

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

To: Members, Committee on Small Business
From: Committee Staff
Date: April 28, 2014
Re: Full Committee Hearing: “*SBA-created Initiatives: Necessary or Redundant Spending?*”

I. Hearing Overview

On Wednesday, April 30, 2014, at 1:00 pm in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will meet to provide oversight on entrepreneurial development (ED) initiatives created by the Small Business Administration (SBA). Specifically, the hearing will examine whether these programs are duplicative of other existing entrepreneurial development programs that have specific statutory authorizations.¹

II. Introduction

The SBA, especially since 2009, has created its own initiatives that provide counseling and training services to small businesses. The Committee, on a bipartisan basis, has criticized these efforts to divert funds and agency resources from the specifically authorized programs to SBA-created initiatives.² Even if one accepts the view from SBA that all of the entrepreneurial training programs need rationalization (a perfectly sensible stance), SBA has not provided a legislative package to the Committee that would address duplication or overlap. Instead, the agency continues to develop its own initiatives³ which SBA believes will operate better than those specifically authorized by Congress. Despite SBA’s assertions, it is unclear whether these programs are properly tailored to meet needs unmet by specifically authorized programs or whether the agency even has sufficient metrics to assess the success of the programs. As a result, Congress is afforded little opportunity to ensure that taxpayer funds are not being used to fund redundant or unnecessary programs. To understand the concerns of the Committee, it is necessary to provide an exegesis on SBA’s specifically authorized entrepreneurial training and outreach programs.

¹ The SBA claims that it has the authority to create these programs under sections 4 and 8 of the Small Business Act. The legality of the SBA’s actions will not be addressed in the hearing and for ease of reference, this memorandum, will refer to programs created under the authority of sections 4 and 8 as “SBA-created initiatives” and all other programs will be referred to as “specifically authorized programs.”

² This is clearly demonstrated by the Views and Estimates of the Committee on Small Business transmitted to Committee on the Budget for FY2012, FY2013, and FY 2014.

³ These include, but are not limited to: Entrepreneurial Education, Growth Accelerators; Boots to Business; and Regional Innovation Clusters.

III. SBA Entrepreneurial Development Programs

The United States has consistently recognized the need to encourage entrepreneurship as a means to combat unemployment and promote economic development. Therefore, SBA's mission, as evinced in the Small Business Act is to "aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns."⁴ In carrying out its mission to provide small businesses with assistance, SBA oversees a number of programs that offer counseling to potential entrepreneurs and extant small business owners. SBA itself does not generally carry out this training; in most circumstances, the agency enters into a cooperative agreement with another organization to offer such services. The cooperators are termed resource partners⁵ by SBA and are required to obtain a significant portion of their operating budgets from non-federal sources (be they private donors or state funds).

The largest such program is set out in § 21 of the Act.⁶ The program is denominated as the Small Business Development Center (SBDC) program because the resource partners, SBDC grantees, operate service centers where small business owners and potential entrepreneurs can receive free counseling.⁷ Typically, the grantee is an institution of higher education (but not always) and the grantee agrees to offer these services throughout a state or through a portion of the state.⁸ Although their missions and scope of service territories vary, the Women's Business Centers (WBCs)⁹ and Veteran Business Outreach Centers (VBOCs) operate in a fashion akin to that of the SBDCs.

The other major entrepreneurial outreach program, SCORE, operates somewhat differently. Although SCORE also offers free advice (from volunteer active and retired business executives), almost all of SCORE's funds are appropriated by Congress. The SBA also is required to provide offices and other ancillary services to SCORE at no charge to SCORE or their clients.

IV. SBA-created Initiatives

Despite this array of specifically authorized statutory ED programs,¹⁰ SBA has felt the need to create and request funds for new entrepreneurial training initiatives that trod the ground

⁴ 15 U.S.C. § 631(a).

⁵ In this case, resource partners refer to the non-federal partners that provide training authorized by the Small Business Act and funded, in part, by federal appropriations. These include SBDCs, WBCs, VBOCs, and SCORE.

