

DUPLICATION, OVERLAP AND FRAGMENTATION IN FEDERAL FINANCIAL ASSISTANCE PROGRAMS

HEARING

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TRADE

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COMMITTEE ON SMALL BUSINESS
UNITED STATES

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None.	
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None.	
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None.	

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THURSDAY, FEBRUARY 6, 2014

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON AGRICULTURE, ENERGY AND TRADE,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Scott Tipton [chairman of the subcommittee] presiding.

Present: Representatives Tipton, Luetkemeyer, Mulvaney, Hanna, and Murphy.

Chairman TIPTON. Good morning. Thank everyone for taking the time to be with us today. I would like to be able to call this hearing to order.

To bolster our economy, Congress recognizes that it is essential, when possible, to reduce barriers to small business growth. One area where small businesses consistently feel that barriers exist is accessing capital. Capital is the lifeblood of a business. It is essential for the growth and expansion of every business. Without it, businesses are not able to develop products, services, and to be able to market themselves or to be able to hire employees. This is particularly true in rural areas where there are limited resources available for businesses.

In light of this, Congress created the Small Business Administration 7(a) and 504 loan programs and the United States Department of Agriculture Business and Industry Loan Program to help businesses access capital. Despite this effort to help entrepreneurs, the Government Accountability Office has found that overlap exists between these programs, potentially confusing the people they are intended to benefit and wasting scarce taxpayer resources.

Along with identifying areas of overlap in government financial assistance programs, GAO has offered recommendations to federal government agencies on best practices to ensure that programs are indeed meeting those goals.

Progress in eliminating overlap, however, is dependent on the agencies placing a priority on implementing GAO's recommendations and best practices. Not only will this help agencies focus on programmatic improvements, but it will also provide entrepreneurs and government resource partners with a clear understanding of the goals of each program and how it can best work for local businesses.

Unfortunately, the agencies have not taken GAO's recommendations as seriously as we had hoped, and we still have three programs, spread across two different federal agencies, that can offer similar assistance in the form of government-guaranteed loans to similar beneficiaries—in this case—small businesses.

Today we are here to learn what steps agencies have taken to implement GAO's recommendations to eliminate duplication in the federal guaranteed lending programs and what legislative changes, if any, are necessary to be able to assist these agencies in their efforts to eliminate overlap and duplication.

With that, I would like to again thank all of our witnesses for taking the time to be able to be here with us this morning, and I now yield to Ranking Member Murphy for his opening statement.

Mr. MURPHY. Thank you, Mr. Chairman. Excuse me for being a couple minutes late. I was at the prayer breakfast this morning, and beating the motorcade is quite a mission.

I also want to thank the witnesses for being here with us all this morning and giving us an update on what Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) have done to reduce wasted taxpayer dollars as a result of duplicative programs.

Mr. Shear, I am a big fan of the GAO and the work it does to evaluate our government's performance and stewardship of American resources. I was extremely concerned when I read the report from a couple years ago identifying 53 potentially overlapping programs across the SBA, USDA, Department of Commerce, and the Department of Housing and Urban Development. A handful of these 53 were SBA and USDA loan programs, and I understand the two agencies along with the administration, have been working to improve coordination of programs and services.

I am particularly interested to hear about these agencies' efforts in two areas. The first is performance measurement. GAO has made the case in a number of instances that agencies have been unable to produce consistent, reliable, and meaningful metrics on their programs' successes. This makes it incredibly difficult for an oversight body like Congress to make meaningful assessments and funding decisions.

My second area of interest is how SBA and USDA are collaborating at the local level to improve services for private lenders and for businesses in need of loans. This is where the rubber meets the road. It makes no difference what strategies are devised or MOUs signed at the headquarters level in Washington, D.C., if they are not effectively implemented across agencies at the local level. Now, almost two years after GAO's initial report was issued, I want to see how SBA and USDA's services are more effectively helping businesses grow and generate new jobs.

I again thank the witnesses and look forward to your testimony. Thank you.

Chairman TIPTON. Thank you, Mr. Murphy.

I believe you are all familiar with the timing lights that we have. Start out as green. When there is one minute remaining, will turn yellow. And then red, obviously, if you can conclude your testimony at that time.

And if Committee members do have an opening statement, I would ask that it be submitted for the record.

Our first witness is Bill Shear, the director of Financial Markets and Community Investment team at the Government Accountability Office. The Financial Markets team works to improve the effectiveness of regulatory oversight and financial and housing markets. Mr. Shear is a frequent guest before the Small Business Committee based on his audit work for the Small Business Administration.

Mr. Shear, I would like to thank you for taking the time to be able to be here with us this morning. We look forward to your testimony. Please begin.

STATEMENTS OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE; ANN MARIE MEHLUM, ASSOCIATE ADMINISTRATOR, OFFICE OF CAPITAL ACCESS, UNITED STATES SMALL BUSINESS ADMINISTRATION; LILLIAN SALERNO, ADMINISTRATOR, RURAL BUSINESS-COOPERATIVE SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

STATEMENT OF WILLIAM B. SHEAR

Mr. SHEAR. Thank you.

Chairman Tipton, Ranking Member Murphy, and members of the Subcommittee, I am pleased to be here today to discuss our work on programs that provide financial assistance to entrepreneurs.

In August 2012, we reported information on 52 programs at the Departments of Commerce, Housing and Urban Development, Agriculture, and the Small Business Administration. This statement is based on our report issued in August 2012 and information we have received since from the four agencies and the Office of Management and Budget.

In summary, we found the following:

First, federal programs that offer financial support to entrepreneurs, including loans, are fragmented and overlap based on the type of support they are authorized to offer and the type of entrepreneur they are authorized to serve. The four agencies and OMB have taken steps to collaborate more. However, the four agencies have not implemented a number of good, collaborative practices we have identified, such as establishing compatible policies and procedures to better support small businesses. The GPRA Modernization Act's cross-cutting framework requires that agencies collaborate in order to address issues, such as economic development, that transcend more than one agency, and it directs agencies to describe how they are working with each other to achieve their program goals. Without enhanced collaboration, agencies may not be able to make the best use of limited federal resources in the most effective and efficient manner, and small businesses may struggle to navigate these fragmented programs.

Our second major point is that while the four agencies collect at least some information on program activities, they do not track such information for many programs, a practice that is not consistent with government standards for internal controls. In addi-

tion, we found that the four agencies conducted program evaluations of 13 of the 30 financial assistance programs we reviewed. We found that SBA has conducted program evaluation studies on five of its 10 programs. We also found that USDA has evaluated one of its eight financial assistance programs, but the study did not address the extent to which the program was achieving its mission.

The GPRA Modernization Act requires agencies to set and measure annual performance goals and recognizes the value of program evaluations because they can help agencies assess programs' effectiveness and improve program performance. Without more robust program information, agencies may not be able to administer programs in the most effective and efficient manner, and scarce resources may be going toward programs that are less effective.

We recommended that the four agencies and OMB explore opportunities to enhance collaboration among programs and that the four agencies track program information and conduct more program evaluations. Since that report was issued, OMB has established an interagency group, including Commerce, SBA, USDA, and others, that aims to streamline existing programs, improve cooperation among and within agencies, ease entrepreneurs' access to the programs, and increase data-based evaluations of program performance. SBA has told us that it has undertaken a modernization project for its resource partner data collection system. USDA has told us that it has completed initiatives to improve the quality of performance measurement.

Going forward, we will continue to obtain updates on the agencies' progress. We will report on the actions taken by the agencies as we do for other areas included in our mandated work addressing federal programs with fragmentation, overlap, and duplication.

Chairman Tipton and Ranking Member Murphy, this concludes my prepared statement. I would be happy to answer any questions.

Chairman TIPTON. Thank you, Mr. Shear.

Our next witness is Ann Marie Mehlum, the Associate Administrator for Capital Access at the Small Business Administration. In this capacity, Ms. Mehlum is responsible for overseeing SBA's financial assistance programs, and prior to joining the SBA, Ms. Mehlum served as CEO and director of Summit Bank in Eugene, Oregon.

I appreciate you being here with us today, and please begin.

STATEMENT OF ANN MARIE MEHLUM

Ms. MEHLUM. Chairman Tipton, Ranking Member Murphy, and distinguished members of the Subcommittee, thank you for inviting me to testify on SBA's ongoing work to expand access to capital for small businesses, while enhancing collaboration and avoiding duplication with other government programs. I greatly appreciate the opportunity to discuss our lending products and successful partnerships. As a former community banker from a largely rural state, it is truly an honor to be before this Subcommittee and alongside my colleagues from USDA and GAO. Together, we are committed to providing all entrepreneurs with the tools they need to start and grow companies and create jobs.

Small businesses are the engine of our economy and one of our country's greatest assets. They employ half of the private sector

workforce and create two out of every three net new private sector jobs. And we know that innovation is not limited to Boston and Silicon Valley. It is happening in rural and industrial communities—from Florida to Colorado, and in my home state of Oregon. That is why at SBA we are focused on reaching all entrepreneurs in every part of this country.

In my role as associate administrator for Capital Access, I rely on my 30-year career in commercial lending to help SBA better support small businesses. It is our top priority to fill market gaps by providing access to capital to small firms whose financing needs would not be met without our guarantee. Our loan guarantee programs have made it possible for lenders to support more businesses in rural and underserved communities. In Fiscal Year 2013, approximately 15 percent of all of our 7(a) loans and 16 percent of total dollars went to rural entrepreneurs.

In order to reach even more small businesses in rural markets and ensure effective collaboration, SBA has signed several Memorandums of Understanding (MOU) with other agencies, including USDA. Leveraging SBA's nationwide network of district offices and resource partners, as well as USDA's extensive footprint of field staff in nearly every county in America, we are able to advise potential small business borrowers and lenders on both SBA and USDA loan programs. Through our collaboration, we educate each other on our respective products and services, exchange marketing materials, and host joint lender training sessions.

