

GAO

Testimony

Before the Subcommittee on Economic Development, Public Building, and Emergency Management, Committee on Transportation and Infrastructure, House of Representatives

For Release on Delivery  
Expected at 10:30 a.m. EDT  
Wednesday, July 27, 2011

ECONOMIC  
DEVELOPMENT

Efficiency and  
Effectiveness of  
Fragmented Programs Are  
Unclear

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

U.S. Government Accountability Office

GAO 90

YEARS

1921-2011

ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

---

Chairman Denham, Ranking Member Norton, and Members of the Subcommittee:

I am pleased to be here to discuss the potential for overlap, duplication and fragmentation in economic development programs. In March 2011 and more recently in May 2011 we reported on potential duplication among federal economic development programs, and in this statement I will discuss this work.<sup>1</sup> We are involved in ongoing work focusing on economic development programs; if they are administered efficiently and effectively, they can contribute to the well-being of our nation's economy at the least cost to taxpayers. Absent a common definition for economic development, we had previously developed a list of nine activities most often associated with economic development. These activities include planning and developing strategies for job creation and retention, developing new markets for existing products, building infrastructure by constructing roads and sewer systems to attract industry to undeveloped areas, and establishing business incubators to provide facilities for new businesses' operations.<sup>2</sup>

Our recent work includes information on 80 economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA) and the Small Business Administration (SBA). Commerce administers 11 of the 80 programs. According to the agencies, funding provided for these 80 programs in fiscal year 2010 amounted to \$6.2 billion, of which about \$2.9 billion was for economic development efforts, largely in the form of grants,

---

<sup>1</sup>See GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011); *List of Selected Federal Programs That Have Similar or Overlapping Objectives, Provide Similar Services, or Are Fragmented Across Government Missions*, [GAO-11-474R](#) (Washington, D.C.: Mar. 18, 2011); and *Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear*, [GAO-11-477R](#) (Washington D.C.: May 19, 2011).

<sup>2</sup>In commenting on our May 2011 report ([GAO-11-477R](#)), the Department of Commerce stated, among other things, that prior GAO reports have focused on the types of investments made without an appropriate definition of economic development. Because federal agencies do not have a standard definition of what constitutes economic development, we identified programs using a list of activities that are generally accepted as being directly related to economic development.

---

loan guarantees, and direct loans.<sup>3</sup> Some of these 80 programs can fund a variety of activities, including such non-economic development activities as rehabilitating housing and building community parks.

My testimony today discusses our work on (1) the potential for overlap in the design of these 80 economic development programs, (2) the extent to which the four agencies collaborate to achieve common goals, and (3) the extent to which the agencies have developed measures to determine the programs' effectiveness. We also discuss our framework for analysis going forward.

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

- the design of each of these economic development programs appears to overlap with that of at least one other program in terms of the economic development activities that they are authorized to fund;
- Commerce, HUD, SBA, and USDA appear to have taken actions to implement some collaborative practices but have offered little evidence so far that they have taken steps to develop compatible policies or procedures with other federal agencies or to search for opportunities to leverage physical and administrative resources with their federal partners; and
- the agencies appear to collect only limited information on program outcomes—information that is necessary to determine whether this potential for overlap and fragmentation is resulting in ineffective or inefficient programs.

Building on our past work, we are in the planning phase of a new, more in-depth review that will focus on a subset of these 80 programs. We plan to evaluate how funds are used, identify additional opportunities for collaboration, determine and apply criteria for program consolidation, and assess how program performance is measured. Commerce's Economic Development Administration (EDA) programs will be part of this review.

---

<sup>3</sup>In March 2011, we reported that the funding provided for these 80 programs in fiscal year 2010 amounted to \$6.5 billion, of which about \$3.2 billion was for economic development efforts, according to data we received from the agencies ([GAO-11-318SP](#) and [GAO-11-474R](#)). We are reporting different funding figures in this product because SBA revised the original information they provided to us in December 2010.

---

For our May 2011 report on potential overlap and fragmentation in the federal government’s economic development efforts, we utilized information from previous GAO products as well as our ongoing work following up on the recommendations in those products. We also relied on our recent evaluation of economic development programs at Commerce, HUD, SBA and USDA. During this evaluation, we compiled publicly available information on each program to determine the economic activities that the programs can fund and the ways the agencies distribute economic development funding, as well as the geographic areas and primary recipients that the agencies target. We then relied on the agencies to review this information, confirm its accuracy, and provide clarifications as necessary. Based on the information we collected and the clarifications that the agencies provided, we determined that these data were sufficiently reliable for the purposes of this review. Our report also includes self-reported data on program funds from the agencies for background and contextual purposes. We relied on the agencies for the program-specific funding data because the agencies are the only source for this type of information. We met with officials from each of the agencies to discuss each of the programs and the program missions. The work on which this statement is based was performed from October 2010 through May 2011 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.

