

U.S. Small Business Administration

Evaluating Recent Changes to SBA's 8(a) Economic Disadvantage Thresholds

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Executive Summary

The Small Business Administration's (SBA) 8(a) Business Development Program (8(a) Program) is a federal government program that helps small businesses owned and controlled by socially and economically disadvantaged individuals (or disadvantaged entities) compete in the American economy through business development assistance. In 2020, the SBA made changes to the economic disadvantage thresholds for the 8(a) Program.¹ Prior to implementing these changes, the SBA commissioned a study to assist the Office of Business Development in establishing criteria for economic disadvantage in the 8(a) Program. These changes were also intended to "make the economic disadvantage requirements for the 8(a) Program consistent with the economic disadvantage requirements for women-owned small businesses seeking Economically Disadvantaged Women-Owned Small Business Concerns (EDWOSB) status," by eliminating the distinction "for initial entry into and continued eligibility for the program."² The Government Accountability Office (GAO) issued a report in 2022 titled, "*Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation*," in which it identified that the SBA had not systematically assessed the 2020 changes to the 8(a) economic disadvantage thresholds. The GAO found that "new thresholds might increase program participation, which might affect the awarding of 8(a) contracts to participants."³ GAO recommended that the SBA "should conduct an assessment of the 2020 changes to the economic disadvantaged thresholds for the 8(a) program." This study responds to that recommendation by taking a comprehensive approach to assessing the effects of the changes to the 8(a) program's thresholds.

As outlined in the Methods and Data section of this report, this study adopted descriptive, time series, and distributional analysis methods to address GAO's audit report hypotheses to analyze firms that applied for 8(a) certification between July 15, 2020, and September 30, 2022. The SBA evaluated the impact of the changes on the 8(a) Program for these firms, with a focus on program participation, competition for contracts, application processing times, time in the program, and the time it took for firms to obtain their first 8(a) contract.⁴

The study crafted and answered the following evaluation questions in order to evaluate the impact of the changes to the 8(a) Program and to address the hypotheses laid out in the 2022 GAO Audit report:

1. How many 8(a) participants, or newly certified firms, did the program add per day, on average, over the time period of analysis?
2. (a) How many approved firms would have not met the eligibility threshold if it had not been increased in 2020, assessed by fiscal year? (b) What percentage of all applicants approved do these businesses described in 2(a) represent over the time period?
3. What is the effect of the new disadvantage thresholds on set-aside contracts awarded to 8(a) business owners within the first year of program participation? Is there a differential impact for

¹ (The SBA, 2020) ; [Federal Register :: Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business Certification](#)

² [Federal Register :: Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business Certification](#)

³ (U.S. Government Accountability Office, 2022) [Small Business Administration: Recent Changes to the 8\(a\) Program's Financial Thresholds Need Evaluation | U.S. GAO](#), GAO-22-104512, Released September 29, 2022.

⁴ GAO Report GAO-22-104512 analyzed the financial condition (net worth and income) of individuals who owned firms that applied for 8(a) certification between October 2, 2018, to February 16, 2021.

relatively lower-net-worth firms versus relatively higher-net-worth firms under the new thresholds?

4. What is the average application process time—from when each application is ready for processing until initial certification—by adjusted net worth of 8(a) firms, by fiscal year?
5. What is the average time from initial certification until first contract, by adjusted net worth of 8(a) firms?
6. What has been the frequency of early exits from the program since the new thresholds went into effect?

Findings by Evaluation Question

This study tested hypotheses posed by the 2022 GAO report, *“Recent Changes to the 8(a) Program’s Financial Thresholds Need Evaluation.”* GAO hypothesized that the 2020 threshold changes could increase program participation, increase competition, and potentially influence participants’ choices to leave the program early. GAO tested some, but not all, of these hypotheses using data from about 2016 to 2021; only one year of post-change data was tested.

GAO also expressed concerns about potential distributional effects wherein the changes could benefit newly eligible higher-net-worth firms over previously eligible lower-net-worth firms. This study found no evidence to suggest any negative distributional effects. For all key outcomes evaluated, there was no statistically significant difference between previously eligible (lower net worth <\$250K) and newly eligible (higher net worth, \$250k to \$750K) firms. This suggests that the changes to the thresholds did not create an unfair advantage for firms with higher adjusted net worth. Overall, the study found that the changes to the 8(a) economic disadvantage thresholds in 2020 had no significant impact on program participation, competition for contracts, application processing times, time in the program, or the time it took for firms to obtain their first 8(a) contracts. The following section summarizes the findings for each evaluation question.

Evaluation Question 1: How many 8(a) participants, or newly certified firms, did the program add per day, on average, over the time period of analysis?

In total, 1,137 participants were added to the program between July 15, 2020, and September 30, 2022. Overall, the number of participants added per day in the 8(a) Program was relatively stable. This suggests that small business owners have not altered their view of the value of the program based on the adjustment in the eligibility threshold, and that it is helping to increase the number of firms eligible to compete for federal contracts. More specifically:

- The number of participants added per day, on average, over the time period of analysis was 1.4.

Evaluation Question 2(a): How many approved firms would have not met the eligibility threshold if it had not been increased in 2020, assessed by fiscal year?

The changes to the economic disadvantage thresholds in 2020 allowed more firms to become eligible for the 8(a) Program.

- During the study’s period of analysis, 235 businesses that were approved for 8(a) certification would not have met the eligibility threshold had it not been increased.

Evaluation Question 2(b): What percentage of all applicants approved do these businesses described in 2(a) represent over the time period?

The businesses described in evaluation question 2(a), firms that would not have met the eligibility threshold if it had not been increased in 2020, represent about 20.7 percent of all applicants approved since the threshold changes were implemented.

- This result means that about one in five firms approved for the 8(a) Program since the threshold changes were implemented would not have been eligible if the thresholds had not been increased.

Evaluation Question 3: What is the effect of the new disadvantage thresholds on set-aside contracts awarded to 8(a) business owners within the first year of program participation? Is there a differential impact for relatively lower-net-worth firms versus relatively higher-net-worth firms under the new thresholds?

The study found that the changes to the economic disadvantage thresholds did not create an unfair advantage for firms with higher adjusted net worth.

- There was no significant difference in the number of set-aside contracts awarded to 8(a) firms within the first year of program participation based upon their owner's adjusted net worth.
- There was a small, insignificant increase in the number of set-aside contracts awarded to firms that were newly eligible (between \$250k and \$750K net worth) for the program following the threshold changes.

