Testimony
Before the Subcommittee on Rural and Urban Entrepreneurship, Committee on Small Business, House of Representatives

SMALL BUSINESS ADMINISTRATION

Preliminary Views on Increasing Collaboration with Department of Agriculture Rural Development Offices

Statement of William B. Shear, Director
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What GAO Found

While SBA and Rural Development are not currently involved in a collaborative working relationship, SBA and Rural Development have used a number of different mechanisms, both formal and informal, to collaborate with other agencies and each other. For example, both agencies have used the Economy Act—a general statutory provision that permits federal agencies, under certain circumstances, to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise. SBA and USDA used the act to enter into an interagency agreement to create rural business investment companies to provide equity investments to rural small businesses. For this initiative, Congress also authorized USDA and SBA to administer the Rural Business Investment Program to create these investment companies. However, funding for this program was rescinded at the end of fiscal year 2006. SBA and Rural Development have also used other mechanisms to collaborate, including memorandums of understanding (MOU), contractual agreements, and other legal authorities. For instance, Rural Development has collaborated with the Federal Emergency Management Agency in providing assistance to the victims of Hurricane Katrina using the disaster provisions under its multifamily and single-family rural housing programs. To collaborate with each other, in the past SBA and Rural Development have established MOUs to ensure coordination of programs and activities between the two agencies and improve effectiveness in promoting rural development.

Both SBA and Rural Development have undergone restructuring that has resulted in downsizing and greater centralization of each agency’s field operations. Currently, SBA’s 68 field offices—many of them in urban centers—are still undergoing the transformation to a more centralized structure. Rural Development has largely completed the transformation and continues to have a large presence in rural areas through a network of hundreds of field offices. The program’s recognized presence in rural areas and expertise in the issues and challenges facing rural lenders and small businesses may make these offices appropriate partners to help deliver SBA services.

GAO has recently begun a review of the potential for increased collaboration between SBA and Rural Development. In general, the major objectives are to examine the differences and similarities between SBA loan programs and Rural Development business programs, any cooperation that is already taking place between SBA and Rural Development, and any opportunities for or barriers to collaboration.
Mr. Chairman, Ranking Member Fortenberry,
and Members of the Subcommittee:

I am pleased to be here today to discuss our preliminary views on the potential for increased collaboration between the Small Business Administration (SBA) and Department of Agriculture (USDA) Rural Development offices. Given the downsizing that has occurred at SBA district offices and related changes in roles and responsibilities, this is an opportune time to examine the potential for collaboration between SBA and USDA Rural Development (Rural Development). Collaboration that cuts across more than one federal agency is one way for agencies to deliver results more efficiently and in a way that is consistent with multiple demands and limited resources.¹

Over 80 programs administered by several different federal agencies target rural economic development.² Of these, SBA and Rural Development share a mission of attending to underserved markets, fostering economic development, and improving the quality of life in America through the promotion of entrepreneurship and community development. Both agencies offer business loans and grant programs for rural development and play a vital role in spurring economic growth in rural areas. In the past, these agencies have developed cooperative working relationships to help manage their respective rural loan and economic development programs. Additionally, Congress created the Rural Business Investment Program (RBIP) in 2002, which authorized USDA to enter into a joint agreement with SBA to create investment companies that would provide equity investments to rural small businesses.³ At this subcommittee’s request, we are exploring possible opportunities for SBA to seek increased collaboration and cooperation with USDA Rural Development, particularly considering Rural Development’s large and recognizable presence in rural communities across the country.

¹Collaboration can be broadly defined as any joint activity that is intended to produce more public value than can be produced when the agencies act alone. It can include interagency activities that others have previously defined as cooperation, coordination, integration, or networking.


