



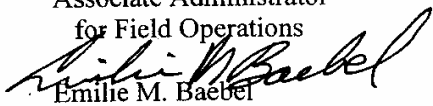
U.S. Small Business Administration
Washington, D.C. 20416

**OFFICE OF
INSPECTOR GENERAL**

May 13, 2003

TO: James E. Rivera
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FROM: 
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SUBJECT: **OIG Report on *The Microloan Program: Moving Toward Performance Management***

We are pleased to submit our report on ***The Microloan Program: Moving Toward Performance Management***. The Office of Inspector General reviewed: (1) the availability of data for determining the program's effectiveness and efficiency; (2) how program effectiveness should be defined; and (3) improvements that can provide the necessary effectiveness data and increase program value.

We found that, although program management has made, and continues to make, improvements in the Microloan Program, sufficient information has not been developed to effectively monitor results beyond microloan volume information. Reporting requirements are not always met by participants or enforced by program staff, and the microloan data which currently required focuses more on activities than accomplishments is not related to specific outcome-oriented annual and strategic goals. To demonstrate program effectiveness and increase efficiency, we recommended that program officials set program goals, improve the enforcement of reporting requirements, and use comparative cost data to determine participant viability. OIG recommendations also included, among others, the establishment of a role for the district offices in the marketing and oversight of the program, the development of a Standard Operating Procedure, an increase in the Intermediaries' per year microloan minimum requirement, an automated grant reporting process, and a periodic grant competition for the NTAPs.

We appreciate the excellent cooperation received from your staff and the field offices.

Attachment

**THE MICROLOAN PROGRAM:
MOVING TOWARD
PERFORMANCE MANAGEMENT**

May 13, 2003

Report No. 3-26

**Office of Inspector General
Inspection and Evaluation Division
U.S. Small Business Administration**

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EXECUTIVE SUMMARY

The Small Business Administration's (SBA) Microloan Program has not developed sufficient information to effectively monitor program results beyond microloan volume information. Although program improvements have been realized in the last five years, performance and oversight problems remain. In order to demonstrate the effectiveness of the program, program officials need to improve (1) enforcement of reporting requirements, and (2) systems to monitor, measure, and evaluate participant performance.

We focused on both the Intermediaries that make SBA microloans and receive grants to provide technical assistance to SBA microborrowers, and on the Non-lending Technical Assistance Providers (NTAPs) that receive grants to provide technical assistance to assist low income individuals in obtaining small amounts of private sector financing. Our research focused on exploring the Microloan Program's legislative history, reviewing the literature on microenterprise development and measurement, examining the program's Intermediary and NTAP files and production data, and conducting interviews. The latter included program officials and participants, other SBA Headquarters and district officials, experts in the microenterprise field, and officials from other similar Federal programs.

We found that the various technical assistance grant performance reporting requirements have resulted in multiple non-comparable formats; reporting requirements are not always met by participants or enforced by program staff; and reporting is often not timely. The result is data that is either not available or not readily useable for assessing effectiveness. Data on the individual microloans is often not timely.

Recommendation 1: That the Associate Administrator for Financial Assistance ensure that program staff consistently enforce all reporting requirements.

Past monitoring has not been sufficient to catch microloans made to clearly ineligible businesses or duplicate microloans. While significant technology improvements currently being made in the microloan database will assist loan monitoring, increased on-site marketing, oversight, and assistance to program participants is needed. Several Intermediaries have low microloan volume and some NTAPs have not obtained private sector loans for their clients. There are Intermediaries in almost every SBA district, but SBA district office roles in Microloan Program monitoring and marketing are not clearly defined and vary significantly. A greater level of involvement by the district offices will require (1) goal incentives, and (2) timely and accurate data from program participants.

Recommendation 2: That the Associate Administrator for Financial Assistance work with the Associate Administrator for Field Operations to establish a task force to develop a system, including incentives, for district office marketing and oversight of the Microloan Program.

There is no Microloan Program Standard Operating Procedure (SOP). Program staff and participants must rely on other official documents that have various shortcomings. Also, because program policy statements are primarily transmitted by letters and memos, no official Agency record of all transmissions is readily available to Headquarters and district offices staff.

Recommendation 3A: That the Associate Administrator for Financial Assistance ensure the development of a comprehensive Microloan Program SOP and a systematic approach for the official dissemination of guidance and information that can be routinely revised or updated as appropriate.

Recommendation 3B: That the Associate Administrator for Financial Assistance ensure that Intermediaries are advised immediately in an official notice of SBA eligibility requirements and are required to refinance with non-SBA funds any microloans made to ineligible businesses.

Although the data items currently required on individual microloans made by Intermediaries are generally adequate and appropriate, they are focused more on activities than accomplishments and are not related to specific outcome-oriented annual and strategic goals. For example, with the approval of a microloan, an estimate is made by the individual borrower of the number of jobs to be created or retained. There is no additional reporting when the microloan is repaid as to whether the business is still in operation. Additional data gathering should take into account (1) the current Federal e-grant initiative which will eventually encompass performance reporting, (2) the limited in-house data gathering capacity of most program participants, and (3) the statutory microloan-making objective of the Microloan Program. This report provides a brief framework for intermediate outcome data.

Recommendation 4: That the Associate Administrator for Financial Assistance ensure that program goals are set and outcome-oriented data, such as information on business status at the time the microloan is paid in full or written off and other data related to the program's legislative and SBA's strategic objectives, is required of all program participants.

The minimum microloan standards recently developed for program participants have improved the potential for program effectiveness. The current minimum performance standard that Intermediaries make at least four microloans per year is not adequate, however. Intermediaries are required to be experienced microlenders. SBA should reasonably expect more than four microloans a year.

Recommendation 5: That the Associate Administrator for Financial Assistance ensure that the current microloan production minimum for Intermediaries is raised.

The program's technical assistance grant performance data is not reported electronically. The variety of data provided by grantees and the varying paper formats impede the evaluation of their effectiveness. Quantitative data should be reported electronically in a standardized template. Based on the program's legislative objective, our report recommends the minimum statistics that should be required, including the number of microloans resulting from the technical assistance.

Recommendation 6: That the Associate Administrator for Financial Assistance ensure that the NTAP grant reporting process is automated with a standardized template for quantitative data and that data to support the program's legislative objective is required.

The last NTAP was approved for program participation in 1994. They remain in the program indefinitely or until they decide to leave or SBA requests that they leave based on poor performance. The continuous funding of NTAPs is not inherent in the statute and gives the appearance of an entitlement. Providing grants for a specified time period and requiring reapplications would allow for the entry of new grantees and greater creativity.

Recommendation 7: That the Associate Administrator for Financial Assistance ensure the establishment of an NTAP competition process for a one year award with a predetermined number of option years beginning no later than one year after the publication of this report.

Cost data is not currently being used to help manage the Microloan Program. Some cost data is available for Intermediaries. However, grant expenditures for prior years are not reliable. With the microloan information NTAPs are now to provide and improved monitoring of the microloan database, comparative costs should be evaluated. Over time, the trends should be used to help determine program participant viability.

Recommendation 8: That the Associate Administrator for Financial Assistance ensure that the Microloan Program develops and uses comparative cost data.

Outcome or impact data that shows the Microloan Program's long-term benefits is not available. In the light of the program's legislative emphasis on the *provision of microloans for small businesses*, it is useful to define SBA's outcome as sustainability—that is, whether the business created or otherwise assisted is able to remain viable over time. Income growth and job creation are also reasonable outcomes. First, however, program officials must begin to move toward performance management by collecting and monitoring the intermediate outcomes that are believed to lead to sustainability and increased employment. This includes tracking business status at the time of microloan repayment. To obtain long-term outcome and impact information, it will most likely be necessary to increase program resources.

Recommendation 9: That the Associate Administrator for Financial Assistance ensure that program staff encourage individual program participants, as their resources permit, to collect outcome measures that especially focus on business sustainability and job creation over the long term.

Finally, in the light of diminishing program resources and an apparent willingness on the part of some banks to make SBA loans as small as \$5,000, to simplify the program and reduce workload costs, we have suggested some alternative program models for consideration by the SBA Administrator. These include making technical assistance loans, developing technical assistance contracts, and relocating NTAP responsibility to the Office of Entrepreneurial Development (ED).

