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GAO

Report to Congressional Requesters

September 2008

RURAL ECONOMIC DEVELOPMENT

Collaboration between SBA and USDA Could Be Improved

GAO

Accountability * Integrity * Reliability

GAO-08-1123

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Highlights

Highlights of GAO-08-1123, a report to congressional requesters

Why GAO Did This Study

The Small Business Administration (SBA) and the Rural Development offices of the U.S. Department of Agriculture both work in rural areas to foster economic development by promoting entrepreneurship and community development. This report discusses (1) the complementary nature of some SBA and Rural Development programs and the extent to which it provides a rationale for the agencies to collaborate, (2) past and current efforts by SBA and Rural Development to work together and with other agencies, and (3) opportunities for the agencies to improve their collaborative efforts. In completing its work, GAO analyzed agency documentation and prior reports on collaboration, conducted site visits at locations where SBA and Rural Development were working together, and interviewed agency and selected economic development officials.

What GAO Recommends

To improve SBA and Rural Development's efforts to work together, GAO recommends that the agencies establish a formal approach to encourage further collaboration. Both agencies provided technical comments on a draft of this report, which have been incorporated into GAO's final report where appropriate.

To view the full product, including the scope and methodology, click on GAO-08-1123. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

September 2008

RURAL ECONOMIC DEVELOPMENT

Collaboration between SBA and USDA Could Be Improved

What GAO Found

The complementary nature of some SBA loan programs and Rural Development business programs provides a rationale for the agencies to collaborate. SBA and Rural Development have similar economic development missions, and their programs provide financing for similar purposes, including start-up and expansion projects, equipment purchases, and working capital for small businesses. According to SBA and Rural Development officials currently involved in collaborative working relationships, working together allows the agencies to leverage the unique strengths of each other's programs, increase the number of financing options available to borrowers in rural areas, and ultimately better promote economic development in these areas.

However, collaboration between SBA and Rural Development to date has been sporadic and mostly self-initiated by officials in field offices. GAO found that the extent of the collaborative efforts and use of formal agreements such as memorandums of understanding (MOU) varied across locations. The two agencies worked together frequently in a few locations, infrequently in others, and not at all in many locations. The SBA and Rural Development offices in North Dakota that GAO visited collaborated frequently and had formal agreements in place. Officials there established an MOU with other community development organizations to provide "one-stop" shopping assistance to borrowers at a single location. The SBA and Rural Development offices in Nebraska and New Mexico that GAO visited worked with each other less frequently and more informally, conducting community outreach sessions and holding periodic meetings and joint training sessions. But many other locations—about half of SBA and Rural Development's field offices—did not appear to be collaborating at all or to have an established framework to facilitate collaboration.

Opportunities exist for SBA and Rural Development to improve their collaborative efforts. In an October 2005 report, GAO identified key practices that could help federal agencies enhance and sustain their collaborative efforts. In comparing SBA and Rural Development's efforts with these criteria, GAO found that the agencies could take steps to improve their efforts by implementing a more formal approach to encourage collaboration. This approach would provide the agencies with a mechanism that reflected several of GAO's key practices—to define and articulate a common outcome, agree on roles and responsibilities, monitor key progress and results, and reinforce accountability for collaborative efforts. With such an approach, SBA and Rural Development could more effectively leverage each other's unique strengths and help to improve small business opportunities in rural communities.

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Abbreviations

B&I	Business and Industry
CDC	certified development company
ECND	Entrepreneur Centers of North Dakota
FCA	Farm Credit Administration
HUD	Department of Housing and Urban Development
IRP	Intermediary Relending Program
MOU	memorandum of understanding
NMVC	New Markets Venture Capital
RBEG	Rural Business Enterprise Grant
RBIP	Rural Business Investment Program
RBOG	Rural Business Opportunity Grant
RBS	Rural Business and Cooperative Service
REDLG	Rural Economic Development Loan and Grant Program
RHS	Rural Housing Service
RUS	Rural Utilities Service
SBA	Small Business Administration
SBDC	Small Business Development Center
SBIC	Small Business Investment Company
SBLC	small business lending company
USDA	U.S. Department of Agriculture

United States Government Accountability Office
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September 18, 2008

Congressional Requesters

More than 80 programs administered by several different federal agencies target rural economic development.[1] Of these agencies, the Small Business Administration (SBA) and the Rural Development offices of the U.S. Department of Agriculture (USDA) 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 vital roles in spurring economic growth in rural areas.[2] In the past, these agencies have developed collaborative working relationships to help manage their loan and grant programs. They have also entered into a joint agreement under the Rural Business Investment Program (RBIP) to create investment companies that would provide equity for rural small businesses.[3]

Congress has long expressed interest in increasing collaboration among federal agencies. Collaboration that cuts across more than one federal agency is one way for the federal government to deliver results more efficiently—that is, in a way that utilizes limited resources to better address multiple demands. Congress has been enacting laws for more than a decade mandating that federal agencies coordinate their rural policies and programs. These laws have authorized the establishment of interagency agreements, cooperative agreements, and interagency working groups for specific collaborative purposes. For example, a provision of the Federal Agriculture Improvement and Reform Act of 1996 required the Secretary of Agriculture to establish and chair a rural development interagency working group to establish rural policy, coordinate assistance,

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[1]See GAO, *Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported*, GAO-06-294 (Washington, D.C.: Feb. 24, 2006).

[2]SBA does not offer grants to start or expand small businesses but offers grant programs that generally support nonprofit organizations in providing management, technical, or financial assistance to small businesses.

[3]Section 6029 of the Farm Security and Rural Investment Act of 2002, Pub. L. No. 107-171, 116 Stat. 134, 387 (2002), codified at 7 U.S.C. §§ 2009cc *et seq*., amended the Consolidated Farm and Rural Development Act by requiring the Secretary of USDA to establish RBIP.

and evaluate the performance of federal rural assistance programs.[4] Additionally, the Farm Security and Rural Investment Act of 2002 formally established the National Rural Development Partnership so that USDA, other federal agencies including SBA, state and local entities, and businesses could better collaborate in delivering services to rural communities.[5]

Increasingly, Congress has also focused attention on businesses and entrepreneurs in rural areas and small communities with underserved financial needs that could benefit from joint efforts between SBA and Rural Development offices. In an effort to ensure that SBA and Rural Development programs provide maximum benefit to rural communities, on November 14, 2007, the House Small Business Subcommittee on Rural and Urban Entrepreneurship held a hearing on interagency collaboration and on SBA's and Rural Development's ability to work together to better serve small businesses in rural areas. We testified at that hearing and provided preliminary views on collaborative efforts between these agencies. We also were requested to review the agencies' programs to determine whether coordination among them could be improved.

As agreed, this report examines SBA and Rural Development's efforts to work collaboratively and the degree to which their efforts could be improved. Specifically, the report discusses (1) the complementary nature of some SBA and Rural Development loan and business programs and the extent to which it provides a rationale for collaboration, (2) past and current efforts at collaboration between SBA and Rural Development and between SBA and Rural Development and other agencies, and (3) opportunities to facilitate more effective collaboration between SBA and Rural Development.

Although there is no commonly accepted definition for collaboration, in this report we define collaboration as any joint activity that is intended to produce more public value than can be produced when the agencies act alone, including activities that others have previously defined as cooperation, coordination, integration, or networking. To determine the extent to which SBA and Rural Development's primary loan and business programs are complementary and to identify the rationale for the agencies to work together, we examined laws, regulations, and policies on each

[4]Pub. L. No. 104-127, § 761, 110 Stat. 888, 1139, 1146 (1996).

[5]Pub. L. No. 107-171, § 6021, 116 Stat. 134, 363 (2002).

agency's loans, grants, and other business products and services, and interviewed officials from both agencies. We reviewed prior reports that defined collaboration and identified key practices that could help enhance and sustain collaboration.[6] We also sought input from SBA resource partners, lenders, and select nonprofit organizations involved in the rural economic development process. To determine the types of collaborative efforts that are currently taking place between SBA and Rural Development, we requested that both SBA and Rural Development conduct a query of their respective district office Directors and state office Directors regarding all formal or informal efforts to work collaboratively with the other agency. We received responses from about half of the SBA district offices and all of the Rural Development state offices. We conducted site visits at three locations where SBA and Rural Development were working together: Lincoln, Nebraska; Albuquerque, New Mexico; and Bismarck, North Dakota. We also reviewed internal agency documents, interagency agreements, and training documentation and obtained detailed information from both agencies' district and state field offices regarding formal and informal efforts to work together. To identify past collaborative efforts, we reviewed documentation and examined the mechanisms (e.g., contractual work agreements, memorandums of understanding, statutory provisions, etc.) the agencies used to collaborate. Finally, to determine opportunities to improve collaboration between SBA and Rural Development, we reviewed our prior work in this area and conducted interviews with agency officials, select SBA resource partners, and nonprofit organizations. Appendix I contains a more detailed description of our scope and methodology.

We conducted this performance audit from October 2007 to September 2008, 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.

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[6]GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005). GAO, *Financial Market Regulation: Agencies Engaged in Consolidated Supervision Can Strengthen Performance Measurement and Collaboration*, GAO-07-154 (Washington, D.C.: Mar. 15, 2007). GAO, *Electronic Government: Potential Exists for Enhancing Collaboration on Four Initiatives*, GAO-04-6 (Washington, D.C.: Oct. 10, 2003). See E. Bardach, *Getting Agencies to Work Together: The Practice and Theory of Managerial Craftsmanship* (Washington, D.C.: Brookings Institution, 1998).

Results in Brief

The complementary nature of some SBA loan programs and Rural Development business programs provides a rationale for the agencies to collaborate. SBA and Rural Development have similar economic development missions and programs that provide financing for start-up or expansion projects, equipment purchases, and working capital for rural small businesses. The programs also have different strengths—for example, some SBA loan products have shorter loan processing times while, in some cases, Rural Development offers higher levels of financial assistance. According to SBA and Rural Development officials involved in ongoing collaborative relationships, working together has allowed each agency to leverage the other agency's unique strengths, which has increased the number of financing options available to borrowers in rural areas, improved service, and enhanced efforts to promote economic development in rural areas. A Rural Development official in New Mexico said that collaboration with SBA allowed Rural Development to tap into SBA's preexisting constituency of banks, increasing the number of banks that might consider making Rural Development loans in the future. Similarly, SBA officials in New Mexico said that collaboration with Rural Development allowed SBA to provide additional assistance to small businesses after Rural Development provided initial financing for a community's infrastructure. Officials in North Dakota said some SBA and Rural Development loan products were complementary and had been bundled together in loan packages used to finance individual projects. Where such collaboration has occurred, it appears that SBA and Rural Development have been able to better meet the needs of borrowers who were not able to obtain financing elsewhere on reasonable terms and through normal lending channels.