In my testimony, I will provide preliminary views on (1) mechanisms that SBA and USDA have used to facilitate collaboration with other federal agencies and with each other; (2) the organization of SBA and USDA Rural Development field offices; and (3) the planned approach for our recently initiated evaluation on collaboration between SBA and USDA Rural Development undertaken at your request, including how we plan to apply the best practices for effective collaboration that we identified in prior work.

In conducting this work to date, we met with SBA and USDA officials; obtained information on SBA and Rural Development loan and business programs; and reviewed information from previous GAO reports on the two agencies as well as on practices that can help enhance collaboration among federal agencies.

In summary:

- While SBA and Rural Development are not currently involved in a collaborative working relationship, SBA and Rural Development have used a number of different mechanisms, both formal and informal, to collaborate with other agencies and each other. For example, both agencies have used the Economy Act—a general statutory provision that permits federal agencies, under certain circumstances, to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise. SBA and USDA used the act to enter into an interagency agreement to create rural business investment companies to provide equity investments to rural small businesses. For this initiative, Congress also authorized USDA and SBA to administer the RBIP to create these investment companies. However, funding for this program was rescinded at the end of fiscal year 2006. SBA and Rural Development have also used other mechanisms to collaborate, including memorandums of understanding (MOU), contractual agreements, and other legal authorities. For instance, Rural Development has collaborated with the Federal Emergency Management Agency in providing assistance to the victims of Hurricane Katrina using the disaster provisions under its multifamily and single-family rural housing programs. To collaborate with each other, in the past SBA and Rural Development have established MOUs to ensure coordination of programs and activities between the two agencies and improve effectiveness in promoting rural development.

Both SBA and Rural Development have undergone restructuring that has resulted in the downsizing and greater centralization of each agency’s field operations. Currently, SBA’s 68 field offices—many of them in urban centers—are still undergoing the transformation to a more centralized structure. Rural Development has largely completed the transformation but continues to have a large presence in rural areas through a network of hundreds of field offices. The program’s recognized presence in rural areas and expertise in the issues and challenges facing rural lenders and small businesses may make these offices appropriate partners to help deliver SBA services.

We have recently begun a review of the potential for increased collaboration between SBA and Rural Development. In general, the major objectives are to examine the differences and similarities between SBA loan programs and Rural Development business programs, any cooperation that is already taking place between SBA and Rural Development, and any opportunities for or barriers to collaboration. Among other things, we plan to review relevant laws, regulations, and policies to determine what opportunities or barriers exist to cooperation and collaboration between SBA and Rural Development; evaluate each agency’s field structure to determine what opportunities, if any, exist for increased collaboration; contact SBA and Rural Development staff in headquarters and visit selected field offices to determine what cooperation is already taking place between SBA and Rural Development; and interview select lenders that participate in SBA loan programs and Rural Development business programs to obtain their perspectives on SBA loan programs and Rural Development business programs.

We are continuing to design the scope and methodology for our work, and we expect to complete this design phase by February 2008. We discussed the contents of this testimony with SBA and USDA officials.

Background

USDA is, by law, charged with leading and coordinating federal rural development assistance. USDA Rural Development administers the greatest number of development programs for rural communities and directs the highest average amount of federal program funds to these communities. Most of Rural Development’s programs and activities provide assistance in the form of loans, loan guarantees, and grants. Three

The Rural Development Policy Act of 1980 designated USDA as the lead federal agency for rural development.
offices are primarily responsible for carrying out this mission: the Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS). RBS administers programs that provide financial, business planning, and technical assistance to rural businesses and cooperatives that receive Rural Development financial assistance. It also helps fund projects that create or preserve jobs in rural areas. RHS administers community facilities and housing programs that help finance new or improved housing for moderate-, low-, and very low-income families. RUS administers electric, telecommunications, and water programs that help finance the infrastructure necessary to improve the quality of life and promote economic development in rural areas.