⁶ 15 U.S.C. § 648.

⁷ SBDCs are responsible for providing an array of services which are delineated in the Act. These include one-on-one counseling; aiding individuals awareness of credit practices and requirements; assisting in developing business plans, financial packages, credit applications, and contract proposals; as well as working with SBA to develop and provide information tools on starting or expanding a business or export planning. *Id.* at § 648(c)(3).

⁸ The grantee agrees to provide services throughout a state; two states – California and Texas – do not have statewide grantees.

⁹ With respect to WBCs, it is important to note that at least 25 percent of their clients are men according to testimony offered by the WBCs in hearings before this Committee.

¹⁰ In addition to those already described, there are a number of other initiatives that are specifically recognized in statute by which the SBA educates small business owners. Under the Microloan Program (§ 7(m) of the Small Business Act), microloan intermediaries are appropriated funds to offer their borrowers education on operating a

of the just limned programs. In SBA's most recent budget request, while the overall agency request for specifically authorized ED programs remains static, SBA requested a total of \$33 million for SBA-created initiatives – an increase of \$12 million from what was requested and appropriated in fiscal year (FY) 2014.¹¹

In response to this ever-burgeoning effort at the agency to create its own entrepreneurial outreach efforts, the Committee requested a complete list of all efforts initiated by the SBA to provide entrepreneurial training or outreach to small businesses.¹² SBA's response included twenty-two various programs, with seventeen deemed by SBA as initiatives or partnerships and being created by the SBA without specific direction by Congress to develop any one of those nine initiatives.¹³ Of those programs, the SBA has focused most of its efforts and funding requests on four of its initiatives: Entrepreneurial Education; Growth Accelerators; Boots to Business; and Regional Innovation Clusters.¹⁴

a. Entrepreneurial Education

Entrepreneurial Education is an expansion and reconfiguration of Emerging Leaders, an SBA-created initiative started in FY 2009, which provided training to executives in urban areas and for Native American entrepreneurs. According to SBA, “the Entrepreneurship Education initiative offers high-growth small businesses in underserved communities a seven-month executive leader education series that elevates their growth trajectory, creates jobs, and contributes to the economic well-being of their local communities.”¹⁵ The goal at the end of the seven-month training program is for small businesses “to produce a three-year strategic growth action plan.”¹⁶ In FY 2013, SBA operated this program in 27 communities, and moving forward, SBA is seeking to expand this program to 40 communities.¹⁷

b. Growth Accelerators

business. The agency also is authorized to contract with third parties to offer assistance to participants in the 8(a) government contracting program the authority for which is found not in § 8(a) but in § 7(j). The logic of statutory drafting which located this power in § 7(j) is beyond the scope of this memorandum.

¹¹ This calculation excludes \$6 million that the SBA contributes towards the website www.businessusa.gov, which is not led by the agency but appears to duplicate the information available from the SBA. The Consolidated Appropriations Act, 2014, Pub. L. No. 113-76 (2014), includes funds for these SBA programs. However, those requests are in the form of direction in a conference report rather than specific statutory language, so it is unclear whether the SBA must spend the money so allocated. Nevertheless, since the SBA requested these funds, they are likely to spend them on these programs.

¹² Letter from the Hon. Sam Graves, Chairman, Committee on Small Business, to the Hon. Karen Mills, Administrator, SBA (Aug. 7, 2013) (on file with Committee).

¹³ Letter from the Hon. Karen Mills, Administrator, SBA, to the Hon. Sam Graves, Chairman, Committee on Small Business (Aug. 30, 2013) (on file with Committee).

¹⁴ Letter from Marianne Markowitz, Acting Administrator, SBA to the Hon. Sam Graves, Chairman, Committee on Small Business (Mar. 11, 2014) (on file with the Committee) [hereinafter SBA-created Initiatives Response Letter]. The letter from Acting Administrator Markowitz was in response to a joint request for more information on these programs sent by Chairman Graves and Ranking Member Velázquez.

