



Impact of a Republican Shutdown on the Small Business Community



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During a federal government shutdown, the Small Business Administration (SBA) ceases operating its core lending and investment programs. In addition, the federal government is unable to enter into new contracts, leaving many small businesses without access to the federal procurement marketplace. The bipartisan agreement that Elon Musk scuttled included \$2.2 billion in funding for the SBA disaster loan program. More than 20,000 applications for disaster victims were filed and are waiting for the funds to be released.

SBA's Investment Programs

SBA operates the Small Business Investment Company (SBIC) program which oversees more than three hundred private SBICs that deploy more than \$42 billion in critical equity and near-equity financing to thousands of small businesses around the country.¹ In just the last year SBICs have created or sustained more than 130,000 jobs, including more than 35,000 in underserved small businesses.² Financing to women-owned, minority-owned, and veteran-owned small businesses from the SBIC program have totaled nearly \$670 million, more than a twenty-five percent increase since February 2023.³ As a result of a government shutdown, SBICs will be unable to make new or follow-on investments in their portfolio companies because takedowns on leverage have to be processed and disbursed by the SBA, threatening the significant investments made the Biden-Harris Administration.

¹ U.S Small Business Administration. FY 2025 Congressional Budget Justification and FY 2023 Annual Performance Report. (Pg. 59).

² The White House. Readout of White House Convening to Announce New Small Businesses Investment Fund. (February 15, 2024); U.S Small Business Administration. FY 2025 Congressional Budget Justification and FY 2023 Annual Performance Report. (Pg. 59).

³ The White House. Readout of White House Convening to Announce New Small Businesses Investment Fund. (February 15, 2024).

SBA's Lending Programs

According to the SBA, a shutdown causes the agency to stop making 7(a) and 504 loans, which provide small businesses with debt financing for a wide range of purposes. These loans require agency action regarding loan approval, processing, and/or disbursement. The Small Business Committee projects that without personnel to provide these services, there will be a substantial impact to the small business sector:

- **7(a) loan program**: The 7(a) program is the flagship lending product offered by SBA. A shutdown reduces access to capital for small businesses by approximately \$100 million per day.⁴ Last year, the SBA approved more than 70,200 7(a) loans to small businesses.⁵ When SBA funding is not available, small firms seek financing from other lenders, some of whom charge interest rates more than 20%.⁶
- **Community Advantage program**: This program is designed to increase SBA backed lending to small businesses in underserved rural and urban communities. The Community Advantage (CA) program allows experienced mission-driven lenders to use 7(a) loans for loans up to \$350,000. There are 142 CA lenders operating across the country and demand for CA loans continues to grow. In 2023, the SBA approved 1,1117 CA loans making more than \$191 million in financing available to eligible businesses-- a 28 percent increase in CA ending from 2022. A shutdown will prevent SBA from processing these vital loans to businesses that create jobs and generate economic activity in underserved rural areas and urban centers.
- **504 loan program**: The 504 program helps small businesses acquire real estate and new equipment. A shutdown prevents the disbursement of approximately 115 loans per week, representing a weekly total of over \$128 million.⁷
- **Microloan program**: The microloan program predominately helps businesses in traditionally underserved areas access affordable capital and technical assistance. A shutdown prevents SBA from processing disbursements to intermediaries for loan-making and providing technical assistance.

⁴Projected estimate provided by the U.S. Small Business Administration to House Small Business Committee, Minority Staff. (December 19,204). On file with House Committee, Minority Staff. Available upon request.

⁵ U.S. Small Business Administration. 7(a) & 504 Lender Report. (Last Accessed on December 19, 2024). <https://careports.sba.gov/views/7a504LenderReport/LenderReport?%3Aembed=yes&%3Atoolbar=no>

⁶ Estimate provided by the U.S. Small Business Administration to House Small Business Committee, Minority Staff. (December 19,204). On file with House Committee, Minority Staff. Available upon request.

⁷ U.S. Small Business Administration. 7(a) & 504 Lender Report. (Last Accessed: December 19,2024). Available at: <https://careports.sba.gov/views/7a504LenderReport/LenderReport?%3Aembed=yes&%3Atoolbar=no>.

SBA's Disaster Loan Program

The SBA partners with a nationwide network of resource partners, business counselors, and nonprofits in coordination with the SBA field offices to prepare businesses for disasters and assist them with their recovery needs. Countless small businesses never reopen their doors following a disaster. The SBA provides short- and long-term assistance to aide communities and help impacted homeowners and small businesses rebuild.