We have seen the benefits of our collaboration through the success of countless small businesses like the Maupin Market in Maupin, Oregon. In 2011, the only grocery store in this 500-person town was slated to close, which would have forced residents to travel over 40 miles to buy food. Fortunately, a young couple, a local couple, Allison and Randy Bechtol, decided to reopen the store. Unable to obtain conventional financing, the Bechtols turned to the local Small Business Development Center (SBDC) for help. The SBDC connected them with a community bank that identified SBA's 504 Loan Program and USDA Rural Development's Intermediary Relending Program as strong matches for their capital needs. With a \$279,000 SBA-guaranteed loan and a separate loan for \$100,000 through USDA's program, these entrepreneurs were able to remodel the old building and reopen the new Maupin Market. They created seven good-paying jobs in the community and provided new opportunities for the local farmers.

SBA also supports rural small businesses through our Small Loan Advantage (SLA) loans. One of our signature low-dollar loan programs, SLA is designed to expand access to loans up to \$350,000. Drawing on extensive input from our lending partners, we significantly reduced the paperwork and simplified the application process for this program. In order to make these loans even more attractive and less costly for lenders, we allow banks to use their own collateral, closing, and disbursing guidelines.

At SBA, we are committed to collaborating with our federal, regional, and state partners to fill market gaps and ensure that all entrepreneurs have the resources and training they need to turn great ideas into growing businesses. By taking an inclusive view of entrepreneurship, one that expands access and opportunity to more

communities, we can spur new business formation, innovation, job creation, and help build strong regional economies throughout America.

Thank you again for the opportunity to be here, and I look forward to answering your questions.

Chairman TIPTON. Thank you very much, Ms. Mehlum, for your testimony.

Our final witness is Lillian Salerno, Administrator for the Rural Business-Cooperative Service within the Office of Rural Development at the United States Department of Agriculture. Ms. Salerno was first appointed as Acting Administrator in September of 2012 and became Administrator in July of 2013. Prior to joining the Rural Business Cooperative Service, Ms. Salerno served as Special Assistant in the Rural Housing Services.

Welcome to the Small Business Subcommittee, and thank you for taking the time to be with us here today. Please continue.

STATEMENT OF LILLIAN SALERNO

Ms. SALERNO. Chairman Tipton, Ranking Member Murphy, and members of the Subcommittee, thank you for this opportunity to discuss USDA's Business and Industry Guaranteed Loan program and the economic opportunity it provides to rural America.

I am pleased to report that outreach and collaboration and leveraging of resources, both nationally and at the local level, are top priorities for this administration and are at the center of the USDA delivery system. As a former entrepreneur and rural small business owner, I am particularly aware of the value of federal financial assistance programs. In fact, the company I started in 1994 began with an SBIR grant and still employs approximately 150 persons in rural North Texas and supports additional jobs for suppliers and distributors in this small town.

We appreciate the other agencies' programs provide to assist rural businesses. While both the B&I program and the SBA 7(a) program seek to ensure small businesses have capital, Congress has determined that B&I serves the distinct purpose of providing resources to rural businesses that have greater individual capital needs.

Let me emphasize the distinguishing feature of our program is providing assistance to businesses in those rural communities. Working with local lenders in rural communities, the B&I program is a critical component to increasing opportunities for rural Americans. Our field staff has worked closely with SBA offices for many years. The MOU signed late last year extended and broadened these opportunities for collaboration. USDA and SBA worked together to identify the best funding options for businesses. For example, the Iowa Cold Storage Company in Altoona, Iowa, recently needed capital to expand their business. Although USDA had previously provided a \$17 million B&I loan to the company for the construction of the warehouse cold storage facility, USDA and SBA determined that the best option now for the company was a \$3 million SBA loan to accomplish this mission and expansion. By working together, our agencies are able to increase access to private investment capital for small businesses.

Since the GAO report, we have improved the process for tracking, verifying, and reporting of the performance measures. We have issued and put into action a guidance document to our field offices. We have implemented an improved process for reviewing and verifying the data, and we have created a standardized format for reporting this data. Furthermore, because of the budget certainty you have afforded us, we are now able to make additional improvements, including IT enhancements, making it easier for our lenders and intermediaries to report our requested performance measures.

In sum, no other federal agency is positioned as well as we are at USDA to meet the needs of rural America. Our extensive physical presence in rural communities distinguishes us from other federal agencies. We have the expertise and experience about the economic, social, and geographical characteristics of the rural communities to better serve them. Through our 47 state offices and 400 local offices and service centers, we overcome the physical distance barriers that alone can hinder service delivery in these areas.

I appreciate the opportunity to testify before you alongside my colleagues from SBA and GAO. We are committed to helping entrepreneurs and businesses succeed, and I welcome the chance to engage in a dialogue. Thank you for your support of rural business programs, and I am happy to answer questions.

Chairman TIPTON. Thanks so much.

We will start out with the questioning. I would like to begin with Director Shear. Based on your audit, can a small business located in a rural area obtain financial assistance from either the SBA's 7(a) program or the SBA's 504 program or through the USDA Business and Industry Loan program?

Mr. SHEAR. The answer is generally yes, that the 7(a) program funds a broad range of activities, including working capital. The 504 program is more specific in that it finances fixed assets, so it funds a smaller subset of activities. Business and industry loans are available for a very broad range of activities. So the idea is that the programs certainly overlap in terms of the types of financial assistance they can provide.

Chairman TIPTON. Okay. So we have got the two different programs, and this may well be a better question maybe for administrators. Do we have a streamlining process in terms of those applications? Because one of the great challenges that we hear from small businesses is the confusing nature of actually trying to be able to access capital even though the intent of the programs is obviously good.

Ms. Mehlum?

Ms. MEHLUM. Chairman Tipton, I would like to answer that from the lender perspective. Most of my career has been in the private sector as a lender and then as a chief credit administrator, and then as a CEO of a bank. And the reality from that perspective was that it was very helpful when we sometimes had more than one option to help a small business that we could not finance with conventional underwriting. If we had a customer that clearly we believed they were going to be successful but we could not do it with our underwriting guidelines, they did not have enough experience maybe or enough capital or whatever the deficit was, then we would look to the SBA or the USDA programs. And sometimes we

had both options. Not always. But I always felt that was complementary. And it was helpful in some cases, like the example that I mentioned in my testimony where we could use a combination. So I feel like, from a lender's standpoint, having complementary loan programs from SBA and USDA is not a negative issue; it is a positive situation.

Chairman TIPTON. Ms. Salerno.

Ms. SALERNO. I would just like to add as a small business person, when one goes to get financing, the bank is your intermediary. We are committed to educating the bank about our suite of services. We have been doing a good job. I think we can do a better job and we are committed to do that. But I will give you one example. In Colorado, Mr. Chairman, we closed a \$1.8 million guaranteed loan program with a company called White Rock Specialties. The bank that we were working with was a community bank and the company also needed a working capital. The SBA provided for that, coordinating with our field staff, by working with the bank and giving a cap line of credit for \$250,000. So we have examples of those kind of things and we believe that is working.

Chairman TIPTON. Mr. Shear, the SBA and the USDA signed a MOU on August 22, 2013, and I would like to know in your view does this agreement clearly define what steps the agencies will take to be able to eliminate duplication?

Mr. SHEAR. The MOU is a positive step. We have looked for the use of other practices such as establishment of clearly defined roles and responsibilities and strategies for leveraging resources. There are some other actions we looked at. We know from USDA that for a number of years, even preceding our August 2012 report, it reached out to its state offices to report on what collaboration they have with local SBA district offices. So it seems like there is activity that I will call "check the box," and there is interaction going on. As the witness said, there are joint training-type sessions going on, but in terms of duplication, to the degree that it might exist and certainly dealing with fragmented programs, we are looking for some movement to try to address how can these programs be better positioned so that if they are complementary, they are complementing each other in the right way. For those programs that substitute for each other—which are the best ones? Or in other words how do you get businesses to be served by the program that can serve them best?

Chairman TIPTON. So you are not seeing any movement?

Mr. SHEAR. We are not seeing a lot of evidence. So, for example, as part of this mandate, as an agency we reach out to agencies to obtain information on what actions they have taken. And just taken from the last submissions that we have received very recently from SBA and USDA, there is not anything in those submissions that would suggest to us that anything more than that they are tracking how many offices are collaborating with each other. We do not see movement or any suggestions as far as coming up with joint strategies or trying to coordinate policies and procedures that could make the programs serve rural areas better.

Chairman TIPTON. Right. Thank you.

Are you working on joint strategies?

Ms. SALERNO. Yes. Thank you for the question.

As Mr. Shear said, we are doing a variety of joint trainings and webinars, and I think part of the challenge for us is we are field based. We do best when we do not do things from up here, when we do stuff in the states. And so we really rely on our district offices and our field offices to work out those. So for us to give a one direction from Washington about how to work in rural Colorado or rural Missouri we think is a mistake. And so we do let our field offices work out these strategies, but we do ask them to report, and we have received very good evidence which we have submitted to Mr. Shear regarding those roundtable and joint lender trainings.

Chairman TIPTON. Thank you.

I want to be respectful of our other members here. I will probably like to be able to come back to this but I would like to follow up again real quickly with Mr. Shear. In your testimony, you stated that you were not able to access data to determine whether duplication actually exists. What data do you need that is not available, and why is it not collected?

Mr. SHEAR. Especially with respect to duplication, I know the focus today is on financial assistance programs, but what we have found on counseling and training programs, and what we have found just generally is that when somebody walks in to an SBA district office or a USDA state office, the kind of information that is available is based on who is coming in where. So basically, a lot of times it is which office a small business owner might walk into that will determine which financial assistance program they are participating in.

So what is collected on technical assistance in terms of who is being served based on geographic location, some characteristics would be very useful on that. From a standpoint of the financial assistance programs, the way I would characterize it for SBA, is that SBA has at its disposal extremely rich data on who is being served, and where they are being served. We have certainly used SBA loan level data to conduct analysis by geocoding data. So data for the SBA financial assistance programs is not a problem. It is the question of SBA's willingness to use it in collaboration with its efforts with USDA.