Evaluation Question 4: What is the average application processing time—from when each application is ready for processing until initial certification—by adjusted net worth of 8(a) firms, by fiscal year?

There is no statistically significant relationship between application processing time and the adjusted net worth of 8(a) firms following the changes to the economic disadvantage thresholds.

- On average, across all years after the threshold change, the application processing time for eligible firms (between \$250K and \$750K net worth) took roughly 103 days compared to 106 days for the not newly eligible firms (below 250K net worth).

Evaluation Question 5: What is the average time from initial certification until first contract, by adjusted net worth of 8(a) firms?

The average time from initial certification until first contract was 18 months, with no significant difference in the time to first contract for firms with different levels of adjusted net worth.

Evaluation Question 6: What has been the occurrence of early exits from the program since the new thresholds went into effect?

The study found that the occurrence of early exits from the program has decreased since the new thresholds went into effect.

- The study found no evidence that the new thresholds have led to an increase in early exits from the program.
- Before the threshold change (10/01/2017–07/14/2020), approximately 3.0 participants left the program early per month. This number decreased to approximately 0.19 exits per month following the threshold change (07/15/2020–09/30/2022).

Introduction

The Small Business Administration’s 8(a) Business Development Program—commonly known as the “8(a) Program” —is a 9-year program designed to help firms owned and controlled by socially and economically disadvantaged individuals.⁵ Authorized by Sections 7(j)(10) and 8(a) of the Small Business Act (15 U.S.C. §§ 636(j)(10) and 637(a)), the 8(a) Program provides participating firms with training, technical assistance, and contracting opportunities to help strengthen their ability to compete in the U.S. economy.

The mission of the 8(a) Program is to provide businesses owned and controlled by socially and economically disadvantaged individuals and entities “with managerial, technical, and procurement assistance to assist them in achieving their full competitive potential.”⁶

To be eligible for the 8(a) Program, firms must be small businesses which are “unconditionally owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and citizens of and residing in the United States,” and they must demonstrate “potential for success.”⁷ The program is also open to small businesses owned by entities such as Alaska Native Corporations, Community Development Corporations, Indian tribes, and Native Hawaiian Organizations. For the purposes of this study, we focused on individually owned firms, not entity-owned firms, because entity-owned firms are subject to different requirements for determining economic disadvantage status.

Socially disadvantaged individuals are those that “have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities.”⁸

Economically disadvantaged individuals are socially disadvantaged individuals who have experienced an impaired ability to compete in the free enterprise system. This disadvantage usually comes in the form of diminished capital or credit opportunities when compared to others in the same or similar line of business who are not socially disadvantaged.

The specific economic criteria that the SBA uses to calculate economic disadvantage include:

1. Personal income from the past 3 years;
2. Adjusted personal net worth⁹; and
3. The fair market value of all assets (excluding funds invested in qualified retirement accounts).

⁵ [8\(a\) Business Development program | U.S. Small Business Administration \(sba.gov\)](#)

⁶ [Office of Business Development | U.S. Small Business Administration \(sba.gov\)](#), SOP 80 05 8, dated December 2021, p. 26.

⁷ 13 C.F.R. §124.101. [eCFR :: 13 CFR Part 124 -- 8\(a\) Business Development/Small Disadvantaged Business Status Determinations](#)

⁸ [eCFR :: 13 CFR Part 124 Subpart A -- 8\(a\) Business Development](#)

⁹ 85 Fed. Reg. 27650, 27650 (May 11, 2020). The SBA excludes from calculations of an individual’s net worth: (1) the value of the disadvantaged owner’s ownership in their small business and (2) the equity the disadvantaged owner has in a primary personal residence. The 2020 changes also resulted in funds invested in official retirement accounts being excluded from the calculation of an individual’s adjusted net worth.

The SBA has established thresholds for each of the three economic criteria listed above. Individuals exceeding any of these thresholds will generally not qualify as economically disadvantaged individuals for the purposes of 8(a) certification.

The SBA increased the thresholds for economic disadvantage eligibility for the 8(a) program to match the thresholds that applied to Economically Disadvantaged Women-Owned Small Business Concerns (EDWOSBs) in the Women-Owned Small Business (WOSB) program.¹⁰ This increase allowed for the consistent treatment of firms across both programs when it comes to the calculation of economic disadvantage. Effective July 15, 2020, the following changes to economic disadvantage thresholds were made:

1. The threshold for average income (over the past 3 years) at program entry increased from \$250K to \$350K;
2. The adjusted net worth threshold at program entry increased from \$250K to \$750K; and
3. The total assets at program entry increased from \$4 million to \$6 million.

The SBA also eliminated the distinction between initial and continuing economic disadvantage thresholds. Before 2020, for example, when firms applied to the 8(a) program, their owners' net worth could not exceed \$250K at program entry. This amount contrasts with the continuing eligibility threshold, which was set higher at \$750K. This change allowed individual program participants' net worth to rise to higher levels than the initial entry threshold throughout their participation in the program.

Study Purpose

The purpose of this study was to assess the preliminary effects of the 2020 economic disadvantage threshold changes to the 8(a)-business development program and to determine any impact on program participation, competition for contracts, application processing times, time in the program, or the time it took for firms to obtain their first 8(a) contract.

As identified within the U.S. Government Accountability Office (GAO) 2022 audit report titled "*Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation*," the former 2020 changes to the 8(a) economic disadvantage thresholds have not been systematically assessed.¹¹ In their 2022 report, the GAO used SBA program and contract data to preliminarily assess certain impacts of the threshold changes. They found that the 2020 threshold changes might increase program participation and competition for contracts.

This study responds to the GAO's third recommendation of their 2022 report recommending that the "Associate Administrator of SBA's Office of Government Contracting and Business Development should conduct an assessment of the 2020 changes to the economic disadvantage thresholds for the 8(a) program (Recommendation 3)."¹²

The following table outlines the GAO's main hypotheses and time period of analysis for each hypothesis. Despite looking at various time periods throughout their report, the most recent year of data used by GAO was 2021, only 1 year after the 2020 changes to economic disadvantage eligibility thresholds. For

¹⁰ 85 Fed. Reg. 27650, 27650 (May 11, 2020).