---

## Overlap Appears to Exist in the Design of Economic Development Programs

Our work involving 80 economic development programs at four agencies—Commerce, HUD, SBA, and USDA—indicates that the design of each of these programs appears to overlap with that of at least one other program in terms of the economic development activities that they are authorized to fund. For example, as shown in table 1, the four agencies administer a total of 54 programs that can fund “entrepreneurial efforts,” which include helping businesses to develop business plans and identify funding sources.

**Table 1: Economic Development Activities by Agency**

Activity	Program by Agency				Total
	Commerce	HUD	SBA	USDA	
Entrepreneurial efforts	9	12	19	14	<b>54</b>
Infrastructure	4	12	1	18	<b>35</b>
Plans and strategies	7	13	13	7	<b>40</b>
Commercial buildings	4	12	4	7	<b>27</b>
New markets	6	10	6	6	<b>28</b>
Telecommunications	3	11	2	8	<b>24</b>
Business incubators	5	12		7	<b>24</b>
Industrial parks	5	11		5	<b>21</b>
Tourism	5	10		4	<b>19</b>

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

Note: In December 2010, USDA officials provided us information on the economic activities that each of their economic development programs can fund, which we reported in our March 2011 report ([GAO-11-318SP](#)). In April 2011, they provided revised information for six of their programs that we incorporated into our May 2011 report ([GAO-11-477R](#)).

While some of the 80 programs we assessed fund several of the nine economic development activities, almost 60 percent of the programs (46 of 80) fund only one or two activities. These smaller, narrowly scoped programs appear to be the most likely to overlap because many of them can only fund the same limited types of activities. For example, narrowly scoped programs comprise 21 of the 54 programs that fund entrepreneurial efforts. Moreover, most of these 21 programs target similar geographic areas.

Eight of the 80 programs we reviewed are administered by EDA. These programs include:

- *Grants for Public Works and Economic Development Facilities:* provides grants that support the construction or rehabilitation of essential public infrastructure and facilities necessary to generate or retain private sector jobs and investments, attract private sector capital, and promote regional competitiveness, innovation, and entrepreneurship.
- *Economic Development-Support for Planning Organizations:* provides grants to support planning organizations for the development, implementation, revision, or replacement of a comprehensive economic development strategy, short-term planning efforts, and state plans designed to create and retain higher-skill, higher-wage jobs,

---

particularly for the unemployed and underemployed in the nation's most economically distressed regions.

- *Economic Adjustment Assistance*: provides grants that address the needs of distressed communities experiencing adverse economic changes that may occur suddenly or over time, and generally result from industrial or corporate restructuring, new federal laws or requirements, reduction in defense expenditures, depletion of natural resources, or natural disaster.
- *Global Climate Change Mitigation Incentive Fund*: provides grants for projects that create jobs through, and increase private investment in, efforts to limit the nation's dependence on fossil fuels, enhance energy efficiency, curb greenhouse gas emissions, and protect natural systems.

As illustrated in table 2, EDA's programs can fund several of the nine economic development activities. In addition, EDA's programs are intended to target businesses that are located in economically distressed areas.

**Table 2: EDA Economic Development Programs**

Program name	Economic Activities											Primary Targeted Recipient <sup>b</sup>	Award Type
	Fiscal Year 2010 Enacted appropriation <sup>a</sup>	Plans and strategies	Commercial buildings	Business incubators	Industrial parks	Infrastructure	Entrepreneurial efforts	New markets	Telecommunications	Tourism	Urban/rural		
Community Trade Adjustment Assistance	\$0	X	X	X	X	X	X	X	X	X	Not Specified	Businesses adversely affected by international trade impacts	grant or direct payment
Grants for Public Works and Economic Development Facilities	\$158,930,000		X	X	X	X	X	X	X	X	Not Specified	Economically distressed areas	grant or direct payment
Economic Development/ Support for Planning Organizations	\$31,391,000	X									Not Specified	Unemployed and underemployed residents located in economically distressed areas	grant or direct payment
Economic Development/ Technical Assistance	\$9,800,000	X		X	X		X	X		X	Not Specified	Economically distressed areas	grant or direct payment
Economic Adjustment Assistance	\$45,270,000	X	X	X	X	X	X	X	X	X	Not Specified	Economically distressed areas	grant or direct payment
Research and Evaluation Program	\$1,963,000	X					X	X			Not Specified	Economically distressed areas	grant or direct payment