With USDA, we asked ourselves when we did this work, should we be asking for loan level data from USDA to try to geocode as we have done for SBA, and try to look at who is serving where? Specifically, the USDA data on the financial assistance programs like Business and Industry loans is very granulated. It is quite good in that sense, but with the way it is collected, we question whether the data is collected in a way that is conducive to such analysis. You can run ad hoc reports but we question whether it is collected in such a way that it would really be conducive to say who is serving which borrowers where in rural-defined areas. So I think USDA has further to come in that respect in comparison with SBA. SBA, it is more of, I think, a willingness to use the data it has at its disposal.

Chairman TIPTON. Thank you.

I will ask one more and then yield to the ranking member and then come back after the other members have asked their questions.

Mr. Shear, the SBA recently decided to end several pilot programs, including one aimed at being able to reach out to rural businesses. I noted in the testimony that it was at 15 percent. That is a drop. Was this pilot program effective at reaching small businesses in rural areas?

Mr. SHEAR. Here are you referring to Rural Advantage?

Chairman TIPTON. Yes.

Mr. SHEAR. Yes. I cannot answer that question, and I do not know how well SBA can answer that question. The pilot program we recently looked at was a pilot program called Patriot Express to serve the veteran community. One of the things that we observe when SBA does have pilot programs or initiatives like this is that there really is not the evaluation around who is being served by the program. So like with Rural Advantage, it is here that there can be reasons why USDA might be able to serve certain rural areas better than SBA, and this is part of why we think at the national level there should be more collaboration looking at who the programs are serving. The potential problem with SBA going into Rural Advantage is that it might be trying to expand its presence in an area without first asking the questions working with USDA, and working with this Committee and the Congress in terms of saying where should we be placing our resources? Who should we be serving? Because otherwise you are acting with incomplete information when you are introducing more programs and more initiatives.

Chairman TIPTON. Do you have any comment on that?

Ms. MEHLUM. Chairman Tipton, I would like to mention in the Small Rural Loan Advantage program, it was a program that started initially only for lenders that did a few loans which would imply that they were in rural areas, and it was a little clunky. It was not as streamlined. We actually have morphed that program into a much more streamlined loan called Small Loan Advantage, which I talked about. And I do have statistics on how those loans have grown and how they have also grown in rural areas. So basically, we have just made improvements to that program. We also have studied immensely our programs, including the veterans' programs as to who they serve and how effective they are and how do we make them more effective. And we are doing that work all the time.

Chairman TIPTON. Okay. Is there some concern, and then I will wrap up here, but I am a little concerned, that rural lending, it dropped from 25 percent of the portfolio to 15 percent of the portfolio. What is the reason for the decline?

Ms. MEHLUM. That is information that I would be happy to go look for and bring back to you.

Chairman TIPTON. I think, going back to your original testimony, being able to reach out into the rural communities, noting the job creation potential, and the entrepreneurialship that is there. With that kind of a drop, I think there is some concern in terms of some of the access to capital to be able to grow these businesses. Coming out of a rural area, I can tell you we are still in a recession.

Ms. MEHLUM. Absolutely. And I am not sure it is a drop in total dollars. You said it was a drop in our portfolio. It might be

that we are growing in other areas more. So I would like to get back to you on that. That is an important question.

Chairman TIPTON. Is it your sense that these rural small businesses now have greater access to capital?

Ms. MEHLUM. Than—

Chairman TIPTON. Before.

Ms. MEHLUM.—five years ago? Yes. I would say yes.

Chairman TIPTON. Okay. Great. Thanks.

With that I will yield to Ranking Member Murphy.

Mr. MURPHY. Thank you, Mr. Chairman.

Mr. Shear, when you were with us last March you noted the importance of key metrics and data points to really evaluate some of the programs, see what is working, what is not working.

I am wondering from Ms. Salerno first, if you could talk about some of the key metrics that you use at USDA and perhaps how long you have been using them and what you think about how it is going.

Ms. SALERNO. Certainly, thank you for the question.

We use the data, first of all, to determine if we are meeting certain benchmarks, such as reaching underserved populations, and if we are complying with our initiatives. For example, local foods is an initiative. Growing bio economies is an initiative. We use it to also help reduce waste, fraud, and abuse by conducting cross-program verification. As a guarantor, our data and our data collection system is based on a GLS system, a guaranteed loan system, where we rely on banks to give us the information.

So there are about 62 data points. The question is whether or not we can access certain data. Over the course of a 25- to 3-year loan, that is a lot of data for the history of a loan. As mentioned earlier, we are storing loan data in a guaranteed loan system. We analyze it on a monthly to quarterly basis, depending on what we are looking for. We can run a report either in a spreadsheet form or we can ask for information on a specific initiative, for example, how many local food projects are in a given area. For our secretary, the local food initiative is very important. We can find out how many local food initiatives we are doing in Colorado or Missouri or Florida. We certainly can improve what we are doing, and with budget certainty, part of our objective is to enhance our IT systems. Furthermore, one of our hires is going to be a person dedicated to data integrity because we have not previously been able to put the kind of funds we would like into that part of the operation.

Mr. MURPHY. So you are more concerned with the data collection than you are the analysis of the data?

Ms. SALERNO. Yes.

Mr. MURPHY. Okay.

Ms. SALERNO. What we have done in response to the hearing last year is go back and verify the data. We guaranteed a little less than 400 or about 420 loans in 2013. When we collected the data we were looking for an opportunity to make sure that it was consistent with the types of investments that were made. We sent anything that fell outside the norm back to the states and to the lenders to validate. Now we have 2013 data cleaned up and we now are using that kind of operation to verify our 2014 data. And I would just like to add that because of our field presence, we are able to

go and validate. So that field person can go and drive by and make sure that the manufacturer does indeed have the 200 jobs that they submitted that they were going to create.

Mr. MURPHY. Okay.

Ms. Mehlum, can you talk about some of the metrics that you use and that have been successful?

Ms. MEHLUM. Could you specify exactly what you are asking?

Mr. MURPHY. Some of the key metrics you used to evaluate SBA, GAO pointed out this morning and then last March that that is one of the keys to—

Ms. MEHLUM. If the programs are successful?

Mr. MURPHY. Yes.

Ms. MEHLUM. One of the things that we measure pilot programs against is just the amount of lending that we do on our flagship programs, the 7(a) Guarantee program and the 504 program. One of the things that we found in our veterans' initiative—Veterans Express, which sunset because we have a better loan now for veterans called SBA Veterans Advantage Loan—is that we found that in those pilot programs there would be something about them that was not as attractive or workable for the borrower or the lender. And so we track the totals. We talk to bankers. We talk to borrowers. And if the programs are not growing, we look for ways to either enhance them and fix them or modify existing programs to fill that gap.

Mr. MURPHY. So how often do you analyze that data? Is that a monthly or—

Ms. MEHLUM. Weekly, daily, weekly, monthly, quarterly. It just depends. We are looking at, I mean, one of the things I was very, very pleasantly surprised—not surprised, I really did not have a preconceived notion, but when I came to the SBA six months ago, how much data is collected and analyzed and reviewed consistently, constantly. There is an amazing amount of analysis of data that goes on at SBA.

Mr. MURPHY. And are you working with the USDA on what is working, what is not working?

Ms. MEHLUM. We are definitely working with them in the field of the programs. What are working together? Where are they complementary? We do share marketing materials. This last MOU has put more, as Mr. Shear has said, it has put more sort of specifics into how we collaborate, and that has been an evolving process, and I feel like we are making very good progress there.

Mr. MURPHY. I do not want to oversimplify it too much, but Mr. Shear, it seems you would like more data points, more analysis, more key metrics to analyze, and Ms. Salerno, you pointed out some of the best improvements you have had have been really at the local level, some of the training. Is there a bridge there that needs to be crossed? I mean, I can completely understand at the local level—that is where the rubber meets the road, so of course that is where you would see the biggest difference. And inputting all the data is annoying, it is a nuisance, and reviewing it—but that is how Mr. Shear and us get to review it. Have you had that discussion?

Ms. SALERNO. Yes, we have. Lots of discussion. I mean, if we had all the resources in the world, would we put more money

there? Yes, we would. Where we are able to, we made sure that the data was correct. We had a session where our leadership reviewed the files that were inputted in GLS and said, you know, if there was a zero and we had given a million dollar loan, why did that not create a job? And so we went back to make sure that it had. We looked at what fell out of the norm. We think with the budget certainty, we now are able to allocate resources, and we feel very confident that we are going to do better, and we have been speaking a lot to my associate administrator colleague about ways I can learn from them, but we have not had those resources. We have been depending on our field staff which have done the best job that they can with the resources they had.

Mr. MURPHY. Can you use SBA's data systems and analysis? Are the systems integrated?

Ms. SALERNO. My understanding is they are not integrated.

Ms. MEHLUM. The systems are not integrated but we are, as I think someone mentioned early on, we are involved, both of us. I have not been personally involved with it but one of my deputies has been involved with a meeting of several agencies which is working on this issue of data sharing, making it—it is not that we do not share data. If anybody asks us for data, we give it to them, but they are trying to come up with systems to make that data sharing as part of the process. And I know that that is ongoing.

Mr. MURPHY. Mr. Shear, any data?

Mr. SHEAR. I think that what the associate administrator is referring to is the OMB working group that is addressing these issues. And as I said in my statement, the OMB-led group is addressing the types of issues that we think should be addressed, so we think it is very positive that this working group has been put into place. What we have not seen yet is progress. We look forward to working with OMB and the agencies in their attempt to facilitate a more strategic approach. In this case, regarding the topic of this hearing, serving rural areas in terms of small businesses in rural areas seeking financial assistance. So we certainly hope it moves in that direction. So far we know that meetings have occurred. We have not seen a real framework established yet, but that is what we are looking for and hoping evolves over time. We just do not have evidence of it yet.

One disappointment I will just state with the two agencies here is while we received feedback from OMB when we reached out and asked what progress has been made, we found it surprising that when SBA and USDA came back to us for information on what has occurred, there was no reference to that OMB task group. So I certainly hope that both agencies and all the agencies involved with OMB are really committed to the purpose of that task group and that they make progress.