SBA and Rural Development's collaborative efforts have been sporadic. They have been initiated mostly by officials at the local level and have often depended on established working relationships among the officials involved. A query by SBA and USDA officials asking their offices whether collaborative efforts were under way also suggested that such efforts were sporadic. We found that the extent of the collaboration and the use of formal mechanisms such as memorandums of understanding (MOU) to facilitate collaboration varied across locations. The two agencies collaborated frequently in some locations and infrequently or not at all in others. For example, the SBA and Rural Development offices in North Dakota that we visited collaborated frequently and had formal agreements in place. Officials there communicated at least weekly, conducted joint quarterly meetings, sponsored at least eight joint lender training sessions yearly, and participated in each other's annual meetings. SBA and Rural Development officials in North Dakota had established an MOU with other state and local entities to establish "one-stop" shopping to deliver financing, business management, counseling, and other technical assistance at one location. The SBA and Rural Development offices in Nebraska and New Mexico that we visited worked with each other less frequently and more informally, conducting a few community outreach sessions to build support for their programs and holding periodic joint meetings and training sessions. In other locations, such as Arizona, Colorado, and Georgia, SBA and Rural Development offices did not collaborate at all. We also identified instances in which SBA and Rural Development collaborated with each other and with other agencies in the past. For example, the agencies collaborated with each other under the Rural Business Investment Program, allowing SBA to share its expertise on venture capital programs that could provide equity investments to rural small businesses. Similarly, both SBA and Rural Development have partnered with the Farm Credit Administration (FCA), allowing each agency to take advantage of FCA's expertise in conducting safety and soundness examinations of specialized financial institutions. Additionally, Rural Development and the Department of Housing and Urban Development (HUD) worked together to create a voucher program modeled after HUD's Housing Choice Voucher program that provides rental assistance to families in rural areas. Generally, these efforts have enabled all agencies to achieve greater results than they could have achieved by acting alone.

Opportunities exist to better facilitate the agencies' collaborative efforts. In our October 2005 report, we identified key practices that could help enhance and sustain collaboration among federal agencies and identified other factors such as leadership, trust, and organizational culture that are necessary elements of an effective working relationship.[7] In comparing the agencies' efforts against these criteria, we found that SBA and Rural Development could take steps to facilitate more effective collaboration. First, they could make more extensive use of cooperative agreements such as MOUs that help establish a framework for and demonstrate leadership commitment to collaboration. In December 2000, for example, SBA and Rural Development entered into an MOU that incorporated three of the key practices we identified in our October 2005 report. The MOU defined and articulated a common outcome; specified roles and responsibilities; and provided a mechanism to monitor, evaluate, and report on the results of collaboration. The MOU expired in 2003, but SBA and Rural

[7] GAO-06-15.

Development did not appear to have implemented it when it was active. Second, SBA and Rural Development do not have formal incentives to encourage collaboration and do not track the results, or impact, of collaborative efforts. As a result, the agencies are unable to share information on the benefits of working together and encourage additional efforts to do so in the future. Without a formal approach to encourage further collaboration, the likelihood that the agencies will be able to fully leverage each other's unique strengths to help improve small business opportunities and promote economic development in rural communities is reduced.

To improve SBA and Rural Development's collaborative efforts, we recommend that the Administrator of SBA and Secretary of Agriculture take steps to adopt a formal approach to encourage further collaboration in support of common economic development goals in rural areas.

We provided a draft of this report to SBA and USDA for review and comment. Both agencies provided technical comments, which we incorporated into the final report where appropriate.

Background

SBA is charged with providing support to the nation's small businesses, including those in urban and rural areas. Its support takes several forms. First, it ensures access to credit, primarily by guaranteeing loans through various loan guarantee programs. Second, it provides entrepreneurial assistance through partnerships with private entities that offer small business counseling and technical assistance. Third, SBA administers various small business development and procurement programs that are designed to assist small and disadvantaged businesses in obtaining federal contracts. Finally, SBA makes loans to businesses as well as individuals trying to recover from major disasters. Although most SBA disaster loans are processed at the SBA loan processing center in Sacramento, California, SBA has a network of 68 field offices nationwide.

SBA administers several business loan programs, including the Basic 7(a) Loan Guaranty Program, 504/CDC Loan Program , 7(m) Micro Loan Program, and the Small Business Investment Company (SBIC) Program. Recently, it added the Small/Rural Lender Advantage Pilot Program, under its 7(a) Program, specifically for small businesses in rural areas (see fig. 1). Appendix II provides a more detailed description of each program.

Figure 1: SBA's Primary Loan Programs

U.S. Small Business Administration

SBA

Programs

Basic 7(a) Loan Guaranty Program

Basic 7(a) Loan Guaranty Program allows SBA to guarantee up to 85 percent of the loan amount made by private lenders to small businesses for a variety of general business purposes including, working capital, machinery, equipment, land and buildings, and certain debt refinancing. The 7(a) is SBA's largest loan program. In fiscal year 2007, the program provided more than 99,000 loans totaling nearly $14 billion.

504/CDC Loan Program

504/CDC Loan Program provides long-term, fixed-rate financing to small businesses to acquire real estate, machinery, or equipment for expansion or modernization. It typically includes a loan secured by a certified development company of up to 40 percent of the total loan amount. In fiscal year 2007, the 504 program provided about 11,000 loans, totalling approximately $6 billion.

7(m) Micro Loan Program

7(m) Micro Loan Program provides short-term loans of up to $35,000 to small businesses. SBA makes funds available to an intermediary lender, who in turn, makes the microloan to the applicant. The program provided about $19 million in microloans during fiscal year 2007.

Small Business Investment Company (SBIC) Program

Small Business Investment Company (SBIC) Program provides equity capital, long-term loans, and management assistance to small businesses that are either starting up or growing. SBICs, licensed by SBA, are privately owned and managed investment firms that partner with the federal government to make capital available to small businesses through investments or loans. SBICs use their own funds as well as funds obtained with SBA guarantees. In fiscal year 2007, the SBIC program provided over $2.5 billion in venture capital funding to more than 2,000 small businesses.

Rural Lender Advantage Pilot Program

Rural Lender Advantage Pilot Program, announced in September 2007, is a new loan initiative designed to stimulate economic growth in rural areas. It is aimed at encouraging rural lenders to finance small businesses by offering a simplified application form for loans of $350,000 or less, and a streamlined loan approval process. It also offers lenders the ability to apply online with limited documentation requirements. SBA guarantees 85 percent of loan amounts up to $150,000, and 75 percent of loan amounts above $150,000. It is part of a broader initiative to boost economies in areas that face unique challenges due to factors such as declining population or high unemployment.

Source: SBA.

In addition to its loan programs, SBA offers grant programs that support nonprofit organizations. These grant programs are generally designed to expand and enhance nonprofit organizations that provide small businesses with management, technical, or financial assistance. For example, SBA's Women's Business Development Center Program is an SBA grant program available to private, nonprofit organizations to run women's business centers. The program was established by the Women's Business

Ownership Act of 1988 after Congress found that existing assistance programs for small business owners were not addressing women's needs. The program, which specifically targets economically and socially disadvantaged women, provides long-term training, counseling, networking, and mentoring to women who own businesses or are potential entrepreneurs. The program's ultimate goal is to add more well-trained women entrepreneurs to the U.S. business community.

Additionally, SBA's Small Business Development Center (SBDC) Program, which was created by Congress in 1980, provides management and technical assistance to individuals and small businesses. SBDC services include, but are not limited to, assisting prospective and existing small businesses with financial, marketing, production, organization, engineering, and technical problems and feasibility studies. Each state and U.S. territory has a lead organization that sponsors and manages the SBDC program there. The lead organization coordinates program services offered to small businesses through a network of centers and satellite locations at colleges, universities, vocational schools, chambers of commerce, and economic development corporations. Nationwide, 63 lead SBDCs and more than 1,000 satellite locations have contracted to conduct SBDC services.[8]

USDA's Rural Development is responsible for leading and coordinating federal rural development assistance. Rural Development administers over 40 development programs for rural communities, most of which provide assistance in the form of loans, loan guarantees, and grants, through a network of 47 state offices and about 500 area or local field offices.[9] Rural Development has three agencies: Rural Housing Service (RHS), Rural Utilities Service (RUS), and Rural Business and Cooperative Service (RBS). RHS helps rural communities and individuals by providing loans, grants, and technical assistance for housing and community facilities. It provides funding for single-family homes; apartments for low-income persons, the elderly, and farm laborers; and various community facilities such as fire and police stations, hospitals, libraries, and schools. RUS is

[8]The 63 lead SBDCs include one in every state (Texas has 4 and California 6), the District of Columbia, Guam, Puerto Rico, Samoa and the U.S. Virgin Islands.

[9]The 47 state offices include one in every state except Connecticut and Rhode Island (which are combined with the Massachusetts state office), New Hampshire (which is combined with the Vermont state office), and Maryland (which is combined with the Delaware state office).

responsible for administering electric, telecommunications, and water programs that help finance the infrastructure necessary to improve the quality of life and promote economic development in rural areas.

RBS administers programs that provide business planning and financial and technical assistance to rural businesses and cooperatives.[10] Specifically, RBS' guaranteed loans and other loan and grant programs work in partnership with private sector and community-based organizations to meet the business and credit needs of rural businesses. Recipients of RBS' services include individuals, farmers, producers, corporations, partnerships, public bodies, nonprofits, American Indian tribes, and private companies. The primary business programs include the Business and Industry (B&I) Guaranteed Loan Program, Intermediary Relending Program (IRP), Rural Business Enterprise Grant Program (RBEG), Rural Business Opportunity Grant Program (RBOG), Rural Economic Development Loan and Grant Program (REDLG), and the Renewable Energy Systems and Energy Efficiency Improvements Guaranteed Loan and Grant Program (see fig. 2).[11] Appendix II provides a more detailed description of each program.

[10]For purposes of this report, we are focusing on the business programs administered by Rural Development's Business and Cooperative Programs area. We have excluded cooperative programs, including the Value-Added Producer Grants, Rural Cooperative Development Grants, Cooperative Stock Purchase Program, and the Biomass Research and Development Grant Program.

[11]Under the 2008 Farm Bill, the Renewable Energy Systems and Energy Efficiency Improvements Guaranteed Loan and Grant Program has been renamed the Rural Energy for America Program.

Figure 2: Rural Development's Business Programs

USDA

Programs

Business and Industry (B&I) Guaranteed Loan Program
Business and Industry (B&I) Guaranteed Loan Program provides financial assistance to rural businesses in the form of a loan guaranty. The B&I Guaranteed Loan Program, which provided over $836 million in loan guarantees during fiscal year 2007, is Rural Development's largest business program.

Intermediary Relending Program (IRP)
Intermediary Relending Program (IRP) finances business facilities and community development projects in rural areas. Under the IRP program, loans are provided to local organizations such as state agencies and authorities, and private nonprofit corporations (intermediaries) for the establishment of revolving loan funds. IRP spending in fiscal year 2007 totaled about $34 million.