¹¹ (U.S. Government Accountability Office, 2022)

¹² (U.S. Government Accountability Office, 2022, p. 22)

the hypotheses that they tested empirically, H1 and H2, GAO found slight increases in program participation and competition in the year following the 2020 changes. GAO did not indicate whether these trends were statistically significant.

| <i>Table 1. GAO Hypotheses on How Threshold Changes Could Influence Outcomes</i> | | |
|--|---|---|
| | Hypothesis | Time Period |
| H1. Program Participation | A1. The count of new participants (newly certified applicants) might increase ¹³ | 2016 Q3 to 2018 Q3 |
| | A2. The count of participants (newly certified applicants) added per day, on average, would increase ¹⁴ | October 1, 2018–July 14, 2020 July 15, 2020 – September 2021 |
| | A3. The portion of participants that are newly eligible businesses would increase ¹⁵ | July 15, 2020 – February 16, 2021 |
| | A4. The distribution of the adjusted net worth at program entry of newly eligible businesses would shift ¹⁶ | October 2, 2018 – February 16, 2021 |
| H2. Competition for Contracts | A1. The contracts per participant might decrease ¹⁷ | FY 2016 – FY 2021 |
| | A2. Contracts per participant might decrease, especially for lower-net-worth firms ¹⁸ | October 2, 2018 – February 16, 2021 |
| | A3. Percent of participants awarded a contract might change ¹⁹ | FY 2016 – FY 2021 |
| | A4. Average number of contracts per firm, for those who obtained contracts, might decrease ²⁰ | FY 2016 – FY 2021 |
| H3. Application Processing Times & Time until First Contract | A1. Average application processing time might increase, especially for lower-net-worth firms ²¹ | Not tested by GAO |
| | A2. Average time from initial certification until first contract might change, especially for lower-net-worth firms ²² | Not tested by GAO |
| H4. Time in Program | A1. Count of program participants graduating early may increase ²³ | Not tested by GAO |

¹³ (U.S. Government Accountability Office, 2022, p. 16)

¹⁴ (U.S. Government Accountability Office, 2022, p. 16)

¹⁵ (U.S. Government Accountability Office, 2022, p. 16)

¹⁶ (U.S. Government Accountability Office, 2022, p. 17)

¹⁷ (U.S. Government Accountability Office, 2022, p. 18)

¹⁸ (U.S. Government Accountability Office, 2022, p. 20)

¹⁹ (U.S. Government Accountability Office, 2022, p. 18)

²⁰ (U.S. Government Accountability Office, 2022, p. 18)

²¹ (U.S. Government Accountability Office, 2022, p. 21)

²² (U.S. Government Accountability Office, 2022, p. 21)

²³ (U.S. Government Accountability Office, 2022, p. 21)

For this study, the SBA expanded on the GAO’s preliminary assessment by looking at a more recent study period and examining additional outcome variables of interest. The Agency focused on the impact of the economic disadvantage thresholds from the period they went into effect through the end of the most current fiscal year (July 15, 2020, to September 30, 2022). This study took a comprehensive approach to answering the GAO questions related to the new thresholds for adjusted net worth during this time period. All outcome variables that were examined fit within the four main hypothesis areas of (1) program participation, (2) competition for contracts, (3) application processing time and time until first contract, and (4) time in the program. Due to the limited amount of time that has passed, the findings should be considered preliminary.

Evaluation Questions

This study sought to empirically assess how the economic disadvantage threshold changes implemented in 2020 influenced various outcomes. The study was also intended to determine the extent to which the 2020 economic disadvantage threshold changes to the 8(a)-business development program affected 8(a) participation, competition for 8(a) contracts, application processing time and time until first contract, and time in the 8(a) program. Table 2 displays the evaluation questions, the associated outcomes to be assessed, and the corresponding GAO hypothesis (from Table 1). Each evaluation question was crafted to systematically assess the hypotheses laid out in the GAO report.

| # | Question | Outcome | GAO Hypothesis |
|----------|---|--------------------------------|-----------------------|
| 1 | How many 8(a) participants, or newly certified firms, did the program add per day, on average, over the time period of analysis? | Program Participation | H1 |
| 2 | (a) How many approved firms would have not met the eligibility threshold if it had not been increased in 2020, assessed by fiscal year? (b) What percentage of all applicants approved do the businesses described in 2(a) represent over the time period? | | |
| 3 | What is the effect of the new disadvantage thresholds on set-aside contracts awarded to 8(a) business owners within the first year of program participation? Is there a differential impact for relatively lower-net-worth firms versus relatively higher-net-worth firms under the new thresholds? | Competition for 8(a) contracts | H2 |
| 4 | What is the average application process time—from when each application is ready for processing until initial certification—by adjusted net worth of 8(a) firms, by fiscal year? | Application Processing Time | H3 |
| 5 | What is the average time from initial certification until first contract, by adjusted net worth of 8(a) firms? | Time Until First Contract | H3 |
| 6 | What has been the occurrence of early exits from the program since the new thresholds went into effect? | Time in the Program | H4 |

Methods and Data

This section describes the specific data sources and quantitative methods used to produce the study's analysis and findings. The analysis included the full universe of newly approved active 8(a) firms from July 15, 2020, to September 30, 2022.

Internal SBA data were used to gather information on 8(a) program applicants and participants, such as certification date, application date, program status, and other applicant information and financial data.²⁴ These 8(a) program data were used to primarily answer evaluation questions 1, 2, 4, and 6. To answer questions 3 and 5, the Agency obtained publicly available contracting data from SAM.gov.

The SBA matched internal 8(a) program data on program participants with the contracting data using the following matching procedure. The Agency matched each 8(a) firm between the two datasets, first based on Unique Entity Identifier (UEI), then on Data Universal Numbering System (DUNS). DUNS codes were used as the primary matching identifier for the firms in the study's timeframe because the UEI identifier became relevant starting in FY 2022 for the contracting data.²⁵

The SBA used the 2022 GAO audit report to inform the development of the methodology used in this study. This study utilizes descriptive statistics and time series to test hypotheses related to program participation (H1 from Table 1) and competition for contracts (H2). Descriptive statistics included the count of new participants leading up to and after the threshold changes. The study also calculated the portion of participants that became newly eligible. Box and whisker distributional analysis was also utilized to understand how the average, median, and standard deviation of adjusted net worth changed for program participants following the threshold changes. This study applied the methodology to answer evaluation questions 1–3 for the extended scope of July 15, 2020, to September 30, 2022.²⁶ The SBA also employed means testing to further examine the statistical significance of findings when explored with an additional year of "post-change" data (FY 2022), relative to the period studied by the GAO.

For hypotheses H3 and H4, this study used similar methods to help answer evaluation questions related to application processing times, time until first contract, and time in the program (evaluation questions 4–6). The SBA also employed statistical tests to explore how results differ for previously eligible lower-net-worth firms versus newly eligible higher-net-worth firms and to further address the GAO's concerns related to distributional impacts of the threshold changes (evaluation questions 3–6).