Since its beginning in 1953, SBA has steadily increased the amount of total assistance it provides to small businesses, including those in rural areas, and expanded its array of programs for these businesses. SBA’s programs now include business and disaster relief loans, loan guarantees, investment capital, contract procurement and management assistance, and specialized outreach. SBA’s loan programs include its 7(a) loan guarantee program, which guarantees loans made by commercial lenders to small businesses for working capital and other general business purposes, and its 504 loan program, which provides long-term, fixed-rate financing for major fixed assets, such as land and buildings. These loans are generally provided through participating lenders, up to a maximum loan amount of $2 million. SBA also administers the Small Business Investment Company (SBIC) program—a program that provides long-term loans and venture capital to small firms.

In September 2007, SBA announced a new loan initiative designed to stimulate economic growth in rural areas. The Rural Lender Advantage program, a part of SBA’s 7(a) loan program, is aimed at encouraging rural lenders to finance small businesses. It is part of a broader initiative to boost economies in regions that face unique challenges due to factors such as declining population or high unemployment.

6The Office of Community Development (OCD) is also part of USDA’s rural development mission area. OCD implements a range of special rural development initiatives and provides support for rural development activities through the field offices.
Generally speaking, collaboration involves any joint activity that is intended to produce more public value than could be produced when the agencies act alone. Collaboration efforts are often aimed at establishing approaches to working together; clarifying priorities, roles and responsibilities; and aligning resources to accomplish common outcomes. On the federal level, collaboration efforts tend to occur through interagency agreements, partnerships with state and local governments and communities, and informal methods (e.g. networking activities, meetings, conferences, or other discussions on specific projects or initiatives). Agencies use a number of different mechanisms to collaborate with each other, including MOUs, procurement and other contractual agreements, and various legal authorities.

Both SBA and USDA have used the authority provided by the Economy Act to facilitate collaboration. The Economy Act is a general statutory provision that permits federal agencies to enter into mutual agreements with other federal agencies to purchase goods or services and take advantage of specialized experience or expertise. It is the most commonly used authority for interagency agreements, allowing agencies to work together to obtain items or services from each other that cannot be obtained as conveniently or economically from a private source.

SBA has also used contractual work agreements to collaborate with other federal agencies. For example, SBA has an agreement with the Farm Credit Administration (FCA) to examine SBA’s Small Business Lending Companies (SBLC). SBA oversees SBLCs, which are nondepository lending institutions that it licenses and that play a significant role in SBA’s 7(a) Loan Guaranty Program. However, SBLCs are not generally regulated or examined by financial institution regulators. SBA entered into a contractual agreement with the FCA in 1999 that tasked FCA with conducting safety and soundness examinations of SBA’s SBLCs. Under the agreement, FCA examined 14 SBLCs during a 1-year period. The exams were conducted on a full cost recovery basis and gave both agencies the option to terminate or extend the agreement after a year. The agreement allowed SBA to take advantage of FCA’s expertise in examining specialized financial institutions and offered FCA the opportunity to

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8FCA is the regulator of the Farm Credit System.
broaden its experience through exposure to a different lending environment.

Additionally, using the disaster provisions under its traditional multifamily and single-family rural housing programs, Rural Development collaborated with FEMA in providing assistance to hurricane victims. Through this collaborative effort, Rural Development assisted victims of Katrina by (1) making multifamily rental units available nationwide; (2) providing grants and loans for home repair and replacement; and (3) providing mortgage relief through a foreclosure moratorium and mortgage payment forbearance. Rural Development also shared information with FEMA on USDA-owned homes for lease, developed an Internet presence to inform victims of available housing, and made resources available at Rural Development state offices to assist in these efforts.

While SBA and Rural Development are not currently involved in a collaborative working relationship, both agencies have some experience collaborating with each other on issues involving rural development. Specifically, on February 22, 1977, SBA and Rural Development established an MOU for the purpose of coordinating and cooperating in the use of their respective loan-making authorities. Under the general guidelines of the agreement, appropriate SBA and Rural Development officials were to establish a liaison and periodically coordinate their activities to (1) define areas of cooperation, (2) assure that intended recipients received assistance, (3) enable both agencies to provide expeditious service, and (4) provide maximum utilization of resources.

