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ECONOMIC DEVELOPMENT

Efficiency and Effectiveness of Fragmented Programs Are Unclear

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

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GAO-12-553T

Chairman Johnson, Ranking Member Costa, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on overlap, fragmentation, and potential duplication in economic development programs. Over the past year, we have issued a series of reports on potential duplication among federal economic development programs, including a number of rural development programs.[1] Most recently in February 2012 we reported new information on the existence of overlap and fragmentation among those federal economic development programs that support entrepreneurs.[2] Specifically, we focused our analysis on 53 of the 80 economic development programs at the Departments of Commerce (Commerce), Housing and Urban Development (HUD), Agriculture (USDA), and the Small Business Administration (SBA) that fund entrepreneurial assistance because these programs appear to overlap the most.[3] According to agency officials, these programs, which typically fund a variety of activities in addition to supporting entrepreneurs, spent an estimated $2.6 billion in enacted appropriations on economic development efforts in fiscal year 2010.[4]

[1]GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington D.C.: Mar. 1, 2011) and *Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear*, GAO-11-477R (Washington, D.C.: May 19, 2011).

[2]GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue*, GAO-12-342SP (Washington D.C.: Feb. 28, 2012).

[3]The number of programs administered by Commerce, HUD, SBA, and USDA that were identified in GAO-11-477R as supporting entrepreneurial efforts decreased from 54 to 53 because Commerce merged its Minority Business Opportunity Center program and Minority Business Enterprise Center program into one program that is now called Minority Business Center. In addition, two of the original Commerce programs identified in our March and May 2011 reports—Community Trade Adjustment Assistance and Research and Evaluation—have been replaced with two other Commerce programs—Trade Adjustment Assistance for Firms and the Economic Development-Support for Planning Organizations—because one of the original programs had temporary funding and the other original program was misclassified as an economic development program. The two new Commerce programs that have been added should have been included in the March and May 2011 reports, according to Commerce officials.

[4]We excluded the portion of the Community Development Block Grant funding that HUD reported is not used to support economic development. The total enacted appropriations for these 53 programs was about $5.6 billion for fiscal year 2010.

Economic development programs, if effective, can develop and expand, and thus contribute to the nation's economic growth. However, the ways that these programs are administered could lead to inefficient delivery of services to entrepreneurs, such as requiring recipients to fill out applications to multiple agencies with varying program requirements, and could compromise the government's ability to effectively provide the needed service and meet the shared goals of the programs.

My testimony today is based on information on these 53 programs that is discussed in our recent February 2012 report. Specifically, this testimony discusses our work to date on (1) the extent of overlap and fragmentation among these programs and (2) the availability of meaningful performance information on these 53 programs. Because we have ongoing work that will be issued later this year, we also provide an overview of the nature of our ongoing work.

In summary, based on our work to date, we have found that

- Programs that support entrepreneurs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. Much of the overlap and fragmentation among these 53 programs is concentrated among programs that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses. In addition, many of these economic development programs also operate in both urban and rural areas.[5]

- While most (45) of the 53 economic development programs that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals, few evaluation studies have been completed and little evaluative information exists that assesses the programs' effectiveness.

As we continue our ongoing work, we are conducting additional analyses of these 53 programs to determine, among other things, (1) what support do federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to

[5]While the definition of rural can vary among programs, USDA's typically defines it as covering areas with population limits ranging from less than 2,500 to 50,000.

address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness.

For our February 2012 report, which this testimony is based on, we focused our analysis on the 53 economic development programs at Commerce, HUD, USDA, and SBA that fund entrepreneurial assistance because these programs appeared to overlap the most. We examined the extent to which the federal government's efforts to support entrepreneurs overlap among these numerous, fragmented programs by examining their missions, goals, services provided, and targeted beneficiaries and areas. We also collected information on performance measures that the agencies collect to track the performance of each of the 53 programs, and any evaluation studies conducted or commissioned by the agencies evaluating the effectiveness of these programs. This process included meeting with agency officials to corroborate the publicly available information. We also determined the reasonableness of the performance measures by assessing each measure against agency strategic goals and specific program missions to determine the extent to which they are aligned. The work on which this statement is based was performed from June 2011 through February 2012 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 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.