AGENCY COMMENTS AND OIG RESPONSE

The Office of Financial Assistance (OFA) has provided extensive comments on selected segments of the wording in the report and on a number of the conclusions. We have given full consideration to OFA's comments as well as those of the Office of Field Operations (OFO) and

the Office of Entrepreneurial Development (ED). While OIG appreciates OFA's comments, we believe our wording and conclusions remain valid. We acknowledge that, as OFA comments, many program improvements have been made and continue to be made, but there is clearly room for improvement. We have incorporated those technical corrections that are both appropriate and accurate.

Regarding our first Recommendation to enforce consistently all reporting requirements, program officials believe the recently begun enforcement of newly implemented minimum performance standards will greatly assist in reporting compliance and timeliness by program participants. The grant reporting we reviewed, however, has always been required by Circular A-110, Uniform Administrative Requirements for Grants and Agreements of Higher Education, Hospitals. This document requires adherence with the terms of the award which include the reporting requirements.

In response to Recommendation 2, OFA states that demographic data currently being gathered is consistent with the enabling statute and does not agree that business status data when the microloan is repaid should be collected. This does not appear to be a burdensome measure, especially in light of Section 7(m)(1)(A)(i) of the Small Business Act which specifically addresses assistance to "individuals possessing the capability to operate *successful* [emphasis added] business concerns." OIG has not "redefined" program success as suggested. Moreover, we agree with OMB that performance management requires that programs move toward developing outcome measures.

Regarding OFA's response to Recommendation 8, OIG found no evidence that cost data over time is being used to assess program participant viability. We did find evidence that, until recently, program officials did not have the verifiable data on the amounts grantees had spent on technical assistance that is needed to assess trends and make cost comparisons.

Regarding Recommendation 9 to encourage Intermediaries to gather long-term data on borrower success and actual numbers (as opposed to the currently used estimates) of jobs created/retained, OIG understands that resources are tight. Nevertheless, a number of Intermediaries are members of the Aspen Institute's MicroTest and are already collecting this information. If shared, this information could be used by Microloan Program management to assist in determining the impact of the program. While the OIG report refers to the Institute's studies on the performance of the microenterprise industry, those studies tend to focus on the industry as a whole rather than on individual practitioners or programs. SBA needs to begin to address the Microloan Program's outcomes. The announcement for the joint SBA/Department of Labor "Project Gate" was published in April 2003. OIG looks forward to reviewing the refinement and implementation of this 5-year project, the last phase of which will be some type of study of technical assistance.

OIG notes that while we sampled the files and production data of the Intermediaries, we reviewed the files and production data of all of the then current NTAPs.

While the number of microloans made to ineligible businesses was less than one percent, in fact, those loans were not identified by the program office even though concentrated with one particular Intermediary. Until OIG located the ineligible and duplicate microloans, the

program's data scrubbing was limited to blank data fields and invalid data entries. This type of scrubbing would not have caught microloans made to ineligible businesses or duplicate microloans. OIG hopes that this inspection report will result in greater scrutiny of microloans. As noted in this report, we believe that the new electronic reporting system for microloans now in development will assist in resolving some data and reporting problems.

Regarding Intermediaries' incomplete grant reporting, OFA believes that the reporting requirements are being met but may have been overlooked because some of this information is collected electronically and some on paper. OIG found that the grant data collected electronically is only the number of pre-loan technical assistance hours. All other grant reporting is on paper. For the Intermediaries OIG reviewed, the grant reporting on paper was often incomplete. In addition, we note that OIG discussed only the lack of narrative discussions accompanying the required "quarterly" Financial Status reports—not periodic requests for reimbursements as OFA indicates. Given the reporting deficiencies in the technical assistance grant program, we are pleased that as of FY 2003 one year grants with defined option years will be awarded to NTAPs.

OFO generally agrees with the report and comments made by other program offices and reports that Microloan Program goal incentives for the district offices have been instituted by the Goals Committee.

Without making a specific recommendation, OIG suggested that the NTAP program be transferred to ED. ED responded that because of several reasons, including current limitations on microloan technical assistance funding, the NTAP program should remain in OFA.

We look forward to working with the program office through the followup process and implementation of the report's recommendations which, we believe, will assist in demonstrating program effectiveness and efficiency.

PURPOSE

The initial purpose of this inspection was to evaluate the effectiveness of the SBA's Microloan Program and whether the program was achieving its legislative objective. We soon determined that, except for microloan volume information from Intermediaries, data for assessing program effectiveness was either lacking or not in a readily useable form. Consequently, the focus shifted to: (1) the availability of data for determining effectiveness; (2) how program effectiveness should be defined; and (3) improvements that can provide the necessary effectiveness data and increase program value.

BACKGROUND

SBA entered the microenterprise field in FY 1992 with the Microloan Demonstration Program.¹ Created by Congress to address an underserved niche, the program assists women, low-income individuals, minorities, and other small businesses that need small amounts of financial assistance. Under Section 7(m) of the Small Business Act, as amended (15 USC 636(m)),² SBA makes direct loans of up to \$750,000 to Intermediaries (nonprofit, community-based lenders) that use the funds to make microloans (\$35,000 and under) to eligible borrowers—entrepreneurs that are traditionally considered “unbankable” by commercial banks largely due to a lack of prior business experience, credit, and/or assets.

The Microloan Program also awards technical assistance grants to Intermediaries and to Non-lending Technical Assistance Providers (NTAPs). Grant funds are meant to provide marketing, management and technical assistance to the program's target population for the purpose of obtaining microloans. Experts in the microenterprise field believe that technical assistance is just as important, if not more, as access to capital. Microentrepreneurs require technical assistance because of the complexity and sophistication of the U.S. business environment. Starting and running a business in the U.S. requires skill, financing *and* knowledge about taxes, licenses, codes, regulations, marketing, bookkeeping and other complex aspects of business. Potential microentrepreneurs rarely possess this knowledge, and without technical assistance, many microborrowers would, in all probability, default on their microloans. Thus, microenterprise development practitioners believe that technical assistance is a risk-reduction strategy that is essential for program and microborrower success.³

¹ The literature dealing with microloan effectiveness deals primarily with its effectiveness for microenterprise development. SBA's Microloan Program, however, directs microloans not only to microenterprises but to any small business that needs a loan of \$35,000 or less. However, the average number of jobs created or retained by SBA's microborrowers is estimated at 2.8. This fits the standard definition of a microenterprise: a business with 5 or fewer employees with little working capital.

² Public Law (P.L.) 103-403.

³ Technical assistance proved to be so vital to microenterprise that a new program was implemented in FY 2002. Through grants, the Program for Investment in Microentrepreneurs (PRIME) allows microenterprise programs to fund (1) training and technical assistance for disadvantaged entrepreneurs, (2) organizational capacity-building to give training and technical assistance, and (3) best practices research. No funding was requested for PRIME in FY 2003 because the Administration believes that it “mirrors the existing Microloan technical assistance program,” and the Administration “cannot justify funding two nearly identical programs.” U.S. Senate. Committee on Small Business and Entrepreneurship. *The SBA Fiscal Year 2003 and Other Matters* Hearing, 27 February 2002.

The Microloan Demonstration Program began as a pilot program in FY 1992.⁴ The Microenterprise Development Branch of the Office of Financial Assistance in SBA's Office of Capital Access manages the program. In its first year, the program gave 37 awards: 35 to Intermediaries and 2 to NTAPs. In December 1997, the program became permanent. Ten years after the program's inception there are over 160 Intermediaries, found in almost every state, and 15 NTAPs. This growth has occurred despite some difficulties in recruiting new Intermediaries and NTAPs. For example, microenterprise development programs, especially those in rural areas, are reluctant to join because they believe that microlending is too costly and risky.

Currently, due to budget cuts in technical assistance funding, the Microloan Program is not accepting applications from new NTAPs, and technical assistance funding to new Intermediaries is limited. The program's declining technical assistance funding level over the last four years is one of the reasons why the program has not reached its authorized funding level of 300 Intermediaries and 55 NTAPs.