Rural Business Enterprise Grant Program (RBEG)
Rural Business Enterprise Grant Program (RBEG) provides grants for rural projects that finance and facilitate development of small and emerging rural businesses, and help fund employment related adult education programs. Approximately $43 million in grants were provided in fiscal year 2007.

Rural Business Opportunity Grant Program (RBOG)
Rural Business Opportunity Grant Program (RBOG) provides grants for technical assistance, business development, and planning to improve economic conditions in rural areas. Under this program, about $7 million in funding was provided during fiscal year 2007.

Rural Economic Development Loan and Grant Program (REDLG)
Rural Economic Development Loan and Grant Program (REDLG) provides loans and grants, which can be used for business start-up or expansion projects that create rural jobs. The loans and grants are made to local utility groups (i.e., phone and electric borrowers), and the maximum loan and grant amount is established on an annual basis. In fiscal year 2007, about $26 million in loans and about $10 million in grants were provided to eligible recipients.

Renewable Energy Systems & Energy Efficiency Improvements Guaranteed Loan and Grant Program
Renewable Energy Systems & Energy Efficiency Improvements Guaranteed Loan and Grant Program (also referred to as the Section 9006 program) provides grants, loans, and loan guarantees to rural small businesses for assistance in developing renewable energy systems and making energy efficiency improvements. Approximately $48 million in energy loans and $11 million in energy grants were provided during fiscal year 2007. Additionally, recipients received over $18 million in joint funding from the program during the same period.

Source: USDA.

Rural Development business programs are available in areas that meet the program's definition of rural—for example, for the B&I program, any area other than a city or town with a population of 50,000 or less and the area contiguous and adjacent to such a city or town. As a result, in general, only individuals and businesses in identified areas with 50,000 or fewer people are eligible for most of these programs. One exception is the Intermediary

Relending Program, which is available only to businesses in rural areas with 25,000 or fewer people.[12]

The Complementary Nature of Some SBA and Rural Development Programs Provides a Rationale for Collaboration

Some SBA loan programs and Rural Development business programs are complementary, providing a rationale for the agencies to collaborate. Both types of programs can fund start-up and expansion projects, equipment purchases, and working capital to rural borrowers and, in some cases, the eligibility requirements for the programs are comparable. However, the various programs have different and sometimes unique strengths—for example, larger loan amounts, shorter processing times, or targeting of different market segments. According to SBA and Rural Development officials, collaborative efforts could allow each agency to leverage the strengths of the other. For example, Rural Development can finance larger projects than SBA and lend to nonprofit organizations, something SBA cannot do. However, SBA can offer entrepreneurs a faster turnaround time in loan processing. Similarly, officials noted that certain SBA and Rural Development loan products complemented one another and were used jointly to finance individual projects. To the extent that SBA's resource partners are considered part of SBA's rural presence, both agencies have a strong rural presence that provides another rationale for the agencies to collaborate.

Some SBA and Rural Development Programs Serve the Same Areas and Groups, Offer Comparable Products, and Have Similar Eligibility Requirements

SBA and Rural Development, which share a similar mission of increasing economic opportunity and improving the quality of life for people in underserved markets, including rural America, serve the same rural geographic areas and communities and have some programs that offer similar products to borrowers for comparable purposes. For example, SBA's 504 Loan Program and Rural Development's Intermediary Relending Program both offer economic development loans that can support the growth of rural small businesses and help enhance rural communities

[12]Section 6018 (a) of the Food, Conservation and Energy Act of 2008, Pub. L. No. 110-246, 122 Stat. 923 (2008), enacted in June 2008, generally revises the definition of rural and rural area, but allows for consideration of population density in some situations and adds some definitions that are specific to certain programs. Section 6018(b) directs the Secretary to assess the various definitions of the terms "rural" and "rural area" that are used with respect to USDA programs; describe the effects that the variations in those definitions have on those programs; make recommendations for ways to better target funds provided through rural development programs; and determine the effect of changing the definitions, as directed by section 6018(a), on the level of rural development funding and participation in those programs in each state.

through business expansion and job creation. The 504 and Intermediary Relending programs both also provide financing for the acquisition and improvement of land, buildings and equipment, particularly when such funding will help create or retain jobs.

Both agencies' loan and business programs are designed to help local entrepreneurs start up or expand their businesses. For instance, SBA's 7(a) Loan Guaranty Program and Rural Development's Business and Industry Guaranteed Loan Programs both provide financing that can be used to establish a new business or to assist in the operation, acquisition, or expansion of an existing business. Specifically, the 7(a) program provides funding for business start-ups, expansion, equipment, working capital, and real estate acquisition. Similarly, the Business and Industry Guaranteed Loan Program provides funding for start-ups and expansion purposes, including acquisition, inventory, real estate, working capital, equipment, construction, and enlargement or modernization of rural businesses. These programs are provided through loan guarantees that limit the risk to lenders. Private lenders underwrite and service the loans and make the decisions to approve or not approve loan requests, and SBA and Rural Development decide whether to guarantee a portion of the outstanding loan balance if the borrower defaults.

Examples of Assistance SBA and USDA Rural Development Provide to Businesses

According to SBA, the agency provided a 504 loan to the owners of a health care business to purchase a new $7.2 million headquarters building. Two Native American sisters from Lumberton, North Carolina, launched the business in 2000 and were named the 2007 National Small Business Persons of the Year. When it first opened, the health care business had only one cell phone, two patients, and a certified nursing assistant. Today, according to SBA, the business provides a broad range of services, employing 301 professionals and serving 760 patients daily, with annual sales over $9 million.

According to USDA, the Southeast Iowa Regional Planning Commission sought financing for a revolving loan fund to serve Des Moines, Henry, Lee, and Louisa counties in Southeast Iowa. In response to this request, Rural Development, through its Intermediary Relending Program, awarded the commission $600,000 to provide low-interest loans to public and nonprofit organizations that, in turn, would relend those funds to support business and community development. As a result of the project, according to USDA, 7 businesses were assisted, 200 jobs were created, and 259 jobs were saved.

Further, both agencies offer programs that provide technical assistance to eligible borrowers and, while SBA does not offer grants to start or grow a business, it has resource partners, such as its SBDCs and Women's Business Centers, which provide management and technical assistance to prospective small business owners. Rural Development offers grant programs that provide management and technical assistance to rural borrowers. The Rural Business Enterprise Grant and Rural Business Opportunity Grant programs provide technical assistance for business development and to conduct economic planning in rural areas.

In addition, some of the loan and business programs have similar eligibility requirements. For example, in administering its Renewable Energy Systems and Energy Efficiency Improvements Guaranteed Loan and Grant Program, Rural Development relies on SBA's definition of eligible small businesses, including sole proprietorships, partnerships, corporations, and cooperatives. Borrowers must also meet SBA's small business standards for the type of industry, number of employees, or annual revenue. Moreover, some of SBA's and Rural Development's programs have established comparable credit criteria for the borrower. SBA's 7(a) Loan Guaranty, 504, and Mirco Loan programs and Rural Development's Business and Industry Guaranteed Loan Program all use similar criteria that are based on the type of project being funded and the borrower's ability to meet normal commercial lending standards and provide a personal guaranty, if necessary.

SBA and Rural Development Programs Have Several Key Differences

SBA and Rural Development officials we spoke to stated there was little overlap or duplication between the two agencies' loan and business programs, in part because of several key differences. First, Rural Development can finance larger projects than SBA. The maximum loan amount for SBA's 7(a) loan is $2 million, compared with a maximum loan amount for Rural Development's Business and Industry loan of $25 million.[13] Second, the 7(a) and Business and Industry programs also offer different loan guaranties. The maximum guaranty for 7(a) loans is 85 percent for loans up to $150,000 and 75 percent for loans over $150,000. The maximum guaranty percentage for Business and Industry loans is 80 percent for loans up to $5 million, 70 percent for loans between $5 million and $10 million, and 60 percent for loans of more than $10 million. Third, the costs, fees, and loan terms differ for the two types of loans. For example, SBA charges a guaranty fee of 2 percent for loans up to $150,000, 3 percent for loans between $150,000 and $700,000, and 3.5 percent for loans up to $1 million. SBA also charges an additional quarter of a percent of the guaranteed portion over $1 million. Rural Development charges an initial guaranty fee not to exceed 2 percent of the guaranteed portion of the loan.[14] The maximum loan terms for SBA 7(a) loans are determined by the following: (1) the shortest appropriate term, depending on the borrower's ability to repay; (2) 10 years or less, unless it finances or refinances real estate or equipment with a useful life exceeding 10 years; and (3) a maximum of 25 years, including extensions.[15] However, the maximum loan terms for Rural Development's Business and Industry loans are 7 years for working capital, 15 years for equipment, and 30 years for real estate loans.

[13]Subject to additional credit criteria, Rural Development may approve guaranteed loans in excess of $25 million, up to $40 million, for rural cooperative organizations that process value-added agricultural commodities.

[14]See 7 C.F.R. § 4279.107(a). Rural Development's guaranty fees are subject to change annually. Rural Development operates the B&I Loan Guaranty Program at an estimated subsidy rate of about 4 percent. SBA's 7(a) Loan Guaranty is a zero-subsidy program, which requires no appropriated funding to operate, but tends to carry higher costs and fees associated with the program.

[15]See 13 C.F.R. § 120.212.

Each program also offers some unique strengths. While Rural Development's fees tend to be lower than SBA's, SBA usually processes its loans faster. In general, the average processing time by SBA for SBA loans is 5 to 7 business days and for Rural Development business programs 10 to 60 days, depending on the scope of the project and completeness of the application. SBA can offer shorter turnaround in loan processing, particularly for its 7(a) program (which sometimes takes as little as 2 business days), because of its various express loan options, preapproved lenders, and consolidated loan processing center. Rural Development makes credit and underwriting decisions itself rather than relying on preapproved lenders, and its loans can take as long as 60 days to process. Moreover, Rural Development has certain restrictions on the maximum dollar amount of loans that can be approved by field offices—typically varying by state based on the loan approval authority. Therefore, Business and Industry loans above a state's loan approval limit must be approved by Rural Development headquarters officials, resulting in additional loan processing times.

While both agencies serve rural areas, their programs differ in the types of entities they serve. SBA's loan programs only serve the for-profit sector, focusing on individual entrepreneurs and small businesses. However, Rural Development's business programs focus on individual entrepreneurs and small and mid-size businesses, as well as nonprofits. Appendix III further illustrates some of the similarities and differences between SBA's and Rural Development's loan and business programs.