In summary, this study relied primarily on quantitative descriptive analysis. The quantitative methods used include time series analysis, means testing, and distributional analysis. The specific statistics calculated to answer the study evaluation questions are described in more detail in the next section, *"Analysis and Findings."*

²⁴ U.S. Small Business Administration. "Certify." SBA.gov, www.sba.gov/business-guide/contracting/certify. Accessed April 2023.

²⁵ An internal crosswalk of DUNS and UEI was applied to ensure the correct mapping of firms across both the program data and SAM.gov data.

²⁶ For evaluation questions 1–3, the study also replicated GAO's calculations to ensure the reliability and validity of our results, including limiting our sample only to individually owned firms, not entity-owned firms, for the purpose of analysis.

When studying Federal contracting trends for evaluation questions 3 and 5, the SBA considered all new 8(a) contract obligations to 8(a) firms. The Agency did not distinguish between standard prime contract awards and those obtained as task orders through an Indefinite Delivery Vehicle (IDV). Each task order completed within IDVs was considered a distinct contract for the purposes of calculating contract counts and summary statistics. This approach was chosen to produce comparable results with the GAO's 2022 report.

There were limitations to the data available for analysis. Much of the available 8(a) Program data were derived from risk-based internal verification procedures. The SBA does not reassess every qualifying owner's economic disadvantage at set intervals during the firm's program term. Instead, each admitted participant must annually submit information and documentation in support of its owner's economic disadvantage, as well as a certification that it continues to meet all applicable program eligibility requirements, including those governing economic disadvantage.²⁷ The Office of Certification and Eligibility, a component of the Office of Business Development, is responsible for providing recommendations on initial and continuing program eligibility. The OCE deploys a random sampling risk-based approach to minimize variation and waste resulting from unproductive efforts, and it selects the sample of firms to evaluate when conducting continuing eligibility reviews. To aid in the strategic direction of limited resources, 8(a) applicants that are below 80 percent of the economic disadvantage thresholds are often not subject to having their net worth verified with supporting documentation. This would include most applicants after 2020 that have net worth values near the prior economic disadvantage thresholds. The SBA concluded that the data were sufficient and reliable to answer the Evaluation Questions for the purpose of this study.

Analysis and Findings

This section analyzes the impact of the economic disadvantage threshold changes to the 8(a) program, effective July 15, 2020. The SBA evaluated the impact of the changes on the 8(a) Program for firms that applied for 8(a) certification between July 15, 2020, and September 30, 2022. The SBA analyzed impact on 8(a) program dynamics, such as participation and contracts awarded to identify impact of programmatic changes, challenges, and potential areas for improvement. As outlined in the following sections, the Agency empirically assessed how the economic disadvantage changes implemented in 2020 influenced the various outcomes outlined in the six evaluation questions (See also Table 2).

Program Participation and Time in Program

Evaluation Question 1: How many 8(a) participants, or newly certified firms, did the program add per day, on average, over the time period of analysis?

From July 15, 2020, to September 30, 2022, the SBA reviewed internal data to calculate the total number of approved 8(a) firms. The Agency approved 1,137 new participants, or newly certified applicants, to enter into the 8(a) program (approximately 1.4 new 8(a) participants per day) over this time period. This number represents an increase in participation of 0.3 applicants per day compared to before the threshold changes, producing similar findings to the GAO from an earlier study period. However, this increase is not statistically significant at the 0.95 confidence level.²⁸ New 8(a) certifications were at a quarterly high of 177 in the third quarter of 2021 and at their low of 83 in the

²⁷ 13 C.F.R. § 124.112(b); 15 U.S.C. § 637(a)(4)(C).

²⁸ GOA-22-104512 earlier study period is October 1, 2018, to July 14, 2020. Page 21/40.

fourth quarter of 2021. However, the quarterly average over the study's whole period was roughly 126 new 8(a) certifications per quarter.

With all else equal, increased participation means that the 8(a) program is reaching a higher number of socially and economically disadvantaged businesses, allowing the SBA to better achieve its mission of the 8(a) program to provide more firms with program support.

Evaluation Question 2: (a) How many approved firms would have not met the eligibility threshold if it had not been increased in 2020, assessed by fiscal year? (b) What percentage of all applicants approved do these businesses described in 2(a) represent over the time period?

The GAO's 2022 report suggested that the threshold changes may have increased competition for 8(a) contracts, thus resulting in fewer opportunities.²⁹ The impact of more participants could potentially be impaired if the increased participation corresponds with increased competition between 8(a) participants themselves. The SBA examined an additional 20 months of disaggregated data and paired analysis of participation trends with distributional analysis to test the GAO's hypothesis.

First, the SBA analyzed the adjusted net worth of the new participants, or the newly eligible businesses which had an adjusted net worth of greater than or equal to \$250k, but less than \$750k. From July 15, 2020, to September 30, 2022, 235 businesses that fell within this adjusted net worth range would have exceeded the former thresholds for adjusted net worth and were approved for 8(a) certification.

The Agency examined these businesses by fiscal year. In FY 2020, 38 businesses that obtained approval were newly eligible. Newly eligible applicants that were approved for certification increased to 109 in FY 2021 and then tapered down to 88 in FY 2022 (**evaluation question 2a**). These 235 businesses represented almost 20.7 percent of all applicants approved in that time frame. These businesses would not have met the eligibility threshold if it had not been increased in 2020. These are the proportion of businesses that became newly eligible (**evaluation question 2b**). This result shows that the threshold changes paved the way for newly eligible businesses to participate and that the number of these businesses increased the most in FY 2021 before starting to decrease in FY 2022.

Another way to more holistically answer evaluation questions 2(a) and 2(b) about program participation is to display the distribution of adjusted net worth at entry for program participation during the study period, as shown in Figure 1. This replicates Figure 1 of the GAO's 2022 report, but for the time frame beginning July 15, 2020, and ending on September 30, 2022. It plots the business owner adjusted net worth at program entry for 8(a) firms, using box and whisker plots for each quarter of data. This figure helps portray the spread and distribution of program participation data by net worth quartile, as well as any outliers.³⁰ Among all program participants over the study period, the median adjusted net worth increased from \$68,739 in Q3 of 2020 to \$102,070 in Q3 of 2022.³¹ When looking at only newly eligible

²⁹ (U.S. Government Accountability Office, 2022, p. 18)

³⁰ Box and whisker plots rely on the calculation of the mean, median, quartiles, and inner quartile range of the data. The inner quartile range is derived from subtracting the first quartile from the third quartile. Outliers are determined by multiplying the inner quartile range by 1.5 and then adding to this value to quarter 3 and subtracting from quarter 1 to create upper and lower fences, respectively. Values above and below the fences qualify as outliers.

