, “COVID laid bare child care challenges.” We’ve learned the hard way that “America literally doesn’t work without” child care.⁴⁵

Child care presents a two-sided challenge among small businesses. First, many small businesses confront the challenge of finding affordable, quality child care for their employees and themselves. If an employee or small business owner can’t access child care, or can’t find care that meets their work schedule, work hours and productivity will be lost. This burdens the overall business—and the entire economy.

The mismatch between demand for child care (from working parents and their employers) and its supply creates a “child care gap.” That gap is large. Among families with children under the age of six and working parents, nearly a third lack access to formal child care facilities.⁴⁶ The child care gap takes an enormous economic toll. According to BPC analysis, the impact on businesses alone amounts to between \$20 and \$31 billion over 10 years.⁴⁷ (This is in addition to economic losses incurred by households, governments, and communities.)

Those losses occur through reduced hours, diminished productivity, and “continual pay and benefit losses associated with continuing to pay employees—via wages and benefits—when they are not working.”⁴⁸ With historically high levels of worker quits during the pandemic, child care challenges for working parents can create turnover and recruiting obstacles for small businesses, too.

Small businesses of all types are aware of their workers’ child care challenges and seek to support them in finding solutions. They know that helping expand access to high quality, affordable child care for their employees would improve their productivity, increase hours worked, and help retain workers. None of this is lost on small business owners. “I’ve had a desire to provide child care for years,” one small business owner told us. “For now, it doesn’t make any sense financially.”

**“America literally doesn’t
work without” child care ”**

**BPC, “Rethinking America’s Child
Care System”**

Nevertheless, employer provision of child care among small businesses is scarce. According to data from the Bureau of Labor Statistics, just 6% of workers in companies with fewer than 50 employees worked for firms that provide or sponsor child care.⁴⁹ At the largest companies, by contrast, the share is over one-quarter. The gap is not due to negligence on the part of small business owners—they see themselves “as being at a distinct disadvantage when it comes to offering family-friendly policies or benefits” relative to larger companies.⁵⁰

Some existing public policy incentives, such as tax credits for on-site child care facilities, are viable only for larger companies. Others, such as tax advantages for employees, have built-in disincentives for many workers. Still more policies have been plagued by too much uncertainty or lack of awareness to be utilized by small businesses. (More detail on existing policies and their effects is below.)

The second side of the small business child care challenge is for providers themselves, most of which are small businesses. Overall, 95% of child care providers in the United States are small businesses, providing care for the vast majority of children in care settings. They face difficulties with costs, operations, staffing, and more.

The core of the challenge is the current child care business model, which is dysfunctional and broken. It really isn't a “business model” at all, insofar as that term suggests something replicable, sustainable, and profitable. Achievable revenues simply don't meet necessary costs for most small business child care providers: “the very structure of their business—with revenues based on market demand and pricing, but costs driven by quality teaching standards and administrative requirements beyond the capacity of a small child care program—often dooms them to failure.”⁵¹

It simply costs more to provide high quality child care than most parents can afford to pay.⁵² Since providers can't charge parents enough to cover the actual costs of a child care business, they operate at razor-thin margins, often unable to pay their staff more than poverty-level wages. This problem puts enormous stress on small business child care providers as well as working parents and their small business employers. The “child care business is all about numbers,” one small business provider noted. For most, those numbers don't add up.

Consider this from the perspective of a small child care business. Staffing is your biggest expense, between 60 to 80% of total costs to run the business. You have very little room to maneuver around this because of government-mandated adult-to-child ratios. That's not a bad thing: we want adequate ratios so children are safe and cared for well. But it's labor-intensive, without much in terms of labor-saving options.⁵³ Occupancy, the cost of physical space for your business, is your next biggest expense.

With relatively fixed staffing needs, how do you ensure you can hire quality workers, particularly since they will need to meet minimum levels of state certification requirements? You could raise wages or offer benefits, but these

costs will need to be passed onto parents and families, most of whom cannot even afford existing tuition rates.

You could reduce staff hours, but that will leave many customers in the lurch, and they may leave for other providers. To offset that possibility, you could offer more flexible hours to meet the needs of parents with non-standard working hours. Yet this will increase your staffing costs.

