

Testimony of:

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Hearing for:

**Review of SBA Entrepreneurial Development Programs and Initiatives**

U.S. Senate Committee on Small Business & Entrepreneurship

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Chairman Cardin, Ranking Member Paul, and Members of the Committee, thank you for the honor of participating in today's hearing. My name is Michael Hendrix, and I serve as a senior fellow and director of state and local policy at the Manhattan Institute. Along with my colleagues, we seek to advance freedom and opportunity across America's communities.

Entrepreneurial success makes the American Dream a reality. New businesses create jobs and foster opportunity, help build vibrant communities and empower marginalized Americans. The Small Business Administration through its 14,000 resource partners has committed to assisting these entrepreneurs, and they should be applauded for their worthy mission.

But my message today is simple: The Small Business Administration's (SBA) entrepreneurial development programs and initiatives are too often ineffective and duplicative. We must find a better way to serve America's entrepreneurs.

## INEFFECTIVE

The track record and oversight of the SBA's entrepreneurial development program is spotty at best. If these programs helping small businesses were small businesses themselves, they would have failed. And there's too much failure to launch as it is: The rate of new business formation has fallen by nearly half in the four-plus decades since the SBA's establishment of its Small Business Development Centers (SBDCs).<sup>1</sup>

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<sup>1</sup> *Business Dynamics Statistics*. Census.gov. <https://www.census.gov/programs-surveys/bds.html>

The bill for the SBA’s resource partners is north of \$180 million, a figure that’s been rising faster than inflation, not including the \$175 million for Covid-19 assistance and outreach and much more spent on aid. Altogether, the SBA’s Office of Entrepreneurial Development spent a half-billion dollars in FY2020 and another \$300 million in FY2021 on training and counseling small businesses. They claim a million entrepreneurs and owners being trained yearly through the Small Business Development Centers, the SCORE mentoring network, Women’s Business Centers (WBCs), and Veterans Business Outreach Centers (VBOCs), among others.

I’ve visited these offices. At one, located in a Colorado-based startup hub, I was told my first step as a technology entrepreneur was to visit the library to learn Microsoft Word. And after that to write a business plan, which I could design with Microsoft Paint and clip art. Not only was this advice clearly out of date, but it was also out of context. Even the notion of drafting business plans, which feature prominently in the SBA’s material, risks becoming “an old economy relic,” as *The New York Times* observed seven years ago.<sup>2</sup>

Still, a 2012 survey of partner clients found the advice was generally useful.<sup>3</sup> But when they were asked if that same assistance meant, say, increasing profit margins or hiring and retaining new staff, the positive results suddenly vanished—few could say that. In fact, Women’s Business Center clients actually lost staff. And of SCORE’s 195,000 unique clients, only 480 became new businesses.<sup>4</sup>

What makes these results worrisome is not simply that a study or two showed mixed results from the SBA’s resource partners. It’s that there’s not much more than a study or two. The SBA and their partners are barely keeping track of whether their work actually works. The SBA’s inspector general found that the agency does not “accurately measure or report SCORE’s program goal achievements” and had a limited ability to “assess whether the program achieved its intended purpose.”<sup>5</sup> As of a few years ago, they weren’t even tracking customer feedback (as they’re supposed to).<sup>6</sup> I can’t imagine they’d advise their clients to do the same.

Nor would I hope they would recommend their own management practices. Consider the recent multi-million-dollar grant awarded by the SBA for a hub educating small businesses on federal

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<sup>2</sup> Zimmerman, E. (2014, December 3). *As start-up strategies evolve, so does role of a business plan*. The New York Times. <https://www.nytimes.com/2014/12/04/business/smallbusiness/business-plans-for-start-ups.html>

<sup>3</sup> U.S. Small Business Administration. (2012, September). *Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners’ Face-to-Face Counseling*. [https://www.sba.gov/sites/default/files/aboutsbaarticle/Impact\\_Study\\_of\\_Entrepreneurial\\_Development\\_Resources\\_2012\\_09.pdf](https://www.sba.gov/sites/default/files/aboutsbaarticle/Impact_Study_of_Entrepreneurial_Development_Resources_2012_09.pdf)

<sup>4</sup> Congressional Research Service. (2021, January 14). *Small Business Management and Technical Assistance Training Programs*. <https://crsreports.congress.gov/product/pdf/R/R41352/73>

<sup>5</sup> Office of the Inspector General. (2019, April 25). *Audit of the SBA’s Oversight of the SCORE Association*. <https://www.sba.gov/sites/default/files/2019-07/SBA-OIG-Report-19-12.pdf>

<sup>6</sup> Office of the Inspector General. (2018, December 19). *SBA’s District Offices’ Customer Service*. <https://www.oversight.gov/sites/default/files/oig-reports/SBA-OIG-Report-19-06.pdf>

resources available during the Covid-19 pandemic. This hub ended up helping just one percent of the businesses it was intended to serve.<sup>7</sup> And out of 14,000 resource partner counselors, only 62 completed any of the training intended to help them help businesses in a time of crisis.