MICROLOAN PROGRAM REQUESTS AND APPROPRIATIONS				
	Request (M)		Actual (M)	
	Loan	TA	Loan	TA
FY 2000	\$60.0	\$32.0	\$27.204	\$19.243
FY 2001	\$60.0	\$45.0	\$29.810	\$18.385
FY 2002	\$20.575	\$20.0	\$16.460	\$17.742
FY 2003	\$26.553	\$17.5	\$31.0	\$15.0
FY 2004	\$20.0	\$15.0	-	-

FIGURE 1

In February 2002, the Senate Small Business and Entrepreneurship Committee held a hearing on the FY 2003 SBA budget. Regarding the Microloan Program, the Chairman stated that the request was 73.5 percent less than the authorized level. He continued: "The other problem with this request is that you slightly increase funding for microloans but then cut the complementary technical assistance, which is essential to the program's good loan performance. The technical assistance was inadequate at last year's level, so lowering it for this year lacks common sense."⁵ The testimony of several microenterprise development representatives at the hearing supported the Chairman's view. The FY 2004 budget request for both loans and technical assistance was less than the FY 2003 request. According to program officials, since FY 1992 more than \$203 million has been loaned under the Microloan Program to more than 17,400 entrepreneurs, with an average microloan size of \$11,600. Agency losses on loans to intermediary lenders account for less than 1% of all dollars loaned by SBA to Intermediaries since 1992

⁴ In 1996, an amendment to the Microloan Program's original legislation authorized a loan guaranty pilot program that offered private sector lenders a 100 percent guaranty on loans to Intermediaries. Twenty-five guaranty loans were approved, but the program has not been successful. The structure of a guaranty loan (costs, bureaucratic tape, no repayments during the loan's first year) is not attractive to banks or to Intermediaries. Thus, this type of loan is no longer being funded.

⁵ U.S. Senate Committee on Small Business and Entrepreneurship. *The SBA Fiscal Year 2003 and Other Matters Hearing, 27 February 2002*, p. 6.

SCOPE AND METHODOLOGY

Our research focused primarily on exploring the Microloan Program's legislative history, reviewing the literature on microenterprise development and measurement, examining the program's Intermediary and NTAP files and production data, and conducting interviews. While we reviewed the program files of all 19 of the then current NTAPs,⁶ we reviewed a judgmental sample of 12 Intermediary program files. Nine Intermediary files were chosen by participant size (large, medium and small) and geographic location from those considered by program officials to be highly effective. To insure that the top FY 2001 producers in each of the program's major measurement categories were represented, the files of three additional Intermediaries were chosen for review. Two other Intermediaries had been interviewed at the inception of our research for background information. We interviewed nine of the 12 Intermediaries and three of the 19 NTAPs.

In SBA we spoke with Microloan Program officials as well as officials from the Office of Field Operations, the Office of Procurement and Grants Management, Legal Counsel, Business LINC, the Office of the Chief Information Officer, and the Office of Women's Business Ownership. We also interviewed SBA officials from seven districts in which Intermediaries or NTAPs we interviewed were located.

Outside of SBA, our interviewees included officials and/or staff of the Aspen Institute's Economic Opportunities Program,⁷ the Association for Enterprise Opportunity (AEO),⁸ the National Association of SBA Microloan Intermediaries (NASMI),⁹ the Office of Management and Budget, the Agency for International Development, the Community Development Financial Fund (CDFI) at the Department of the Treasury, and the Job Opportunities for Low Income Individuals (JOLI) at the Department of Health and Human Services.

All work on this inspection was conducted in accordance with the Quality Standards for Inspections issued in March 1993 by the President's Council on Integrity and Efficiency.

⁶ By the end of CY 2002, there were only 15 NTAPs.

⁷ The Aspen Institute's Economic Opportunities Program advances strategies that give the poor and the underemployed access to the mainstream economy.

⁸ The AEO is a national, non-profit organization that supports the development of microenterprise practices in the U.S.

⁹ NASMI was created to give SBA Intermediaries a single voice for speaking with the SBA and Congress.

SBA MICROLOANS: INTERMEDIARIES

Becoming an Intermediary

To be considered eligible to become an SBA Intermediary, an organization must have non-profit status and at least one year of experience in making and servicing short-term fixed rate microloans to start-up or existing small businesses as well as in providing technical assistance to clients. Intermediary applications are underwritten for financial capacity and portfolio management capability by program financial analysts and verified by the Microenterprise Development Branch Chief. In selecting Intermediaries, SBA is to ensure that microloans are available to small businesses in all industries and in urban and rural areas.¹⁰

An Intermediary loan may not exceed more than \$750,000. However, an Intermediary may have multiple loans from SBA as long as its total obligation does not exceed \$3.5 million. Interest begins to accrue from the date the loan closes, but payments are not required until the thirteenth month. Interest rates on SBA loans to Intermediaries vary over the life of the loans.¹¹ However, a concern voiced by some Intermediaries was that SBA's interest rates are high as compared with the interest rates of some other funding sources. All loan funds must be drawn down within two years of disbursement, and the loan must be repaid within ten years.

As a condition of an SBA loan, an Intermediary must contribute at least 15 percent of the loan amount from non-borrowed, non-Federal sources. This cash amount must be deposited in the Intermediary's Microloan Revolving Fund (MRF), an interest-bearing deposit account that also holds an Intermediary's SBA loan as well as payments from microborrowers. Permissible withdrawals include proceeds for microloans, payments made to SBA, and proceeds to establish the Loan Loss Reserve Fund (LLRF), an interest-bearing deposit account used to cover any shortage in the MRF due to microloan delinquencies and defaults. An Intermediary's LLRF must equal 15 percent of its microloan portfolio's outstanding balance and must be maintained until the Intermediary has repaid its SBA loan in full. An Intermediary's LLRF, MRF, and all microloan notes are pledged to SBA as collateral.

The Small Business Act states that all Intermediaries are eligible to receive technical assistance grants from SBA. SBA requires Intermediaries to provide technical assistance and training to microborrowers; these grants help defray the cost of Intermediaries' training efforts.¹² Grant funding will be discussed in the technical assistance section.

¹⁰ Specialized Intermediaries are Intermediaries that maintain a portfolio of microloans averaging \$10,000 or less in their first year in the program. Specialized Intermediaries qualify for more favorable interest rates on their SBA loans and for a greater amount of technical assistance grant funding. After the first year, a Specialized Intermediary's qualifications will be analyzed annually.

¹¹ SBA uses the 5-year Treasury Bill rate as the base for all calculations on Intermediaries' loans. During the first year, an Intermediary automatically receives a 2 percent buy down from the base rate. After the first year, SBA charges interest based on the performance of an Intermediary's portfolio. The rate is reviewed each year and the buydown may change as the portfolio fluctuates.

¹² "An Intermediary may charge up to \$100 per year to a microborrower for services rendered, whether for training, loan administration, or counseling costs." *"Nuts and Bolts" Loan Administration Guide for SBA Microloan Program Intermediary Lenders*, p. 10.

Becoming a Microborrower

Intermediaries implement SBA's Microloan Program in many different ways. They tailor the program to meet the needs of their local contexts and find success in a variety of approaches.

Microborrowers must meet SBA eligibility requirements as well as the eligibility requirements of the individual Intermediary. In interviews with Intermediaries, we found that their requirements vary considerably. For example, to qualify as a microborrower with one Intermediary, the applicant must have a low to moderate income, a sound business plan, a good character, and a co-signer or collateral. Technical assistance is only necessary if the applicant is having problems writing a business plan or filling out the microloan application. Another Intermediary requires a minimum of two years worth of tax returns, a personal financial statement, a good credit history, and a complete business plan (for start-ups only). Technical assistance is one-on-one and individualized to fit the client's needs. A third Intermediary utilizes a credit report check to determine whether a borrower will be allowed to complete a full loan application. Technical assistance revolves around one-on-one counseling and seminars as needed. That Intermediary's staff believes that forcing microborrowers to attend training only leads to a high dropout rate and a low microloan volume.

Although there are variations regarding the style and type of technical assistance provided, SBA recognizes two basic lending models—individual and peer. Which model is utilized depends on the local circumstances and client experiences. The majority of Intermediaries interviewed follow the individual lending model. Only one of the interviewees used peer lending. In that case, to be eligible for a microloan, a client must join a six-week, peer, business loan group. During the six weeks, group members receive technical assistance, complete business plans, and fill out loan applications, which the peer group reviews. Because they have spent six weeks training together, peer group members know and trust each other; therefore, almost all complete loan applications are approved. A client's first microloan cannot exceed \$1,000, and the peer group acts as the collateral—group members, through peer pressure, ensure that microloans remain current. If the first microloan is paid off successfully, a client can move on to the second level and borrow up to \$5,000. Success in the second level can lead to larger microloans.