If you're like many small child care providers, some share of your children will be attending through public subsidy programs, such as the Child Care & Development Block Grant (CCDBG). That complicates matters, as these programs "usually provide less per-child funding" than tuition: "the subsidy amounts [states] pay to providers are often already lower than the cost to provide child care."⁵⁴

To top it all off, the entire system of child care is beset with government inefficiencies and coordination gaps. The "multiple funding streams, eligibility systems, monitoring and oversight mechanisms, and reporting requirements all lead to bureaucratic inefficiencies."⁵⁵ This is unhelpful to small business providers: "differences in standards between the federal government, the state, and the city are difficult to navigate," observed one small child care provider.

Thus, most small child care businesses operate on very thin margins, with almost no room for flexibility or expense reduction. American child care "is the rare example of an almost entirely private market in which the service offered is too expensive for both consumers and the businesses that provide it."⁵⁶

And all this, astoundingly, was the situation that existed before the pandemic. COVID-19 has made everything more challenging and created massive uncertainty for small child care businesses. "We're trying to figure out how we adapt and what [the pandemic] means for the future," one small business provider said at a roundtable. "Will we need to operate differently in the winter from now on?" Overall, 80% of small business owners (and 85% of women small business owners) in the Goldman Sachs *10,000 Small Businesses Voices* national survey said they support action by Congress to increase access to affordable child care.

POLICY LANDSCAPE

The CCDBG is the primary way that the federal government seeks to support child care access and affordability for low-income working families. The program provides vouchers for parents to use at a program of their choice. Yet less than 20% of eligible families actually receive support, in part because of low funding.⁵⁷ And the CCDBG does not solve the operating challenges for small child care businesses: "the subsidy rates are often based on distorted market rates that do not reflect what it costs to provide child care."⁵⁸

Tax incentives are also available for both employers and employees to help support the cost of child care. The Employer-Provided Child Care Credit seeks to encourage businesses to provide child care for employees, whether directly (through on-site facilities) or in contracting with providers. The credit offers employers a tax credit up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures.⁵⁹ Take-up, especially among small businesses, is low. As noted above, fewer than 10% of employees at firms with fewer than 50 employees have access to child care support this way.

Under the Employer Exclusion for Child and Dependent Care Costs, employers can offer a Dependent Care Assistance Plan (DCAP), allowing employees to set aside \$5,000 (pretax) per year.¹ That money, operating similarly to a flexible spending account (FSA), can be used for child care, pre-K expenses, summer camp, and before- and after-school programs. In addition to the FSA option, employers can make direct payments to a child care provider (including on-site care) or reimburse employee child care expenses.⁶⁰ Those payments are excluded from employee income.

Small businesses are more likely to offer the DCAP benefit than provide or sponsor care directly. But take-up among small employers is still low. In 2021, only 24% of workers in firms with fewer than 100 employees had access to a DCAP FSA. For businesses with 100-499 employees, that share is 50%—and for the largest companies, 73% of employees have access.⁶¹

There are a few reasons small businesses might not take advantage of these types of offerings related to child care. In roundtable discussions, small business owners told us that these types of tax credits “don’t really work for us.” Part of that may be perception: “big companies can afford tax credits,” one small business owner said. As paradoxical as that may sound, to a certain extent it is true. The Employer-Provided Child Care Credit, for example, is capped at \$150,000, meaning employers would need to spend around \$430,000 to receive the full credit.⁶² Very few small businesses can afford to take advantage of the full credit. When a tax credit only covers a relatively small percentage of costs, it remains economically out of reach for small businesses that cannot afford the total outlay.

Small businesses might also be unaware of these types of credits. One business owner told us that many don’t know about all the available resources and supports, such as tax credits. “I was surprised at just how many small businesses have no idea these tax credits are available,” they said. Even if small business owners are aware of a tax credit they could use, they might not have the time to look into it, and bear the administrative burden of offering it.

¹ Under the American Rescue Plan, passed in March 2021, this was increased to \$10,500 for one year.

To offer DCAPs, for example, employers must have written plan documents, establish a process for verifying claims, and comply with other Internal Revenue Service rules. This may sound fairly simple, but it is often beyond the capacity of small businesses, especially the smallest, that do not have dedicated human resource functions or the time to navigate bureaucratic requirements. The laws and regulations “are hard to go through and interpret and understand,” a small business child care provider observed.

