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Congress of the United States

U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

Memorandum

To: Members, Committee on Small Business
From: Sam Graves, Chairman
Date: May 23, 2011
Subject: Full Committee Hearing: "Promoting Entrepreneurship and Job Creation by Decreasing Duplication at SBA"

Introduction

On Wednesday, May 25, 2011 at 1:00 p.m. the House Committee on Small Business will hold a full committee hearing titled, "Promoting Entrepreneurship and Job Creation by Decreasing Duplication at SBA." This hearing will examine duplicative programs at the U.S. Small Business Administration (SBA), specifically focusing on the Entrepreneurial Development Programs. Witnesses include representatives from the Government Accountability Office (GAO), a Small Business Development Center located in Northern Virginia and a representative from American Express. They will discuss the overlap that occurs within SBA's Entrepreneurial Development programs and how private efforts meet the needs of businesses looking for educational opportunities.

A key component to success for entrepreneurs is the knowledge they can bring to their business. For many small business owners, particularly for start-ups, the business owner might have the passion and capital, but lack the experience necessary to turn their idea into a successful business. Entrepreneurial training provides business owners with the practical skills they need to either start a business or to guide their business to the next level of success.

While entrepreneurial development programs have the ability to help entrepreneurs become successful, it is appropriate to ask what is the proper role of the federal government in developing training and mentorship opportunities, particularly when there are so many private efforts aimed at the same purpose. This question is particularly relevant given the unsustainable pace of government spending and debt facing the country. As of May 5, 2011, the debt of the

United States stood at $14.3 trillion.[1] To deal with the staggering debt, Congress will need to make tough choices about our nation's priorities and how federal dollars should be spent. One way to begin to tackle federal spending is through cuts to government programs that are duplicative, unnecessary given private sector activity, or do not provide exceptional value to taxpayers.

The SBA, through its website, district offices and resource partners, provides training opportunities and counseling services to assist business owners become educated about how to run a business or strategies for growing their existing business. These training opportunities include courses on topics such as how to start a business, how to obtain capital, how to contract with the federal government and how to sustain and grow a business.[2] Within these broad topics, a business owner can learn about everything from how to develop a business plan to how to comply with tax reporting requirements. In addition, SBA resource partners, including Small Business Development Centers (SBDCs) and Service Corps for Retired Executives (SCORE), provide one-on-one counseling sessions and mentorship to business owners needing individualized assistance.

Aside from entrepreneurial development efforts provided by SBA, there are other sources of training that are tailored to small business owners. As in most fields, America's vast network of colleges and universities, along with community colleges, offer courses designed for small business owners. These courses teach them important skills for running a business, including leadership training and recordkeeping.[3] There are also mentorship and networking opportunities provided through local chambers of commerce and other business organizations.[4] [5]

Duplication in Federal Programs

On March 1, 2011, GAO issued its first annual report pursuant to the Statutory Pay-As-You-Go Act of 2010.[6] The purpose of this report is to identify duplicative programs across the federal agencies and make recommendations for consolidation. Using prior reports as a baseline, GAO identified 80 programs spread across four federal agencies in the area of economic development.[7] In Fiscal Year 2010, the total cost for these programs was $6.2 billion. Of these 80 programs, there are 52 that specifically deal with entrepreneurial development which includes counseling, development of business plans and identification of funding resources. While GAO leaves it to Congress to decide on the merits of the programs, they do conclude that the fragmentation of services might not be the most efficient way to provide services and can lead to confusion on behalf of intended recipients. Below is a brief summary of GAO reports focused on entrepreneurial development programs at SBA:

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[1] U.S. Debt Clock Home Page, http://www.usdebtclock.org/, accessed May 5, 2011.
[2] www.sba.gov http://www.sba.gov/category/navigation-structure/counseling-training/online-small-business-training, accessed May 5, 2011.
[3] Mercer County Community College, http://www.mccc.edu/services_small.shtml accessed May 5, 2011
[4] San Diego Chamber of Commerce Home Page, http://www.sdchamber.org/ May 5, 2011
[5] Bolder Colorado Bar Association Home Page, http://www.boulder-bar.org/ May 5, 2011
[6] Pub. L. No. 111-139 § 21.
[7] The agencies include: the U.S. Department of Agriculture, the U.S. Department of Commerce, the U.S. Department of Housing and Urban Development and the U.S. Small Business Administration.