¹⁵ UNITED STATES SMALL BUSINESS ADMINISTRATION, FY 2015 CONGRESSIONAL BUDGET JUSTIFICATION AND FY 2013 ANNUAL PERFORMANCE REVIEW 54 (March 2014) [hereinafter SBA Budget Submission].

¹⁶ *Id.*

¹⁷ *Id.* at 55; UNITED STATES SMALL BUSINESS ADMINISTRATION, FY 2015 CONGRESSIONAL BUDGET JUSTIFICATION BRIEFING SLIDES 5 (March 20, 2014) (on file with Committee).

Growth Accelerators are the most recent SBA-created initiative, with SBA first requesting funding for this program in the FY 2014 budget. An accelerator is typically “a time-specific, mentorship-driven program designed to provide startups with critical resources to help them make rapid progress on product and customer development.”¹⁸ Given the newness of this SBA-created initiative very little information is available; however, SBA’s objectives are to: “scale up existing accelerators; provide resources to launch new accelerators; foster networking and community building to create both national and localized accelerator ecosystems; [and] facilitate match-making between accelerators, startups and potential funders via Demo-Day style events.”¹⁹ In order to achieve these objectives, SBA intends to award grants through an accelerator competition, “funding universities and private sector organizations to enhance and scale a successful existing accelerator program.”²⁰

c. Boots to Business

In the spring of 2012, Boots to Business initially launched at a few pilot locations, and is an ED program offered by SBA “as an elective track within the Department of Defense’s revised Transition Assistance Program (TAP) called Transition Goals, Plans, Success.” Specifically, Boots to Business is delivered in three phases based on a curriculum created by the Whitman School of Management at Syracuse University (SU) and “is operated by SU’s Institute for Veterans and Military Families (IVMF), in partnership with SBA resource partners.”²¹ The three phases are: first, an overview is provided to all Service members attending TAP; second, participants attend a two-day course entitled Introduction to Entrepreneurship; and third, participants complete an eight-week online course entitled Foundations of Entrepreneurship where the goal is to create an actionable business plan.²² In 2013, over 6,000 transitioning service members participated in the two-day course, or phase two of the program.²³

d. Regional Innovation Clusters

The SBA’s Regional Innovative Cluster initiative began in FY 2010 and awards grants to non-federal entities that in turn help create clusters (a geographically confined group of firms in the same or similar industries). The SBA has delineated the cluster initiative goals to be increasing “small business access to research, development and operational funding, as well as facilitat[ing] partnerships between small businesses, research facilities, academic institutions and other-than small businesses resulting in the ability of cluster participation to access new markets, create new products and business lines, and accelerate their growth.”²⁴ Initially SBA funded 10 pilot clusters, and according to SBA, an FY 2013 third-party evaluation found that small business participation in these clusters increased by over 380 percent since FY 2010.²⁵ It is

¹⁸ Paula Andruss, *What to Look for in an Accelerator Program*, ENTREPRENEUR, Jan. 30, 2013, available at <http://www.entrepreneur.com/article/225242>.

¹⁹ SBA-created Initiatives Response Letter, *supra* note 14, at 5.

²⁰ SBA Budget Submission, *supra* note 15, at 65.

²¹ <http://boots2business.org/about.aspx>.

²² SBA-created Initiatives Response Letter, *supra* note 14, at 6.

²³ *Id.*

²⁴ *Id.* at 2.

²⁵ SBA Budget Submission, *supra* note 15, at 53.

important to note that SBA is one of several agencies, including the United States Department of Defense, United States Department of Commerce, and United States Department of Labor, which all engage in supporting and providing federal funding for regional clusters for a total of fifty-six clusters.²⁶ Currently, SBA funds seven clusters and supports twenty-two others sponsored by the Jobs and Innovation Accelerator challenge.²⁷

V. Congressional Concerns

As can be gleaned from the above descriptions of the SBA-created initiatives, the absence of statutory directives leaves ample discretion to the agency to operate and evaluate the programs. Given that SBA has funds to operate these programs, the Committee requested information from the agency concerning the: use of funds; goals for the programs; and criteria for evaluation of the programs.²⁸