³¹ For this calculation, the SBA look at adjusted net worth by quarters within the calendar year, where Q1 is defined as January to March, Q2 is April to June, Q3 is July to September, and Q4 is October to December.

firms (\$250k to \$750K), the median net worth increased on average from \$314,947 in Q3 of 2020 to \$405,870 in Q3 of 2022, with some variation over the years.

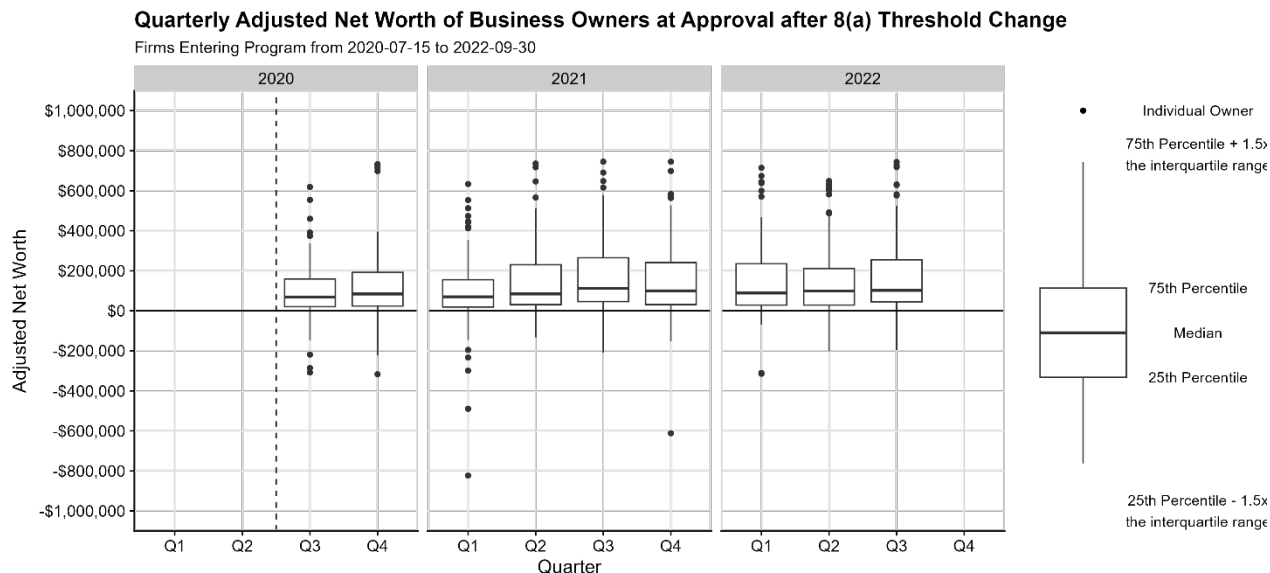


Figure 1. Quarterly Adjusted Net Worth of Business Owners at Approval after 8(a) Threshold Change ³²

Evaluation Question 6: What has been the occurrence of early exits from the program since the new thresholds went into effect?

In 2020, the SBA also eliminated the distinction between initial and continuing economic disadvantage eligibility thresholds. Before 2020, for example, when firms applied to the 8(a) program, their net worth could not exceed \$250K at program entry; however the continuing eligibility threshold was set at \$750K. This meant that program participants’ net worth could rise to higher levels than the initial entry threshold throughout their participation in the program. In its 2022 report, the GAO hypothesized that the elimination of this distinction in 2020 could potentially influence firms in their decision to leave the program early (H4.A1 from Table 1). More specifically, the GAO suggested that this programmatic change “might increase the number of 8(a) firms that graduate early, limiting the developmental benefits these businesses receive.”³³

To test the GAO’s hypothesis H4.A1, the SBA reviewed the extent to which program participants left the program early following the 2020 change. Using program data from October 1, 2017, to September 30, 2022, the Agency analyzed whether program participants “withdrew” or “graduated early,” which are the two main reasons for voluntarily leaving the program early. For the purposes of this study, the SBA did not discern program participants’ intents in more detail, but determined that these categories were sufficient to answer this evaluation question and provided a high level understanding of how program participant behavior may have been influenced in this area following the threshold changes.

³² Note: When computing an individual’s net worth (at program entry and for continued eligibility), the SBA excludes (1) the value of the disadvantaged owner’s equity in the business itself; (2) the equity a disadvantaged owner has in a primary personal residence (except any portion attributed to excessive withdrawals from the business); and (3) funds invested in an Individual Retirement Account or in other official retirement account. The SBA’s calculation of adjusted net worth can result in a negative amount.

³³ (U.S. Government Accountability Office, 2022, pp. 20-21)

Table 3 shows the occurrence of these early exit categories by adjusted net worth of program participants. There were three firms that withdrew from the program early following the threshold changes. These three firms all had less than \$250K adjusted net worth. At the time of the study, no firms graduated early following the 2020 programmatic changes.

| Timing | Adjusted Net Worth | Firm Status | |
|---|--------------------|-------------|------------------|
| | | Withdraw | Early Graduation |
| Pre-Change (10/1/2017 to 7/14/2020) | < \$250k | 17 | 0 |
| Post-Change (7/15/2020 to 9/30/2022) | < \$250k | 3 | 0 |
| | >= \$250k | 0 | 0 |

Based on review of the most recent data, the SBA identified no significant relationship developing between the threshold changes and firms choosing to leave the program early. This preliminary assessment was based on the calculation of Pearson correlation coefficients between the adjusted net worth of firms and whether firms left the program early for any reason, other than program termination, in the years following the 2020 threshold changes. The Agency found that the adjusted net worth of firms is negatively associated with an “early exit” binary indicator variable, where the early exit variable equals 1 if a firm has withdrawn early or graduated early. This means that as firms’ adjusted net worth increases, they are less likely to voluntarily leave the program early. However, the magnitude of the Pearson correlation coefficient is very small and statistically insignificant. Additionally, preliminary data did not show an increase in early graduations since threshold changes in 2020. By contrast, there has been a *decrease* in early exits.

To standardize the comparison, the SBA calculated the number of early exits per month both before and after the threshold change. Before the change, there were approximately 3.0 early exits per month, compared to about 0.19 exits per month following the change. Taken altogether, the Agency does not have sufficient evidence to conclude that the eliminated distinction between initial and continued eligibility significantly influenced program participant behavior, specifically voluntary early program exits.