Collaboration Allows SBA and Rural Development to Leverage Each Agency's Strengths and Increase Financing Options in Rural Areas

According to SBA and Rural Development officials who are engaged in collaborative relationships, collaboration allows the agencies to leverage the unique strengths of each agency's programs and increase the number of financing options to better promote economic development. For instance, SBA and USDA officials in North Dakota said that SBA's 504 program and Rural Development's Intermediary Relending programs were frequently coupled in loan packages. In those cases, the 504 program provided funding for land and buildings, and the Intermediary Relending program provided funding for machinery, equipment, working capital, and other uses. The officials estimated that about one of every four 504 loans in rural communities in North Dakota with populations of less than 25,000 residents had been used jointly with Intermediary Relending loans to finance individual projects. Examples of businesses in North Dakota that have received joint financing from SBA and Rural Development include an agricultural retail service that sells chemicals and fertilizer and employs 7 workers and a manufacturer of electric thermal storage heating equipment that employs 140 workers. In each of these examples, the businesses used SBA's 504 program to acquire a building and used the IRP program to acquire machinery and equipment.

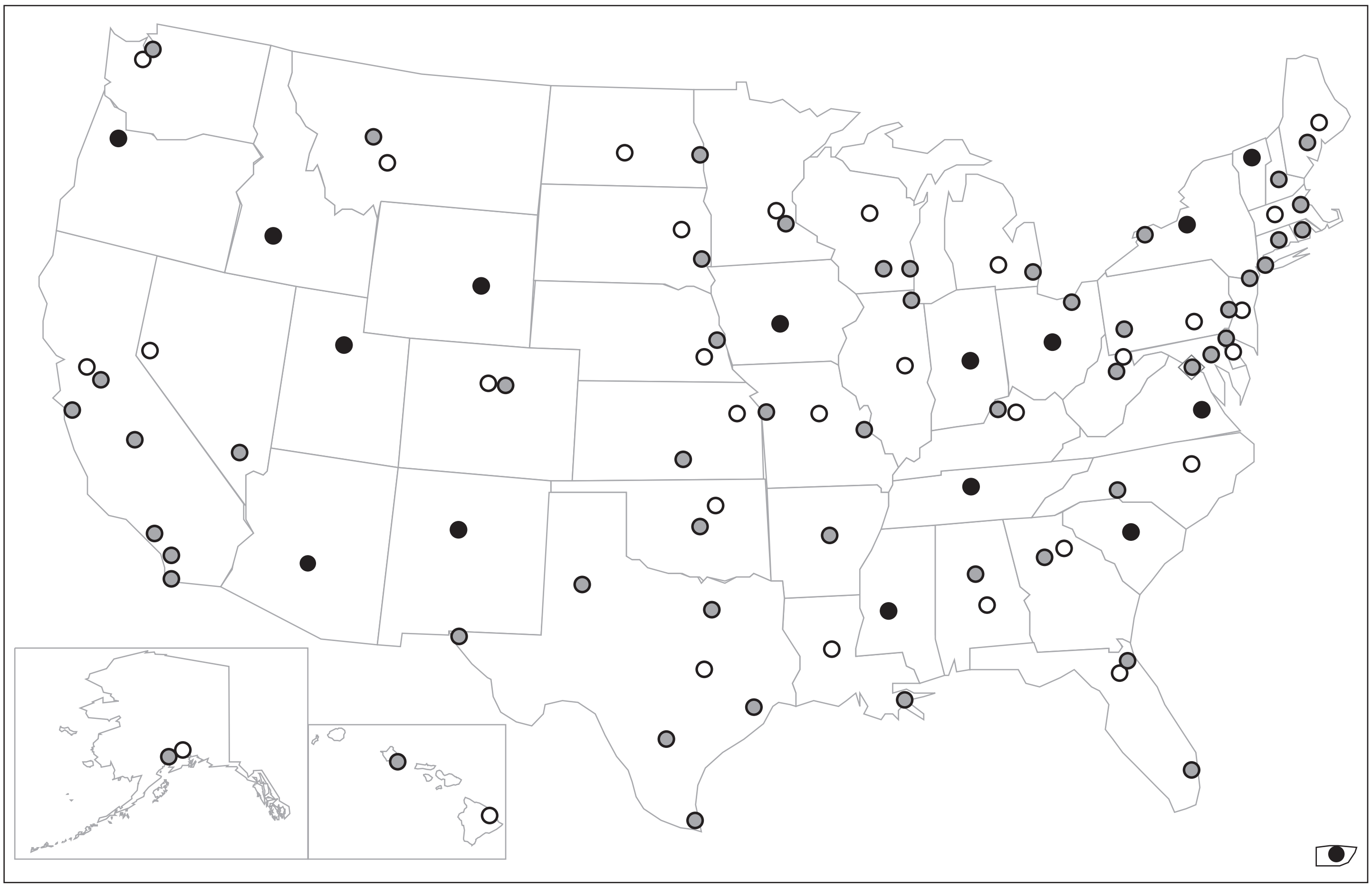
Other officials with whom we spoke cited further rationale for the agencies to collaborate. In one instance, a Rural Development official in New Mexico noted that collaboration with SBA allowed him to tap into SBA's preexisting constituency of banks, expanding the number of lenders that could help provide Rural Development loans to potential borrowers. Similarly, SBA officials in New Mexico said that collaboration with Rural Development allowed SBA to provide additional assistance to small businesses after Rural Development provided initial financing for a community's infrastructure.[16]

The officials involved in the limited instances of collaboration that we identified acknowledged that working together allowed both agencies to coordinate the delivery of their loan and business programs to solve specific credit needs. SBA and Rural Development officials in North Dakota also told us that by collaborating they were able to provide borrowers with more financing options than they could by acting alone, thereby improving service to borrowers. Moreover, according to officials in North Dakota and New Mexico, collaboration also created a synergistic effect to better promote economic development in rural areas.

Finally, while some consolidation has occurred over time, both agencies have a strong presence in rural areas. Prior to its 1994 reorganization, 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 more than 600 Rural Development field positions to the St. Louis Centralized Servicing Center. The number of Rural Development offices across the nation is now closer to the number of SBA offices—47 Rural Development state offices and 68 SBA district offices (see fig.3).

[16]While collaborative efforts can benefit borrowers in rural areas, such actions can also lead to a higher concentration of federal loan guarantees in individual projects. As a result, when choosing to jointly fund projects, SBA and Rural Development need to work together to appropriately manage the financial risks associated with jointly funding a project.

Figure 3: SBA District Offices and Rural Development State Offices, by Location



○ USDA Rural Development State Offices
● SBA District Offices
● Cities with both types of offices

Sources: SBA and USDA (data); Art Explosion (map).

In addition to its state offices, Rural Development also has about 500 field offices, including area, subarea, and other local offices in rural areas. SBA officials we spoke to in headquarters believe that SBA has a similar presence in rural communities because of its more than 950 SBDC locations in the 50 states, U.S. territories, and the District of Columbia. In contrast to SBA's view, Rural Development officials believe that the presence of its 500 field offices in rural areas is unique because each office is staffed by USDA employees. Although SBA's SBDCs may provide services that differ from services provided by Rural Development field offices, to the extent that SBDCs are considered part of SBA's rural presence, both agencies have a strong rural presence that provides another rationale for the agencies to collaborate.

SBA and Rural Development's Collaborative Efforts Have Been Sporadic

Overall, in the areas where SBA and Rural Development were collaborating, the efforts were sporadic, were initiated and administered at local levels, and appeared to be dependent on established working relationships among those involved. The results of a query by Rural Development and SBA officials asking their offices whether collaborative efforts were under way also indicated that such efforts were sporadic. We found that the extent of the collaboration that was taking place and the level of formality—that is, the use of cooperative agreements, such as MOUs and other mechanisms to collaborate—varied across the agencies' field offices. For example, in North Dakota, SBA and Rural Development collaborated frequently and on a relatively formal basis by communicating at least weekly, hosting several joint lender training sessions yearly, and establishing an MOU to deliver financing and technical assistance at one location. In other states we visited, such as Nebraska and New Mexico, SBA and Rural Development worked with each other less frequently and on a more informal basis. In a number of other states, such as Arizona, Colorado, and Georgia, no collaborative efforts appeared to be under way.

Most of the Current Collaborative Efforts between SBA and Rural Development Have Been Initiated at the Local Level

Federal agencies that are involved in collaborative efforts are generally required by statute to collaborate, but no such specific requirement exists for SBA and Rural Development. As a result, we found that most ongoing collaborative efforts between the agencies had been initiated at the local level and were based on established working relationships among the involved individuals. For example, some SBA and Rural Development field office officials at the three sites we visited told us that they frequently collaborated with each other because they had held the same job positions, within their respective agencies, and worked together for many years and thus had established a rapport. Other officials told us that they were involved in collaborative efforts because they had initiated the efforts on their own or had prior experience in partnering with other agencies and had chosen to continue similar efforts.

SBA and Rural Development headquarters officials conducted a query of their respective field office staff to determine the extent to which these offices were involved in any formal or informal collaborative efforts. In addition to information we obtained from the three locations we visited, the query results showed that collaborative efforts developed sporadically among a limited number of offices. For example, of SBA's 68 district offices, only about half reported having ongoing collaborative efforts with Rural Development. Similarly, only about half of Rural Development's 47 state offices reported having ongoing collaborative efforts. Of those Rural Development offices that reported not having any ongoing efforts, a few indicated that they had partnered with SBA in the past. Each agency's query also showed that some SBA and Rural Development field offices seemed to have good working relationships that had been established over the years by the specific individuals involved.

A Few SBA and Rural Development Field Offices Have Established Formal Collaborative Efforts

Our site visits and the results of the query of field offices identified a few SBA and Rural Development offices, such as those in North Dakota, Ohio, and Washington state that appeared to be collaborating frequently. These offices used formal mechanisms such as MOUs to establish a framework for their efforts. In North Dakota, for example, SBA and Rural Development offices offered at least eight joint lender trainings each year and held quarterly meetings. In addition, in North Dakota the agencies had established an MOU that created the Entrepreneur Centers of North Dakota (ECND), a single entity involving SBA, Rural Development, and other state and local stakeholders.[17] According to officials at the center, the ECND provides "one-stop" access to a variety of products and services, a concept that has been widely used by USDA in its service centers for over 10 years and that was a cornerstone of the agency's reorganization efforts.[18]

Through the ECND, a prospective small business borrower in North Dakota can work with the five ECND partners to obtain financing and technical assistance from any of the more than 15 programs that are

[17] These entities include the Dakota Certified Development Corporation, the state Department of Commerce, and the Bank of North Dakota. The ECND, which is located in Bismarck, delivers financing, business management, counseling, and other technical assistance at one location as part of these groups' ongoing activities to enhance economic development and increase services to rural communities and small businesses.