SBA's response letter did not ameliorate or assuage the concerns of the Committee; if anything it raised further alarms.²⁹ First, these programs are initiated in an area already determined to be overcrowded from a federal perspective. Second, the programs also may duplicate private as well as extant federal initiatives to provide counseling and training to small business. Third, the SBA, as the Committee suspected, lacks adequate metrics to assess the quality of these programs.

a. Duplication of Entrepreneurial Development Programs

Since 2011, the Government Accountability Office (GAO) has released a yearly report identifying duplication, overlap, and fragmentation in various federal programs including those that assist small businesses.³⁰ GAO specifically identified 80 economic development programs³¹ across four agencies – the Department of Commerce (Commerce), Department of Housing and Urban Development (HUD), United States Department of Agriculture (USDA), and SBA – as areas with potential for overlap, duplication, and fragmentation.³² Within the category of economic development, GAO further identified 52 programs across these agencies that focus on entrepreneurial efforts.³³ Based on the 2011 GAO Duplication Report, GAO further investigated the level of duplication, overlap, and fragmentation across entrepreneurial programs. This August 2012 comprehensive GAO study on entrepreneurial assistance programs found that agencies spent approximately “\$2.0 billion on economic development efforts in fiscal year

²⁶ <http://www.sba.gov/sba-clusters>.

²⁷ E-mail from Daniel Krupnick, Deputy Assistant Administrator for Congressional and Legislative Affairs, SBA, to Committee staff (Apr. 7, 2014, 2:34 p.m. EST) (on file with the Committee).

²⁸ Letter from the Hon. Sam Graves, Chairman, and the Hon. Nydia Velázquez, Committee on Small Business to Marianne Markowitz, Acting Administrator, SBA (Feb. 21, 2014) (on file with Committee).

²⁹ SBA-created Initiatives Response Letter, *supra* note 14, at 1-9.

³⁰ GAO, OPPORTUNITIES TO REDUCE POTENTIAL DUPLICATION IN GOVERNMENT PROGRAMS, SAVE TAX DOLLARS, AND ENHANCE REVENUE 1 (March 2011) (GAO-11-318SP).

³¹ A substantial challenge in identifying duplication in economic development programs is the absence of a single statutory or regulatory definition of the term “economic development.”

³² GAO, OPPORTUNITIES TO REDUCE POTENTIAL DUPLICATION IN GOVERNMENT PROGRAMS, SAVE TAX DOLLARS, AND ENHANCE REVENUE 42 (March 2011) (GAO-11-318SP).

³³ *Id.* at 43. For purposes of this report, GAO indicates that entrepreneurial efforts include: “helping businesses to develop business plans and identify funding sources.”

2011.”³⁴ Additionally, GAO found that the ability to provide maximum technical aid is undermined by the fragmented support offered simultaneously by USDA, Commerce, HUD, and SBA.³⁵

Rather than working to reduce duplication, SBA continues to spawn new entrepreneurial assistance programs on their own initiative. According to SBA, these initiatives are designed to foster joint efforts among the various ED program partners and develop best practices. However, the limited information provided to the Committee reveals that these programs duplicate services already provided by SBDCs, WBCs, VBOCs, SCORE, and other federal agencies. Additionally, the Committee has concerns that SBA is denying current resource partners, such as the SBDCs, an opportunity to participate in these SBA-created initiatives or that their request for these new initiatives is reducing the potential funds going to already extant resource partners.³⁶

b. Duplication of Private Sector Efforts

Aside from duplicating extant federal outreach and training efforts to small business owners, there is evidence that SBA-created initiatives may overlap and duplicate services provided without the use of any federal funds.³⁷ One such instance may be SBA increased outreach efforts to high-growth startup firms that duplicate programs with longstanding reputations in the business community.