A 2009 GAO audit of agencies providing entrepreneurial development assistance to veterans, found that several mandates put in place to ensure veterans were receiving the most effective and efficient services were not fully satisfied.[8] The report found an unfulfilled statutory requirement which resulted in the delay of establishing an interagency task force to coordinate federal efforts to reduce duplication. Additionally, agencies failed to reach objectives required by Memorandums of Understanding (MOUs). Specifically, agencies and partners including the SBA, Veterans Administration (VA) , the Department of Labor (DOL), SCORE, and the Association of Small Business Development Centers (ASBDC) were required to enter into MOUs to enhance cooperation and reduce duplication. The report also noted that lack of coordination among agencies could result in veterans being unable to navigate a maze of federal programs instead of helping them. It was reported that service-disabled veterans wishing to start a business were referred to multiple programs for assistance which resulted confusion.

In 2008, GAO identified duplication between SBA and U.D. Department of Agriculture (USDA) in serving rural communities.[9] Both agencies have the similar mission of fostering economic development and promoting entrepreneurship and community development in rural markets. Despite legal requirements being in place for close to a decade, both agencies have done little at the agency level to coordinate efforts. Most collaboration occurred at the local level, with agency representatives holding joint educational outreach and making referrals between the agencies on an ad hoc basis.

In 2007, GAO found SBA oversight and communication with Women's Business Centers (WBCs) was ineffective. Imbalances in the agency's staff resources resulted in inaccurate oversight of the program.[10] Often the agency relied heavily on already overburdened district office staff to conduct oversight functions. The report also found this staff frequently lacked relevant training to conduct proper oversight. These factors resulted in inaccurate accounts of the status of WBCs. It was also reported that the SBA consistently provided incorrect information regarding performance goals to WBCs. This increased the chance that a WBC would not reach established goals. As a result, GAO recommended that SBA reallocate oversight responsibilities for district office staff. The development of a revamped communication strategy was also recommended. When SBA grants awards to WBCs, the Centers are required to coordinate with local SBDCs and SCORE chapters. Further, local SBA offices are responsible for ensuring entrepreneurial development efforts are not duplicated. GAO found that WBCs lacked guidance from the SBA on how to enact coordination efforts. Additionally, some WBCs reported to GAO that it was difficult to coordinate services with SBDCs and SCORE because the programs have similar performance measures which results in competition. It was also found that SBA would encourage WBCs to provide the same services already being provided by SBDCs in the same district. This results in unnecessary duplication.

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[8] Gov't Accountability Office (2009) *"Multiple Agencies Provide Assistance to Service-Disabled Veterans or Entrepreneurs, but Specific Needs are Difficult to Identify and Coordination is Weak"* (GAO-09-11R).
[9] Gov't Accountability Office (2008) *"Rural Economic Development: Collaboration between SBA and USDA Could Be Improved"* (GAO 08-1123).
[10] Gov't Accountability Office (2007) *"Opportunities Exist to Improve Oversight of Women's Business Centers and Coordination among SBA's Business Assistance Programs"* (GAO-07-1244T).

GAO recommended that SBA develop a consistent plan on how its business assistance programs can avoid duplication.

A key recommendation to reduce duplication is for agencies with similar programs to enhance collaboration. GAO defines collaboration as: *"any joint activity that is intended to produce more public value than can be produced when agencies act alone, including activities that others have previously defined as cooperation, coordination, integration or networking."*[11] Collaboration can take place through the establishment of interagency agreements, Memorandums of Understanding (MOUs), cooperative agreements and interagency working groups. While GAO recognizes that there is some informal collaboration, mostly among agency offices in the field, more needs to be done to institutionalize collaboration at the senior management level. When looking to increase collaboration, agencies should consider the following:[12]

Define and articulate a common outcome	Establish mutually reinforcing or joint strategies
Identify and address needs by leveraging resources	Agree on roles and responsibilities
Establish compatible policies, procedure, and other means to operate across agency boundaries	Develop mechanisms to monitor, evaluate and report on results
Reinforce agency accountability for collaborative efforts	Reinforce individual accountability for collaborative efforts

Statutory Framework

GAO reported that despite legal requirements being in place for a decade, agencies continue to lack formal collaborative agreements. Below, is a list of laws identified by GAO that require greater collaboration between entrepreneurial development programs:

- The Farm Security and Rural Investment Act of 2002 establishes a partnership where USDA, SBA and others could better collaborate in delivering services to rural areas.[13] [14]

- The Federal Agriculture Improvement and Reform Act of 1996 requires the Secretary of Agriculture to establish and interagency working group to establish rural policy, coordinate assistance and evaluate performance of rural assistance programs.[15] [16]

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[11] Gov't Accountability Office (2008) *Rural Economic Development: Collaboration between SBA and USDA Could Be Improved* (GAO 08-1123) at. 2

[12] Gov't Accountability Office (2006) *Results Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies* (GAO 06-15) at 4

[13] Pub. L. No. 107-171 § 6021.