Mr. MURPHY. Okay. Thank you. I appreciate it.

Thank you, Mr. Chairman.

Chairman TIPTON. Thank you, Mr. Murphy.

I now recognize Mr. Luetkemeyer for his questions.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

I come from a town with 300 people, so it does not get any more rural than that. So this is an important hearing to me from the

standpoint of being able to help the small businesses and agricultural folks in my district.

Mr. Shear, do you get a lot of complaints with regards to these two agencies with regards to the lack of their ability to address rural access to credit concerns?

Mr. SHEAR. I would not call it complaints. It is not like you have people who are seeking loans who call up GAO, like we are a complaint line.

Mr. LUETKEMEYER. Well, I was talking about the collaboration you are talking about, the overlap. Do you get complaints from different groups, different entities saying, hey, you know, these programs are nice but they are not working very well?

Mr. SHEAR. What we have as we pointed out in our report, we really did an extensive effort to reach out to rural areas, in particular areas that are served by the Appalachian Regional Commission, the Appalachian Authority, the Delta Regional Authority and other entities involved with rural economic development. What we found in what they were reporting to us was the difficulty, especially with counseling and training-type resources, how hard it is for small businesses to navigate those areas. So I would say that was the major concern that we heard as an outgrowth of really reaching out to those who represent rural areas.

Mr. LUETKEMEYER. Ms. Salerno, you made a comment a while ago with regards to the validation and I guess basically oversight over the funds that are given out or guaranteed. Can you give me a little bit of an insight as to your process? Do you work with the lending institution and they take the lead, and therefore, they do all of the underwriting, they do all of the servicing of this? What part do you play or what action do you take in this whole process that allows some oversight by you? Or are you totally relying on them?

Ms. SALERNO. Thank you for the question.

We are very fortunate that we have our field offices and they go through the entire process with the business with the lender. But we are, of course, the guarantee for the lender, so the lender has the paperwork at the state level. We, of course, want everything to happen at the state level, not to have to come up to Washington and potentially delay loans. The application only comes up to D.C. when the request is above a certain dollar amount. And so the business program officer works through the loan documents with the business, which is really important in rural American where folks maybe have special needs because of the low density of population. Sometimes they need to work with the city or the small town in order to get easements or ways to work with the rural cop. There are just all kinds of needs there. That is why our field structure is so important. And what happens from the data that is given by the bank, it is self-reported, so the business tells the bank, you know, I need a \$5 million loan. I am going to put manufacturing into a small town in Missouri. I am going to create 100 jobs over the next two years. That is self-reporting. And then it comes back to us and we validate that information at the national office.

Mr. LUETKEMEYER. Coming from the financial service community, as I recall, you have a checklist that you go through that the institution has to complete to be able to do things and I think it

is the same way with SBA if I am not mistaken. So there is some coordination there. I was just kind of curious from the standpoint that, you know, it is very important that you continue to work with and verify and provide some oversight because at the end of the day we have got taxpayer dollars at risk here. So the lending institution probably has a better feel for what is going on there but certainly interaction is very important.

As I was listening to the previous discussion here, one of the concerns that I had was the collection and review of data. It is wonderful to get that but if we do not act on it, what good is it?

It sounds like in the last discussion we talked about this committee that was put together, and apparently there is some reaction to some of that information that was collected. Can you elaborate on it just a little bit, Ms. Mehlum?

Ms. MEHLUM. Can I elaborate on what is happening with that committee?

Mr. LUETKEMEYER. Yes. You had a committee that had some—we were kind of working on some issues here, and I think there was an inference that there was actually something being done.

Ms. MEHLUM. My understanding is that that committee is working on this data issue of how to connect databases, how to utilize data and share the data so that we can use it more comprehensively.

Mr. LUETKEMEYER. But there is some action.

Ms. MEHLUM. My understanding is that those meetings are—

Mr. LUETKEMEYER. Those meetings are on the recommendations and the findings of the committee?

Ms. MEHLUM. Yes.

Mr. LUETKEMEYER. Okay.

I have one more question before I am out of time here if I can indulge the chairman for just one second. Question for the two administrators. Each of your programs have caps as to how much you can guarantee per loan and what you have per program. Are those caps adequate? Are you utilizing the full amount of the money that is at your disposal? Should they be lowered? Do you have excess funds or should they be raised? Just a comment.

Ms. SALERNO. I will happily answer that. We get our money. The rural sector needs more money. There is a huge issue about access to capital. That is what we hear at these roundtables and that is the kind of information we want to be able to give back to you is that there are still access to capital issues.

Mr. LUETKEMEYER. Of the percentage of good loans that are applied for, how many do you not make because you are out of funds or cannot guarantee it?

Ms. SALERNO. Two things. Thank you for the question. One is I am not sure I can give you that information but I will do my best and I will have to supplement that.

Mr. LUETKEMEYER. Just round figures. It does not have to be perfect.

Ms. SALERNO. Well, the issue is because of the last year and the uncertainty of funding, there was a lot of starting and stopping, and that was really hurtful to small businesses in rural America. So now with the certainty of funding I think I will be able to an-

swer that better. I just do not want to give you non-information. But we had businesses that were hurt because we did not have a pipeline of funds.

Mr. LUETKEMEYER. Ms. Mehlum, could you?

Ms. MEHLUM. I think our levels are at the right levels right now. We have not had to recently not make loans because of capital levels.

Mr. LUETKEMEYER. Okay, perfect. Thank you very much. Thank you, Mr. Chairman, for your indulgence.

Chairman TIPTON. Mr. Mulvaney. No questions? Okay.

I would like to be able to follow up just a little bit because I would like to get down to the purpose of the hearing. You have demonstrated that you are serving a need, being able to help small businesses in a variety of different areas, but when we go back to the crux of the hearing, the GAO had made recommendations that the financial assistance programs and the report of the GAO that was released in August of 2012, that has been over a year and a half ago. Following this, our Committee held a progress report hearing a year ago where your agencies testified about your commitment to being able to increase the collaboration. And we are back here again today asking what is being done to address the collaboration and to be able to actually respond to the GAO's actual recommendations. Are we making progress as opposed to continuing just to hold meetings and to be able to get our people together? What is the goal? What is the timeline? When is it going to be able to be achieved?

Ms. Salerno or Ms. Mehlum?

Ms. MEHLUM. I will answer to the best of my ability.

My understanding is that the MOU is a three-year MOU with a possibility to renew. I may be incorrect on that. But we are continuing to work on all the issues in the MOU. It is about six or seven months old. We have definitely made progress in the field where they are doing joint trainings. We are sharing marketing materials and all that. And I feel like this is an MOU that is being taken very seriously at the SBA and we are all in agreement with it. It is the right thing to do. I am very proud that the 7(a) program is a zero subsidy program and we want it to continue and be sustainable, and it will be more effective as long as we can continue to do it cost-effectively and collaboratively.

Chairman TIPTON. Ms. Salerno?

Ms. SALERNO. Thanks for the question. I think we will have a better opportunity. I cannot promise anything. All I can do is we are doing the best we can with the information that we have, but I do think because of this consistent meeting that is going on about the technical assistance and trying to set metrics that is being really shepherded by OMB which all of our agencies participate in, I think they have got some pilots going on, so we will get that information. But for what we know how to do with our two programs for the Business and Industry Loan and the SB 7(a), I think we have made a commitment to make sure that we share data. We want to learn at USDA if there is a better way to collect data that is more in line with theirs, we want to learn that. But we do have challenges, but I do think because of the budget certainty we will be better able to address this.

Chairman TIPTON. Well, just to be able to get a specific, can you point? Because you have been collaborating, you have been talking about it. What duplication have you identified?

Ms. MEHLUM. I would like to answer that by saying I am not aware that we have specifically asked that question at a broad, strategic level. I think those are the questions we have been working on the field.

Chairman TIPTON. Is this not the point though of the GAO report? We were talking about duplication.

Ms. MEHLUM. As I mentioned when I first started, there is duplication and there is complementary products. And I do not think there is an exact duplication of specific product that is really the issue. And I have misunderstood that if that is what we are talking about.

Chairman TIPTON. Do you have any comment, Mr. Shear?

Mr. SHEAR. In our work, we did not find any evidence of duplication, meaning that you had multiple programs, multiple agencies undertaking the same activities, serving the same beneficiaries, and it does not mean that duplication does not exist. We did not find it. There are issues over how well from an internal control standpoint the agencies are following where the services are going.

Chairman TIPTON. That was the point of the question.

Mr. SHEAR. And so that is basically where we do not know. What we do observe for sure is that it just seems like there are inefficiencies associated with overlap and fragmentation and ability to evaluate how programs are serving their missions, and that is really a major focus for us, and we certainly hope, and it seems to be a focus of this OMB-led working group.

Chairman TIPTON. We have business people that sit on this panel, obviously. Coming out and you are always looking to be able to create those efficiencies, to be able to streamline it to make sure that you are not getting overlap, not trying to go after the same customers, I guess, if you will. And during this process now over this last year and a half, in terms of trying to be able to identify, be able to get some of this collaboration going on, do you have any kind of a number of what we have been able to save the American taxpayer in terms of dollars through your efforts?

Ms. MEHLUM. That is a really good question, and I would like to go back and see if we can tackle that. That would be an interesting question to look at because certainly that would be something that we would all be wanting to know and that is what we are all working towards.

Chairman TIPTON. Are you aware of any, Ms. Salerno?

Ms. SALERNO. From a USDA perspective, we look at duplication and strengthening of services and Secretary Vilsack has been very robust on his cost-savings measures which he has reported as \$1.2 billion in tax dollars saved by the department. So our continued regionalization and ability to deliver services by streamlining at USDA, that is the only number that I know to give you.

Chairman TIPTON. And we would like to follow up. Mr. Luetkemeyer brought it up. I had the opportunity to sit on a bank board before and we had loan officers, there is a checklist, and Ms. Salerno, you had mentioned that at the district offices you were having to be able to count on these folks to be able to create some

awareness. Is that an actual checklist item for the district offices when they are working with local lenders saying here are the programs that are available? And by the way, the USDA has these programs that are available. Is that being done as an actual checklist item for your people in the field?