[18] The Department of Agriculture Reorganization Act of 1994 gave the Secretary of Agriculture authority to reorganize USDA headquarters and field structures. USDA consolidated many field offices into service centers that were collocated with its other farm service agencies, including Rural Development, the Natural Resources Conservation Service, and the Farm Services Agency. USDA service centers, which provide one-stop shopping for services such as farming, business, and housing loans, have streamlined service delivery and helped field offices establish partnerships with other federal agencies, state and local governments, and community organizations.

offered. ECND partners work with the borrower from the initial point of contact and continue their assistance through the process of securing the appropriate financing and may stay involved until a project is completed. Borrowers can also work with “resource partners,” including SBA’s SBDC and the North Dakota Women’s Business Center (i.e., Center for Women and Technology) to obtain technical assistance in areas such as business management, marketing, production, and the development of feasibility studies. According to SBA and Rural Development officials in North Dakota, the ECND is one of the best examples of teamwork and has proven to be beneficial in helping to provide a high level of customer service to rural borrowers.

The SBA and Rural Development offices in Ohio also reported ongoing collaborative efforts. The officials reported having an MOU, which was established in the late 1990s, to guide various joint activities and to promote the use of each other’s programs in marketing and outreach efforts. Under the MOU, which is still used today, the offices provide referrals, conduct periodic meetings to update program information, and engage in forums and joint lender training sessions to educate lenders on their programs. The SBA and Rural Development offices in Washington reported having annual forums to share updated program information. They also said that they had sponsored three joint lender training sessions and a regional lender conference to educate lenders on the various aspects of their loan and business programs. The SBA and Rural Development offices plan to conduct a series of joint lender workshops in 2008 and to establish an MOU that will guide their efforts and cover advertising for the workshops.

SBA and Rural Development Collaborated Less Frequently, Informally, or Not At All in Many Locations

The two agencies reported several other instances of collaboration, but these were less extensive and formal than those in North Dakota, Ohio, and Washington state. For example, Nebraska SBA and Rural Development officials reported conducting joint lender training sessions to educate loan officers on the agencies’ various loan and business programs and provide information on the technical resources that are available to small businesses throughout the state. In New Mexico, SBA and Rural Development officials reported conducting joint monthly meetings and community outreach sessions, or “Access to Capital” forums. The forums are 1-day events during which Rural Development, SBA, and SBDC officials and other local economic development professionals make presentations on the various types of loan programs that are available to small businesses. The forums’ goal is to involve local economic and political leaders in assisting small businesses in rural areas of the state and to obtain their buy-in and support for SBA and Rural Development programs.

SBA and Rural Development officials in other locations reported that they were involved in informal collaborative efforts. In Arkansas, Missouri, and Virginia, these activities were based on referrals. According to officials in these areas, SBA and Rural Development field personnel often refer applicants in need of financing to each other's agency if the other agency's programs seem better suited to the applicants' needs. SBA and Rural Development offices in Massachusetts also reported that they had recently sponsored a joint educational event on renewable energy and energy efficiency grants and loans and had held meetings to exchange program information. Additionally, in New Hampshire, Rhode Island, and Vermont, the offices reported that they had informal relationships and generally kept each other up to date on their respective programs.

In many states, however, SBA and Rural Development do not appear to be collaborating at all or to have formal or informal mechanisms to facilitate collaboration. These states include, among others, Arizona, Colorado, Georgia, Maine, North Carolina, Utah, and West Virginia. Because of this lack of collaboration, SBA and Rural Development offices in these states may be missing out on opportunities to work together to better serve entrepreneurs and small businesses in their local communities.

SBA and Rural Development have Collaborated with Each Other and Other Agencies in the Past

SBA and Rural Development have collaborated in the past with each other and with other agencies. Generally speaking, these efforts enabled the agencies to achieve results that they could not have achieved acting alone. For example, SBA and Rural Development collaborated with each other under the RBIP. Section 6029 of the Farm Security and Rural Investment Act of 2002 required USDA to establish the RBIP.[19] The purpose of the program was twofold: first, to promote economic development and create jobs in rural areas by encouraging investments of venture capital to help develop small rural businesses; and second, to establish a developmental venture capital program to address the unmet equity investment needs of small rural businesses.

RBIP was modeled after SBA's Small Business Investment Company program and its New Markets Venture Capital program, and Rural

[19]Pub. L. No. 107-171, § 6029, 116 Stat. 134, 387 (2002).

Development was expected to draw upon the experience that SBA had gained in administering these programs.[20] Under an interagency agreement required by the act, Rural Development had oversight responsibility for RBIP, and SBA had the day-to-day responsibility for managing and operating the program using its own staff, procedures, and forms. According to both SBA and Rural Development officials, the success of RBIP was limited due to a lack of funding, in part because the Deficit Reduction Act of 2005 rescinded fiscal year 2007 and subsequent funding for the program. Both agencies also encountered challenges during planning and implementation. For instance, it took about 2 years from the time that the law was enacted in 2002 to finalize and sign the operating agreements, establish interim final rules, and announce funding availability in 2004. Prior to the loss of funding in 2006, only one company was able to raise the necessary capital (i.e., private equity matching dollars) for full approval to become licensed as a rural business investment company under RBIP.[21]

According to SBA and Rural Development officials, the agencies have also collaborated with other agencies, and the results have reportedly been beneficial for both SBA and USDA. For instance, both SBA and Rural Development each collaborated with FCA to examine specialized lending institutions. Specifically, SBA oversees small business lending companies (SBLC), which are nondepository lending institutions licensed by SBA 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 FCA in 1999 that tasked FCA with conducting safety and soundness examinations of the SBLCs. Under the agreement, FCA would conduct examinations of SBLCs on a full cost-recovery basis, and the agencies would have the option to terminate or extend the agreement after 1 year.[22] Rural

[20]In December 2000, to address the unmet equity needs of low-income communities, Congress passed new legislation creating the New Markets Venture Capital (NMVC) Program. The NMVC program was designed to promote economic development and create wealth and job opportunities in low-income areas by making equity-type investments in smaller enterprises located in those areas, and by providing operating assistance (in the form of grants) to such enterprises.

[21]Rural Development officials told us that in March 2007 they began exploring ways to continue RBIP. Recently, as part of its 2008 Farm Bill, Congress acted to restore the program. The Food, Conservation and Energy Act of 2008 reauthorized the appropriation of $50 million in funding for RBIP through fiscal year 2012. Pub. L. No. 110-246, § 6027, 122 Stat. 1944, 1651 (2008).

[22]As of July 2008, FCA had conducted 14 examinations of SBLCs on SBA's behalf.

Development also collaborated with FCA under an Economy Act agreement to conduct examinations of its nontraditional lenders (i.e., lenders that provide loans to borrowers that do not meet the traditional credit criteria) that participate in Rural Development's B&I, Renewable Energy Systems and Energy Efficiency Improvements, and Community Facilities Guaranteed Loan Programs.[23] Under the agreement, FCA conducts, on a full cost-recovery basis, examinations of the lending institutions' safety and soundness, lending practices, and regulatory compliance. These agreements have allowed both SBA and Rural Development to take advantage of FCA's expertise in examining specialized financial institutions and offered FCA the opportunity to broaden its experience through exposure to different lending environments.

Additionally, Rural Development and FEMA collaborated in providing disaster assistance to Hurricane Katrina 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. Over the years, Rural Development's Housing and Community Facilities Program and HUD have routinely collaborated with each other to provide affordable housing assistance in rural communities, and the working relationship still exists today. Rural Development and HUD have together created a voucher program, modeled after HUD's Housing Choice Voucher program that provides rental assistance to families in rural areas. They have also developed cooperative agreements for their multifamily housing assistance programs that allow tenants to use HUD vouchers in USDA subsidized multifamily housing units. We were told that each of the collaborative efforts allowed the agencies to establish common approaches to working together, clarify priorities as well as roles and responsibilities, and align their resources to accomplish common outcomes.

[23]The Economy Act is a general statutory provision that permits federal agencies to enter into mutual agreements with other agencies to purchase goods or services and take advantage of specialized experience or expertise.

SBA and Rural Development Could Take Steps to Establish a Formal Approach to Collaboration

SBA and Rural Development have not had a lasting approach to guide them in collaborating with one another more effectively. Our October 2005 report on key practices that can help enhance and sustain collaboration among federal agencies identified a number of practices critical to successful collaboration and identified other factors such as leadership, trust, and organizational culture that are necessary elements of an effective working relationship.[24] In December 2000, SBA and Rural Development entered into an MOU that provided an approach to collaboration. The MOU incorporated three of the key practices we have identified. The MOU expired in 2003 and SBA and Rural Development do not appear to have implemented the MOU when it was active. The ineffective implementation of the MOU has likely contributed to the sporadic and limited amount of collaboration that is taking place between the two agencies. SBA and Rural Development also do not have formal incentives focused on collaboration and do not track the results or impact of collaborative efforts. As a result, the agencies are unable to share information on the benefits of working together and encourage additional efforts to do so. Without a formal approach to encourage further collaboration, the agencies will be less likely to fully leverage each other's unique strengths to help improve small business opportunities and encourage economic development in rural communities.

SBA and Rural Development Do Not Have A Current Cooperative Agreement to Facilitate Collaboration

In our October 2005 report, we identified eight key practices federal agencies could undertake to enhance and sustain their collaborative efforts.[25] These practices included the following:

- *Define and articulate a common outcome*—to overcome significant differences in agency cultures and established ways of doing business, collaborating agencies must have a clear and compelling rationale to work together.
- *Establish mutually reinforcing or joint strategies*—to achieve a common outcome, collaborating agencies need to establish strategies that work in concert with those of their partners or are joint in nature.
- *Identify and address needs by leveraging resources*—collaborating agencies should identify the human, information technology, physical, and

[24] GAO-06-15.

[25] GAO-06-15.

financial resources needed to initiate or sustain their collaborative effort. By assessing their relative strengths and limitations, agencies can look for opportunities to address resource needs by leveraging each others' resources.

- *Agree on agency roles and responsibilities*—collaborating agencies should work together to define and agree on their respective roles and responsibilities, including how the collaborative effort will be led.
- *Establish compatible policies, procedures, and other means to operate across agency boundaries*—to facilitate collaboration, agencies need to address the compatibility of standards, policies, procedures, and data systems that will be used in the collaborative effort.
- *Develop mechanisms to monitor, evaluate, and report on results*—agencies involved in collaborative efforts need to create the means to monitor and evaluate their efforts to enable them to identify areas for improvement.
- *Reinforce agency accountability for collaborative efforts through agency plans ands reports*—collaborating agencies should ensure that goals are consistent and, as appropriate, program efforts are mutually reinforced through tools such as strategic and annual performance plans; and
- *Reinforce individual accountability for collaborative efforts through performance management systems*—collaborating agencies should use their performance management systems to strengthen accountability for results, specifically by placing greater emphasis on fostering the necessary collaboration both within and across organizational boundaries to achieve results.

In comparing SBA and Rural Development's efforts to these key practices, we found that the agencies have taken steps in the past that were consistent with three of the key practices. In particular, the agencies entered into a cooperative agreement—an MOU—in December 2000 that (1) defined and articulated a common outcome; (2) reached agreement on roles and responsibilities; and (3) established a mechanism to monitor, evaluate, and report on results.[26]

[26]SBA and Rural Development had entered into agencywide MOUs before: once in 1977 and again in 1988.