Reporting Requirements

Microloan reporting requirements for Intermediaries are found in "Nuts and Bolts:" Loan Administration Guide for SBA Microloan Program Intermediary Lenders. They include a MRF/LLRF Status Report, which illustrates quarterly account activity and must be supported by bank/account statements, and a Portfolio Status Report, which is an aging report that shows the status (i.e., repayment, delinquency, default, charge off, and recovery) of each microloan. These two reports must be submitted to SBA quarterly. The remaining microloan reporting requirement is the Portfolio Identification Report that must be filed electronically with SBA within seven days of a microloan's closing. The report provides identifying, demographic, and loan specific information for each microloan made.

Intermediaries must also provide grant reports in accordance with the terms of OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements of Higher Education,

Hospitals, and other Non-Profit Organizations, and the Notice of Award (NOA). There are two quarterly grant reports: a Financial Status Report (SF 269) and a Technical Assistance (TA) Narrative Report. These reports will be discussed in the technical assistance section of this paper. All quarterly reports are due within thirty days of the end of each quarter. The only annual report, an Audited Financial Statement, is due within two weeks of its completion or as close as possible to March 15 of each year.

As a minimum performance standard, Intermediaries are expected to fulfill all reporting requirements.¹³ Of the twelve Intermediaries whose files we reviewed, all consistently turned in their quarterly MRF/LLRF Status Reports and quarterly Portfolio Status Reports in the past two years. Since 1999, Intermediaries have filed Portfolio Identification Reports electronically. SBA uses these reports to track an Intermediary's microloan production. Our research indicated that failure to file Portfolio Identification Reports on time is a common occurrence.

Regarding the annual Audited Financial Statement, as of the end of FY 2002, only half of the Intermediaries whose files we reviewed had provided the program office with their 2001 Statements. An Intermediary that has been in the program since 1995 has never turned in an Audited Financial Statement, although the program office has repeatedly called to remind them of the requirement.

We were told that when an Intermediary's reporting and/or performance is not satisfactory, SBA program staff contact the Intermediary. If problems continue, SBA can impose a monthly reporting calendar for the Intermediary. Out of the twelve Intermediaries whose files we reviewed, one was required to report on a monthly basis in 1996 because its default rate was close to 15 percent and another was required to report monthly in 1998 because its default rate was over 40 percent. Both Intermediaries improved their performance and remain in the program. Program officials stated that they work with a struggling Intermediary as long as possible, but if an Intermediary does not improve, it can be suspended from the program. The context in which an Intermediary operates is considered in determining actions to be taken.

Data Quality and Monitoring

Although not stated in the "Nuts and Bolts" guide, microloans must meet SBA's 7(a) eligibility requirements. In a limited review of the Intermediaries' electronic Portfolio ID reports for the last three fiscal years, we discovered a number of microloans had been provided to ineligible businesses; some of them had been in the system for over a year. There were also numerous duplicate microloans that had been entered into the system by both Intermediary staff and SBA Microloan Program staff. While less than 1% of the records were duplicates, some of them had been in the system for over two years. According to program officials and staff, the workload in the past has been too heavy for detailed data quality monitoring.¹⁴ Providing microloans to

¹³ Our file research focused on performance standards, measurement, and monitoring as they pertain to non-financial performance standards and reporting, such as the minimum loan per year requirement and narrative performance reporting. Nevertheless, we did review whether financial reports were generally provided to SBA in a timely manner.

¹⁴ One OIG staff person was able to review the FY 2002 microloan borrower data (over 2500 borrower profiles) for duplicate entries in two and a half hours.

ineligible businesses limits the funding available for eligible microloans. The presence of duplicate microloans in the database impairs the reliability of data used in determining Intermediary effectiveness. However, the new Microloan Program Electronic Reporting System currently being developed will allow program staff to easily spot duplicate microloan entries.

Minimum Performance Standards

Because both Intermediaries and NTAPs were lax in their reporting and, in some cases, performance, in September 2001, minimum requirements were established in 13 Code of Federal Regulations (CFR) Ch.1, §120.716. For Intermediaries, the minimum requirements are now:

- Service assigned territory by closing at least four microloans per year and providing technical assistance to potential and actual microborrowers¹⁵
- Manage program funds in a financially sound manner
- Maintain a currency rate of at least 85 percent and a default rate of less than 15 percent
- Fulfill all reporting requirements

SBA tracks Intermediaries' microloan production through the electronic Portfolio Identification Reports. The last official day to report a microloan made in a fiscal year is October 7. As of October 8, 2002, 30 Intermediaries reported closing between zero and three microloans, thus failing to meet the minimum program performance standard in FY 2002. Out of these 30 Intermediaries, 15 have a weak performance history: four have closed less than four microloans in the past four fiscal years; five have closed less than four microloans in at least three of the past four fiscal years; six have closed less than four microloans in the past two fiscal years. According to program officials, all Intermediaries that failed to close four microloans during FY 2002 have been denied grant funding for FY 2003.

Further, many Intermediaries do not file their Portfolio Identification Reports within seven days of a microloan's closing. As of October 8, 2002, 150 Intermediaries out of over 160 had filed reports. As of October 22, 2002, 152 Intermediaries had reports in the database, and 18 had filed additional reports. One Intermediary added 38 reports.

Intermediaries that did not meet the minimum performance standard of four microloans in FY 2002 are not eligible to receive technical assistance funding in FY 2003. If weak loan production or reporting continues, Intermediaries can be suspended from the program. Because the first year for complying with the minimums was FY 2002, the impact of their enforcement is not yet clear.

Database Issues

Initially, all Microloan Program reporting was paper-based. In 1999 SBA began to require electronic reporting of microloan data by the Intermediaries. While the database contains a substantial amount of microloan information, its considerable limitations have made it inadequate for evaluation purposes. First, in the past SBA has not required that all of the

¹⁵ Program officials stated that the loan minimum performance standard had been in draft since 1995/1996, when a determination was made that one loan per quarter would be the lowest common denominator for all Intermediaries.

information be provided electronically or that it necessarily be kept up-to-date. Second, the aggregate data that can currently be drawn from the database has been limited primarily to microloan volume information—for example, jobs created, and ethnicity. Although there is a field for loan status in the database, SBA has not required that lenders keep this information up-to-date electronically. Instead, loan status information must be provided quarterly on paper.

In FY 2002 program officials began working with the Office of the Chief Information Officer to redesign the Microloan Program Electronic Reporting System to provide an enhanced and more user-friendly microloan reporting and monitoring system. Features of the redesigned system include monthly snapshots of an Intermediary's portfolio status and flagging Intermediaries that do not update their portfolio status every thirty days. There is also a summary snapshot that will compare the current portfolio with the previous portfolio snapshot and provide an Intermediary's overall default rate. OIG staff attended several demonstrations of the redesigned system and believe that it will greatly improve the program staff's monitoring and analytical efforts.

MICROLOAN TECHNICAL ASSISTANCE: NTAPS AND INTERMEDIARIES

Becoming a Technical Assistance Provider

Intermediaries: Section 7(m)(1)(A)(iii)(II) of the Small Business Act, as amended, states that one of the purposes of the Microloan Program is “to make grants available to eligible intermediaries that, together with non-Federal matching funds, will enable such intermediaries to provide intensive marketing, management and technical assistance to microloan borrowers.” Section 7(m)(4)(A) indicates that “each intermediary that receives a loan...shall be eligible to receive a grant” and caps the grant amount at “not more than 25 percent of the total outstanding balance” of SBA loans made to the Intermediary. From non-Federal sources, the Intermediary must also contribute an amount (in cash or in kind) equal to 25 percent of the SBA grant. There are several limitations on the use of the grant funds, as well as exceptions to contribution requirements.¹⁶

No more than 25 percent of an Intermediary’s technical assistance grant may be used to provide pre-loan technical assistance. The remaining funds are to be used for post-loan assistance or to procure technical assistance for an Intermediary for skills improvement, such as to attend an SBA-sponsored training conference.¹⁷

NTAPs: Any non-profit entity that is not an Intermediary may apply for a Microloan Program grant to provide marketing, management and technical assistance to low income individuals for the purpose of assisting them in obtaining private sector financing in amounts of \$35,000 or less.¹⁸ NTAPs must contribute from non-Federal sources an amount equal to 20 percent of the grant. An NTAP may provide direct microloans with funding they receive from elsewhere, or they may work with local banks that offer loans to microborrowers.

An application and evaluation process is used to admit NTAPs. A NOA establishes the terms and conditions of the grant for both NTAPs and Intermediaries. SBA is authorized up to 55 NTAPs. Although at one point, there were as many as 25 NTAPs, there are currently only 15.