Ms. SALERNO. Thanks for the question.

If I am understanding the question correctly, at our USDA program level, our program officers in the field, they make contact with their SBA counterparts and they have their suite of services. So yes, it would be something where we show all of SBA's loan programs as well as ours. I mean, I have been to enough of those meetings. That is for sure going on. That is for sure at the state and local level that is going on.

Chairman TIPTON. Okay. And that is being expressed fully to the lenders, to the private lenders?

Ms. SALERNO. That has been where we have really been the most successful, for the rural space, those lenders, I mean, those big banks are not coming to rural Colorado. They are not there to give that capital, so what SBA has been doing very well for our rural folks, which I know they care about also, is to make sure some of those big banks know about the rural services that we do and vice versa. And mostly those community banks now know about the SBA services, our services, and are able to help the customer more.

Chairman TIPTON. Just a couple more questions just out of curiosity. On the USDA, it does not, to my understanding at least, track loans based on the size of a business. In order for it to be able to eliminate duplication and overlap in our rural areas, would this information be useful to determine how many small businesses utilize the USDA as opposed to the SBA resources?

Ms. SALERNO. I hope I am understanding the question, Mr. Chairman.

The USDA, when we were tracking the size, we have the number of projected jobs that will come out of any kind of loan that we do. So we are able to monitor that and do monitor that because we monitor the financial statements that are given to the bank that are given to us of that business that we have given a loan to.

Chairman TIPTON. I think the other component of this is strictly the size of the business. We talked about the \$1.8 million, a little bigger business than some others. Is that information being tracked as well?

Ms. SALERNO. We certainly have the size of the business, but you are absolutely right. We help not just small businesses. I mean, we have helped businesses that have 500,000 employees in rural American because we do manufacturing loans, so then you are asking if we track it. We track the number of employees. I do not know if we are tracking it in the same way that SBA is but I can get back with you on that and submit that.

Chairman TIPTON. I appreciate that.

I guess my last question is I have got a note here that November 2012, the USDA reported to GAO that over the next two years the USDA would conduct a broader analysis of its program data to assess program impact. And we are now in 2014. That started in 2012. Can you just give a status report of that effort?

Ms. SALERNO. Yes. We have done what I described. Because of our budgets, we have not been able to put the kind of resources towards that. It is in our budget now to put those kind of resources, so we are still working on it. We have put into action the guidance document that I talked about and tried to make it more standardized, but we have not put the resources towards the IT enhancements that will allow us to do I think what we reported in 2012.

Chairman TIPTON. Okay. So basically from 2012 we had not made any real progress to straighten it out or really move on it?

Ms. SALERNO. I believe that we made progress by actually validating the data which we did in 2013, and we have advised our field offices to make sure that they complied with the guidance document. We certainly can improve and plan on.

Chairman TIPTON. Okay. Well, I would like to thank you all, unless any of our other members have any questions. I would like to thank you for participating today. One of the big issues—I think we all have a responsibility for those of us that are serving here in Washington—is to be looking out for the American taxpayer. And that is the idea of trying to be able to address some of the concerns that have been put forward by the GAO, and make sure we move beyond meetings into action on behalf of those taxpayers. Because when we are talking about budgets, the best way to be able to have the resources is to be able to assure the American people that we are doing the very best we can to be able to not only grow the economy but be able to handle those limited resources well.

I do thank all of you for taking the time to be participants with us here today. We know that capital is critical for these small businesses in our rural areas and these programs can play an incredibly important role in helping businesses access that capital. However, these programs that confuse businesses and owners and waste taxpayer resources, I believe we can agree that it simply cannot be tolerated. Agencies need to be able to find a way to be able to work together, and I hope today's hearing shows some of the importance of being able to bring together the issues and some of the challenges in terms of programs that are offered by the USDA and the SBA, and their efforts to be able to implement those GAO recommendations into best practices for true collaboration.

With that, I would ask unanimous consent that members have five legislative days to be able to submit statements and supporting materials for the record.

Without objection, so ordered.

With that, this hearing is now adjourned. Thank you.

[Whereupon, at 11:07 a.m., the Subcommittee was adjourned.]

A P P E N D I X



United States Government Accountability Office

Testimony

Before the Subcommittee on
Agriculture, Energy, and Trade,
Committee on Small Business, House
of Representatives

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**ENTREPRENEURIAL
ASSISTANCE**

**Opportunities Exist to
Improve Collaboration and
Performance Management
for Financial Assistance
Programs**

Statement of William B. Shear, Director
Financial Markets and Community Investment

GAO Highlights

Highlights of GAO-14-335T, a testimony before the Subcommittee on Agriculture, Energy, and Trade, Committee on Small Business, House of Representatives

Why GAO Did This Study

Economic development programs that effectively provide assistance to entrepreneurs may help businesses develop and expand. In August 2012, GAO reported information on 52 programs at Commerce, HUD, SBA, and USDA that provided \$2.0 billion in support to entrepreneurs in fiscal year 2011 (GAO-12-819). Of these 52 programs, 30 programs distributed across the four agencies can provide financial assistance in the form of grants and loans. Inefficiencies in the administration of these programs could compromise the government's ability to effectively provide services and meet the shared goals of the programs.

This testimony discusses (1) the extent of overlap, fragmentation, and duplication among these programs and the extent to which programs collaborate and (2) the extent to which agencies collect information necessary to track program activities and whether these programs have met their performance goals and have been evaluated. This testimony is based on GAO's August 2012 report and provides information on the agencies' actions to address recommendations GAO made in that report.

What GAO Recommends

In August 2012, GAO recommended that the four agencies and OMB explore opportunities to enhance collaboration among programs and that the four agencies track program information and conduct more program evaluations. The agencies neither agreed nor disagreed with the recommendations but did provide information on their plans to address them.

View GAO-14-335T. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

February 6, 2014

ENTREPRENEURIAL ASSISTANCE

Opportunities Exist to Improve Collaboration and Performance Management for Financial Assistance Programs

What GAO Found

Federal programs GAO reviewed that offer financial support to entrepreneurs, such as grants and loans, are fragmented and overlap based on the type of support they are authorized to offer and the type of entrepreneur they are authorized to serve. The Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA); the Small Business Administration (SBA); and the Office of Management and Budget (OMB) have taken steps to collaborate more in administering these programs in response to a recommendation in GAO's August 2012 report. For example, OMB has established a Cross-Agency Priority goal for entrepreneurship and small business and an associated interagency working group. However, the four agencies have not implemented a number of good collaborative practices GAO has identified, such as establishing compatible policies and procedures to better support rural businesses. The Government Performance and Results Act Modernization Act of 2010 (GPRAMA) crosscutting framework requires that agencies collaborate in order to address issues such as economic development that transcend more than one agency, and GPRAMA directs agencies to describe how they are working with each other to achieve their program goals. Some entrepreneurs struggle to navigate the fragmented programs that provide technical assistance in the form of training and counseling. This difficulty can in turn affect referrals to other programs, including financial assistance programs. For example, some entrepreneurs and technical assistance providers GAO spoke with said the system can be confusing and that some entrepreneurs do not know where to go for technical assistance. Collaboration could reduce some negative effects of overlap and fragmentation, but field staff GAO spoke with did not consistently collaborate to provide training and counseling services to entrepreneurs. Without enhanced collaboration and coordination, agencies may not be able to use limited federal resources in the most effective and efficient manner and entrepreneurs may struggle to navigate these fragmented programs.

While the four agencies collect at least some information on entrepreneurial assistance program activities, they do not track such information for many programs, a practice that is not consistent with government standards for internal controls. They typically do not track detailed information on the characteristics of entrepreneurs that they serve, such as whether they are located in rural or economically distressed areas or the entrepreneurs' type of industry. In addition, GAO found that from 2000 through 2012, the four agencies conducted program evaluations of 13 of the 30 financial assistance programs reviewed. GPRAMA requires agencies to set and measure annual performance goals and recognizes the value of program evaluations because they can help agencies assess programs' effectiveness and improve program performance. Without more robust program information, agencies may not be able to administer programs in the most effective and efficient manner, and scarce resources may be going toward programs that are less effective.

Chairman Tipton, Ranking Member Murphy, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on programs that provide financial assistance to entrepreneurs. Entrepreneurs play a vital role in the U.S. economy, and the federal government provides a variety of support and assistance to them. In August 2012, we reported information on 52 programs at the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA), and the Small Business Administration (SBA) that support entrepreneurs.¹ In March 2013, we testified before the House of Representatives Small Business Committee on our findings from our August 2012 report and the actions the four agencies had taken since the report.² According to agency officials, these programs, which typically fund a variety of activities in addition to supporting entrepreneurs, spent an estimated \$2 billion on economic development efforts in fiscal year 2011. Of these 52 programs, 30 programs distributed across the four agencies can support entrepreneurs through financial assistance in the form of grants and loans.³ Economic development programs that effectively provide assistance to entrepreneurs, in conjunction with state and local government and private sector economic development initiatives, may help businesses develop and expand. However, we have found that the ways that these programs have been administered, and the lack of data collection and program evaluations, could lead to inefficient delivery of services. These inefficiencies could compromise the government's ability to effectively provide the needed services and meet the shared goals of the programs.

In January 2011, Congress updated the Government Performance and Results Act of 1993 (GPRA) with the GPRA Modernization Act of 2010

¹GAO, *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*, GAO-12-819 (Washington, D.C.: Aug. 23, 2012).

²GAO, *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*, GAO-13-452T (Washington, D.C.: Mar. 20, 2013).

³The programs generally can be grouped according to at least one of three types of assistance that address different entrepreneurial needs: (1) technical assistance, (2) financial assistance, and (3) government contracting assistance. This testimony focuses on those programs that offer financial assistance.