Specifically, the MOU defined and articulated a common purpose, including to better serve rural areas by coordinating the delivery of programs; increase the number of small business loans guaranteed by both agencies; and develop relationships with federal, state, county, and local agencies, private organizations, and commercial and financial institutions to facilitate and support the development of strong rural businesses. In addition, the MOU described the respective roles and responsibilities each agency would maintain in providing training on their programs, credit analysis techniques, and processing and servicing policies. Finally, the MOU stated that, at least annually, SBA's Associate Administrator for Field Operations, SBA's Associate Administrator for Financial Assistance, and Rural Development's Deputy Administrator for Business Programs, or their designees, would monitor and evaluate the previous year's joint activities and plan any future work.

The MOU, signed in December 2000, was to become active on the date of execution and remain in effect for 3 calendar years at which time the two agencies had the option to extend it for an additional 2 years by written agreement. SBA's Deputy Administrator and USDA's Undersecretary for Rural Development signed the MOU and it expired in 2003. Both SBA and Rural Development officials recently confirmed that the MOU was not renewed.

SBA and Rural Development Do Not Appear to Have Implemented the December 2000 MOU When it Was Active

Although SBA and Rural Development's December 2000 MOU contained provisions that are consistent with some of our key practices as described above, the agencies do not appear to have implemented the MOU when it was active. Based on our analysis, there are two potential reasons for this lack of implementation.

First, SBA and Rural Development may not have implemented the 2000 MOU when it was active because of a lack of direction and focus from high levels of each agency emphasizing the need for and importance of collaboration. Rural Development officials confirmed that a change in USDA administration occurred after the 2000 MOU was signed, and the officials who signed the MOU were no longer in the positions they occupied at the time of the signing. This explanation is consistent with what others told us about barriers to more effective collaboration between federal agencies. For example, a representative of a rural community development organization with whom we spoke stated that the initial momentum for some collaborative efforts may come from officials in management level positions of a federal agency, but after the responsible officials leave the agency, or a change in administration occurs, the momentum for a collaborative effort may drop off and not be resumed by the officials' successors.

Second, the 2000 MOU may not have been fully implemented because neither agency appeared to be actively monitoring the extent to which collaboration was ongoing. For instance, when we began our work for this review, we asked SBA and Rural Development officials in headquarters to provide examples of formal or informal efforts the agencies have undertaken to work together. The officials were not able to provide any descriptions of such efforts and told us that ongoing collaborative efforts were likely to be sporadic and occurred only as needed in the agencies' field offices. Because we could not obtain information on the extent and nature of SBA and Rural Development's collaborative efforts, we asked each agency to query its field offices to provide us with this information. As discussed previously, based on the results of each agency's query, we found a few locations where SBA and Rural Development are involved in frequent and formal collaborative efforts, some locations where the agencies are involved in informal efforts, and many locations where the agencies appear not to be working together at all.

SBA and Rural Development officials did not cite the December 2000 MOU when we began work for this review and, for a period of months, the agencies did not appear to be in agreement as to whether the MOU was active. In March 2008, Rural Development officials informed us that they were operating as though the MOU was active, even though it had expired. However, when we asked about the December 2000 MOU during some of our visits to locations where SBA and Rural Development were collaborating, some officials in the locations were unfamiliar with it. During the course of our review, neither SBA nor Rural Development officials cited actions taken, past or present, in response to the provisions contained in the MOU. Had SBA and Rural Development implemented the MOU, the agencies would have had a framework to guide them and improve upon their collaborative efforts.

SBA and Rural Development Lack Incentives for Collaboration and Do Not Track the Results of Collaborative Efforts

Based on our analysis, we found that SBA and Rural Development field offices do not have formal incentives to encourage collaboration and do not track the results of their efforts. As mentioned, as we reported in our 2005 report, one of the key practices that can help agencies to enhance and sustain their collaborative efforts involved ensuring that the agencies' goals are consistent and that their program efforts are mutually reinforced through strategic and annual performance plans.[27] Specifically, federal programs contributing to the same or similar results should collaborate and use their strategic and annual performance plans as tools to drive their efforts to work together. Such plans can reinforce accountability for the collaboration by establishing complementary goals and measures for achieving results and aligning them with the goals and measures of the collaborative efforts. SBA and Rural Development's performance goals and measures do not focus on their efforts to work together collaboratively. Specifically, in describing their performance goals for district offices, SBA officials stated that each office has goals for technical assistance, including activities such as training, marketing, and outreach. The officials noted that each SBA district office also has goals and measures for the number of loans to be made in underserved markets, which may include rural areas. While these goals and measures focus on participation in SBA's programs and may encourage offices to partner with others, they do not focus specifically on collaboration with Rural Development. Similarly, Rural Development's program performance measures, particularly for the B&I program, do not focus on collaboration with another agency. Rural Development's goals and measures focus on employment opportunities (i.e., jobs created or saved) and community economic benefits (i.e., value added to a community as a result of the economic impact of Rural Development's programs). Both SBA and Rural Development officials stated that performance goals and measures focused on collaboration could provide an incentive to collaborate. Once established, such goals and measures could provide both agencies a mechanism to encourage interagency working relationships and reward those efforts already occurring.

Additionally, SBA and Rural Development officials at the three locations we visited said that they are not currently tracking the results of some collaborative efforts, such as the joint training of lenders and community outreach sessions. The officials did view these collaborative efforts as beneficial in increasing awareness of each agency's respective programs.

[27] GAO-06-15.

According to Rural Development officials in New Mexico, while they are satisfied with the attendance at their “Access to Capital” forums targeted at local economic and political leaders and lenders, they have not been able to document a loan resulting from the forums. Rural Development officials in Nebraska said that they have received phone calls from some lenders after the lenders have attended a joint training session. In these cases, according to the officials, Rural Development has been active in meeting with lenders one-on-one to provide assistance. However, the officials said that they could do a better job of proactively contacting the lenders after the training to solicit feedback and determine if the lender has initiated any new loans as a result of having attended the training session.

SBA and Rural Development officials stated that one way to document the benefits of collaboration would be to prepare “success stories” of ventures that SBA and Rural Development had jointly undertaken. The officials further stated that because each agency already prepared success stories that are based upon participation in their individual programs, this practice could be used to document positive benefits stemming from collaborative efforts between the two agencies. Moreover, the officials said that those locations where SBA and Rural Development were not currently working together were more likely to begin doing so if they were made aware of specific, tangible benefits that could be realized through collaboration.

Conclusions

The complementary nature of some SBA loan programs and Rural Development business programs provides a rationale for the agencies to collaborate. SBA and Rural Development officials engaged in collaborative working relationships said that they have been able to work together to offer rural borrowers more financing options and better services, as well as to improve efforts to promote economic development in rural areas when collaboration has occurred. However, SBA and Rural Development’s collaborative efforts to date have been sporadic and mostly self-initiated by specific officials in each agency’s field offices. Officials of each agency worked together frequently in some locations and infrequently in others. In many areas, SBA and Rural Development neither appear to be collaborating at all nor have formal or informal mechanisms to guide their collaboration.

For SBA and Rural Development, working together to encourage economic development in rural areas is not a new or novel concept. Both agencies entered into earlier cooperative agreements to work collaboratively. However, when comparing these past efforts with our criteria for effective interagency collaboration, we found that the agencies could take further steps to facilitate collaboration by establishing and implementing a formal approach. Such an approach could help SBA and Rural Development establish the guidance, direction, and incentive structure needed to bring about a productive working relationship on a more systematic basis. Our previous work in this area shows that adopting key practices—such as defining and articulating a common outcome; specifying roles and responsibilities; establishing a mechanism to monitor, evaluate, and report on results; and reinforcing agency accountability for collaborative efforts—can help federal agencies enhance and sustain their collaborative efforts. One way SBA and Rural Development can adopt these key practices is to enter into a written cooperative agreement and, just as important, implement that agreement and take appropriate steps to monitor and report on results. Moreover, by creating formal incentives, such as performance goals and measures specifically focused on collaboration or, similarly, preparing success stories to document the benefits of their collaborative efforts, SBA and Rural Development can share and publicize information that would help encourage the two agencies to work together. Such an approach can help SBA and Rural Development to effectively leverage each other's unique strengths to help improve small business opportunities and promote economic development in rural communities.

Recommendations for Executive Action

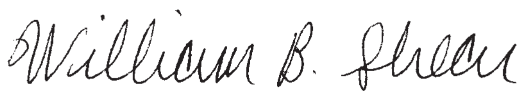
To improve SBA and Rural Development's collaborative efforts, we recommend that the Administrator of SBA and Secretary of Agriculture: take steps to adopt a formal approach to encourage further collaboration in support of common economic development goals in rural areas. Such steps could include establishing and implementing a written agreement; defining and articulating a common outcome for rural economic development; specifying roles and responsibilities to ensure proper coordination; establishing mechanisms to monitor, evaluate, and report on results; and reinforcing accountability for collaborative efforts.

Agency Comments

We provided a copy of our draft report to the Acting Administrator of the Small Business Administration and the Secretary of Agriculture for review and comment. Both agencies provided technical comments, which we incorporated into the final report where appropriate.

We are sending copies of this report to other interested congressional committees as well as the Administrator of the Small Business Administration and the Secretary of Agriculture. We also will make copies of this report available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

Please contact me at (202) 512-8678 or ShearW@gao.gov if you or your staff have any questions about this report. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



William B. Shear
Director, Financial Markets and
Community Investment

List of Congressional Requesters

The Honorable John F. Kerry
Chairman, Committee on Small Business
and Entrepreneurship
United States Senate

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
House of Representatives

The Honorable Heath Shuler
Chairman, Subcommittee on Rural and Urban
Entrepreneurship
Committee on Small Business
House of Representatives

The Honorable Jeff Fortenberry
Ranking Member
Subcommittee on Rural and Urban
Entrepreneurship
Committee on Small Business
House of Representatives

The Honorable Vern Buchanan
House of Representatives

Appendix I: Scope and Methodology

The Small Business Administration (SBA) programs in our scope (see fig. 4) include the major business loan programs—Basic 7(a) Loan Guaranty, 504/Community Development Corporation Loan and the 7(m) Micro Loan, as well as the Small Business Investment Company (SBIC) and the Rural Lender Advantage Pilot programs. The Department of Agriculture (USDA) Rural Development programs in our scope include the primary business programs including the Business and Industry Guaranteed Loan, Intermediary Relending, Rural Business Enterprise Grant, Rural Business Opportunity Grant, Rural Economic Development Loans and Grants, and the Renewable Energy Systems and Energy Efficiency Improvements Guaranteed Loan and Grant programs.