The SBA’s inspector general has found again and again that the agency has poor oversight over its resource partners and the taxpayer dollars they’re spending. We saw this in 2018 with the “systemic issues with the SBA’s financial and performance oversight of multiple grant programs,” including its resource partners.<sup>8</sup> And in 2019, when “program officials did not effectively oversee SCORE’s use of federal funds.”<sup>9</sup> And again in 2021, when the “SBA did not provide effective oversight over the WBC program.”<sup>10</sup> Again and again, we see systemic failures in oversight and administration on the part of the SBA and its resource partners.

Consider the example of SCORE. The inspector general found the program was susceptible to “fraud, waste, and abuse.”<sup>11</sup> SCORE “inappropriately solicited donations for mentoring services,” charged for publications they should’ve been providing for free, and generally bungled funds for a laundry list of activities. A sample of expenses found thousands of dollars being illegally spent on booze. Worse yet, the SBA admitted that it didn’t even know how much SCORE cost to run. The SBA promised to do better, while at the same time boasting that SCORE had been a resource partner for more than 50 years. Why then has it taken so long to hold SCORE and programs like it accountable?

## DUPLICATIVE

The SBA’s resource partner network is duplicative, plain and simple. When the SBA and programs like SCORE were launched, there weren’t many resources like them available—but there are now. We see programs in the private sector helping entrepreneurs without the need for government subsidies, similar services being provided at the state and local level, and even the same offerings being delivered by other federal resource partners in the same neighborhood.

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<sup>7</sup> Office of the Inspector General. (2022, January 18). *SBA’s Oversight of the Grant Recipient’s Implementation of the Cares Act Resource Partners Training Portal*. <https://www.sba.gov/sites/default/files/2022-01/SBA%20OIG%20Report%2022-07.pdf>

<sup>8</sup> Office of the Inspector General. (2021, March 30). *Evaluation of SBA’s Award Procedures for the Coronavirus Aid, Relief, and Economic Security Act Entrepreneurial Development Cooperative Agreements*. <https://www.oversight.gov/sites/default/files/oig-reports/SBA/SBA-OIG-Report-21-11.pdf>

<sup>9</sup> Office of the Inspector General. (2019, April 25). *Audit of the SBA’s Oversight of the SCORE Association*. <https://www.sba.gov/sites/default/files/2019-07/SBA-OIG-Report-19-12.pdf>

<sup>10</sup> Office of the Inspector General. (2021, May 4). *Audit of SBA’s Oversight of Women’s Business Centers’ Compliance with Cooperative Agreement Financial Requirements*. <https://www.sba.gov/sites/default/files/2021-05/SBA%20OIG%20%20Report%2021-14.pdf>

<sup>11</sup> Office of the Inspector General. (2019, April 25). *Audit of the SBA’s Oversight of the SCORE Association*. <https://www.sba.gov/sites/default/files/2019-07/SBA-OIG-Report-19-12.pdf>

Today, if you'd like to find a free business plan, Google gives you 3.5 billion results. The *Harvard Business Review* will show you "How to Write a Winning Business Plan" alongside Google's 57 million video results answering the same question. The Kauffman Foundation's FastTrac program will teach you the steps to entrepreneurial success. If you're in need of mentoring, there's the Young Entrepreneurs Council, Goldman Sachs's 10,000 Small Businesses program, Ashoka for social entrepreneurs, 37 Angels for women entrepreneurs, and so on. This doesn't include the entire ecosystem of incubators and accelerators for new and small businesses of all stripes. The SBA and its resource partners are simply not competitive with the private sector; the Small Business Administration has been outcompeted by small businesses.

They are also facing competition from state and local governments. In New York City, where the Manhattan Institute is based, there's the Small Business Services agency and the Economic Development Corporation—each with their own initiatives helping women, minority, and veteran-owned businesses. Then there's the city council-backed Made in NYC effort helping manufacturers and even the New York Public Library's Small Business Resource Centers. And I haven't even scratched the surface of the city's partnerships with outside groups, such as in creating the NYC Small Business Resource Network during the Covid-19 pandemic. What innovation might we see if entrepreneurial support came from the states and localities closer to entrepreneurs themselves rather than from Washington? Even so, *all* government entrepreneurship programs should be subject to rigorous scrutiny and regular client feedback, at the very least.

When the SBA's inspector general came before this committee in 2011, she had a simple message: "Reduce duplicative business counseling."<sup>12</sup> The agency's Small Business Development Centers, Women's Business Centers, Veteran's Centers, SCORE Chapters—they all provide similar services, she concluded.<sup>13</sup> Their websites and counselors also offer much of the same information.<sup>14</sup> And that's before considering that the Commerce Department has its own Minority Business Development Agency (MBDA) Business Development Centers, also offering the same advice. Many

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<sup>12</sup> *Statement of Peggy E. Gustafson, Inspector General, U.S. Small Business Administration.*

[https://www.sbc.senate.gov/public/\\_cache/files/c/5/c52363d2-56b9-4763-ad54-1467200995da/0EEF09BAC155FEDF6BF6A480CA3D1435.gustafson-testimony.pdf](https://www.sbc.senate.gov/public/_cache/files/c/5/c52363d2-56b9-4763-ad54-1467200995da/0EEF09BAC155FEDF6BF6A480CA3D1435.gustafson-testimony.pdf) (2011, June 16).