Small business owners may also recognize (or assume) that the benefits of, say, a DCAP FSA, may not outweigh the costs for their workers. “Employees don’t like putting aside money from their paychecks,” one small business owner observed. Indeed, these benefits may not help some employees much. If an employee contributes to a DCAP FSA, there is a dollar-for-dollar reduction in what can be applied toward the child and dependent care tax credit (CDCTC). Additionally, claiming the CDCTC requires a tax liability, so take-up among low-earning families is low.⁶³ Working parents at the lower end of the income spectrum are stuck between not being able to benefit from the CDCTC for child care costs and not making enough for a DCAP FSA to make financial sense.

Both Democrats and Republicans have proposed making these credits more generous. For instance, in the Democrats’ Build Back Better Act, the Employer-Provided Child Care Credit would rise to 50% for up to \$500,000 of child care facility costs. House Republicans proposed to also increase the credit to 50% and include contracting with off-site providers for back-up care. Under the Working Families Child Care Access Act, Republicans also proposed to triple the contribution limits for DCAP FSAs, remove the “use it or lose it” feature, and expand eligible expenses.

In May 2021, a bipartisan bill introduced in both the House and Senate would have granted eligibility to nonprofit child care providers for SBA lending support programs. The Small Business Child Care Investment Act attracted a number of co-sponsors in both chambers and from both sides of the aisle.^m Presently, nonprofit child care providers are eligible for the SBA’s Microloan program, but support through that program does not exceed \$50,000.⁶⁴ For-profit child care providers (which is most of them) don’t have an easier time raising external capital. Because they are generally quite small and often operate on thin margins, credit through traditional banks (including SBA-backed loans) is scarce. While several community development financial institutions (CDFIs) help support child care businesses, there are limits on their lending activities.⁶⁵

Another initiative, the Early Head Start-Child Care Partnerships (EHS-CCP) program, which began in 2014, is an important piece of the public policy landscape in child care. EHS-CCP created partnerships between Head Start

^m The Bipartisan Policy Center, through our (c)(4), BPC Action, offered support for the bill.

programs and child care providers—the latter agree to meet Head Start performance standards in exchange for funding and technical assistance. The program was intended to help close the resource gap for child care providers and “demonstrate that child care programs can improve the quality of the services they provided if they have the resources to do so.”⁶⁶ Analyses of EHS-CCP have found that it expands access to high quality care, supports training and credentialing for workers, and helps small child care businesses expand children’s access to services.⁶⁷

PRINCIPLES

Four principles must guide policy action to assist small business owners and employees with child care and help small business child care providers develop a functional business model.

- (1) The goal should be affordable, high quality child care for everyone: “The rest of the world can’t get back to work without child care providers,” as one child care small business owner said.
- (2) Competition and parental choice in delivery should be maintained.
- (3) Federal policy should encourage, and allow ample room for, local flexibility, adaptation, and innovation.
- (4) Policy change should target fixing the child care business model rather than just subsidizing the status quo or adding new layers that don’t alter the economics for providers, parents, and the government.

POLICY OPTIONS

Incentivize and support pooling among small businesses to contract with child care providers.

- *Insight:* It’s difficult for small businesses, on their own, to provide child care support to employees. Many small business owners told us that pooling would enhance their ability to do so. Whether through a co-op model or another arrangement, several small businesses could come together to contract with a child care provider.
- *How:* Three policy changes would help advance this:
 - The Internal Revenue Service could clarify that existing tax credits apply to shared service models.
 - Congress could make explicit that existing tax credits apply to these arrangements, and raise the employer credit to enhance take-up among small businesses.

- The SBA should accelerate implementation of provisions adopted by Congress in 2018, with bipartisan support, that would expand capital access for cooperatives.
- *Impact:* For small businesses forming the cooperative or pooling model, this would help them decrease and spread the costs of seeking and supporting care. Pooling would also provide child care providers greater certainty while still permitting flexibility. This “is a good model for providers because we can budget and plan based on the contract,” one small provider said at a roundtable. There is “lots of value there,” for child care providers, said another. Based on employer and employee needs, for example, slots could be split among small businesses based on parental need, allowing them greater flexibility and access to care without overburdening providers.