Figure 4: Summary of Programs Included in Our Scope

U.S. Small Business Administration SBA — Small Business Administration	USDA — U.S. Department of Agriculture Rural Development
5 programs — Basic 7(a) Loan Guaranty Program — 504/CDC Loan Program — 7(m) Micro Loan Program — Small Business Investment Company (SBIC) Program — Rural Lender Advantage Pilot Program	**6 programs** **Rural Business-Cooperative Service** — Business and Industry (B&I) Guaranteed Loan Program — Intermediary Relending Program (IRP) — Rural Business Enterprise Grant Program (RBEG) — Rural Business Opportunity Grant Program (RBOG) — Rural Economic Development Loan and Grant Program (REDLG) — Renewable Energy Systems & Energy Efficiency Improvements Guaranteed Loan and Grant Program **Rural Housing Service** **Rural Utilities Service**

Programs covered by GAO

Sources: SBA; USDA.

In this report, we define collaboration 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.

To determine the extent to which SBA and Rural Development's primary loan and business programs are complementary and to identify the rationale for SBA and Rural Development to collaborate, we reviewed the mission and structure of SBA and Rural Development offices. We reviewed relevant agency documents and examined laws, regulations and policies on each agency's loans, grants, and other business programs. We reviewed eligibility requirements and the type of assistance (i.e., direct loan, loan guaranty, grant, etc.), funding levels, and eligible use of program funds, as well as information about each agency's loan processes and procedures, participation requirements, number of awarded loans and grants, and loan process times. We also interviewed agency officials on the similarities and differences between the two agencies' primary loan and business programs, and whether the similarities may have an effect on collaboration. We reviewed our prior work on interagency collaboration and key practices that can help enhance and sustain collaborative efforts. We obtained input from SBA and USDA agency officials, SBA resource partners, lenders, and nonprofit organizations involved in the rural economic development process on the goals and common outcomes they envision from increased collaboration between the SBA and Rural Development. Also, using information collected on the mission and structure of SBA and Rural Development offices, and the purpose, eligible use, and terms/conditions of their primary business programs, we assessed whether factors such as complementary mission or task, compatible geographic location and organizational structure, common client base, program overlap and duplication, or similarities and differences in statutory authority, provide a rationale for the two agencies to work together. As collaboration between SBA and USDA Rural Development is not specifically required by law or regulation, we relied on established practices and agency officials' and stakeholder views in examining the rationale for why SBA and USDA should collaborate.

To determine the types of collaborative efforts currently taking place and that have taken place in the past between SBA and Rural Development, we reviewed internal documents, such as memorandums of understanding (MOU) and training documentation, showing ongoing and past collaborative efforts between SBA and Rural Development. We requested that both SBA and Rural Development conduct a query of their respective district offices and state offices regarding all formal or informal efforts to work collaboratively with the other agency. We received responses from about half the SBA district offices and all of the Rural Development state offices that either described the extent of their collaborative efforts with the other agency, or reported that there were no collaborative efforts ongoing. Of those SBA and Rural Development district and state offices that reported they were working together, we selected three locations and conducted site visits and interviews with knowledgeable staff at each location to obtain a thorough understanding of ongoing collaborative efforts. We selected the sites to visit based on the reported amount of collaboration and degree of formality of the effort. We defined formality by the presence of a written document, such as an MOU, that served as a guide for collaborative efforts. The goal of our selection approach was to obtain information on a range of collaborative efforts, from frequent and formal to infrequent and informal. The locations that we selected and visited were Lincoln, Nebraska; Bismarck, North Dakota; and Albuquerque, New Mexico. For two of these locations, we also spoke with lenders that have participated in both SBA and Rural Development programs.

To determine the types of collaborative efforts that have taken place between SBA and other agencies, and Rural Development and other agencies, we reviewed documentation describing the collaborative effort. We examined the mechanisms (e.g., contractual work agreement, MOU or other cooperative agreement, statutory provision, etc.) the agencies used to collaborate. Additionally, we interviewed agency officials on their knowledge of any past collaborative effort.

To determine the opportunities to facilitate and remove barriers to more effective collaboration between SBA and Rural Development, we reviewed our prior work on key practices that can help enhance and sustain collaboration and address barriers to more effective collaboration. We also obtained the views and experience of agency officials, SBA resource partners, lenders, and select nonprofit organizations, regarding rural economic issues, and opportunities and barriers to more effective collaboration. We used certain characteristics, such as personnel at both agencies, budget, training, and management, to evaluate opportunities or barriers to collaboration. We also assessed the potential that may be present for Rural Development offices to help market SBA programs and services by making information available through their field offices and whether SBA can play a similar role for Rural Development programs. Finally, we compared SBA and Rural Development's policies, practices, and performance goals with key practices that can help federal agencies enhance and sustain their collaborative efforts.

We conducted this performance audit from October 2007 to September 2008, 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.

Appendix II: Description of SBA's and USDA Rural Developments' Primary Loan and Business Programs

Both SBA and USDA Rural Development have several loan and business programs that provide funds to start or expand businesses in rural areas. Through these programs, the two agencies work with individual entrepreneurs, existing or start-up small businesses, state, local, and tribal governments, as well as cooperatives and nonprofit agencies to increase economic opportunity and improve the quality of life for people in rural communities across the country.

The following sections describe the primary SBA loan programs and Rural Development business programs.

SBA Loan Programs

Basic 7(a) Loan Guaranty Program serves as the primary business loan program to help qualified small businesses obtain financing. It can be used for a variety of general business purposes including, working capital, machinery and equipment, land and building (including purchase, renovation, and new construction), leasehold improvements, and certain debt refinancing. SBA sets the guidelines for the loans and backs the loan with a guaranty, while lenders make the loans to the small businesses. SBA offers multiple variations of the Basic 7(a) Loan Program to accommodate targeted needs. For example, the Patriot Express Loan Program, which is specifically geared toward veterans, members of the military community and their spouses, and the Community Express Loan Program, which is aimed at women, minorities, and veterans in underserved communities who want to start or expand a small business, are both expedited versions of the Basic 7(a) Loan Program.

504/Certified Development Company (CDC) Loan Program provides long-term, fixed-rate financing to small businesses to acquire real estate, machinery, or equipment for expansion or modernization. The 504/CDC Loan Program cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing. Typically a 504/CDC project includes a loan secured by a lien from a private-sector lender, a loan secured by an additional lien from a certified development company (CDC) (covering up to 40 percent of the total cost) and a contribution of at least 10 percent equity from the borrower. CDCs are private, nonprofit corporations set up to contribute to the economic development of their communities or regions. The program is designed to enable small businesses to create and retain jobs—the CDC's portfolio must create or retain one job for every $35,000 provided by the SBA.

7(m) Micro Loan Program provides short-term loans of up to $35,000 to small businesses and not-for-profit child-care centers for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery, or equipment. The average loan size is about $13,000, and proceeds can be used for typical business purposes such as working capital, machinery and equipment, inventory, and leasehold improvements. The proceeds cannot be used to pay existing debts or to purchase real estate. Under this program, SBA makes funds available to intermediaries (nonprofit community-based organizations with experience in lending) that, in turn, make the loan directly to the entrepreneur. The intermediary lenders also provide entrepreneurs with management and technical assistance.

SBIC Program provides venture capital to small independent businesses, both new and already established. The structure of the program is unique in that SBICs are privately owned and managed investment funds, licensed and regulated by SBA, that use their own capital plus funds borrowed with an SBA guarantee to make equity capital and long-term loans to qualifying small businesses. In addition to investments and loans, SBICs also provide management assistance to small businesses.

Small/Rural Lender Advantage Pilot Program, a part of SBA's 7 (a) loan program, is aimed at encouraging rural lenders to finance small businesses by streamlining the application and approval processes. Specifically, the Small/Rural Lender Advantage offers a simplified application form for loans of $350,000 or less, the ability to apply online, expedited loan processing, and limited documentation requirements. SBA will guarantee 85 percent of the loan amount for loans of $150,000 and less, and 75 percent of loans above $150,000. It is part of a broader initiative to boost economies in areas that face unique challenges due to factors such as declining population or high unemployment. The pilot program was initiated and tested in SBA's Region VIII (North Dakota, South Dakota, Colorado, Wyoming, Utah, and Montana) in January 2008. Following enhancements to further streamline it, SBA is now extending the initiative to Region V, which covers Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. SBA also plans to expand the initiative nationwide by the end of fiscal year 2008.

Rural Development Loan and Grant Programs

Business and Industry (B&I) Guarantee Loan Program (often referred to as the B&I program) provides financial assistance to rural businesses in the form of a loan guarantee for up to 80 percent of the loan amount. Borrowers work with a local lending agency (e.g., bank or credit union), which in turn seeks a guarantee from Rural Development. A borrower may be an individual; a cooperative organization, corporation, partnership, or other legal entity organized on a profit or nonprofit basis; an American

Indian tribe or other federally recognized tribal group; or a public body (i.e., town, community, state agency, and authority). Loan purposes must be consistent with the purpose of the program, which is to improve, develop, or finance business, industry, and employment and improve the economic climate in rural communities. They include, but are not limited to, the following:

- business and industrial acquisitions under certain conditions;
- business conversion, enlargement, repair, modernization, or development;
- purchase and development of land, easements, buildings, or facilities; and
- purchase of equipment, leasehold improvements, machinery, supplies, or inventory or working capital.

The total loan amount available to any one borrower under this program is limited to $25 million. An exception to the limit for loans up to $40 million may be granted for rural cooperative organizations that process value-added agricultural commodities. B&I loans are available to borrowers in rural areas, which include all areas other than cities or towns of more than 50,000 people and the contiguous and adjacent urbanized area of such cities or towns. The B&I Guaranteed Loan Program, with a fiscal year 2007 funding level of $953 million, is Rural Development's largest business program.

Intermediary Relending Program (IRP) finances business and economic development activities that seek to create or retain jobs in disadvantaged and remote communities. Under the IRP program, loans are provided to local organizations (intermediary lenders) for the establishment of revolving loan funds that provide loans to ultimate recipient borrowers. The revolving loan funds are used to assist the borrower with financing business facilities and community development projects. Projects must be located in a rural area, which for this program excludes cities with a population of 25,000 or more. Some examples of eligible projects are as follows:

- business and industrial acquisitions under certain conditions;
- business construction, conversion, enlargement, and repair;
- purchase and development of land, easements, rights-of-way, buildings, or facilities;

- purchase of equipment, leasehold improvements, machinery, and supplies;
- start-up operating costs and working capital;
- transportation services, and;
- debt refinancing.

Intermediary lenders may first borrow up to $2 million and then up to $1 million each time thereafter, not to exceed the total aggregate loan amount of $15 million. An ultimate recipient borrower may borrow the lesser of $250,000 or 75 percent of the total cost of the ultimate recipient's project for which the loan is being made. Private nonprofit corporations, public entities (i.e., towns, communities, state agencies, and authorities), American Indian tribes or other federally recognized tribal groups, and some cooperatives are eligible to intermediaries. Borrowers that are generally eligible to apply for loans from intermediary lenders include individuals, corporations or partnerships, trusts or other profit-oriented or nonprofit organizations, and public entities.