Becoming a Technical Assistance Client

The Aspen Institute’s five-year “Self-Employment Learning Project” found that microentrepreneurs receiving technical assistance and training had highly favorable outcomes in household and business income and assets, as well as reduced reliance on Federal benefits.¹⁹ The training needed—especially for low income individuals—is often very basic business knowledge, such as how to open a bank account.

There is no single model for technical assistance. SBA recognizes four general categories:

¹⁶ There is an exception to the contribution requirement for Intermediaries making at least 50 percent of their loans to small businesses located in or owned by residents of economically distressed areas.

¹⁷ The last Microloan Training Conference was held in FY 2001. OFA is developing a Request for Proposals for the next training conference.

¹⁸ An SBA Small Business Development Center (SBDC) may be an NTAP.

¹⁹ Aspen Institute, “Microenterprise and the Poor: Findings From the Self-Employment Learning Project Five Year Survey of Microentrepreneurs,” 1999.

individual counseling, classroom style training, peer group training, and sectoral-based networking.²⁰ We found that Microloan Program participants utilize general and specialized courses provided to groups, individual technical assistance, and peer group training. With some participants, individual client consultations may be ad hoc and/or training voluntary. Other participants make consultations and/or training a requirement for microloan approval. The development of business plans is typically a part of the technical assistance provided, and many clients need help in developing loan applications. Often, microentrepreneurs require post-loan assistance, such as accounting, tax or legal services, or preparing financial statements.

Reporting Requirements

Technical assistance reporting is paper-based—not electronic. Reporting requirements for grantees are subject to the general requirements of Circular A-110, and the specifics of SBA’s NOA. Grants to Intermediaries are also subject to the reporting requirements of the Microloan Program’s “Nuts and Bolts” guide. Of the required grant performance reports, our review focused on the timely submission of an annual plan for the provision of technical assistance and training to microborrowers and prospective microborrowers as part of the budget submission and on quarterly TA narrative reports (performance reports), which relate accomplishments to established goals. (See Appendix A for a comparison of the grant performance reporting requirements.)

The NOA requires that grantees submit annual plans for the provision of technical assistance to microborrowers with their budget submissions. Based on our review of the files of 12 Intermediary grantees and all 19 FY 2001 NTAPs, this requirement is apparently often interpreted as a plan for grant funding expenditures on the goods and services needed to provide technical assistance (salaries, contracts, supplies, travel, etc.) as opposed to linking expenditures to the results expected from the technical assistance provided. Yet the NOA, Circular A-110, and “Nuts and Bolts” guide performance requirements for comparisons with estimated goals or milestones—discussed below—reinforce an interpretation that a plan for linking expenditures to the results of the technical assistance is required.²¹ We found some old NTAP plans (from the 1990s) but only one current NTAP annual plan. Broadly interpreting a plan as setting goals, only half of the 12 Intermediaries whose files we reviewed currently provide goals in their reporting—and those that do tend to provide them only at the time they indicate in their quarterly reports whether they were met.

²⁰ The Aspen Institute has defined the difficult distinction between training and technical assistance as follows. Training is associated with groups of clients while technical assistance is typically offered to individuals. “Fostering Entrepreneurship through Training and Technical Assistance,” Microenterprise Fact Sheet Series, Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination, Aspen Institute in collaboration with the Association for Enterprise Opportunity, Fall 2000, p. 4.

²¹ The NOA requires a comparison of accomplishments with the estimated milestones established for the reporting period, reasons for slippages where milestones are not met, and a plan of action to overcome the slippages. Circular A-110 calls for comparisons of accomplishments with the goals and objectives established for the reporting period and reasons why established goals were not met. The Microloan Program guide, “Nuts and Bolts: Loan Administration Guide for SBA Microloan Program Intermediary Lenders,” asks for a comparison of accomplishments with goals established at the beginning of the quarter and year-to-date, reasons for slippage when milestones are not met, and a plan of action to overcome the slippage.

The NOA provides limited guidance on performance reporting requirements. Nevertheless, it states that quarterly TA narrative reports are to include: a comparison of actual accomplishments to the estimated milestones established for the period; reasons for slippages in those cases where the milestones were not met; a plan of action to overcome those slippages; and other pertinent information, including significant accomplishments.

The “Nuts and Bolts” guide provides for additional technical assistance grant reporting for Intermediaries, including quarterly, year-to-date and annual comparisons of goals and accomplishments. Other requirements include the number of microloans made and the number of technical assistance hours spent on each microloan; a description of the type of technical assistance provided to each microborrower; and a narrative discussion of program effectiveness, Intermediary and microborrower accomplishments, and difficulties encountered. Much of this detail is not regularly reported by all Intermediaries. Even when grantees discuss goals, they do not necessarily make the required comparisons. Although the Intermediaries we reviewed generally described the types of technical assistance provided, the majority failed to note the total number of post-loan technical assistance hours spent on each microloan. Nearly all Intermediaries we reviewed included in their reports a narrative discussion of program effectiveness, Intermediary and borrower accomplishments, and difficulties encountered. Even when all of the requested information is provided, the reporting formats vary significantly. While some submit easily readable tables of statistics with their narratives, others have their statistics buried in narratives.

While due within 30 days of the end of a quarter, the TA narrative reports from both the NTAPs and the Intermediaries we reviewed were often late and often did not contain all the reporting requirements. One Intermediary submitted all of its 2001 and 2002 (to date) reports in June 2002. Some grantees only submit TA narrative reports when they send in a request for reimbursement. Often many telephone calls have to be made to receive the required data. While a grantee may sometimes submit an annual report as well as quarterly reports, another grantee may substitute six-month or annual reports for quarterly reports. We were told that, as of FY 2001, the program office has refused payment of reimbursements to participants that are delinquent in their reporting.

In addition to technical assistance performance reporting, grant reporting requires the submission of a quarterly Financial Status Report (SF 269). The report provides an accounting of the participant’s grant expenses, reimbursements, and remaining available balance. It must be accompanied by a narrative discussion of actual expenditures vs. budgeted expenditures. In FY 2001 and FY 2002, several of the grant files we reviewed did not support their reports with narrative discussions.

Although SBA’s Microloan Program staff maintain checklists indicating whether the required performance and financial reports are submitted, there is no checklist that indicates whether the performance reports contain the required information. Of the grant files we reviewed, while some very good reporting is being done, few—either Intermediary or NTAP—consistently adhered to the performance reporting requirements. Although reports may be returned because they are incomplete, we did not find a clear record of penalties imposed for missing or late reports.

Because the technical assistance grant reporting formats are so varied and are also submitted only on paper, the reports are often difficult to follow. Based on the grantee reporting that is received, program officials cannot—with available resources—adequately judge microloan technical assistance effectiveness.

Minimum Performance Standards

Recognizing the weaknesses in NTAP reporting and the lack of information on whether the NTAPs were meeting the program's microloan providing objective, in FY 2002, program officials established minimum performance standards for NTAPs in the regulations.²² For every 30 clients for whom SBA technical assistance is provided, an NTAP must show that one client received a private sector microloan. According to program officials, documentation will be required as evidence. Failure to fulfill the minimum standards or to fulfill reporting requirements can now, under the new regulations, result in suspension.

Funding

Over the years, Congress has significantly increased the authorization levels for the numbers of Intermediaries and NTAPs and the maximum NTAP grant from \$125,000 to \$200,000. Nevertheless, for FY 2002 SBA's microloan technical assistance appropriation was cut 12.5 percent over the previous year; NTAPs could receive only \$120,000 grants. Grants to regular Intermediaries were calculated at 15 percent of debt to SBA, as opposed to 25 percent in the past.²³ Program officials believe that, while Intermediary lending would not suffer if the calculation were reduced to 20 percent, 15 percent places the program at risk. One former Intermediary told us they recently left the program primarily because the technical assistance funding was insufficient.

Because technical assistance is considered essential to microlending, the appropriations cut translated into unused loan funding for Intermediaries. Most loan funding was used for existing programming. However, priority was given to applications from areas where there were no microlenders. According to program officials, in FY 2002 about \$11 or \$12 million in loans were approved, with \$9 million unused. While some of the funding included program participant dropouts and recoveries, most of the unused funding resulted from the technical assistance grant cut.

After the first grant award, which may be an advance, grantees spend their own funding and then request reimbursement from SBA. Until FY 2003, both NTAPs and Intermediaries were eligible every year for additional grants even if they had not spent all prior year funding, which happened frequently. Grantees were allowed to spend from old obligations, rather than from new obligations, and past technical assistance expenditures are not reliable. Nevertheless, program officials stated the percentage of unexpended Intermediary technical assistance was greater than that of the NTAPs. We were told that the reasons grantees did not always spend their funding

²² 13CFR§120.716(a)(2).