Overall, this section has provided evidence to answer evaluation questions 1, 2, and 6 related to program participation and time in the program. The SBA found that the slight increase in firms joining the 8(a) Program following the threshold change is not statistically significant (**evaluation question 1**). Approximately 235 businesses would have not met the eligibility threshold if it had not been increased in 2020, representing about 20.7 percent of all applicants approved since then (**evaluation question 2b**). Assessed by fiscal year, this group of businesses increased from 18 in FY 2020 to 109 in FY 2021 before declining to 108 in FY 2022 (**evaluation question 2a**). When plotting the distribution of the adjusted net worth of participants, the Agency found that the median adjusted net worth increased from \$68,739 in Q3 of 2020 to \$102,070 in Q3 of 2022. Lastly, the SBA did not find any evidence to suggest that the elimination of the distinction between initial and continued eligibility thresholds has influenced firms in their decisions to leave the program early (**evaluation question 6**).

Competition for 8(a) Contracts

Evaluation Question 3: What is the effect of the new disadvantage thresholds on set-aside contracts awarded to 8(a) business owners within the first year of program participation? Is there a differential impact for relatively lower-net-worth firms versus relatively higher-net-worth firms under the new thresholds?

In its 2022 report, the GAO suggested that if the new threshold requirements increased the number of firms participating in the program, program participants “might have fewer opportunities as they compete against more businesses for contracts.”³⁴ To assess competitiveness, the SBA explored the impact of the new thresholds on contracts awarded to business owners within the first year of program participation (hypotheses H2.A1-A4 from Table 1).³⁵ The Agency also explored potential distributional impacts by adjusted net worth (H2.A2 & H2.A4).

The SBA reviewed all contracts awarded to 8(a) firms following the threshold changes, as described in the “Methods and Data” section above. This included reviewing all contracts awarded from July 2020 to September 2022 for all newly certified participants. Before looking at only the number of contracts obtained within the first year of program participation, the SBA explored all contracts awarded in order to better understand the contracting landscape. Time series analysis demonstrated minimal change to the distribution of firms with 8(a) contracts versus those without, as shown in Figure 2.³⁶ Despite the total number of contracts awarded to 8(a) firms governmentwide declining since 2016, as the GAO similarly found, the number and percent of 8(a) firms in the program portfolio receiving 8(a) contracts has been increasing steadily since FY 2020. For those participants that have contracts, the average number per participant increased slightly from 2.5 in FY 2020 to 2.9 in FY 2022. This suggests that regardless of the competitiveness of federal contracts, 8(a) firms have only steadily increased the number of contracts they receive on average.

³⁴ (U.S. Government Accountability Office, 2022, pp. 17-18)

³⁵ This will act as a preliminary assessment due to the short time frame since the new thresholds went into effect. The SBA needs to assess the extent to which the increased participation following the threshold changes also influenced competition in the federal marketplace for 8(a) contracts. When the number of firms entering the program increases, there is potential for increased competition in the form of fewer opportunities for previously participating, or lower-net-worth, businesses. The small number of firms that have obtained contracts so far may not be representative.

³⁶ Figure 2 replicates figure 2 from GAO’s report, but with 2 added years of data. GAO-22-104512, page 23/41.

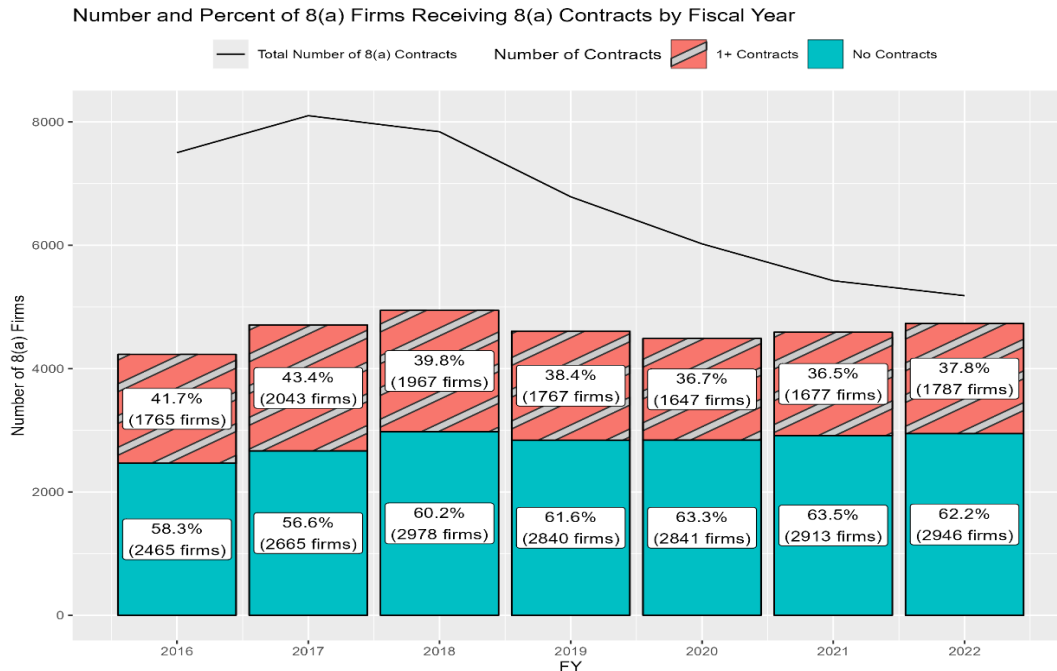


Figure 2. Number and Percent of 8(a) Firms Receiving 8(a) Contracts, by Fiscal Year

Due to the relatively short amount of time elapsed since the new thresholds have gone into effect, the SBA determined that a more informative approach would be to review the number of contracts awarded within the first year of program participation (evaluation question 3). Reviewing only contracts received within the first year of program participation should alleviate issues with the lagged effect of contracting data. The Agency assessed the extent to which the increased participation following the threshold changes also influenced competition in the federal marketplace for 8(a) contracts. The GAO’s hypothesis was that when the number of firms entering the program increased, there was a potential for increased competition in the form of fewer opportunities for previously participating, or lower-net-worth, businesses (H2.A1-A4). As outlined below, this study found that the GAO’s hypothesis was not supported.

Using a stacked column approach, the SBA plotted and compared the adjusted net worth of business owners at time of certification for firms who obtained one or more contract, versus those who obtained no contracts, by adjusted net worth.³⁷ By focusing on the firms and contracts from July 15, 2020, to September 30, 2022, the SBA was able to more precisely estimate the impact of the threshold changes that went into effect on July 15, 2020.