[14] Gov't Accountability Office (2008) *Rural Economic Development: Collaboration between SBA and USDA Could Be Improved* (GAO 08-1123) at .2

[15] Pub. L. No. 104-127 § 761.

[16] Gov't Accountability Office (2008) *Rural Economic Development: Collaboration between SBA and USDA Could Be Improved* (GAO 08-1123) GAO 08-1123 at. 2.

- The Veterans Entrepreneurship and Small Business Development Act of 1999 requires federal agencies and their resource partners to enter into MOUs to coordinate service deliver efforts to veteran-owned small businesses.[17] One MOU establishes a clearinghouse on entrepreneurial assistance available to service-disabled veterans. This clearinghouse was never established, leading GAO to find "...VSOs said that service-disabled veterans may not know where to go to access entrepreneurial assistance because it is fragmented among agencies and no single source exists to provide information about available assistance from the multiple programs.[18]

- The Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008 creates a taskforce to improve capital assess for veteran and service-disabled veterans and increasing and improving training and counseling services to veteran-owned and controlled small businesses.[19]

Geographic Overlap

In addition to the duplicative programmatic function of the various entrepreneurial development programs at SBA, there is also significant geographic overlap. According to SBA's Inspector General, 104 of the 109 WBCs listed on SBA's website are located within 25 miles of either an SBDC or SCORE chapter.[20] Additionally, of the 16 Veterans Business Opportunity Centers, seven are located at the same college or university as an SBDC. Of the remaining veterans centers, six have an SBDC within 10 miles, two are less than 20 miles from an SBDC and the remaining center is 33 miles away.[21] The Inspector General also noted that the Department of Commerce Minority Business Development agency has 41 outreach centers providing similar services as SBDCs. All of these 41 centers have a SBDC or SCORE chapter within 25 miles.[22]

Eliminating Duplication at SBA

On March 15, 2011, the House Small Business Committee approved, by voice vote, a document titled "Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012." This document, which was transmitted to the Budget Committee, sets out the Small Business Committee's position on

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[17] Pub. L. No. 106-50.

[18] Gov't Accountability Office (2009) *Multiple Agencies Provide Assistance to Service-disabled Veterans or Entrepreneurs, but Specific Needs Are Difficult to Identify and Coordination Is Weak* (GAO-09-11R October 15,2008 at 8.

[19] Pub. L. No. 110-186.

[20] Letter from Peggy E. Gustafson, U.S. Small Business Administration Inspector General to The Honorable Mary L. Landrieu, Chair and The Honorable Olympia J. Snowe, Ranking Member United States Senate Committee on Small Business and Entrepreneurship (March 15, 2011).

[21] Id. at. 4.

[22] Id.

which programs in the President's Budget for Fiscal Year 2012 should receive funding.[23] There are five programs addressed in the Views and Estimates letter that will be addressed at this hearing. Below are the relevant programs and Committee views for streamlining these programs:

Small Business Development Centers

SBDCs educate entrepreneurs on the aspects of finance, marketing, production, organization, engineering, and technical problems as they pertain to running small businesses. Additional assistance is available to those seeking counseling with international trade issues, procurement assistance, venture capital formation and rural development. Currently, there are sixty-three grantees in the United States. These grantees are often referred to as SBDCs. However, the SBDCs are actually locations at which the grantees provide services. Those SBDCs are located at colleges. The primary SBDC or grantee directs a network of smaller centers throughout a state in order to make their services available to all small business owners. Paid staff and volunteers, including students, contribute their expertise and services to these SBDCs.

The SBA is responsible for contributing up to fifty percent of operating funds for every primary SBDC pursuant to a complex funding formula. The remaining funds come from a variety of contributors including state government, foundation grants, state and local chambers of commerce, public and private universities and other sources. All entrepreneurs are eligible to benefit from working with their local SBDC. The FY2012 budget request reduced funding for SBDC by $9.6 million. However, the Committee requested additional $5 million in funding for SBDCs that would come from the reduction of duplicative entrepreneurial development efforts at the SBA.