²³ Specialized Intermediaries' grants were reduced from 25 percent to 20 percent.

included fear that funds might not be available in the future and not understanding the allowable purposes for the funding.

Program officials have now placed technical assistance funding on a “one Intermediary-one grant-one year” basis for Intermediaries and a “one year-one grant” basis for NTAPs. Beginning in FY 2003 all prior year microloan grant funding will expire.

CONCLUSIONS AND RECOMMENDATIONS

In order to demonstrate and evaluate the effectiveness of the Microloan Program, program officials need to improve (1) enforcement of reporting requirements, and (2) systems to monitor, measure, and evaluate participant performance. When the Microloan Demonstration Program was created, SBA had approximately six months to implement its operation. This included choosing measures and establishing reporting procedures. It was no small feat. In the last five years, a number of program improvements have been realized. These include change in the Intermediary process to “one Intermediary-one grant” and in the NTAP process to “one year-one grant,” a reduction in the number of MRFs and LLRFs, and the electronic reporting of microloans. The establishment of minimum performance standards for Intermediaries and NTAPs in 2001 was a positive step toward increasing program effectiveness. Nevertheless, some performance and oversight problems remain.

A key initiative in The President’s Management Agenda is performance-based budgeting. In September 2002, the Director of OMB stated that if Federal agencies wanted to see programs fully funded, they must begin generating better performance data. OMB’s Program Assessment Rating Tool (PART) stresses the need for outcome data and demonstrating results. SBA’s Microloan Program has not developed sufficient information to determine overall performance beyond microloan volume information or to effectively monitor program results.²⁴ Moreover, microloan volume information may not be reliable.

Monitoring and Oversight

Microloan and Grant Reporting

Conclusion 1: Program officials have not always enforced program reporting requirements.

Only data on SBA microloans is reported electronically, and it is not always timely. Program monitoring of the grant component for both the Intermediaries and the NTAPs depends on the written reports discussed on pages 13-14 of this report. We found that

- (1) performance reporting requirements are not always met;
- (2) reporting is often not timely;
- (3) multiple non-comparable reporting formats are used; and
- (4) the result is data that is either not available or not readily useable for assessing effectiveness.

Section 62 of Circular A-110 states that if a grantee materially fails to comply with the terms and conditions of the award, the Federal awarding agency may take actions including wholly or partly suspending or terminating the current award. It describes suspension as an action by the

²⁴ The Small Business Act mandated that SBA report to the Committees on Small Business of the Senate and the House of Representatives on the effectiveness of the first three and one half years of the microloan program on November 1, 1995—later changed to November 1, 1996. Nevertheless, the report submitted to, and accepted by, Congress was not an evaluation of effectiveness. It included a brief description of the program, several recommendations, anecdotal information, loan volume information, and various other output statistics.

awarding agency that temporarily withdraws Federal sponsorship under the award, pending corrective action by the recipient or pending a decision to terminate the award. Similarly, the CFR permits suspension or revocation of Intermediaries or NTAPs that fail to comply with applicable laws, regulations and policies, or fail to meet minimum performance standards. Yet microloan program grantees have generally not met, for example, reporting requirements for setting goals and making comparisons with actual accomplishments.

Recommendation 1: We recommend that the Associate Administrator for Financial Assistance ensure that program staff consistently enforce all reporting requirements.

Program Office Staffing and the role of the District Office

Conclusion 2: Current monitoring is not sufficient to catch microloans made to clearly ineligible businesses or duplicate microloans.

As indicated previously, our limited review of the last three years of individual microloans revealed a number of microloans made to ineligible businesses and duplicate microloans. Currently there are nine staff members (seven financial analysts, and two administrative staff) plus a branch chief in the Microloan Program. Each of the seven analysts manages over 90 files (down from over 100). We were told that the lack of detailed oversight of individual microloans resulted from this heavy workload. The reduction in the number of MRFs and LLRFs in concert with the more sophisticated database that is currently in development should assist in easing the workload. The new database is scheduled for release in FY 2003. Program officials have indicated that the ideal number of files per analyst would be 55-60.

We were told that program staff maintain telephone, e-mail, and written contact with program participants on a daily tasking basis. Contact is also made at conferences and when program participants visit Washington, DC. There have been intermittent site visits from Headquarters. However, because they have been made more out of concern than as regular check-ups, their number has been limited. Program officials told us that they rely on site visits by district offices. However, because the latter are not usually reported back to the program office, there is no centralized record of district office contacts.

There are Intermediaries in almost every SBA district. However, other than district office involvement in determining lending territories, acceptance of new Intermediaries, and Intermediary loan closings, district office roles in Microloan Program monitoring and marketing have not been clearly defined. One program participant remarked that the local district office did not understand the Microloan Program. We were told that districts participate in Microloan Program service delivery activities as resources permit. This means that district office involvement with the Microloan Program varies significantly.

Beginning in 1998 SBA district offices were allowed to use Microloan Program microloan approval data in attaining their overall loan goals. This led to increased field interest in the program. Because of data inconsistencies, counting microloan data in district goals was problematic, however. In FY 2002 the goaling methodology changed; microloan activity is no longer counted toward district goals or as bonuses.

In 1999 a district office Microloan Program liaison system was introduced. Training was provided to the liaisons in 2000 and 2001. For FY 2002, OFO told the district offices that strategies for outreach and marketing of microloans, and internal control plans to monitor and increase the number of Intermediaries and to review non-performing lenders were to be developed. The development and implementation of these plans has not been uniform, and we found that district offices' understanding of their roles varies significantly. Several district officials told us that because they can no longer count microloans toward attaining their loan goals, they are less involved with the program.

Several Intermediaries have low microloan volume. A survey of more than 30 microcredit programs in California in the late 1990s found one reason for low volume programs was that they were not aggressive enough in trying to attract potential clients.²⁵ SBA should have a defined Microloan Program marketing and oversight plan that includes district office participation. Districts are in a better position than SBA Headquarters to identify program problems early and assist participants with low lending volume. Limited district office involvement with the Microloan Program is not consistent with the purpose and use of the districts as liaisons with other SBA resource partners and as marketing agents for SBA programs. We believe that attaining a greater level of involvement by the district offices will, however, clearly require that (1) goal incentives be provided, and (2) data furnished by program participants is timely and accurate.

Recommendation 2: We recommend that the Associate Administrator for Financial Assistance work with the Associate Administrator for Field Operations to establish a task force to develop a system, including incentives, for district office marketing and oversight of the Microloan Program.

Official Written Procedures and Policies

Conclusion 3: There is no Microloan Program Standard Operating Procedure (SOP) and program policy statements are primarily transmitted by letters and memos.

Although an SOP for the Microloan Program has been in draft several times over the last ten years, it has never been finalized. Program staff and participants must rely on the “Nuts and Bolts” guide, OMB Circular A-110, and the NOA, all of which have shortcomings. For example, the “Nuts and Bolts” guide is designed only for Intermediaries and lacks specificity on such key issues as SBA eligible loans and technical assistance performance reporting. The NTAPs have no guide. They must rely on the NOA that, like OMB Circular A-110, is vague on the specifics of substantive performance reporting. Moreover, while Federal agencies must manage grants in compliance with Federal law, none of the applicable legal authorities (e.g., OMB circulars or administrative regulations) provide extensive guidance on how grants should be monitored.

²⁵ Nitin Bhatt, Gary Painter, and Shui-Yan Tang, “Can Microcredit Work in the United States?” Harvard Business Review, November-December 1999, p. 27.

Furthermore, program officials have often used letters and memos rather than official notices to inform Intermediaries and NTAPs of important policy issues. As a result, no official Agency record of many transmissions is available to Headquarters and district offices staff. There should be a clear record of official notices addressed to the resource partners and to SBA employees.

Program officials stated that Intermediaries were reminded of Agency rules regarding businesses ineligible for SBA loans of any type at the June 2001 training conference. Nevertheless, microloans to clearly ineligible businesses continued. This problem underscores the need for an SOP and official notices.

Recommendation 3A: We recommend that the Associate Administrator for Financial Assistance ensure the development of a comprehensive Microloan Program SOP and a systematic approach for the official dissemination of guidance and information that can be routinely revised or updated as appropriate.