(GPRAMA). GPRAMA established a new framework aimed at taking a more crosscutting and integrated approach to focusing on results and improving government performance. Among other things, GPRAMA requires the Office of Management and Budget (OMB) to coordinate with agencies to establish outcome-oriented federal government priority goals covering a limited number of policy areas, as well as goals to improve management across the federal government. GPRAMA also highlighted the importance of program evaluation for federal agencies. Specifically, GPRAMA requires agencies to describe program evaluations that were used to establish or revise strategic goals. In addition, the President's 2013 budget submission established Cross-Agency Priority goals, including one to increase federal services to entrepreneurs and small businesses, with an emphasis on start-ups, growing firms, and underserved markets.⁴

My testimony today is based on information on the 30 financial assistance programs discussed in our August 2012 report and 2013 testimony. Specifically, this testimony discusses (1) the extent of overlap, fragmentation, and duplication among these programs and the extent to which programs collaborate and (2) the extent to which agencies collect information necessary to track program activities and whether these programs, have met their performance goals and have been evaluated. This testimony also provides information on the agencies' recent actions to address recommendations we made in our August 2012 report.

For our August 2012 report, we reviewed statutory and regulatory authority on the activities and services the agencies can conduct to administer each of the programs, and we found significant overlap and fragmentation among programs that provide financial assistance. We evaluated this information against promising practices of leading organizations and the requirements of GPRAMA. In addition, we obtained and reviewed the agencies' statements on their plans for implementing the recommendations made in our August 2012 report. The work on which this statement is based was performed during the June 2011 through February 2014 time period in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide

⁴Cross-Agency Priority Goal: Entrepreneurship and Small Business, accessed on January 28, 2014, available at <http://goals.performance.gov/node/38579>.

a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Fragmented Programs Overlap, and Agencies' Efforts to Collaborate Have Been Limited

Programs providing financial assistance to entrepreneurs are fragmented—which occurs when more than one agency or program is involved in the same broad area of national interest. Of the 30 financial assistance programs we reviewed, 16 can provide or guarantee loans that can be used for a broad range of purposes by existing businesses and nascent entrepreneurs in any industry. Examples of programs in this category include SBA's 7(a) Loan Program and USDA's Business and Industry Loans. Other programs can support loans for a more narrow range of purposes or industries or can only support other types of financial assistance, such as grants, equity investments, and surety guarantees.⁵

In addition, a number of programs overlap based on the characteristics of the targeted beneficiary.⁶ Entrepreneurs may fall into more than one beneficiary category—for example, an entrepreneur may be in an area that is both rural and economically distressed. Such entrepreneurs may be eligible for multiple subsets of financial assistance programs based on their specific characteristics. For example, a small business in a rural, economically distressed area, such as Bourbon County, Kansas, could in terms of authority, receive financial assistance in the form of guaranteed or direct loans for a broad range of uses through multiple programs at the four agencies, including

- Commerce's Economic Adjustment Assistance;

⁵Equity investments are capital provided to a business to purchase common or preferred stock, or a similar instrument. SBA can guarantee surety bonds (that is, an agreement between a surety company and the owner of a project that a contract will be completed) for contracts up to \$10 million. These contracts can cover bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties an incentive to provide bonding for eligible contractors and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting opportunities.

⁶Appendix I lists the financial assistance programs GAO identified that may have similar or overlapping objectives, provide similar services, or be fragmented across government missions.

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- HUD's Community Development Block Grant (CDBG)/States Program;
 - SBA's 7(a) Loan Program and Small Business Investment Companies Program; and
 - USDA's Business and Industry Loans and Rural Business Enterprise Grants.

While many programs overlap in terms of statutory authority, entrepreneurs may in reality have fewer options to access assistance from multiple programs. Agencies often rely on intermediaries (that is, third-party entities such as nonprofit organizations, higher education institutions, or local governments that use federal grants to provide eligible assistance directly to entrepreneurs) to provide specific support to entrepreneurs, and these intermediaries vary in terms of their location and the types of assistance they provide. Some programs distribute funding through multiple layers of intermediaries before it reaches entrepreneurs or may competitively award grants to multiple intermediaries working jointly in the same community to serve entrepreneurs. For example, Commerce's Economic Adjustment Assistance program can provide grants to intermediaries, such as consortiums of local governments and nonprofits, which in turn provide technical or financial assistance to entrepreneurs.

Although we identified a number of examples of statutory overlap, we did not find evidence of duplication among these programs (that is, instances when two or more agencies or programs are engaged in the same activities to provide the same services to the same beneficiaries) based on available data. However, as discussed later, most agencies were not able to provide the programmatic information, such as data on users of the program that is necessary to determine whether or not duplication actually exists among the programs.

In our 2012 report, we examined entrepreneurs' experiences with the four agencies' technical assistance programs—which provide services such as helping with development of business plans or a loan package to obtain financing—and found that some struggle to navigate the fragmented programs. For example, some entrepreneurs and various technical assistance providers with whom we spoke—including agency field offices, intermediaries, and other local service providers—told us that the system can be confusing and that some entrepreneurs do not know

what services are available or where to go for assistance.⁷ Technical assistance providers sometimes attempt to help entrepreneurs navigate the system by referring them to other programs, but these efforts are not consistently successful. In addition, programs' Internet resources can also be difficult to navigate. Each agency has its own separate website that provides information to entrepreneurs, but they often direct entrepreneurs to other websites for additional information. SBA, Commerce, USDA, and other agencies have collaborated to develop a joint website, called BusinessUSA, with the goal of making it easier for businesses to access services. Some technical assistance providers and entrepreneurs we spoke with suggested that a single source to help entrepreneurs quickly find information instead of sorting through different websites would be helpful.

Given the fragmented nature of the federal programs that provide financial assistance to entrepreneurs, enhanced collaboration between agencies could help improve program efficiency. In prior work we identified practices that can help to enhance and sustain collaboration among federal agencies, which can help to maximize performance and results, and we have recommended that the agencies follow them.⁸ These collaborative practices include identifying common outcomes, establishing joint strategies, leveraging resources, determining roles and responsibilities, and developing compatible policies and procedures. In addition, GPRAMA's crosscutting framework requires that agencies collaborate in order to address issues, such as economic development, that transcend more than one agency, and GPRAMA directs agencies to describe how they are working with each other to achieve their program goals. While most of the agencies at the headquarters level have agreed to work together by signing formal agreements to administer some of their similar programs, they have not implemented a number of other good collaborative practices we have previously identified. For example, SBA and USDA entered into a formal agreement in April 2010 to coordinate their efforts aimed at supporting businesses in rural areas. USDA's most

⁷Federal funds typically flow from the federal agencies to different eligible intermediaries, which are third-party entities that receive federal funds, such as nonprofits or universities. Although intermediaries are the primary providers of technical assistance, agency field offices may also provide some technical assistance. Field staff GAO spoke with did not consistently collaborate to provide training and counseling services to entrepreneurs.

⁸GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies* GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

recent survey of state directors indicates strong collaboration in several areas, including field offices advising borrowers of SBA's programs, referring borrowers to SBA and its resource partners, and exploring ways to make USDA and SBA programs more complementary. However, the agencies have not implemented other good collaborative practices, such as establishing compatible policies and procedures to better support rural businesses.

Agencies Lack Information to Track Program Activities and Have Not Evaluated Programs

While the four agencies collect at least some information on program activities in either an electronic records system or through paper files, most were unable to summarize the information in a way that could be used to help administer the programs. Similarly, the agencies typically do not track detailed information on the characteristics of entrepreneurs that they serve, such as whether they are located in rural or economically distressed areas or the entrepreneurs' type of industry. According to OMB, being able to track and measure specific program data can help agencies diagnose problems, identify drivers of future performance, evaluate risk, support collaboration, and inform follow-up actions. Analyses of patterns and anomalies in program information can also help agencies discover ways to achieve more value for the taxpayers' money. In addition, agencies can use this information to assess whether their specific program activities are contributing as planned to the agency goals. Promising practices of program administration include a strong capacity to collect and analyze accurate, useful, and timely data.⁹ Table 1 summarizes the type of information that agencies maintain in a readily available format that could be tracked to help administer the financial assistance programs we reviewed. For example, USDA collects detailed information (19 categories) on how entrepreneurs use proceeds, such as for working capital, provided through five of its financial assistance programs. USDA maintains this information in an electronic database, and officials stated that they can provide this type of detailed information upon request.

⁹Harold I. Steinberg, *Using Performance Information to Drive Performance Improvement*, Association of Government Accountants CPAG Research Series: Report No. 29 (Alexandria, Va. Dec. 2011).

Table 1: Financial Assistance Programs that Can Support Entrepreneurs and Maintain Readily Available Information, by Agency, Fiscal Year 2011

Type of Information		Commerce (2)	HUD (10)	SBA (10)	USDA (8)	Total (30)
Type of financial assistance provided?	yes	2	8	9	8	27
	no	0	2	1	0	3
Use of proceeds?	yes	2	1	7	5	15
	no	0	9	3	3	15
Industry entrepreneur is working in?	yes	2	0	5	8	15
	no	0	10	5	0	15
Type of entrepreneur by targeted categories?	yes	2	3	8	5	18
	no	0	7	2	3	12

Source: GAO analysis of data from Commerce, HUD, SBA and USDA.