SCORE

The SCORE program is composed of a phalanx of working and retired business executives and small business owners. Similar to SBDCs, this group provides free expert advice to fledgling and seasoned small business owners. Small business owners receive this assistance through the SCORE website, SCORE chapter offices, SBA district offices, and other venues. There are currently 389 SCORE chapters in the United States. The FY2012 Budget request for SCORE was $12 million. The Committee agrees with this level of funding.

Women's Business Centers

The Office of Women's Business Entrepreneurship oversees the Women's Business Centers program for the SBA. The WBC program is similar to a SBDC in offering education and counseling to entrepreneurs in need. The program differs from a SBDC in that its primary mission is to focus on women, although men are served as well. The goal of the program is to add more well-trained women to the American small business community.

[23] The Views and Estimates letter was transmitted to the Budget Committee pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d).

Currently, there are approximately 110 WBCs operating in the United States. WBCs are created by a private nonprofit organization that applies for funds from the SBA to set up a center. Once the application is approved, a cooperative agreement is set up for five years as the center must raise matching funds from non-federal resources. The WBC is required within the first two years to raise matching non-federal funds at one dollar for every two SBA dollars. In the last three years of the award the WBC is required to raise one non-federal dollar for every SBA dollar. The amount awarded cannot exceed $150,000 per recipient each fiscal year.

Every year the amount of funding given to successful WBC applicants is reevaluated based on availability of funds, the amount of funds previously spent by the WBC, and performance of the WBC with consideration to the number of clients served and jobs created.

The U.S. Troop Readiness, Veterans' Care, Katrina Recovery and Iraq Accountability Appropriations Act of 2007 amended the Small Business Act to permit WBCs to receive funding on a continual basis.[24] WBCs currently in the program and those that have successfully graduated will be eligible to apply for continuous award funding through three-year renewable awards of up to $150,000 per year. This makes the role of the federal government in this program perpetual and the odds of a WBC becoming self sustaining less likely. Additionally, funds going to WBCs after the initial five-year program ends, reduce the amount of funds available to open new WBC's.

A Government Accountability Office report conducted in November of 2007 found that even though the SBA has developed oversight procedures for the WBC program, it has imbalances in the agency's staff resources for WBC oversight and ineffective communication with WBCs. These factors reduce the effectiveness of its oversight. Often the agency relies heavily on district office staff that may have too many responsibilities or lack relevant training. The report also found that ineffective communication with WBCs has led to confusion about how to meet program requirements and on how their performance is being assessed. Services provided by WBC's do not differ from those provided by SBDCs or SCORE. An entrepreneur could request assistance from either program and would receive the same benefit. However, the WBCs differ functionally from SBDCs and SCORE due to lack of oversight and the fact that they rely on perpetual federal funding. The Committee has recommended that the WBC Program be terminated for these reasons. Additionally, $5 million of WBC funds should be redirected for use by SBDCs.

The Office of Veterans Business Development

Veterans Business Outreach Centers (VBOCs) are responsible for the formulation, execution and promotion of programs to assist veterans and service-disabled veterans in starting and maintaining a successful small business. Sixteen VBOCs

[24] Pub. L. No. 110-28.

are located throughout the United States and provide assistance to veteran small business owners. VBOCs duplicate services already provided by SBA and the Department of Veterans Affairs. The Committee has recommended that no additional funding be made available for VBOCs. Although funding for other Veteran efforts at SBA should be maintained.

Private Entrepreneurial Development Efforts

Complementing the variety of entrepreneurial development efforts provided through SBA and other federal agencies are efforts that are funded exclusively by the private sector. Many corporations offer mentorship programs whereby a variety of services are available to members of their communities. While these efforts vary greatly in both size and scope, the business owners that receive training greatly benefit from the services they receive, and in turn go on to work with other businesses that desire training opportunities. Besides not costing taxpayer dollars, these programs have the flexibility to adapt their curriculum to the local business environment and provide introductions to peers in the business community.

Conclusion

Entrepreneurial development plays a vital role in helping our nation's economy to recover and grow. The growth of successful small businesses is a key factor in getting our county back on track and moving in a positive direction. The entrepreneurial development programs at the SBA play an important role in ensuring that entrepreneurs wanting to start and grow their business have access to educational and technical assistance. However, it is important to keep in mind that while the growth of small business is vital to the success of our economy, duplicative government programs are a significant contributor to our nation's increasing debt.

This hearing will provide Committee members an opportunity to learn about the public and private programs to help entrepreneurs start or grow their businesses. Members will also hear about duplication in the area of entrepreneurial development and efforts to streamline these programs.