Recommendation 3B: We recommend that the Associate Administrator for Financial Assistance ensure that Intermediaries are advised immediately in an official notice of SBA eligibility requirements and are required to refinance with non-SBA funds any microloans made to ineligible businesses.

Performance Measurement and Management

The U.S. microenterprise field is small and under-researched. By tracking program outcomes and conducting periodic evaluations, program managers can improve resource allocation and better formulate and justify budgets. A prerequisite, however, is obtaining appropriate, comparable, and reliable performance information on a regular and timely basis. Although experts believe that microenterprise development is heavily dependent on the provision of adequate technical assistance, the only readily useable Microloan Program data is on SBA microloan volume, which needs to be monitored for eligibility and accuracy. Additional data gathering, however, should take into account (1) the current Federal e-grant initiative, (2) the limited in-house data gathering capacity of most program participants, and (3) the statutory objectives of the Microloan Program.

Under the President's Management Agenda, the e-government initiative includes an e-grant component that will eventually encompass standardizing the entire life cycle of a Federal grant, including performance reporting. The latter is not part of the first phase and may not be accomplished quickly. Because of the limited resources of many program participants and the eventual establishment of standardized e-grants performance reporting, OIG recommendations with regard to additional data are narrow. Nevertheless, program officials need to develop outcome oriented annual and long term goals and measures for assessing program performance. With regard to all performance measurement, trend data over time should be evaluated because it is more meaningful and useful than individual points of data.

Because Intermediaries and NTAPs obtain funding from a wide variety of sources, including public funding from Federal, state and local governments, and private funding from foundations

and corporations, they are subject to a wide variety of differing reporting requirements.²⁶ While they have multiple reporting requirements, as non-profits, they typically have limited resources.

Microloan Performance Output and Intermediate Outcome Measurement

Conclusion 4: While the data items currently required on microloans made by Intermediaries are generally adequate and appropriate to establish intermediate program outcomes, they are focused more on activities than accomplishments and are not related to specific outcome-oriented annual and strategic goals.²⁷

For Intermediaries the legislative objective of the Microloan Program is to provide small-scale microloans and technical assistance to women, low-income, veteran, minority entrepreneurs and business owners, as well as other individuals with the capacity to operate successful businesses. Based on our research and interviews, we generally agree with program officials on the appropriateness of the microloan performance data being collected electronically from the Intermediaries. Nevertheless, the Microloan Program needs to move towards outcome-oriented data. SBA's successive strategic plans make clear that small business success is a key Agency concern. Business status at the time that a microloan is paid in full or written off is an important intermediate outcome indicating a potential for business success. This information should be collected. Because low-income individuals are a specific statutory target population, this data should be collected as well. Further, the current state of the economy warrants increased attention to the quality of the portfolios.

²⁶ For example, approximately 26 of the FY 2002 Microloan Program participants also participate in SBA's section 504 program, 14 in SBA's Women's Business Center program, and a few in Business LINC. Almost a third of the Microloan Program participants are also in the Department of the Treasury's CDFI, while a small number are in the Department of Health and Human Services' JOLI program. While there are similarities in these Federal programs, they have different missions. For example, the mission of the CDFI program is community development while the JOLI program is a welfare-to-work program that focuses on job creation or placement.

²⁷ Activity measures track actions. Accomplishments track effects resulting from the activities.

**FRAMEWORK FOR MEASURING
SHORT-TERM INTERMEDIARY MICROLOAN PERFORMANCE**

- | | |
|---|---|
| <p>1. Target Population</p> <ul style="list-style-type: none"> *Startup or existing business *Urban or rural business *Gender *Ethnicity *Veteran status *Low income <p>3. Portfolio Management</p> <ul style="list-style-type: none"> **Past due loans **Loan losses Restructured loans | <p>2. Volume Numbers</p> <ul style="list-style-type: none"> Number of loan applications *Loans made *Dollars disbursed *Estimate of jobs created/retained <p>4. Technical Assistance Services</p> <ul style="list-style-type: none"> **Type of training and hours per loan (pre and post loan) <p>5. At Loan Repayment</p> <ul style="list-style-type: none"> Business in existence |
|---|---|

* Indicates data currently collected electronically.
 ** Indicates data collected either electronically or on paper but currently kept up -to-date only on paper.

FIGURE 2

Recommendation 4: We recommend that the Associate Administrator for Financial Assistance ensure that program goals are set and outcome-oriented data, such as information on business status at the time the microloan is paid in full or written off and other data related to the program’s legislative and SBA’s strategic objectives, is required of all program participants.

Minimum Microloan Standards for Intermediaries

Conclusion 5: The current minimum performance standard that Intermediaries make at least four microloans per year is not adequate.

Applicants to become Intermediaries are required to be experienced microlenders. Thus, although widely varying microloan production may be a consequence of strategies that target diverse populations in a range of socioeconomic contexts, it is reasonable to expect more than four microloans a year. Program officials have stated that Intermediaries should be able to make at least one microloan per month.²⁸ Despite the difficulties in setting a microloan production performance standard, the current minimum should be raised.

²⁸ While microloan production minimums could be based on each district’s small business market, establishing production minimums in this fashion would be a very labor intensive project.

Recommendation 5: We recommend that the Associate Administrator for Financial Assistance ensure that the current microloan production minimum for Intermediaries is raised.

Technical Assistance Output and Intermediate Outcome Measurement

Conclusion 6: The variety of data provided and the varying paper formats used by grantees impede evaluating their effectiveness.

The results of technical assistance programs are difficult to measure, and efforts to measure them are resource intensive. Unlike credit programs, there are no universally accepted measures of effectiveness. For NTAPs, however, the statutory objective is to provide technical assistance to assist low-income individuals obtain private sector financing for their businesses. Thus, the new requirement for NTAPs to provide evidence of one microloan for every 30 clients is a major program improvement. According to program officials, several NTAPs have recently been removed from the program because they could not meet the new requirement; obtaining microloans for their clients has not necessarily been their goal. Without continued enforcement of this legislative requirement, the viability of the NTAP program will be at risk.

Under the Government Performance and Results Act of 1993, performance goals should be measurable and quantifiable. The use of specific units, well-defined terms, and target (end) values and/or dates meet these requirements. Much of the data required by the NOA is currently reported but not in useable form. For monitoring purposes, quantitative data should be reported electronically in a standardized template. Program officials have agreed that such a process would be very useful but a timeline for implementation has not been established. We suggest that, at a minimum, the template for technical assistance require the following statistics.

**FRAMEWORK FOR MEASURING
SHORT-TERM TECHNICAL ASSISTANCE GRANT PERFORMANCE**

1. Target Population

Number of low-income clients provided a significant number of hours of assistance*

Gender

Ethnicity

Start-up or existing business

2. Technical Assistance Services

Type of training and hours for each type per client

3. Volume Numbers

Number of start-up loans

Number of existing business loans

*To be defined by SBA program officials.

FIGURE 3

Recommendation 6: We recommend that the Associate Administrator for Financial Assistance ensure that the NTAP grant reporting process is automated with a standardized template for quantitative data and that data to support the program’s legislative objective is required.

NTAP Technical Assistance Grants

Conclusion 7: NTAPs have historically remained in the Microloan Program indefinitely or until they decided to leave or SBA requested that they leave based on poor performance.

The last NTAP approval for program participation was in 1994. The continuous funding of NTAPs is not inherent in the statute and gives the appearance of an entitlement.²⁹ Providing grants for a specified time period and requiring reapplications would allow for the entry of new grantees and greater creativity.

Recommendation 7: We recommend that the Associate Administrator for Financial Assistance ensure the establishment of an NTAP competition process for a one year award with a predetermined number of option years beginning no later than one year after the publication of this report.³⁰

Cost Data

Conclusion 8: Cost data is not currently being used to help manage the Microloan Program.

One of the elements of OMB’s PART on program management is the presence of incentives and procedures for measuring and achieving cost effectiveness in program execution. For the Microloan Program this can be viewed in part as the cost of the technical assistance needed to obtain one microloan, i.e., the ratio of expenditure to output. Excessive overhead costs have hindered U.S. microcredit programs in the past. Program officials estimate, based on Intermediary data only, that it costs approximately \$2,500 in technical assistance to create one SBA microborrower; this includes assistance to clients who may receive technical assistance but not obtain a microloan. This data has not been readily available for the NTAP program. Moreover, prior year data on technical assistance expenditures by grantees is not reliable. With the microloan information that NTAPs are now to provide to SBA, more accurate information on technical assistance expenditures and improved monitoring of the microloan database, comparative costs should be evaluated. Over time, the trends should be used to help determine program participant viability.