Again on March 30, 1988, SBA and Rural Development agreed to enter into a cooperative relationship designed to encourage and maximize effectiveness in promoting rural development. The MOU outlined each agency’s responsibilities to (1) coordinate program delivery services and (2) cooperate with other private sector and federal, state, and local agencies to ensure that all available resources worked together to promote rural development. SBA and Rural Development officials told us that the 1977 and 1988 agreements had elapsed and had not been renewed.

Finally, in creating the RBIP in 2002, Congress authorized Rural Development and SBA to enter into an interagency agreement to create rural business investment companies. Under the program, the investment companies would leverage capital raised from private investors, including rural residents, into investments in rural small businesses. The legislation recommended that Rural Development manage the RBIP with the assistance of SBA because of SBA’s investment expertise and experience.
and because the program was modeled after SBA's SBIC program. The legislation provided funding to cover SBA's costs of providing such assistance. A total of $10 million was available for the RBIP in fiscal years 2005 and 2006.

Rural Development and SBA conditionally elected to fund three rural business investment companies. However, according to SBA officials only one of these companies has been formed because of challenges in finding investment companies that can undertake such investments. Section 1403 of the Deficit Reduction Act of 2005 rescinded funding for the program at the end of fiscal year 2006. In March 2007, Rural Development began the process of exploring ways to continue the RBIP, despite the rescission.

SBA and Rural Development Both Have a Field Office Network, but Rural Development Appears to Have a More Recognized Presence in Rural Areas

Both SBA and Rural Development have field offices in locations across the United States. However, Rural Development has more state and local field offices and is a more recognized presence in rural areas than SBA. Prior to its 1994 reorganization, which resulted in a more centralized structure, USDA had field staff in almost every rural county. Consistent with its reorganization, and as we reported in September 2000, USDA closed or consolidated about 1,500 county offices into USDA service centers and transferred over 600 Rural Development field positions to the St. Louis Centralized Servicing Center. What resulted was a Rural Development field office structure that consisted of about 50 state offices, 145 area offices, and 670 local offices. As part of the reorganization, state Rural Development offices were given the authority to develop their own program delivery systems. Some states did not change, believing that they needed to maintain a county-based structure with a fixed local presence to deliver one-on-one services to rural areas. Other states consolidated their local offices to form district offices. For example, when we performed our audit work in 2000 we found that Mississippi, which maintains a county-based field structure, had more staff and field offices than any other state. Today, Mississippi still maintains that structure and has a large number of field offices, including 2 area offices, 24 local offices and 3 sub-area offices. The Maine Rural Development office changed its operational structure, moving from 28 offices before the reorganization to 15


afterward. In 2000, it operated out of 3 district offices and currently has 4 area offices.  

SBA currently has 68 district offices, many of which are not located in rural communities or are not readily accessible to rural small businesses. For several years, SBA has been centralizing some of the functions of its district offices to improve efficiency and consistency in approving, servicing, and liquidating loans. Concurrently, SBA has also been moving more toward partnering with outside entities such as private sector lenders to provide services. SBA's district offices were initially created to be the local delivery system for SBA's programs, but as SBA has centralized functions and placed more responsibilities on its lending partners, the district offices' responsibilities have changed. For example, the processing and servicing of a majority of SBA's loans—work once handled largely by district office staff—have been moved from district offices to service centers. Moreover, as we reported in October 2001, there has been confusion over the mission of the district offices, with SBA headquarters officials believing the district office's key customers are small businesses and district office staff believing that their key customers are the lenders who make the loans.  

Currently, SBA is continuing its workforce transformation efforts to, among other things, better define the district office role to focus on marketing and outreach to small businesses.  