Programs that Support Entrepreneurs Overlap and Are Fragmented

Based on a review of the missions and other related program information for these 53 programs, we determined that these programs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. The programs generally can be grouped according to at least one of three types of assistance that address different entrepreneurial needs: help obtaining (1) technical assistance, (2) financial assistance, and (3) government contracts. Many of the

programs can provide more than one type of assistance, and most focus on technical and/or financial assistance:[6]

- *Technical assistance*: Thirty-six programs distributed across the four agencies provide technical assistance, including business training and counseling and research and development support.
- *Financial assistance*: Thirty-three programs distributed across the four agencies support entrepreneurs through financial assistance in the form of grants and loans.
- *Government contracting assistance*: Seven programs distributed between two of the four agencies support entrepreneurs by helping them qualify for federal procurement opportunities.

Table 1 illustrates overlap among programs that provide entrepreneurial assistance in terms of the type of assistance they provide. For example, USDA administers nine of the 36 programs distributed across the four agencies that provide technical assistance, including business training and counseling and research and development support. The agency also administers nine of the 33 programs distributed across the four agencies that support entrepreneurs through financial assistance in the form of grants and loans. Appendix I lists the programs GAO identified that may have similar or overlapping objectives, provide similar services or be fragmented across government missions. Overlap and fragmentation may not necessarily lead to actual duplication, and some degree of overlap and duplication may be justified.

Table 1: 53 Programs That Support Entrepreneurs, by Type of Assistance, as of September 30, 2011[a]

	HUD	SBA	USDA	Commerce	Total[b]
Technical assistance only	2	6	5	4	**17**
Financial assistance only	3	5	5		**13**
Technical and financial assistance only	7	3	4	2	**16**

[6]SBA administers the two programs that solely provide entrepreneurs with assistance in obtaining government contracts: the HUBZone program, which supports small businesses located in economically distressed areas, and the Procurement Assistance to Small Businesses program, which serves small businesses located in any area.

	HUD	SBA	USDA	Commerce	Total[b]
Government contracting assistance only		2			2
Technical and government contracting only		1			1
Financial and government contracting only		2			2
Technical, financial, and government contracting assistance				2	2
Total	**12**	**19**	**14**	**8**	**53**

Source: GAO analysis of information provided by Commerce, HUD, USDA, and SBA.

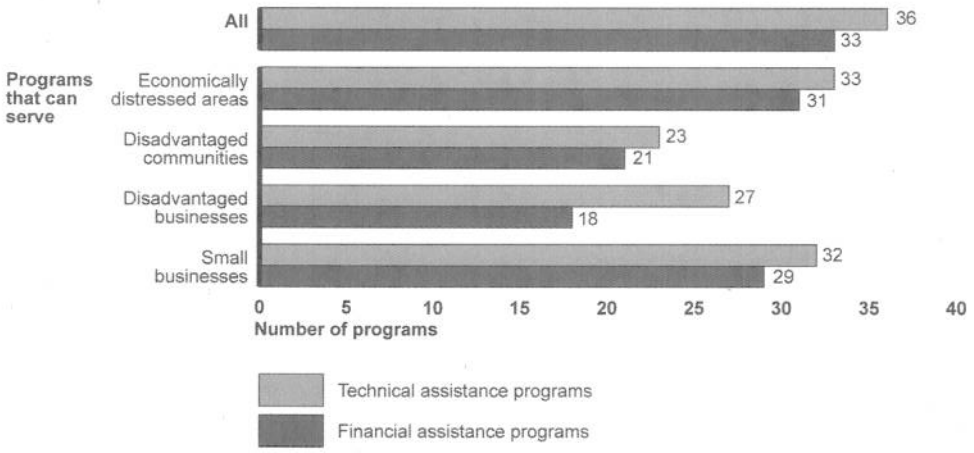
Notes:

[a]Some of the programs may not have received funding in fiscal year 2011.

[b]The 36 technical assistance programs include those in the following categories: technical assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and technical and government contracting assistance only. The 33 financial assistance programs include those in the following categories: financial assistance only; technical and financial assistance only; technical, financial, and government contracting assistance; and financial and government contracting assistance only. The seven government contracting assistance programs include those in the following categories: government contracting assistance only, technical and government contracting assistance only, financial and government contracting assistance only, and technical, financial, and government contracting assistance.

Furthermore, we found that much of the overlap and fragmentation among these 53 programs is concentrated among those that support economically distressed and disadvantaged areas and programs that assist disadvantaged and small businesses, including those in rural areas (see fig. 1 below). For example, 23 programs provide technical assistance to businesses operating in areas that are disadvantaged; USDA administers 9 of these programs. In addition, USDA administers 5 of the 26 programs that provide technical assistance to disadvantaged businesses.