Create a tax write-off for small business contributions to improve child care infrastructure in their community.

- *Insight:* While staffing is the biggest cost for child care providers, finding and maintaining their facility is near the top of their headache list. Necessarily, they are required to keep their space safe and clean for children and meet state and local regulations. While some organizations do specialize in assisting child care providers with facilities, involving other small businesses—that is, those that are not child care providers—in a community could help fill gaps.
- *How:* Small businesses making such contributions (those that are not child care providers) could receive a tax benefit (similar to a charitable deduction) for contributing to the purchase, maintenance, or upgrade of a child care facility.
- *Impact:* While benefiting providers, this would also help increase the supply of quality child care in a given area.

Provide greater assistance to small businesses and small business child care providers in understanding what benefits are available.

- *Insight:* Many small businesses simply aren’t aware of what tax benefits exist to help support child care access, or they assume such benefits won’t make financial sense for them. This creates gaps for employers, providers, and parents. Low awareness can also vex policymakers who feel they’ve already created potential supports.
- *How:* The SBA should create a clearinghouse of resources for small businesses that highlights and explains what tax benefits are available to them. And the SBA should work with the Department of Health and Human Services (HHS) to ensure that the latter’s existing cost-benefit analyses on child care are usable and useful for small businesses seeking ways to support or sponsor child care.

- *Impact:* Greater awareness and understanding should help increase utilization of existing tax benefits. More assistance for small businesses and better data about the take-up and impact of child care benefits could also help inform policymakers about the barriers that small businesses face, creating greater insight into what additional changes might be made.

Improve technical assistance for child care small business owners and directors in management, operations, marketing, and technology.

- *Insight:* Those running small child care businesses are trained in child development, not management or operations. They often lag in adoption of technology, whether software tools or simply use of the internet to market. This reflects deficiencies in time and money, not sophistication or interest.
- *How:* More and more states are rolling out technical assistance for child care providers. There are also nationwide networks run through SBA, including Small Business Development Centers (SBDCs). SBA and HHS, together with states, should seek to ensure that child care businesses are a priority for outreach, resources, and curriculum.
- *Impact:* Better technical assistance will not solve the underlying challenge of the child care business model. But targeted assistance for providers, focused on the fundamentals of running and marketing their businesses, will help mitigate difficulties.

Enhance existing tax credits for small businesses to access and sponsor child care.

- *Insight:* In addition to the challenge of awareness, small businesses also face administrative difficulties in taking advantage of certain tax credits. In some cases, the cost is simply too high for them. One area of mismatch between supply and demand—that many working parents need child care during non-traditional hours—could be better targeted by tax credits.
- *How:* For existing tax credits, compliance and administrative requirements should be streamlined for employers under a certain size threshold. Additionally, a new tax credit could be created for child care providers that offer extended or flexible hours. This tax credit might be applied in quarterly payments, rather than annually, to help providers with the added cost of such care.
- *Impact:* Policymakers have long sought to help employers with child care for their employees. Addressing the barriers that contribute to low utilization should improve take-up by small business child care providers—especially if the tax benefits are tuned to supporting changes that better meet the needs of parents.

Decouple Dependent Care Assistance Plans and the Child and Dependent Care Tax Credit.

- *Insight:* The DCAP exclusion when claiming the CDCTC creates a disincentive for working parents to use the former. For parents employed by small businesses, this hurts their ability to pay for high quality child care.
- *How:* Decouple DCAP and the CDCTC for workers.
- *Impact:* Increasing use of the DCAP tax benefit should help more parents access and afford care. It will also make it more attractive to small businesses to offer it if they see that their employees will benefit from, for example, a DCAP flexible spending account.

Build on federal-state-local partnership model to encourage reduction of barriers such as zoning for small business child care providers.