**Economic Activities**

<b>Program name</b>	<b>Fiscal Year 2010 Enacted appropriation<sup>a</sup></b>	<b>Plans and strategies</b>	<b>Commercial buildings</b>	<b>Business incubators</b>	<b>Industrial parks</b>	<b>Infrastructure</b>	<b>Entrepreneurial efforts</b>	<b>New markets</b>	<b>Telecommu- nications</b>	<b>Tourism</b>	<b>Urban/ rural</b>	<b>Primary Targeted Recipient<sup>b</sup></b>	<b>Award Type</b>
Trade Adjustment Assistance	\$18,987,000	X									Not Specified	Businesses adversely affected by imports	grant and services, technical support
Global Climate Change Mitigation Incentive Fund	\$25,000,000	X	X	X	X	X	X	X		X	Not Specified	Economically distressed areas	grant or direct payment

Source: GAO analysis of information from Commerce.

<sup>a</sup>According to Commerce officials, the program listed above that did not receive funding in fiscal year 2010 is still an active program. It is denoted by "0" in the table.

<sup>b</sup>Primary targeted recipient is the end user that the agencies are focused on serving. In some cases, the agencies provide the program dollars to an entity such as a nonprofit or local government that administers the funds to serve the primary targeted recipient.



---

## Agencies Are Collaborating on a Limited Basis

To address the potential for overlap and fragmentation among federal programs, we have previously identified collaborative practices agencies should consider implementing in order to maximize the performance and results of federal programs that share common outcomes.<sup>4</sup> These practices include leveraging physical and administrative resources, establishing compatible policies and procedures, monitoring collaboration, and reinforcing agency accountability for collaborative efforts through strategic or annual performance plans.

Findings from our work show that Commerce, HUD, SBA, and USDA appear to have taken actions to implement some of these collaborative practices, such as defining and articulating common outcomes, for some of their related programs. However, the four agencies have offered little evidence so far that they have taken steps to develop compatible policies or procedures with other federal agencies or to search for opportunities to leverage physical and administrative resources with their federal partners. Moreover, we found that most of the collaborative efforts performed by program staff on the front line that we have been able to assess to date have occurred only on a case-by-case basis. As a result, it appears that the agencies do not consistently monitor or evaluate these collaborative efforts in a way that allows them to identify areas for improvement. We reported in September 2008 that the main causes for limited agency collaboration include few incentives to collaborate and an absence of reliable guidance on consistent and effective collaboration.<sup>5</sup> In failing to find ways to collaborate more, agencies may miss opportunities to leverage each other's unique strengths to more effectively promote economic development, and they may fail to use taxpayer dollars in the most efficient manner.

---

<sup>4</sup>GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, [GAO-06-15](#) (Washington, D.C.: Oct. 21, 2005); and *Rural Economic Development: Collaboration between SBA and USDA Could Be Improved*, [GAO-08-1123](#) (Washington, D.C.: Sept. 18, 2008).

<sup>5</sup>[GAO-08-1123](#).

---

## Lack of Information on Program Outcomes Is a Longstanding Concern

Lack of information on the outcomes achieved by these programs is a current as well as longstanding concern. This information is needed to determine whether this potential for overlap and fragmentation is resulting in ineffective or inefficient programs. For example:

- EDA continues to rely on a potentially incomplete set of variables and self-reported data to assess the effectiveness of its grants. This incomplete set of variables may lead to inaccurate claims about program results, such as the number of jobs created. Moreover, EDA staff only request documentation or conduct site visits to validate the self-reported data provided by grantees in limited instances. We first reported on this issue in March 1999 and issued a subsequent report in October 2005.<sup>6</sup> In response to a recommendation we made in 2005, EDA issued revised operational guidance in December 2006 that included a new methodology that regional offices are to use to calculate estimated jobs and private-sector investment attributable to EDA projects. However, during our review we found that the agency still primarily relies on grantee self-reported data and conducts a limited number of site visits to assess the accuracy of the data. While acknowledging these findings, EDA officials stated that they employ other verification and validation methods in lieu of site visits. These methods include reviews to ensure the data are consistent with regional trends and statistical tests to identify outliers and anomalies. We plan to assess the quality and adequacy of these methods as part of our work going forward.
- SBA has not yet developed outcome measures that directly link to the mission of its Historically Underutilized Business Zone (HUBZone) program, nor has the agency implemented its plans to conduct an evaluation of the program based on variables tied to its goals.<sup>7</sup> We