Rural Business Enterprise Grant Program (RBEG) provides grants to public bodies, including American Indian tribes and other federally recognized tribal groups, and private nonprofit corporations, to finance and facilitate the development of small and emerging private businesses in rural areas (i.e., any area other than a city or town that has a population of greater than 50,000 and the urbanized area contiguous and adjacent to such a city or town. Small and emerging private businesses are those that will employ 50 or fewer new employees and have less than $1 million in projected gross revenues. Grants may be used for

- easements, and rights of way;
- construction, conversion, or modernization of buildings, facilities, machinery, roads, parking areas, utilities, and pollution control and abatement;
- loans for start-up operating costs and working capital;
- technical assistance for private business enterprises;
- training, when necessary, in connection with technical assistance; and

- production of television programs to provide information on issues of importance to farmers and rural residents.

There is no maximum level of grant funding under RBEG. However, smaller projects are given higher priority.

Rural Business Opportunity Grant Program provides grants to public entities, nonprofit corporations, cooperatives, and American Indian tribes and other federally recognized tribal groups for training, technical assistance, and planning activities in rural areas (i.e., any area other than a city or town that has a population of greater than 50,000, and the urbanized area contiguous and adjacent to such a city or town). Grants may be used to

- identify and analyze business opportunities that will use local rural materials or human resources;
- identify, train, and provide technical assistance to existing or prospective rural entrepreneurs and managers;
- establish business support centers;
- conduct local community or multicounty economic development planning;
- establish centers for training, technology, and trade; and
- conduct leadership development training.

The maximum grant for a project serving a single state is $50,000. The maximum grant for a project serving two or more states is $150,000.

Rural Economic Development Loan and Grant Program (REDLG) provides funding to rural projects through local utility organizations. Under the loan program, Rural Development provides zero interest loans to lending utility organizations that, in turn, pass make loans to for-profit or nonprofit businesses and public entities (i.e., ultimate recipient borrowers), for projects that will create and retain employment in rural areas. The ultimate recipient borrower must repay the lending utility directly, and the lending utility is responsible for repayment to Rural Development. Under the grant program, Rural Development provides grant funds to local utility organizations, which may only use the funding to establish revolving loan funds. Loans are made from the revolving loan fund to projects that will create or retain jobs in rural areas. When the revolving loan fund is terminated, the grant is then repaid to Rural Development. Eligible project costs include

- start-up venture costs, including working capital;
- business expansion;
- business incubators;
- technical assistance;
- project feasibility studies and;
- advanced telecommunications services and computer networks for medical, educational, and job training services.

The maximum loan and grant to any eligible recipient under the Rural Economic Development Loan and Grant Program is established on an annual basis.

Renewable Energy Systems and Energy Efficiency Improvements Guaranteed Loan and Grant Program (renamed Rural Energy for America Program) provides loan guarantees and grants to eligible small businesses, farmers, and ranchers to assist in developing renewable energy systems and to make energy efficiency improvements. The types of energy projects include biofuel, wind, solar, geothermal, and hydrogen-based projects. They must be located in a rural area (i.e., any area other than cities or towns of greater than 50,000 population and the immediate and adjacent urbanized areas of the cities or towns). Under the loan program, borrowers work with local lenders in applying for a loan guaranty up to 85 percent of the loan, depending on the amount of the loan. The loan cannot exceed 50 percent of the project cost, and the project must use commercially proven technology. The maximum loan amount is $10 million per project, and the minimum is $5,000. Grants are limited to a maximum of $500,000 and a minimum of $2,500 for renewable energy systems, and a maximum of $250,000 and a minimum of $1,500 for energy efficiency improvements. Eligible applicants are agricultural producers or rural small businesses. Small businesses must meet SBA's small business size standards.

Appendix III: Comparison of SBA and Rural Development Primary Business Loan and Grant Programs

	SBA loan programs			Rural development loan and grant programs			
Program title	**Basic 7(a) Loan Guaranty Program**	**504/CDC Loan Program**	**7(m) Micro Loan Program**	**Business and Industry Loan Guaranteed Program**	**Intermediary Relending Program**	**Rural Economic Development Loan and Grant Program**	**Renewable Energy Systems & Energy Efficiency Improvements Guaranteed Loan and Grant Program**
Borrower	Any creditworthy start-up or existing business that cannot obtain financing on reasonable terms through normal lending channels.	Small business, for profit corporation, partnership, or proprietorship that will create and/or retain jobs through long-term financing.	Start-up and existing micro business that can meet basic lending requirement. Borrowers may be required to attend meetings/classes with technical assistance providers.	Any legal entity including individual, cooperative, corporation, partnership, tribal group, government entity, and agency.	Any legal entity including individual, public, and private organization, government entity, and agency.	Rural electric cooperatives and rural telephone cooperatives.	Rural small business, individual, agricultural producer, or group of agriculture producers. Must meet SBA's small business size standards.
Funding limit	SBA can guaranty a maximum of $1,500,000. The maximum guaranty is 85% for loans up to $150,000, and 75% for loans over $150,000.	Through CDCs, SBA can fund up to 40% of the total project costs, from $50,000 to $1,500,000, or in certain cases up to $2,000,000.	Maximum loan amount is $35,000.	Rural Development can guarantee up to $25 million. 80%-to $5 million 70%-$5 to $10 million 60%-over $10 million No minimum loan.	Intermediaries can make loans to qualified applicants for up to 75% of eligible project. Maximum loan is $250,000.	Maximum loan amount is $740,000. Maximum grant amount is $300,000. Subject to change annually.	Maximum renewable energy grant is $500,000. Maximum energy efficiency grant is $250,000. Minimum for both grants is $10,000. Maximum loan is $10,000,000.
Use of proceeds	Business start-ups, expansion, equipment, working capital, inventory of real estate acquisition.	Long-term financing of real estate and equipment.	Working capital, inventory, and small equipment.	Permanent working capital, hard asset acquisition, real estate, equipment and limited refinancing. Up to 50% of loan.	New and existing business, equipment purchase, or lease and working capital.	Business start-up or expansion projects that create rural jobs. Grants may only establish a revolving loan fund.	Purchase equipment, construction energy audits, feasibility studies, business plans, and permit/professional service fees.

	SBA loan programs			Rural development loan and grant programs			
Program title	Basic 7(a) Loan Guaranty Program	504/CDC Loan Program	7(m) Micro Loan Program	Business and Industry Loan Guaranteed Program	Intermediary Relending Program	Rural Economic Development Loan and Grant Program	Renewable Energy Systems & Energy Efficiency Improvements Guaranteed Loan and Grant Program
Average processing time	5–7 business days for loans processed by SBA.	10–45 business days.	10–45 business days.	10–60 business days depending on scope of project. Subject to in-state loan approval limit.	10–45 business days.	3 months to 1 year. Subject to national funding competition.	Subject to national funding competition.
Cost & fees	Guaranty fee of 2% for loans up to $150,000; 3% between $150,000 and $700,000; 3.5% up to $1 million; and additional .25% of guaranteed portion over $1 million.	CDC origination fee of 2.25% portion and .5% on bank portion.	Nominal fees to cover costs of loan closing.	Typically, initial guaranty fee not to exceed 2% of guaranteed portion of the loan and .25% annual renewal fee.	1% origination fee of intermediary loan amount plus closing costs.	Varies and is negotiated with cooperatives.	Typically, 1% of guaranteed portion of the loan and .125% annual servicing fee.
Participation requirements	Available anywhere. An SBA-approved lender (commercial lending institution) is required.	Available anywhere. An SBA program administered by a CDC. Commercial lender required.	Available anywhere. A direct loan from an SBA intermediary.	Available only in rural areas with a population of less than 50,000. Generally negotiated between the commercial lending institution and the borrower.	Available only in rural areas with a population of less than 25,000.	Rural areas with populations of 2,500 or less are given priority. The rural utility cooperatives provide loans to small businesses.	Available only in rural areas with a population of less than 50,000. Requires 75% minimum applicant match for grants, and 50% maximum project level for guaranteed loans.

Sources: GAO analysis of SBA and USDA Rural Development data.

Appendix IV: Recent Congressional Proposals That May Require Collaboration between Rural Development and Other Federal Agencies

H.R. 6124, the Food, Conservation, and Energy Act of 2008, (the 2008 Farm Bill) became law on June 18, 2008[1]. The 2008 Farm Bill contains 15 titles covering, among other things, support for commodity crops, horticulture and livestock production, conservation, nutrition, trade and food aid, agricultural research, farm credit, rural development, energy, forestry, and other related programs. The 2008 Farm Bill guides most federal farm and food policies through fiscal year 2012.

Section 6028 of the 2008 Farm Bill requires the Secretary of Agriculture to establish a new Rural Collaborative Investment Program to support comprehensive regional investment strategies for achieving rural competitiveness. The purpose of the program is to

- provide rural areas with a flexible investment vehicle, allowing for local control with federal oversight, assistance, and accountability;
- provide rural areas with incentives and resources to develop and implement comprehensive strategies for achieving regional competitiveness, innovation, and prosperity;
- foster multisector collaborations that will optimize the asset-based competitive advantages of rural regions, with particular emphasis on innovation, entrepreneurship, and the creation of quality jobs;
- foster collaborations necessary to provide the professional technical expertise, institutional capacity, and economies of scale that are essential for the long-term competitiveness of rural regions; and
- better use USDA and other federal, state, and local governmental resources, and to leverage those resources with private, nonprofit, and philanthropic investments, in order to achieve measurable community and economic prosperity, growth, and sustainability.

The Act also directed the Secretary to establish within USDA the National Rural Investment Board. The Board's duties are to provide advice to regional boards on issues, best practices, and emerging trends relating to rural development; to provide advice to the Secretary and the National Institute on Regional Rural Competitiveness and Entrepreneurship, also created by the Act, on the development and execution of the program; and to provide advice to the Secretary and subsequently review the design,

[1]Pub. L. No. 110-246, 122 Stat. 923 (2008).

development, and execution of the National Rural Investment Plan. The National Rural Investment Plan is expected to, among other things, create a framework to encourage and support a more collaborative and targeted rural investment portfolio in the United States; and cooperate with state and local governments, organizations, and entities to create and enhance the pool of resources committed to rural community and economic development.

Section 6028 of the 2008 Farm Bill is one of many actions taken by Congress over the years to encourage the coordination of rural policies and programs. It also further demonstrates Congress' commitment to promoting rural entrepreneurship and community development through collaboration across federal, state, and local agencies. A total of $135 million in funding has been authorized for the new program.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the individual named above, Paul Schmidt, Assistant Director; Charles Adams; Michelle Bowsky; Tania Calhoun; Emily Chalmers; Elizabeth Curda; Ronald Ito; Marc Molino; and Carl Ramirez made key contributions to this report.

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