³⁷ GAO plotted this figure for all firms and contracts aggregated between October 2, 2018, and February 16, 2021, (U.S. Government Accountability Office, 2022, p. 20)

Number and Percent of Firms Awarded Contracts in First Year of 8(a) Participation by Adjusted Net Worth

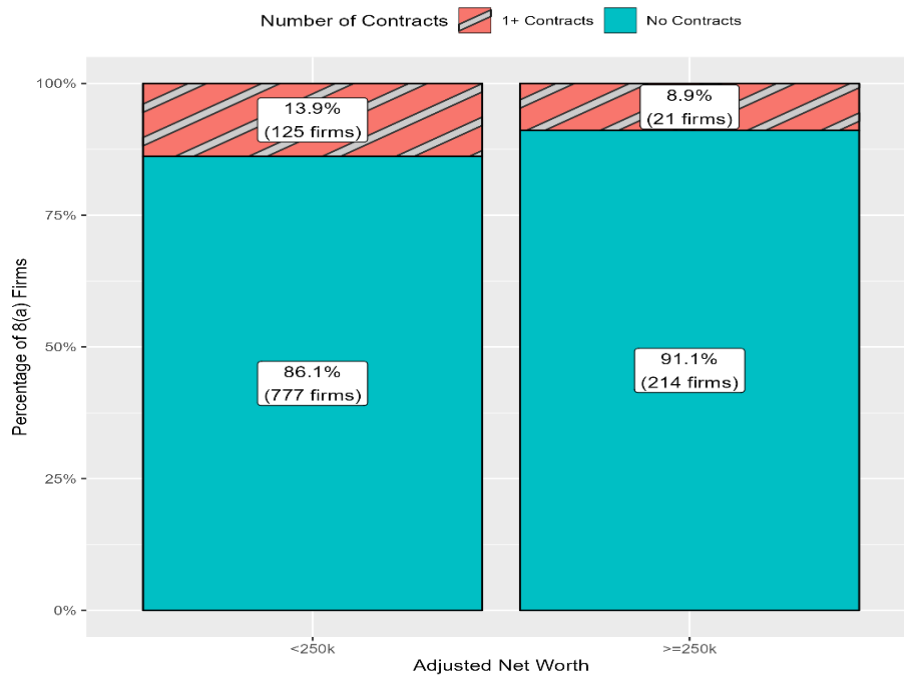


Figure 3. Number and Percent of Firms Awarded Contracts in First Year of 8(a) Participation, by Adjusted Net Worth

Figure 3 shows that 8.9 percent of the 235 firms that became newly eligible (\$250k to \$750K) following the threshold changes obtained one or more contracts in the first year of program participation. Comparatively, 13.9 percent of firms with adjusted net worth under \$250K obtained contracts in the first year of program participation. Overall, more of the previously eligible firms (<\$250K) obtained one or more contracts relative to newly eligible firms.

When transitioning to look at the actual average number of contracts received in the first year of the program, instead of just whether a firm received one or more contract, the SBA found that newly eligible firms did not obtain significantly more contracts than previously eligible firms. More specifically, the average number of contracts received during the first year in the program was 1.5 for previously eligible firms (<\$250K) and 1.7 for newly eligible firms (\$250k to \$750K). However, this difference is not statistically significant at the 0.95 level.

This section provided evidence to answer evaluation question 3. The SBA found that changes to the economic disadvantage thresholds did not create a significant competitive advantage for firms with higher adjusted net worth. There was no significant difference in the number of set-aside contracts awarded to 8(a) firms within the first year of program participation, regardless of their adjusted net worth. There was a small, insignificant increase in the number of set-aside contracts awarded to firms that were newly eligible (\$250k to \$750k) for the program following the threshold changes.

Application Processing Time

Evaluation Question 4: What is the average application process time—from when each application is ready for processing until initial certification—by adjusted net worth of 8(a) firms, by fiscal year?

The SBA analyzed the trends in application processing times to determine how the threshold changes may have impacted this area. The Agency defined application processing time as the time from when an application is ready for processing until initial certification for a reduced range of October 1, 2020, to September 30, 2022 (FYs 2021 and 2022).³⁸ Looking at application processing times over this time frame, the SBA found that the average application processing time for 8(a) applicants was 94.1 days (or 3 months) for firms that entered the program in FY 2021. This figure increased slightly to an average of approximately 114 days (or 3.7 months) for firms that entered the program in FY 2022. This increase in application processing time likely resulted from the higher number of applicants that followed the threshold change increases.

Although the number of applicants increased over time, there was proportionately more of an increase of applicants with adjusted net worth under the previous threshold of 250K. This group of applicants increased by 32 percent between 2021 and 2022, whereas applicants with adjusted net worth between 250K and 750K increased by 29 percent.

Figure 4 shows average application processing times, along with their standard deviations, across different adjusted net worth categories and how they compared for firms with program start dates in FY 2021 versus FY 2022. All adjusted net worth categories saw an increase in average processing times.

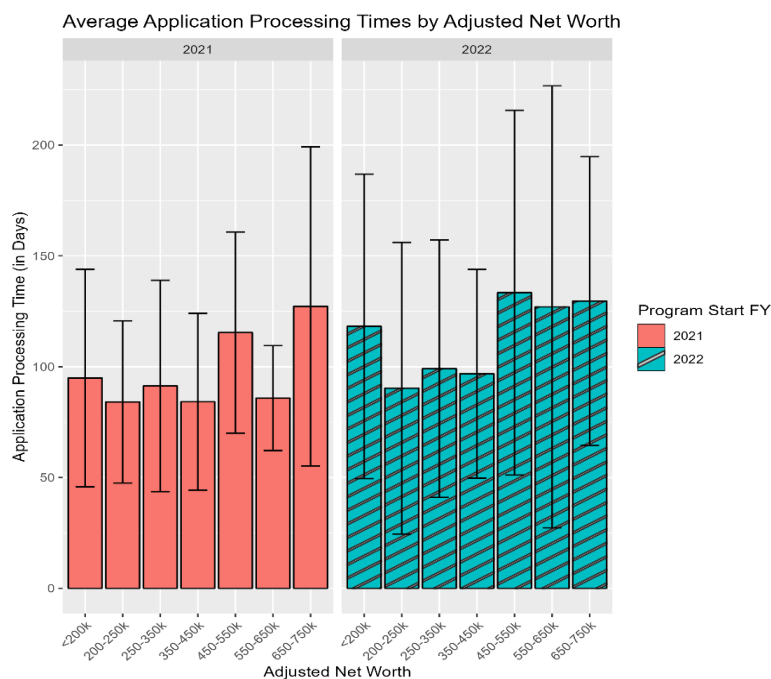


Figure 4. Average Application Processing Times, by Adjusted Net Worth

³⁸ This reduced scope was chosen in order to have two full fiscal years of complete and reliable data for analysis. To only include the last half of a fiscal year would lead to skewness of the data that is not representative of the full application processing lifecycle.