---

<sup>6</sup>GAO, *Economic Development: Observations Regarding the Economic Development Administration's May 1998 Final Report on its Public Works Program*, [GAO/RCED-99-11R](#) (Washington, D.C.: Mar. 23, 1999) and GAO, *Economic Development Administration: Remediation Activities Account for a Small Percentage of Total Brownfield Grant Funding*, [GAO-06-7](#) (Washington, D.C.: Oct. 27, 2005).

<sup>7</sup>The purpose of the HUBZone program, established by the HUBZone Act of 1997, is to stimulate economic development in economically distressed communities (HUBZones) by providing federal contracting preferences to eligible small businesses. The types of areas in which HUBZones may be located are defined by law and consist of census tracts, nonmetropolitan counties, Indian reservations, redesignated areas (that is, census tracts or nonmetropolitan counties that no longer meet the criteria but remain eligible until after the release of the 2010 census data), and base closure areas.

---

reported in June 2008 that while SBA tracks a few performance measures, such as the number of small businesses approved to participate in the program, the measures do not directly link to the program's mission.<sup>8</sup> While SBA continues to agree that evaluating program outcomes is important, to date the agency has not yet committed resources for such an evaluation.

Without quality data on program outcomes, these agencies lack key information that could help them better manage their programs. In addition, such information could enable congressional decision makers and others to make decisions to better align resources, if necessary, and to identify opportunities for consolidating or eliminating some programs.

---

## Framework for Future Analysis

Currently, we are in the planning phase of a new, more in-depth review that will focus on a subset of these 80 programs, including a number of EDA programs. In our May 2011 report we compared the 80 programs by identifying the primary targeted recipient for each program, and in our work going forward we plan to further differentiate the programs. Effective assessment of duplication and overlap must be informed by an understanding of programs' goals and outcomes. To this end, in our future work we will identify the services that each program provides, program outcome measures, and collaborative procedures. In addition, we plan to explore alternate definitions for economic development, and update if necessary, the economic activities that are generally accepted as being directly related to economic development; evaluate how funds are used; identify additional opportunities for collaboration; determine and apply criteria for program consolidation; and assess how program performance is measured.

More generally, as the nation rises to meet the current fiscal challenges, we will continue to assist Congress and federal agencies in identifying actions needed to reduce duplication, overlap, and fragmentation; achieve cost savings; and enhance revenues. As part of current planning for our future annual reports, we are continuing to look at additional federal programs and activities to identify further instances of duplication,

---

<sup>8</sup>GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-643](#) (Washington, D.C.: June 17, 2008).

---

overlap, and fragmentation as well as other opportunities to reduce the cost of government operations and increase revenues to the government. We will be using an approach to ensure governmentwide coverage through our efforts by the time we issue our third report in fiscal year 2013. We plan to expand our work to more comprehensively examine areas where a mix of federal approaches is used, such as tax expenditures, direct spending, and federal loan programs. Likewise, we will continue to monitor developments in the areas we have already identified. Issues of duplication, overlap, and fragmentation will also be addressed in our routine audit work during the year as appropriate and summarized in our annual reports.

---

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

---

## Contacts and Staff Acknowledgments

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

---

# Related GAO Products

---

*Efficiency and Effectiveness of Fragmented Programs Are Unclear.* [GAO-11-477R](#). Washington, D.C.: May 19, 2011.

*Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue.* [GAO-11-318SP](#). Washington D.C.: March 1, 2011.

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

*Economic Development Administration: Remediation Activities Account for a Small Percentage of Total Brownfield Grant Funding.* [GAO-06-7](#). Washington, D.C.: October 27, 2005.

*Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities.* [GAO/RCED/GGD-00-220](#). Washington, D.C.: September 29, 2000.

*Economic Development: Observations Regarding the Economic Development Administration's May 1998 Final Report on Its Public Works Program.* [GAO/RCED-99-11R](#). Washington, D.C.: March 23, 1999.

---

---

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to [www.gao.gov](http://www.gao.gov) and select "E-mail Updates."

---

## Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Ralph Dawn, Managing Director, [dawnr@gao.gov](mailto:dawnr@gao.gov), (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, DC 20548

---

## Public Affairs

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548