We plan to evaluate the extent to which Rural Development offices may be able to help market SBA programs and services by making information available through their district offices. It appears that Rural Development has an extensive physical infrastructure in rural areas and expertise in working with rural lenders and small businesses. Our ongoing work will 

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11Rural Development field offices are responsible for ensuring adherence to program plans approved for the state and for providing staffing support to state offices.  


13GAO, Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication, GAO-04-76 (Washington, D.C.: Oct. 31, 2003). SBA's resource partners include organizations such as Small Business Development Centers and Women's Business Centers, which provide management and technical assistance, and the Service Corps of Retired Executives (SCORE) chapters, which provide volunteer business executives to counsel small businesses and potential entrepreneurs.
explore these issues in more depth, including looking at any incentives that exist for Rural Development and SBA to collaborate with each other.

You requested that we conduct a review of the potential for increased collaboration between SBA and Rural Development, and we have recently begun this work. In general, the major objectives of our review are to determine:

1. The differences and similarities between SBA loan programs and Rural Development business programs,
2. The kind of cooperation that is already taking place between SBA and Rural Development offices, and
3. Any opportunities or barriers that may exist to cooperation and collaboration between SBA and Rural Development.

To assess the differences and similarities between SBA loan programs and Rural Development business programs, we will review relevant SBA and Rural Development documents describing their loan and business programs. We will examine relevant laws, regulations, policies, and program rules, including eligibility requirements and types of assistance, funding levels, and eligible use of program funds. We will obtain data on both agencies’ loan processes and procedures, including any agency goals for awarding loans, documentation requirements, and loan processing times.

To determine what cooperation has taken place between SBA and Rural Development, we will examine previous collaboration efforts and cooperation between the agencies in providing programs and services. We will also review documents such as MOUs, informal interagency agreements, and other documentation and will conduct interviews with SBA and Rural Development staff at headquarters and field offices to obtain a fuller understanding of these initiatives.

To determine what opportunities or barriers exist to cooperation and collaboration between SBA and Rural Development, we will review relevant laws, regulations, and policies. We will review data from SBA and Rural Development on each agency’s field structure, including office space and personnel, and interview relevant parties on the advantages and disadvantages to co-locating offices. We plan to interview headquarters and field office staff at each agency about past collaboration efforts and
any plans to work collaboratively in the future. We also plan to obtain the perspectives of select lenders that participate in SBA loan programs and Rural Development business programs.

We reported previously in March 2007 and October 2005 that effective collaboration can occur between agencies if they take a more systematic approach to agreeing on roles and responsibilities and establishing compatible goals, policies, and procedures on how to use available resources as efficiently as possible. In doing so, we identified certain key practices that agencies such as SBA and USDA could use to help enhance and sustain their efforts to work collaboratively. These practices include (1) defining and articulating a common outcome; (2) establishing mutually reinforcing or joint strategies; (3) identifying and addressing needs by leveraging resources; (4) agreeing on roles and responsibilities; (5) establishing compatible policies, procedures, and other means of operating across agency boundaries; (6) developing mechanisms to monitor, evaluate, and report on results; (7) reinforcing agency accountability for collaborative efforts; and (8) reinforcing individual accountability for collaborative efforts. As part of our ongoing work, we plan to review the extent to which the eight key practices relate to possible opportunities for SBA to increase collaboration with Rural Development. For example, we plan to explore the extent to which these practices are necessary elements for SBA to have a collaborative relationship with Rural Development.

We are continuing to design the scope and methodology for our work, and we expect to complete this design phase by February 2008. At that time, we will provide details of our approach as well as a committed issuance date for our final report.

Mr. Chairman, Ranking Member Fortenberry, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions that you may have.


For additional information about this testimony, please contact William B. Shear at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Affairs and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony included Paul Schmidt, Assistant Director; Michelle Bowsky; Tania Calhoun; Emily Chalmers; and Ronald Ito.
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