As mentioned above, accelerators provide an excellent basis for growth and enable startups to obtain funding. Currently there are numerous private sector accelerators that receive no direct federal appropriations. For example, Y Combinator, which started in 2005 and is based in Silicon Valley, provides a small amount of seed money (\$14K-\$20K and an \$80K note) to its participants while providing education through mentoring in a three-month program.³⁸ Given the success of private sector accelerators and SBA’s previously mentioned grant-funding model, some critics say SBA is merely seeking to piggy-back off of these successful private sector efforts. While SBA’s intentions may be positive, given the breadth of non-federal efforts and their efficacy, it is worth considering the need for SBA to expand its entrepreneurial education efforts into this field.

³⁴ GOVERNMENT ACCOUNTABILITY OFFICE (GAO), ENTREPRENEURIAL ASSISTANCE: OPPORTUNITIES EXIST TO IMPROVE PROGRAMS’ COLLABORATION, DATA-TRACKING, AND PERFORMANCE MANAGEMENT I (August 2012) (GAO-12-819) [hereinafter August 2012 GAO Report], available at <http://www.gao.gov/assets/650/647267.pdf>. Please see Appendix III of the report for a list of identified programs. Please note that GAO did not include programs lacking specific statutory authority and if SBA-created initiatives were included, the number would increase.

³⁵ *Id.* at summary.

³⁶ See Letter from the Hon. Sam Graves, Chairman, and the Hon. Nydia Velázquez, Committee on Small Business, to Marianne Markowitz, Acting Administrator, SBA (Feb. 21, 2014) (on file with Committee). This letter cites these concerns in further detail. See also SBA-created Initiatives Response Letter, *supra* note 14. The SBA’s response was not adequate and failed to address key issues, such as resource partner participation or how those partners will be leveraged to serve the SBA-created initiatives.

³⁷ For further information on private sector ED efforts see *Private Sector Initiatives to Educate Small Business Owners and Entrepreneur Before the H. Subcomm. on Economic Growth, Tax, and Capital Access of the H. Comm. on Small Business*, 113th Cong. (2013).

³⁸ Y Combinator, <http://ycombinator.com>.

c. Lack of Adequate Performance Metrics

The final concern relates to a lack of performance metrics to adequately assess the quality of these programs. Given that SBA-created initiatives are established pursuant to SBA's general authority to offer assistance to small businesses, these programs do not contain the appropriate performance metrics or operating standards that would result had Congress specifically provided for their establishment. In response to a request from the Committee's Chairman and Ranking Member, the SBA provided further information with respect to the spending of appropriated funds, the goals of these SBA-created initiatives, and the standard by which the agency will evaluate their performance.³⁹ However, many of the evaluations have yet to be completed given the newness of the programs and while the letter denotes SBA's intentions to obtain performance metrics, currently little is known regarding job creation and business formation.⁴⁰

The concern regarding adequate performance metrics is exacerbated further by the aforementioned GAO ED duplication study which found substantial flaws in agencies collection of performance metrics. In that case, GAO found that information is not tracked for several programs and only 20 out of 52 programs GAO identified have been evaluated since 2000, and these evaluations typically have only been one-time occurrences.⁴¹ As a result, GAO indicated that agencies may not be able to accurately determine the programs, or parts thereof, that were properly functioning and ensure that agencies resources were devoted to the most effective programs.⁴² Due to these prior difficulties in obtaining performance metrics and evaluations for specifically statutorily authorized ED programs, the Committee must ensure that SBA is properly developing and capturing performance metrics for SBA-created initiatives in order for Congress to analyze the benefits and drawbacks of each program.

VI. Conclusion

As mentioned above, federally funded ED programs are an area riddled with redundancy and ineffective performance metrics. Despite this, SBA-created initiatives are being developed and funded at rates comparatively higher than established and statutorily authorized ED programs. As taxpayers' dollars must be wisely spent, it is worth considering whether allocation of funds on SBA's expansion of its ED portfolio is necessary.

³⁹ SBA-created Initiatives Response Letter, *supra* note 14, at 1-9.

⁴⁰ *See Id.*

⁴¹ August 2012 GAO Report, *supra* note 34, at 25.

⁴² *Id.* at 25 and 28.