- *Insight:* Currently, federal funding for child care operates mostly through HHS and in partnership with state governments that direct funding streams to local communities and programs. This model permits states to adapt federal money to regional circumstances. Yet there is considerable scope for better integration and coordination. Many providers, especially home-based businesses, for example, struggle with zoning regulations in getting started and operating. Other small child care businesses highlight the maze of processes, requirements, and inefficiencies they and parents must contend with.
- *How:* The federal government should do more to streamline processes and align eligibility requirements for programs as well as ensure programs are well-suited to small business child care providers. Federal agencies could also offer more support to states in improving the administration and governance of child care programs. Zoning, meanwhile, is mostly a local issue, with varying degrees of state involvement. Federal and state agencies, working together with local governments and small child care businesses, could identify the precise obstacles posed by zoning, and work toward ways they can be reduced.
- *Impact:* Small business child care providers express frustration at the challenge of navigating various program requirements and overlapping state, local, and federal laws. Zoning is one place to begin because of its salience for many providers. Identifying other areas where barriers can be reduced would help ease burdens for small businesses.

Establish automatic enrollment in streamlined income-driven repayment plans for student debt, which will assist most small business child care workers.

- *Insight:* Student loan debt is an issue for millions of Americans. For those running and working at small business child care facilities, student debt can be particularly burdensome. This is because there are minimum levels of certification and training, thus requiring those in child care to incur education costs. And, as noted, wages and profit margins in child care are extremely low, limiting repayment abilities. While payments on most student loans have been suspended during the pandemic, they are expected to resume in mid-2022.
- *How:* Income-driven repayment (IDR) plans tie monthly payments to a borrower's income. They already exist and are used by many Americans. Yet many of those who would most benefit from an IDR plan are unaware of them or unable to navigate complex enrollment processes. Automatic enrollment in streamlined, progressive plans would ensure that those most in need of assistance—including low-paid child care workers and business owners—would benefit.⁶⁸
- *Impact:* For many child care workers and small business owners, participation in IDR plans would lower, and potentially even eliminate, monthly payments. This could aid with recruitment and retention. IDR plans also make borrowers eligible for full forgiveness of any outstanding loan balance after 20 to 25 years. These plans would also help workers at other types of small businesses, not just child care providers.

Expand the use, support, and promotion of registered apprenticeships for the small business child care workforce.

- *Insight:* Small business child care providers consistently highlight the need for more resources for worker training. Pandemic closures and struggles have led to “a big exodus of our workers,” said one. Others point to the need for attracting more workers into the field, additional training for existing workers, and improving education to enhance the quality of care.
- *How:* Registered apprenticeships exist as a defined “career pathway” in federal and state workforce plans. There are several ways that Congress, federal agencies, and states can improve inclusion of child care in registered apprenticeship efforts.⁶⁹
 - Congress could fund start-up costs for states to develop child care apprenticeships.
 - Federal agencies could better promote registered apprenticeships in child care and include child care in existing assistance and funding.

- States could follow the lead of a handful that are already pioneering in this area and make child care apprenticeships an explicit focus of their workforce development programs.
- Upcoming reauthorization of the Workforce Innovation Opportunity Act (WIOA), originally adopted with bipartisan support, also offers a window for reforms.ⁿ
- *Impact:* Employees of small business child care providers would benefit from more dedicated resources that support their training and help them move through different certification and career stages. Small business child care providers would benefit from employing apprentices, providing input into what training is needed, and the higher quality workforce that would result.

Enhance the Early Head Start-Child Care Partnerships program.

- *Insight:* The Early Head Start-Child Care Partnership (EHS-CCP) program helps address many child care challenges such as the broken business model and the need for more training and technical assistance. Additional studies of its lessons—and work with small business child care providers—could shine more light on ways to address these challenges.
- *How:* Congress could permanently authorize EHS-CCP, which currently requires annual renewal. Alongside authorization, Congress could allocate more funding to EHS-CCP. The Department of Health and Human Services could also expand technical assistance for small business child care providers on management and operations issues.
- *Impact:* As more small business child care providers participate in EHS-CCP—and as more studies are done on lesson learned—the program’s impact will expand. EHS-CCP helps demonstrate that small business child care providers want to raise quality, improve training, and offer more services. The present business model of child care is a severe constraint on their ability to do that.

GENERAL POLICY OPTIONS

In addition to the issue-specific ideas above, we offer a handful of general ways that public policy can better support small businesses.

Reauthorize the Small Business Administration.