We also found that for fiscal year 2011, a number of programs that support entrepreneurs failed to meet some or all of their performance goals. GPRAMA requires agencies to develop annual performance plans that include performance goals for an agency's program activities and accompanying performance measures. According to GPRAMA, these performance goals should be in a quantifiable and measurable form to define the level of performance to be achieved for program activities each year. Leading organizations recognize that performance measures can create powerful incentives to influence organizational and individual behavior. Some of their good practices include setting and measuring performance goals. Measuring performance allows organizations to track the progress they are making toward their goals and gives managers crucial information on which to base their organizational and management decisions.¹⁰

Further, from 2000 through 2012, the agencies had conducted program evaluations of 13 of the 30 financial assistance programs that support entrepreneurs we reviewed. Based on our review, we found that SBA has conducted program evaluation studies on 5 of its 10 programs. We also

¹⁰See GAO, *Small Business Administration: Additional Guidance on Documenting Credit Elsewhere Decisions Could Improve 7(a) Program Oversight*, GAO-09-228 (Washington, D.C.: Feb. 12, 2009) and *Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance*, GAO-07-769 (Washington, D.C.: July 13, 2007). We also have ongoing work on SBA's 504 Loan Program including the performance measures SBA has established to help ensure 504 loans meet key requirements, among other issues. We plan to issue this report in the near future.

found that USDA has evaluated 1 of its 8 financial assistance programs, but the study did not address the extent to which the program was achieving its mission. Although GPRAMA does not require agencies to conduct formal program evaluations, it does require agencies to describe program evaluations that were used to establish or revise strategic goals, as well as program evaluations they plan to conduct in the future. Additionally, while not required to do so, agencies can use periodic program evaluations to complement ongoing performance measurement. Program evaluations that systematically study the benefits of programs may help identify the extent to which overlapping and fragmented programs are achieving their objectives. In addition, program evaluations can help agencies determine reasons why a performance goal was not met and give an agency direction on how to improve program performance.

Since our August 2012 report we have also evaluated certain SBA financial assistance programs.¹¹ For example, in September 2013 we reported on a pilot initiative within SBA's 7(a) loan guarantee program, the Patriot Express Pilot Loan Program, which provided small businesses owned and operated by veterans and other eligible members of the military community access to capital.¹² We found that SBA did not establish measurable goals for the pilot and did not evaluate the effects of this pilot, which would have allowed SBA to assess if program operations have resulted in the desired benefits, and, for pilots, determine whether to make the programs permanent. In this report, we made two additional recommendations pertaining to program evaluation. SBA said it would consider the findings as it reviewed extending the pilot program.¹³ Subsequently, SBA discontinued the Patriot Express Pilot Program as of December 31, 2013, but announced a temporary program, the SBA Veterans Advantage Program, to serve veteran-owned small businesses.

¹¹GAO has also issued a number of older reports reviewing various aspects of SBA's loan programs, including performance evaluations. See GAO-09-228 and GAO-07-769.

¹²GAO, *Patriot Express: SBA Should Evaluate the Program and Enhance Eligibility Controls*, GAO-13-727 (Washington, D.C.: Sept. 12, 2013). This pilot program was terminated as of December 31, 2013.

¹³See GAO-13-727 for more detailed information on our findings and recommendations.

To address the issues identified in our August 2012 report and to help improve the efficiency and effectiveness of federal efforts to support entrepreneurs, we made the following recommendations:

- The Director of the Office of Management and Budget; the Secretaries of the Departments of Agriculture, Commerce, and Housing and Urban Development; and the Administrator of the Small Business Administration should work together to identify opportunities to enhance collaboration among programs, both within and across agencies.
- The Secretaries of the Departments of Agriculture, Commerce, and Housing and Urban Development and the Administrator of the Small Business Administration should consistently collect information that would enable them to track the specific type of assistance programs provide and the entrepreneurs they serve and use this information to help administer their programs.
- The Secretaries of the Departments of Agriculture, Commerce, and Housing and Urban Development and the Administrator of the Small Business Administration should conduct more program evaluations to better understand why programs have not met performance goals and the programs' overall effectiveness.

The agencies, together with the administration, have taken some steps to address our recommendations. For example, the administration has initiated steps that provide the agencies with a mechanism to work together to identify opportunities to enhance collaboration among programs. In particular, it introduced a Cross-Agency Priority goal to increase services to entrepreneurs and small businesses in the President's fiscal year 2013 budget submission.¹⁴ One of the objectives under this goal is to use programs and resources across the federal government to improve and expand the reach of training, counseling, and mentoring services to entrepreneurs and small business owners. In 2012, the administration established an interagency group (including Commerce, SBA, USDA, and others) that aims to streamline existing programs, improve cooperation among and within agencies, ease entrepreneurs' access to the programs, and increase data-based

¹⁴GPRAMA, among other things, required OMB to coordinate with agencies to establish outcome-oriented federal government priority goals—referred to as crosscutting goals—covering a limited number of policy areas, as well as goals to improve management across the federal government. Entrepreneurship and small businesses was 1 of 14 interim crosscutting priority goals included in the President's 2013 budget submission.

evaluation of program performance. According to the third quarter fiscal year 2013 status update on the administration's Cross-Agency Priority goal for small business and entrepreneurship, the working group was to create an interagency evaluation framework in the fourth quarter of fiscal year 2013 to measure the impacts of coordinating funding streams through cluster initiatives. It will be important for the interagency group to follow through on developing an evaluation framework, including metrics, to ensure that the programs are delivering assistance to entrepreneurs efficiently and effectively. In addition, in November 2013, OMB noted that an interagency group meets monthly to discuss individual agency efforts and identify key areas for improved interagency coordination for the BusinessUSA website. It will be important for the interagency group to follow through on any key areas identified to improve coordination among agencies.

In addition, the four agencies have completed actions or have actions underway that are intended to improve data collected on program performance.

- In November 2013, USDA noted that the department's Rural Business Services completed three initiatives in fiscal year 2013 to improve the quality of performance measurement, including a project to improve the integrity of data the agency uses to compile program performance measures.
- In November 2013, HUD noted that the department had undertaken a series of actions to improve the quality of data on the department's Community Development Block Grant (CDBG) funded activities, including economic development activities. HUD's efforts include an extensive clean-up of CDBG data, which the department expects to complete by the end of the second quarter of fiscal year 2014.
- In February 2013, SBA noted that the agency had undertaken a modernization project for its resource partner data collection system to enhance current data fields, improve budget and performance integration capabilities, and expand reporting capabilities.
- In October 2012, Commerce's Economic Development Administration (EDA) noted that it had recently partnered with two universities to develop a comprehensive set of performance measures that can be used to evaluate the effectiveness of its programs.

Going forward, we will continue to obtain updates on the agencies' progress. We will report on the actions taken by the agencies as we do for other areas included in our mandated work addressing federal

programs with fragmentation, overlap, and duplication.¹⁵ We look forward to continuing to work with the agencies as well as this and other congressional committees in addressing ways to assist entrepreneurs in the most effective and efficient manner.

Chairman Tipton and Ranking Member Murphy, this concludes my prepared statement. I would be happy to answer any questions at this time.

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For further information on this testimony, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Marshall Hamlett, Assistant Director; Catherine Gelb; John McGrail; and Jennifer Schwartz.

¹⁵GAO, Duplication & Cost Savings, *Action Tracker*, accessed February 3, 2014, available at http://www.gao.gov/duplication/action_tracker/all_areas.

Appendix I: List of Programs That Provide Financial Assistance to Entrepreneurs

Department of Agriculture	Biomass Research and Development Initiative Competitive Grants Program Business and Industry Loans Intermediary Re-lending Rural Business Enterprise Grants Rural Microentrepreneur Assistance Program Small Business Innovation Research Value Added Producer Grants Woody Biomass Utilization Grant Program
Department of Commerce	Economic Adjustment Assistance Global Climate Change Mitigation Incentive Fund
Department of Housing and Urban Development	Community Development Block Grant (CDBG)/Brownfields Economic Development Initiative CDBG/Disaster Recovery Grants CDBG/Insular Areas CDBG/Non-entitlement CDBG Grants in Hawaii CDBG/Section 108 Loan Guarantees CDBG/States CDBG/Entitlement Grants Indian CDBG Rural Innovation Fund Section 4 Capacity Building for Affordable Housing and Community Development
Small Business Administration (SBA)	504 Loan Program 7(a) Loan Program 7(a) Export Loan Guarantees Federal and State Technology Partnership Program Microloan Program New Markets Venture Capital Program Small Business Innovation Research Program Small Business Investment Companies Small Business Technology Transfer Program Surety Bond Guarantee Program

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U.S. Small Business Administration
Washington, D.C. 20416

**Testimony before the U.S. House Small Business Committee
Subcommittee on Agriculture, Energy and Trade**

Duplication Overlap and Fragmentation in Federal Financial Assistance Programs

As Prepared for Ann Marie Mehlum, Associate Administrator,
Office of Capital Access, U.S. Small Business Administration

February 6, 2014

Chairman Tipton, Ranking Member Murphy, and distinguished Members of the Subcommittee. Thank you for inviting me to testify on SBA's ongoing work to expand access to capital for small businesses, while enhancing collaboration and avoiding duplication with other government programs. I greatly appreciate the opportunity to discuss our lending products and successful partnerships across the federal government. As a former lender from a largely rural state, it is truly an honor to be before this Subcommittee and alongside my colleagues from USDA and GAO. Together, we are committed to providing all entrepreneurs with the tools they need to start and grow companies and create jobs.

Small businesses are the engine of our economy and one of our country's greatest assets. They employ half of the private sector workforce and create two out of every three net new private sector jobs. And at SBA, we know that innovation is hardly limited to Boston and San Francisco. It's happening in rural and industrial communities—in the South and across the Midwest. It's happening in Florida and Colorado and in my home state of Oregon. That is why we are focused on ensuring that the economic benefits of entrepreneurship reach every corner of America.

In my role as Associate Administrator for Capital Access, I rely on my 30-year career in commercial lending to inform how SBA can better support small businesses across the country. It is our top priority to fill market gaps and expand opportunities for companies that are often overlooked by investors and financial institutions. Over the past five years, our loan guarantee programs have made it possible for lenders to support more small businesses in rural and underserved communities. In Fiscal Year 2013 alone, approximately 15 percent of all 7(a) loans and 16 percent of total dollars went to rural entrepreneurs.

In order to reach even more small businesses in rural markets and ensure effective collaboration across the federal government, SBA has signed several Memorandums of Understanding (MOU) with other agencies, including USDA. Leveraging SBA's nationwide network of district offices and resource partners as well as USDA's extensive footprint of field staff in nearly every county in America,

we are able to advise potential small business borrowers and lenders on both SBA and USDA loan programs. Through our collaboration, we educate each other's staff on our respective products and services, exchange marketing materials, and host joint lender training.