[https://www.sbc.senate.gov/public/\\_cache/files/c/5/c52363d2-56b9-4763-ad54-1467200995da/0EEF09BAC155FEDF6BF6A480CA3D1435.gustafson-testimony.pdf](https://www.sbc.senate.gov/public/_cache/files/c/5/c52363d2-56b9-4763-ad54-1467200995da/0EEF09BAC155FEDF6BF6A480CA3D1435.gustafson-testimony.pdf)

<sup>13</sup> The SBA's Entrepreneurial Development Program also funds, for instance, the Microloan Technical Assistance effort, the Program for Investment in Microentrepreneurs, Native American Outreach, Entrepreneurial Development Initiative, Entrepreneurship Education Initiative, Growth Accelerators Initiative, HUBZone, National Women's Business Council, Step Trade and Export Promotion, Cybersecurity for Small Business, and the FAST Partnership Program, among others.

<sup>14</sup> In 2007, the Government Accountability Office (GAO) found the SBA pushing for a duplication of efforts: "We also found that on some occasions SBA encouraged WBCs to provide services that were similar to services already provided by SBDCs in their district."

United States Government Accountability Office. (2007, November 16). *Opportunities Exist to Improve Oversight of Women's Business Centers and Coordination among SBA's Business Assistance Programs.*

<https://www.gao.gov/products/gao-08-49>

of these facilities are located close to each other; for instance, 95 percent of Women’s Business Centers are within 25 miles or less of an SBDC or SCORE office.<sup>15</sup>

## BETTER WAY

Nearly 60 years of the SBA’s entrepreneurial development program has yielded questionable results and mounting inefficiencies.<sup>16</sup> Every new decade has brought new initiatives and new requests for more funding, all without asking a fundamental question: is this really what entrepreneurs need?<sup>17</sup>

What America’s entrepreneurs need is less bureaucracy, for one thing. If government wants to help, start by cutting red tape. Having fewer top-down dictates and more local innovation. It’s in communities across this country, after all, where we see neighbors linking and leveraging assets into an entrepreneurial ecosystem.

This is not to say that SBDCs, SCOREs, WBCs, Veterans Business Outreach Centers, and the whole universe of SBA programs are not impacting some entrepreneurs somewhere, or that they do not have dedicated staff and mentors who want to help. But we should question just how much duplication is going on and hold them accountable. Numerous voices over the years, including the Government Accountability office, have called for merging the agency’s duplicative programs for entrepreneurs.<sup>18</sup> Ideally, groups like SCORE should be able to stand on their own feet without tens of millions of dollars in federal subsidy; they should compete, just as their clients must. Ultimately, we must ask: is the federal government best placed to offer entrepreneurs advice?

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<sup>15</sup> And all 41 MBDA Business Development Centers are located within 25 miles or less of an SBA funded SBDC or SCORE Chapter (or both). See: *Gustafson Testimony*.

<sup>16</sup> Or, to quote a representative of the U.S. Women’s Chamber of Commerce, “Over the last 50 years, the SBA entrepreneurial development system has grown into a fragmented array of programs, which has resulted in a disorganized, overlapping, and [in]efficient delivery of service through a system that is ill-prepared to effectively address the challenges of our economy.”

*Full Committee Hearing on the State of the SBA’s Entrepreneurial Development Programs and their Role in Promoting an Economic Recovery* (2009, February 11). Committee on Small Business, United States House of Representatives. <https://www.govinfo.gov/content/pkg/CHRG-111hhr47055/html/CHRG-111hhr47055.htm>

<sup>17</sup> As Rep. Sam Graves noted, “The SBA has increasingly spawned its own entrepreneurial development initiatives. In doing so, the SBA has repeatedly requested increased funding for its own initiatives while allowing funding for statutorily authorized programs, such as SBDCs, to remain static.... I continue to question the necessity of these initiatives given the potential overlap with both private and public sector efforts already in existence.”

*SBA-Created Initiatives: Necessary or Redundant Spending?* (2014, April 30). Committee on Small Business, United States House of Representatives.

<https://www.govinfo.gov/content/pkg/%20CHRG-113hhr87751/html/CHRG-113hhr87751.htm>

<sup>18</sup> Dilger, R. J. (2014, May 7). *Small Business Management and Technical Assistance Training Programs*. <https://www.hsdl.org/?view&did=754089>

While some are here today to praise the hard work of the Small Business Administration and its partners, I believe we must reserve our highest praise for America's small businesses and seek to serve the entrepreneurs at their helm.

Thank you.