- *Insight:* The SBA requires periodic formal reauthorization by Congress. The agency will remain in place whether or not it is reauthorized.

ⁿ The Workforce Innovation Opportunity Act (WIOA), which passed in 2014, is the principal federal vehicle for supporting workforce development efforts around the country. It supports states in developing workforce development plans and partnerships with private institutions.

Reauthorization is an opportunity to modernize and enhance the work done by government agencies. For the SBA, reauthorization has not occurred in over two decades. This means the SBA's last reauthorization occurred prior to the introduction of the iPod—the very first iPod. Congress came very close to reauthorization in 2019, with wide bipartisan support. It ultimately failed because of small but contentious areas of disagreement. In the *10,000 Small Businesses Voices* January 2022 survey, 88% of small businesses expressed support for SBA reauthorization.

- **How:** There is general expectation that Congress will try again, perhaps in 2023. Small business policy has traditionally been bipartisan, even with some political disagreements over specific details. Asked which programs or services Congress should prioritize in the reauthorization of the SBA, *10,000 Small Businesses Voices* national survey respondents said:
 - New access to capital programs: 70%
 - Existing loan guarantee programs: 61%
 - Disaster assistance relief programs: 61%
 - Technical assistance and entrepreneurial development: 58%
 - Procurement/contracting assistance and support: 55%
- **Impact:** The SBA has been a crucial source of support for small business owners during the pandemic. Lack of reauthorization has never prevented the SBA from doing its job. Nonetheless, reauthorization will help the SBA adapt to a post-pandemic small business landscape and equip it with additional resources and new capabilities. Today's small businesses operate in a complex, fast-paced environment, as does the SBA. Reauthorization can help the agency stay aligned with those it is charged with supporting.

Establish a small business resource hotline, staffed by government.

- **Insight:** Many small businesses don't know where to turn when they have a question about a government resource, regulation, or process. Stories during the pandemic were filled with tales of hours-long waits on government assistance phone lines. In many cases, small businesses don't need an immediate answer to their question but rather guidance in terms of where they should go for help.
- **How:** The SBA already operates customer assistance lines. In many cases, use of those lines is most helpful if a small business owner already has experience with navigating the system. To complement those more specific resources, the SBA could establish a general resource hotline designed to point small business owners in the right direction when in need of information or a point of contact.

- *Impact:* In addition to helping small business owners access resources and guidance, a general hotline could increase awareness and use of existing government resources that may not otherwise be reaching their target audience.

Create virtual small business office hours, with experienced small businesses, to help with navigating challenges.

- *Insight:* Sometimes the best resource for a small business seeking assistance is another small business owner. In many cases, a peer small business owner with relevant experience or expertise is best positioned to help answer questions, navigate resources, and share guidance.
- *How:* Many small business owners would be more than happy to leverage their experience—whether with the SBA or an SBDC or another government office—to the benefit of other small businesses. They could indicate the specific issue or topic they would like to offer help with—for example, the 8(a) procurement program—and dedicate small amounts of time to working with other small business owners. Connections could then be made to government staff when necessary. Relatedly, the SBA could consider hiring small business owners in a more formal and time-intensive capacity to provide one-on-one or small-group technical assistance sessions for other small business owners on particular topics.
- *Impact:* We have heard consistently from small businesses, across all issue areas, that simply finding their way around potential programs, resources, and benefits can be a tall order. In peer-to-peer discussions, we witnessed small business owners offering each other insight and guidance on various programs. Establishing this more formally would complement existing offerings, economize government resources, and have enormous benefit.

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“We want to reward the people who’ve stuck around. We’re constantly trying to ensure we’re incentivizing them, making them happy.” – Khari Parker - Connie’s Chicken & Waffles (Baltimore, MD)

“The rest of the world can’t get back to work without child care providers,” – Maria Davalos - Baby Sitters’ Guild (New York, NY)

“Something’s broken in small business procurement,” – Merv Cutler - Cutler Engineering & Technology Services (San Diego, CA)

Cover photo - Haleema Shafeek - GOFS Commercial Interiors (Columbus, OH)

^o More information on the 10,000 Small Businesses Voices program can be found at: <https://www.goldmansachs.com/citizenship/10000-small-businesses/US/voices/>.

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