We have already seen the benefits of our collaboration through the success of countless small businesses like the Maupin Market in Maupin, Oregon. In 2011, the only grocery store in this 500-person town was slated to close, forcing residents to travel over 40 miles to go food shopping. Maupin was en route to becoming a food desert when Allison and Randy Bechtol decided to reopen the store. Unable to obtain conventional financing, the Bechtols turned to the local Small Business Development Center (SBDC) for help. The SBDC connected the Bechtols with a community bank that identified SBA's 504 Loan Program and USDA Rural Development's Intermediary Relending Program as strong matches for their capital needs. With a \$279,000 SBA-guaranteed loan and a separate loan for \$100,000 through USDA's Intermediary Relending Program, the Bechtols were able to remodel the old building and reopen the new Maupin Market. They have created seven good-paying jobs in the community and provided new business opportunities for the local farmers.

The success of SBA's strategic alliance with USDA has led to similar partnerships with the Delta Regional Authority (DRA) and the Appalachian Regional Commission (ARC). We are also working with the White House Rural Council on a number of initiatives to increase investment in rural communities. Specifically, we announced a new commitment with USDA to expand access to capital and provide targeted training and counseling services in rural markets.

SBA also supports rural small businesses through our Small Loan Advantage (SLA) platform. One of our signature low-dollar loan programs, SLA makes loans up to \$350,000 more attractive and less costly for banks. After receiving feedback from our lending partners on how to make the program more effective, we simplified the application process, allowed banks to use their own collateral, closing, and dispersing guidelines, and expanded the program to include all lenders.

We also redesigned our CAPLines program, which provides working-capital to small businesses to help them meet contract obligations and fill work orders. This streamlined, and therefore less costly, process allows banks to reach smaller and more rural businesses. In FY 2012 and FY 2013, we experienced a significant increase in activity in this program with over 1,200 loans approved for more than \$920 million. That is up from just 300 loans and \$255 million approved during the three prior fiscal years combined.

At SBA, and across the Administration, we are committed to collaborating with our federal partners to fill market gaps for loans in underserved communities and ensure that all entrepreneurs have the resources and training they need to turn great ideas into growing businesses. By taking an inclusive view of entrepreneurship, one that expands access and opportunity to more commu-

nities, we can spur new business formation, innovation, job creation, and build strong regional economies throughout America.

Thank you again for the opportunity to be here, and I look forward to answering your questions.

**Statement of Lillian Salerno, Administrator, Rural Business-
Cooperative Services**

United States Department of Agriculture

**Before the House Committee on Small Business Subcommittee on
Agriculture, Energy and Trade**

February 06, 2014

Chairman Tipton, Ranking Member Murphy, and members of the subcommittee, I am pleased to have this opportunity to discuss, as a follow-up to last year's hearing on the Government Accountability Office (GAO) report on "Entrepreneurial Assistance," the coordination of the Business and Industry (B&I) Guaranteed Loan program with the Small Business Administration's (SBA) 7(a) program and improvements we have made in our performance measure verification. Rural Business-Cooperative Service (RBCS) is committed to ensuring that entrepreneurs in rural communities have every opportunity to succeed.

As a former entrepreneur and rural small business owner, I have firsthand knowledge of the value of Federal financial assistance program. In fact, the medical device company I founded in 1994 began with a Small Business Innovation Research (SBIR) grant and has grown to approximately 150 employees in rural north Texas.

In the August 2012 report on Entrepreneurial Assistance, GAO recommended that we do more to coordinate our programs and that we help entrepreneurs more efficiently identify the program that can assist them. Outreach and collaboration with other Federal agencies regarding our programs here at a national level and educating and encouraging our field staff to work with other Federal agencies in promoting our programs at a local level have been top priorities for me since I became Administrator in July 2013.

B&I Guaranteed Loan Program

Rural communities have historically lacked adequate access to private investment capital to support business development and job creation. The B&I Guaranteed Loan program helps to improve the economic condition of rural communities by enhancing the existing private credit structure through loan guarantees. Over the course of the past year, RBCS has provided \$939 million in B&I loan guarantees to over 400 businesses across the country.

We appreciate that other agencies' programs may provide assistance to rural businesses. However, the distinguishing and critical feature of RBCS programs in general, and the B&I guaranteed loan program in particular, is our mission—to provide assistance to rural businesses in rural communities. While both the B&I program and the Small Business Administration's 7(a) loan program have the goal of ensuring small businesses have capital, Congress has determined that B&I serves the distinct purpose of providing

resources to rural businesses that have greater individual capital needs. The B&I program is a critical component to increasing economic opportunity and improving life for rural Americans. The delivery system of our agency, with personnel and offices in rural areas, is particularly suited to assisting rural businesses and helping them to succeed.

Furthermore, the universe of borrowers is broader for participants under the B&I program. The 7(a) program limits eligible borrowers to for-profit businesses, while the B&I program allows eligible borrowers to be for-profit, cooperatives, non-profit, individuals, corporations, or partnerships located in rural areas with a population of less than 50,000. Also, the guarantee loan limits for the B&I program are greater than those for the 7(a) program.

USDA & SBA Coordination

My agency works diligently to ensure effective coordination of the B&I program (as well as our other programs) with our partners, especially with SBA. While the National Office meets with SBA frequently because of our participation on Administration-wide, cross-cutting initiatives, the coordination is even more evident at the state and local levels. Although our field staff has worked closely with SBA offices for many years, the Memorandum of Understanding (MOU) signed by former SBA Administrator Karen Mills and Department of Agriculture (USDA) Secretary Thomas J. Vilsack in September of last year provides an opportunity for even more collaboration. The intent of this MOU is to benefit small businesses and agricultural producers through a joint effort and to encourage sustainable growth and development through financial assistance from both SBA and USDA.

On a recent visit to a Small Business Lender roundtable with bankers and small businesses, the State SBA representative highlighted the efficacy of the new MOU in an email to me, which reads in part:

At the district level, we cut through red tape and bureaucracy much of the time because our leaders give us that ability. The MOU lays out the guide—which is very good in that it gives more details and specific achievements desired, but lets us design specific applications to fit our markets. I think this could be a best practice for other government programs to “virtually” consolidate ourselves around those common areas we naturally have. This is achieved without the cost and time involved in a full-blown reorganization and consolidation but achieves the same thing faster and better.

Further, my agency, together with SBA, is committed to providing \$175 million in micro-capital to rural small businesses and small farms over Fiscal Years (FY) 2013 and 2014 to support entrepreneurship in rural communities across America. This commitment represents a ten percent increase from FY 2012 micro-lending levels at both agencies. Through our coordination with SBA, we are able to increase access to private investment capital for small rural businesses, which helps ensure that rural communities are economically thriving and can compete in the global economy. This co-

ordination includes outreach and promoting each agency's programs, resulting in better access for entrepreneurs and, in a number of instances, jointly funded projects. For example, last year, a lender in Sumter, South Carolina, was able to leverage both the B&I program and the SBA 7(a) program to help finance two projects that involved common ownership. Because the SBA 7(a) program has an exposure cap of \$5 million, the lender needed to finance the remaining \$6.5 million using the B&I guaranteed loan program.

Measuring Performance

RBCS has been, and continues to be, focused on improving our metrics by improving processes, increasing human resources, and investing in Information Technology. In the past year, RBCS has taken steps to improve its data collection and data validation. In the second quarter of FY 2013, we published guidance to our field offices to provide clarification and guidance regarding the collection, tracking recording, and verifying of jobs created/saved and other measures of impacts and outcomes of RBCS programs (e.g., energy saved or produced, producers of local foods projects).

The Agency undertook an extensive data validation effort of FY 2013 data. National Office personnel reviewed all of the performance measures for FY 2013, identifying in particular data that were deemed "outliers." The data was distributed to our state offices and program offices for validation. We asked all offices to carefully review the data and to pay special attention to the information identified by the National Office as "outliers." Once the data was confirmed or amended by the state and program offices it was resubmitted to the National Office.

Concurrently, we created a specific spreadsheet that will be updated on a periodic basis to compile performance measures. The spreadsheet will improve the consistency and accuracy of our performance outcomes when we submit reports to the various oversight organizations, such as OMB, USDA's Office of Budget and Policy Analysis (OBPA), the Office of the Inspector General (OIG), and the Government Accountability Office (GAO).

For FY 2014, we are now able to undertake several actions as we have certainty in the amount of funding made available to us. Our first priority is a critical hire to oversee our data collection and verification activities. We are also revising the personnel description of one of our senior staff to address reporting consistency. Further, we will begin making IT enhancements including making it easier for our lenders and intermediaries to report the performance measures we request of them.

Importance of RBCS Programs

As Administrator, I have had the opportunity to meet with many small business owners and listen to their struggles to acquire needed capital to start, improve, or develop their businesses. Numerous small business owners have told me that without the B&I program the bank would not have made the loan.

To more efficiently and effectively deliver our programs, RBCS utilizes ten team leaders and two regional leaders. This allows us to better coordinate activities with the states and most importantly to assist rural Americans on a “horizontal” basis rather than the slower, less efficient “vertical” basis. For FY 2014, we are proposing to hire additional people. These additional positions will enable RBCS to further focus our resources on the economic needs at both the regional and community levels, thereby ensuring that our resources support the rural development needs specific to that region or community.

In sum, no other Federal agency is positioned as well as we are to meet the needs of rural America. Our extensive physical presence in rural communities distinguishes us from other Federal programs. We have the expertise and experience with the particular economic, social, and geographic characteristics of rural communities. Through our 47 State Offices and hundreds of local offices and service centers, we overcome the physical distance barriers that alone can hinder service delivery in rural areas.

Concluding Remarks

I appreciate the opportunity to testify before members of the Committee alongside colleagues from SBA and GAO. We are committed to helping entrepreneurs and small businesses succeed. As you can see from the testimony above, we work well together and I anticipate that we will continue to do so in the future. I welcome the chance to engage in a dialog on even more ways we can further support American competitiveness and growth. Thank you for your support of Rural Business programs. And at this time, I am happy to answer your questions.