Figure 1: Programs That Provide Technical and Financial Assistance, by Type of Business and Community Served, as of September 30, 2011



Source: GAO analysis.

Note: Some of the programs may not have received funding in fiscal year 2011.

The number of programs that support entrepreneurs—53—and the overlap among these programs raise questions about whether a fragmented system is the most effective way to support entrepreneurs. By exploring alternatives, agencies may be able to determine whether there are more efficient ways to continue to serve the unique needs of entrepreneurs, including consolidating various programs. In ongoing work, we plan to examine the extent of potential duplication among these programs as well as determine the effects of this fragmented system on the delivery of technical assistance to entrepreneurs.

To address issues arising from potential overlap and fragmentation in economic development programs, we previously identified collaborative practices agencies should consider implementing in order to maximize performance and results of federal programs that share common outcomes. Our work to date shows that Commerce, USDA, and SBA have taken initial steps to implement at least one of the collaborative practices—defining and articulating common outcomes for some of their related programs. For example, in April 2010 USDA and SBA signed a memorandum of understanding (MOU) in response to GAO's 2008 recommendation that the agencies should establish a formal approach to encourage further collaboration. The MOU defined and articulated a common outcome focused on improving service delivery to small businesses in underserved rural areas. Under the MOU, USDA and SBA agreed that their field offices would advise potential borrowers of the

other agency's programs that may meet their small business financing needs and coordinate the referral of small business applicants to one another where appropriate, work to make each agency's programs more complementary by minimizing differences in program fees and processing and closing procedures, and develop joint training seminars on each agency's programs. In addition, USDA and SBA agreed to measure progress under the MOU. USDA's April 2011 survey of state directors indicates progress under the MOU 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, we have not received comparable information from SBA indicating progress in this area. In addition, HUD, USDA, and SBA have provided limited evidence that they have taken steps to develop compatible policies or procedures with other federal agencies, or to search for opportunities to leverage physical and administrative resources with their federal partners.

Agencies Lack Meaningful Information on the Effectiveness of Programs that Support Entrepreneurs

Based on our work to date, we found that 45 of the 53 economic development programs we identified that support entrepreneurs have reasonable performance measures and tend to meet their annual performance goals; however, the four agencies have either never conducted a performance evaluation or have conducted only one in the past decade for 39 of the 53 programs. In order to effectively evaluate and oversee the services being provided, Congress and the agencies need meaningful performance information such as performance measures and evaluation studies. This information is needed to help decision makers identify ways to make more informed decisions about allocating increasingly scarce resources among overlapping programs. Specifically, performance measures can provide information on an agency's progress toward meeting certain program and agencywide strategic goals, expressed as measurable performance standards. In contrast, program evaluations are systematic ways to assess a broader range of information on program performance. As a result, evaluation studies can help identify which programs are effective or not, explain why goals were not met and identify strategies for meeting unmet goals, and estimate what would have occurred in the absence of the program.

Without results from program evaluations and performance measurement data, agencies lack the ability to measure the overall impact of these programs, and decision makers lack information that could help them to identify programs that could be better structured and improve the efficiency with which the government provides these services. Moreover,

the federal government has recently required the Office of Management and Budget (OMB) to coordinate with agencies to ensure that they better track the results of their programs. Specifically, the GPRA Modernization Act of 2010 (GPRAMA) requires OMB to work with agencies to, among other things, develop outcome-oriented goals for certain crosscutting policy areas and report annually on how these goals will be achieved.[7] Other GPRAMA requirements could lead to improved coordination and collaboration among agencies. For instance, GPRAMA requires each agency to identify the various organizations and program activities—both within and external to the agency—that contribute to each agency's goal. In ongoing work, we plan to determine reasons why the agencies (1) do not conduct more routine evaluations of these programs and (2) have not established and do not track performance measures for 8 of the 53 programs.