Once again, 2024 saw significant damage due to multiple hurricanes and tropical storm across the Southeast and wildfires in the West. SBA estimates that more than 20,000 applications have been filed for disaster assistance, queued for more than \$1.48 billion in lending, including approximately 17,272 applications and \$1.19 billion in lending for Hurricanes Helene and Milton.⁸

The disaster supplemental includes \$2.2 billion for the SBA's Disaster Loan Program, including approximately \$613 million for administrative support and \$50 million for the Office of the Inspector General.⁹ Unfortunately, the SBA currently has no funding to facilitate its disaster loans, causing the backlog of processed loans to grow by the day and forcing disaster survivors to wait even longer for assistance.

Activity through 12/16/2024		
Approval Queue by Project State		
	Application Count	Loan Amount
Grand Total	20,802	1,475,587,299
FL	11,695	852,565,231
NC	2,338	172,400,600
TX	1,332	105,071,000
GA	1,847	96,135,625
SC	1,625	79,393,543
IL	513	25,487,600
TN	154	16,075,500
CA	87	13,806,500
LA	268	12,797,600
HI	38	11,717,600
IA	66	11,465,400
NM	61	9,225,500
MN	46	7,993,900
CT	77	6,710,300
VA	129	6,504,200
MD	114	5,979,900
VT	40	5,823,400
MI	65	5,516,500
WI	19	4,703,600
NY	47	4,701,700
All Others	241	21,512,100
Approval Queue by Loan Type		
	Application Count	Loan Amount
Grand Total	20,802	1,475,587,299
Home	13,653	977,116,600
Business	4,209	348,933,799
EIDL	2,940	149,536,900

⁸ Numbers provided by the U.S. Small Business Administration to House Small Business Committee Staff. (Provided on December 19, 2024). (Made available upon request).

⁹ H.R. __ Making further continuing appropriations for the fiscal year ending September 30, 2025, and for other purposes. Sponsor: Representative Tom Cole (OK), Chairman Appropriations Committee, U.S. House of Representatives. (December 17, 2024). (Pgs. 64-65).

SBA's Entrepreneurial Development Programs

Each year, more than one million entrepreneurs receive mentoring, training, and localized assistance through SBA's Resource Partner network. The network is comprised of Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), SCORE, and Veterans Business Outreach Centers (VBOCs), and offers services at every stage of business growth and development. The resource partners work closely with federal employees to provide needed programmatic information to small businesses. A government shutdown could cause uncertainty if government workers are furloughed and potentially delay reimbursements for vital services.

- **SBDCs** deliver professional business advice and training focused on strategic planning, business development, financial planning, and cash flow management to hundreds of thousands of business clients annually. They are funded through a unique mix of federal, state, and private sector resources and deliver their training through 62 lead centers and about 1,000 subcenters throughout the country. In FY 2023, SBDCs provided counseling to 325,773 entrepreneurs, helped start nearly 21,000 small businesses, and supported more than \$1.3 million jobs.¹⁰ A government shutdown would hurt SBDCs ability to plan events, such as matchmaking forums with contracting agencies.
- **SCORE** utilizes an expansive network of volunteers to provide business assistance to entrepreneurs. SCORE members are trained to serve as counselors, advisors, and mentors to business owners. In FY 2023, SCORE provided mentoring to 338,668 entrepreneurs and helped create 5,299 small businesses.¹¹ In the event of a shutdown, the 35 SCORE centers that are located in federal buildings would not be able to access their offices and planned meetings and events would need to be shifted to other locations or made virtual.
- **WBCs** represent a national network of approximately 145 entrepreneurial development centers throughout the United States and its territories, which provide counseling and training to women entrepreneurs, many of whom are socially and economically disadvantaged. In FY 2023, WBCs counseled nearly 88,000 small business owners and helped launch more than 3,400 new business.¹²

¹⁰ U.S. SMALL BUS. ADMIN., FY 2025 CONG. JUSTIFICATION/FY 2023 ANNUAL PERFORMANCE REPORT. [hereinafter, FY 2025 SBA Budget Justification], p.95.

¹¹ FY 2025 SBA Budget Justification], p.98.

¹² FY 2025 SBA Budget Justification], p.96..

The WBCs will face many of the same planning issues as the other resource partners when coordinating events with government agencies under furloughs, and potential delays in reimbursements.

- **VBOCs** provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business. Because VBOCs are funded by the government through grants and in many cases hosted on government sites such as bases, a shutdown could potentially pause their delivery of services. Moreover, a large number of veteran business owners were impacted by the fall hurricanes and have been waiting since October for funding for the SBA disaster aid program. Further delays could be a powerful blow, even fatal, blow to many of these businesses.