This section provided evidence to answer evaluation question 4. On average, across all full years of data after the threshold change, newly eligible firms' (between 250K and 750K net worth firms) average application processing time was approximately 103 days, compared to 106 days for the not newly eligible firms (below 250K net worth). However, this difference is not statistically significant at the 0.95 level. The SBA learned that there was no statistically significant relationship between application processing time and the adjusted net worth of 8(a) firms following the changes to the economic disadvantage thresholds.

Time Until First Contract

Evaluation Question 5: What is the average time from initial certification until first contract, by adjusted net worth of 8(a) firms?

Next, the SBA looked at the time from initial certification until the firm's receipt of its first 8(a) contract to evaluate if the increased threshold impacted this area for those 1,137 new participants that the Agency approved into the 8(a) program from July 15, 2020 to September, 30, 2022 (evaluation question 1). Of those 1,137 firms, 253 received a contract during the study period (evaluation question 3). The SBA found that the average time it took a firm to obtain its first 8(a) contract was approximately 352 days, or 11.5 months. The median value for this period was 334 days.

Figure 5 shows the breakdown of time from initial certification until first 8(a) contract for each adjusted net worth category listed. The SBA found that there was no significant correlation between adjusted net worth and the speed at which a firm received its first contract. The average time to first contract was 350 days for those firms in the smallest adjusted net worth category (<200K) and 543 days for those firms in the highest category (650k-750k). Firms that had an adjusted net worth between 350K and 450K had an average time until first contract of 341 days, similar to the lowest net worth category. Firms between 200K and 350K had time frames ranging from 369 to 380 days. Firms between 450k and 650k received contracts in an average time of 228 days.

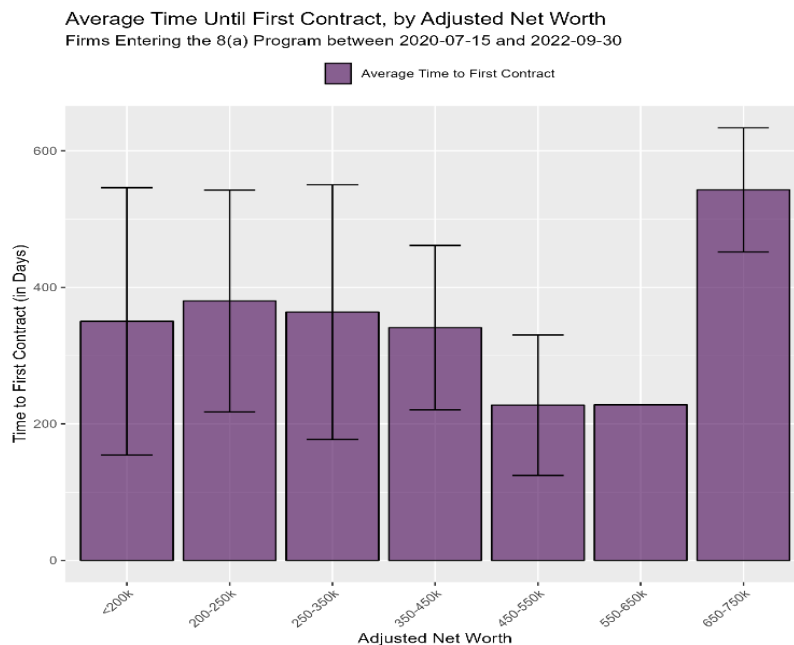


Figure 5. Average Time Until First Contract, by Adjusted Net Worth

Next, the SBA compared the average time to first contract for all firms under the previous threshold versus all newly eligible firms. The average time until first contract for the previously eligible firms (<250K) was 351 days, and it was 360 days for the newly eligible firms (250K to 750K). To further estimate the influence of net worth on obtaining contracts, the Agency calculated the Pearson correlation coefficient for the association between adjusted net worth and the period of time between initial certification and first contract. This coefficient is -0.022, which is not significant at the 0.95 level. The SBA then conducted means testing between the following two groups: (1) previously eligible firms (<\$250k) and (2) newly eligible firms (\$250k to \$750k). This involved comparing the average adjusted net worth for these two groups across the time period of analysis. The SBA found a statistically insignificant difference between these two groups' average adjusted net worth, which further corroborates the Pearson correlation coefficient findings.

Overall, these findings provided an answer to evaluation question 5. The time from initial certification until first contract did not significantly differ between higher and lower adjusted net worth firms. This evidence, paired with answers to evaluation question 3, suggested that the 2020 changes to economic disadvantage thresholds did not significantly affect the competition for 8(a) contracts.

Conclusion

This study evaluated the impact of the 2020 changes to the economic disadvantage thresholds on program participation, competition for contracts, and application processing times. The study found that the changes to the thresholds allowed for more firms to be eligible for the program. All else equal, increased participation means that the 8(a) program is reaching more socially and economically disadvantaged businesses. This allows the SBA to better achieve its mission of the 8(a) program to provide more firms with program support to better compete in the economy.

Whereas the increase in firms joining the 8(a) Program following the threshold change is not statistically significant, the study found that approximately 235 businesses, representing about 20.7 percent of all applicants approved within the scope of the study, would have not met the eligibility threshold if it had not been increased in 2020. The study also found that the elimination of the distinction between initial and continued eligibility thresholds did not influence firms in their decisions to leave the program early.

The study found that the slight increase in program participation was not paired with any corresponding significant increase in competition between 8(a) participants. Additionally, the study did not find a statistically significant difference in the time it took for 8(a) firms to win their first contracts, regardless of their adjusted net worth. There was also no significant difference in the time from initial certification until first contract between higher and lower adjusted net worth firms. This suggests that the 2020 changes to economic disadvantage thresholds did not significantly affect the competition for 8(a) contracts.

Overall, the findings of this study suggest that the changes to the 8(a) economic disadvantage thresholds did not significantly increase participation, did not harm competition, and did not lead to any negative distributional impacts for various outcomes.

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