Framework for Ongoing Analysis

As mentioned earlier, our ongoing work focuses on, among other things, (1) what support do federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented; (2) the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation; and (3) the extent to which these programs have established and met performance goals and been evaluated for effectiveness. To examine the support federal economic development programs provide to entrepreneurs and to what extent the programs are duplicative, overlapping, or fragmented, we will review information on the activities and services that the agencies conduct to administer each of the 53 programs, as well as associated budget information for each program. We will also evaluate the agencies' methods for tracking the activities conducted, services provided, and associated costs against criteria that we have established related to internal control standards. To identify the effects on entrepreneurs and the steps agencies have taken to address any duplication, overlap, or fragmentation, we will, among other things, conduct interviews with select federal agency and regional commission officials, entrepreneurs, and state and local partners in select areas across the U.S., including rural areas. During these interviews we will determine how the federal agencies collaborate to support entrepreneurs, identify any reported lessons learned from these collaborative efforts, as

[7]Pub. L. No. 111-352 (2011).

well as challenges they face to collaboratively support entrepreneurs. We will also obtain their views on the negative effects that the overlapping, fragmented, or duplicative programs have on the efficient delivery of services to entrepreneurs. Finally, we will interview program officials to determine the reasons why the agencies do not conduct more evaluation studies.

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

Contacts and Staff Acknowledgements

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 and Triana McNeil, Assistant Directors; Cindy Gilbert; John McGrail; Jennifer Schwartz; and Karen Villafana.

Appendix I: List of Programs That Support Entrepreneurs and Related Budgetary Information

Agency	Program	FY 2010 obligations
Department of Commerce		
	Grants for Public Works and Economic Development Facilities	$158,930,000
	Economic Development/ Support for Planning Organizations	31,391,000
	Economic Development/ Technical Assistance	9,800,000
	Economic Adjustment Assistance	45,270,000
	Trade Adjustment Assistance	18,987,000
	Global Climate Change Mitigation Incentive Fund	25,000,000
	Minority Business Centers (merged the former Minority Business Enterprise Centers and Minority Business Opportunity Center programs)	10,113,693
	Native American Business Enterprise Centers	1,351,500
U.S. Department of Agriculture		
	Empowerment Zones	500,000
	Woody Biomass Utilization Grant Program	5,000,000
	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program/Rural Business Entrepreneur Development Initiative/BISNET	0
	Small Business Innovation Research	22,000,000
	Biomass Research and Development Initiative Competitive Grants Program	0
	Value Added Producer Grants	19,400,000
	Agriculture Innovation Center	0
	Small Socially-Disadvantaged Producer Grants	3,500,000
	Intermediary Re-lending	8,500,000
	Business and Industry Loans	52,900,000
	Rural Business Enterprise Grants	38,700,000
	Rural Cooperative Development Grants	8,300,000
	Rural Business Opportunity Grants	2,500,000
	Rural Microentrepreneur Assistance Program	9,000,000
Department of Housing and Urban Development		
	Community Development Block Grant (CDBG)/Entitlement Grants	2,760,223,970
	CDBG/Special Purpose/Insular Areas	6,930,000
	CDBG/States	1,176,594,747
	CDBG/Non-entitlement CDBG Grants in Hawaii	5,791,797
	CDBG/Brownfields Economic Development Initiative	17,500,000
	CDBG/Section 108 Loan Guarantees	6,000,000
	Section 4 Capacity Building for Affordable Housing and Community Development	50,000,000

Agency	Program	FY 2010 obligations
	Rural Innovation Fund	25,000,000
	CDBG Disaster Recovery Grants	100,000,000
	Indian CDBG	65,000,000
	Hispanic Serving Institutions Assisting Communities	6,250,000
	Alaska Native/Native Hawaiian Institutions Assisting Communities	3,265,000
Small Business Administration		
	8(a) Business Development Program	56,817,000
	7(j) Technical Assistance	3,275,000
	Procurement Assistance to Small Businesses	3,164,000
	Small Business Investment Companies	24,262,000
	7(a) Loan Program	518,869,000
	Surety Bond Guarantee Program	0
	SCORE	7,000,000
	Small Business Development Centers	112,624,000
	504 Loan Program	70,645,000
	Women's Business Centers	13,997,000
	Veterans' Business Outreach Centers	2,500,000
	Microloan Program	42,901,000
	PRIME	8,000,000
	New Markets Venture Capital Program	0
	7(a) Export Loan Guarantees	0
	HUBZone	2,189,000
	Small Business Technology Transfer Program	0
	Small Business Innovation Research Program	0
	Federal and State Technology Partnership Program	2,000,000
Total		**$5,561,941,707**

Source: Commerce, HUD, SBA, and USDA.

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