Federal Small Business Contract Awards

A shutdown prevents federal agencies from entering into new contracts, including those with small businesses. Small firms can win awards through regular competition, restricted competition or direct awards. The data indicates that on a daily basis, a shutdown could jeopardize approximately 7,786 contract actions worth \$487 million for small business government contractors.¹³ Shutdowns also cost federal taxpayers more for the administration and execution of ongoing contracts as stop-work orders must be issued, resulting in higher costs paid to contractors. For instance, the 2013 shutdown forced agencies to pay contractors on roughly 10,000 stop-work orders.¹⁴

Federal Government shutdowns cost money—to the government, taxpayers, and businesses of all sizes, including and especially for small government contractors. These impacts disproportionately hit small business vendors and suppliers throughout the supply chain. These small businesses must fund payroll and other expenses out of pocket until they can prepare claims (requests for equitable adjustments [REAs]) in an attempt to recoup their expenses. Even if successful in obtaining REAs, they suffer months in waiting for decisions on their claims and, in the meantime, experience disruptions in their workforce, their cash flow and potentially their contract performance.

There are many resources that help businesses seeking contracts with the federal government, including those to obtain certifications and registrations, to prepare proposals once they are registered and to search for business opportunities from different federal agencies listed on the System of Award Management (SAM.gov). These systems are subject to employee furlough and shutdown-related disruptions. Some of the federal contracting assistance programs run by agencies that will be affected by employee furloughs include:

- **Small Business Certifications:** The application and certification processes for small businesses seeking to enter **the 8(a) Business Development Program** and the **Women-Owned Small Business (WOSB) Federal Contract Program** are halted. No new applications will be accepted, processed or approved for these programs and existing applicants will not be reviewed or approved during a shutdown. Women and minority business owners seeking to enter these programs—and utilize the

¹³ Based on FY 2023 data from the Federal Procurement Data System- Next Generation (FPDS-NG).

¹⁴ Executive Office of the President of the United States, Impacts and Costs of the October 2013 Federal Government Shutdown, Nov. 2013.

opportunities they provide—will be unable to do so until the SBA is able to reopen, address any backlogs in administration and restart these processes.

- A shutdown will severely curtail the SBA’s office for handling several types of disputes affecting government-wide procurements, the Office of Hearings and Appeals (OHA). In addition to adjudicating certifications, OHA is responsible for handling size determination or industry standard appeals, which require resolution prior to contract actions.
- SBA Procurement Center Representatives (**PCR**) that assist small businesses in obtaining federal contracts through six area offices across the US and its territories. There are also Commercial Market Representatives (**CMR**) who are government contracting staff at the SBA stationed in area offices.
 - Many federal agencies have an Office of Small and Disadvantaged Business Utilization (**OSDBU**) or an Office of Small Business Programs (OSBP). These offices work within their agencies to identify opportunities to incorporate small businesses as vendors to their agencies and will not be able to do this advocacy work or correctly plan solicitations in such an uncertain environment.
 - The Federal government is one of the largest sources of early-stage capital for technology commercialization in the United States through the Small Business Innovation Research (**SBIR**) and Small Business Technology Transfer (**STTR**) programs. If a small business is engaged in scientific research and development (**R&D**), they may be working under grants or contracts provided by these programs. A government shutdown may cause severe delays in disbursement of funds for these firms, causing backlogs for agencies, uncertainty for businesses, and potential layoffs for firms. Participants in the program have indicated that these delays will impact ability to get information on solicitations harming competition, cause delays for contracts that save the government money, and lead to overall cost increases that will create an upward impact on inflation. In addition, participants indicated a shutdown could impact their ability to pay subcontractors, causing primes to draw on limited cash reserves.

Conclusion

House Republicans are hurting small businesses by following Elon Musk's orders to shut down the government.

A government shutdown will harm small businesses, by delaying critical disaster aid, halting small business loans, and delaying contracting awards. Lurching from crisis to crisis prevents federal agencies, small business contractors, service providers, or lenders to properly plan for present or future funding capacity, and it creates significant uncertainty for small businesses and the disaster aid victims that depend on these services.

A government shutdown not only affects small businesses that work with the Federal government, but it also adversely impacts small businesses that rely on Federal workers to buy their products and services. With millions of federal employees either furloughed or working without pay, retailers, restaurants, tourism outfits throughout the country will lose business at one of the peak times for consumer spending. It will have a devastating impact on small businesses and the communities they support this holiday season.

According to the Congressional Budget Office, the five-week shutdown on 2018-2019 reduced economic output by \$11 billion.

Small businesses and disaster victims have weathered so much over the past few years, we cannot put them in further jeopardy with an avoidable government shutdown. A shutdown will have dramatic impacts to the economy, hardworking Americans, and the small business community at one of the most difficult times.

House Republicans have a choice, they can either help small businesses or kowtow to Elon Musk.