Recommendation 8: We recommend that the Associate Administrator for Financial Assistance ensure that the Microloan Program develops and uses comparative cost data.

²⁹ OMB’s PART process attempts to ensure that long-term grantees do not monopolize available dollars.

³⁰ For example, when a Women’s Business Center is awarded an SBA grant, it has four option years for a total of five years of funding. They can then apply for an additional five years of “sustainability funding.” As of August 2002 four SBA WBCs were also microloan NTAPs.

Outcome and Impact Measurement

Conclusion 9: Outcome or impact data that shows the long-term benefits of the Microloan Program is not available.

Determining whether the program is ultimately effective will rely on establishing the program's outcomes and impact. Such results are difficult to measure. The resources and methodological rigor required to measure impact are typically not available for small Federal programs.³¹

While business growth appears to be a logical measure for microloan success, an International Labor Organization (ILO) study indicates that clients have varied goals and definitions of success—for example, stabilization rather than growth.³² Moreover, there are a wide variety of programs, public and private, that have diverse objectives in providing microloans. While the microenterprise field is searching for a common definition of success, in the light of the program's legislative objective and SBA strategic objectives, it is useful to define SBA's outcome as sustainability—that is, whether the business created or otherwise assisted is able to remain viable for any length of time after the loan is repaid.³³ Job growth over time is also a reasonable outcome.

Because some microborrowers want to remain small, a better indicator than revenue growth may be individual income growth. Requesting specific income data can be a sensitive issue, however, and confidentiality would have to be assured. Because program participants are regularly in touch with their clients, outcome evaluation will probably be most effective when the program participants themselves conduct it at regular intervals.

Given the limitations of the Microloan Program data that SBA has thus far collected, in the short run program officials must begin to move toward performance management by collecting and monitoring the intermediate outcomes that are believed to lead to the desired end result of sustainability. To obtain long-term outcome and impact information, it will probably be necessary to increase program resources.

Recommendation 9: We recommend that Associate Administrator for Financial Assistance ensure that program staff encourage individual program participants, as their resources permit, to collect outcome measures that especially focus on business sustainability and job creation over the long term.

³¹ The best method for determining a program's effect on its participants is through an impact evaluation that isolates the influences of the program being studied from other influences that impact that client.

³² Lisa J. Servon, "What Ensures Success by Low-Income and Unemployed Entrepreneurs Using the Microenterprise Strategy in the U.S.," ILO, January 21, 2000, p. 8.

³³ In the early 1990s, the Aspen Institute's "Self-Employment Learning Project" (SELP) began a study of seven of the oldest and largest microenterprise programs in the U.S. The SELP study found that 78 percent of start-ups were still operating after two years and 57 percent after five years; even for the "poverty subset," 49 percent were operating after five years.

Alternative Microloan Program Models

When SBA's Microloan Program was established, little information on the effectiveness of microlending was available in the U.S. As a result, although it was recognized that technical assistance was important to a microlending program, the extent of the dependence on technical assistance was not as fully appreciated as now. Thus, it appeared logical to consider the program a lending program and locate it in a loan-making office. Perhaps as a result, technical assistance oversight and monitoring are the weakest aspects of the program's management. Today microborrower dependence on technical assistance is better understood, but the program is still considered a loan program. Moreover, as a small program, it is over shadowed by OFA's much larger and more visible Sections 7(a) and 504 loan programs. Based on our interviews and research, it does not appear that the Microloan Program is a high priority for OFA or for the Agency in terms of resources. In addition, under the *SBAExpress* and Community Express Programs, SBA has recently begun working with several banks to provide small businesses loans as small as \$5,000. Technical assistance is required only for the Community Express Program. If these arrangements expand, OFA will need to weigh the costs and benefits of continuing the Microloan Program in its present form.

To simplify the program and reduce workload costs, we are suggesting several alternative program models for consideration by the SBA Administrator. Some combination of these or other alternatives could be developed. The first two of the three alternatives would require legislative changes.

Technical Assistance Loans: Instead of awarding technical assistance grants to Intermediaries and NTAPs, OFA could provide them with technical assistance loans. These loans could have generous terms—for example, like the U.S. Department of Agriculture's Intermediary Relending Program with 30 year terms and a one percent per annum interest rate.³⁴ Participants could invest the loan funds and/or use the funds as leverage to obtain additional funding from private foundations. The interest earned on the investments could be used to pay off the loan. There would need to be restrictions imposed for safety and soundness, and SBA's name would have to be on the investments, which would serve as SBA's collateral. Alternatively, the technical assistance funding could be forgivable based on whether the participant was able to achieve a predetermined number of loans. For Intermediaries, the technical assistance loan could be a part of the funding SBA lends them for the loans. This model would require the same type of performance reporting but would increase technical assistance funding. It would be less expensive than the current program, reducing paperwork and workload for SBA and the participants.³⁵

Technical Assistance Contracts: Intermediaries and successful NTAP applicants could sign a fee-for-service contract stating that, for every microborrower that receives technical assistance, they would receive "x" amount of dollars.³⁶ Technical assistance would have to be provided prior to receiving reimbursement from SBA.

³⁴ <http://www.rurdev.usda.gov/rbs/busp/irp.htm>

³⁵ Currently, OFA and OPGM staff, and program partners spend a lot of time on grant reimbursement requests.

³⁶ Technical assistance for an NTAP would probably be more expensive than for an Intermediary.

Relocation of NTAP Responsibility to ED: Technical assistance is an integral part of the Microloan Program, but technical assistance and microenterprise development are better suited to ED's focus than to OFA's concentration on access to capital. ED has experience tracking technical assistance and has put considerable effort into addressing its effectiveness. While we do not believe that the technical assistance provided by the Intermediaries should be separated from their loan making, the relocation of the NTAPs to ED would decrease Microloan Program staff workload, thus improving monitoring and oversight.

Appendix A
Comparison of Quarterly Grant Performance Reporting Requirements*

Circular A-110	2001 Revised Notice of Award	“Nuts & Bolts” Guide
	<p>28. As part of the budget submission, your organization will be expected to submit an annual plan for the provision of technical assistance and training to microborrowers and prospective microborrowers in accordance with the documents cited in item 29 of this grant agreement. Grant performance will be measured against the annual plan and in conjunction with microlending volume.</p>	
	<p>I.C.5. The Recipient agrees to submit to the SBA Technical Representative an annual plan detailing the projected use of technical assistance funding. The Recipient also agrees to submit, with its quarterly financial and performance reports, a satisfactory summary of activity as it relates to the annual plan.</p>	<p>2. TA Narrative Report. The Narrative Report is the intermediary’s tool for providing information regarding the actual technical assistance activity provided. It is the ultimate supporting documentation for any reimbursement claims.</p>
		<p>Each quarter, the report should provide information regarding borrowers assisted, special situations encountered, classes provided, individualized training provided, and other pertinent information as provided below (see OMB Circular A-110).</p>
<p>51. Monitoring and reporting program performance. (b) ... performance reports shall not be required more frequently than quarterly or, less frequently than annually. Annual reports shall be due 90 calendar days after the grant year; quarterly or semi-annual reports shall be due 30 days after the reporting period.</p>	<p>4.a. Performance reports shall be due with Financial Reports in accordance with the quarterly calendar described in paragraph II.H.3 above.</p>	<p>Quarterly reports are due within 30 days of the end of each quarter.</p>

Appendix A
Comparison of Quarterly Grant Performance Reporting Requirements*

Circular A-110	2001 Revised Notice of Award	“Nuts & Bolts” Guide
<p>(1) A comparison of actual accomplishments with the goals and objectives established for the period, the findings of the investigator, or both. Whenever appropriate and the output of programs or projects can be readily quantified, such quantitative data should be related to cost data for computation of unit costs.</p>	<p>(i) A comparison of the actual accomplishments to the estimated milestones established for the reporting period.</p>	<p>A comparison of the goals established at the beginning of the quarter and year-to-date to the accomplishments attained during the quarter and year-to-date. If in the second or subsequent year of participation, an annual comparison should be submitted. Discussion of goals, accomplishments, lack of accomplishments, plans of action, and you goals should be discussed in this section as well.</p>
<p>(2) Reasons why established goals were not met, if appropriate.</p>	<p>(ii). Reasons for slippages in those cases where the milestones were not met, and a plan of action to overcome those slippages.</p>	<p>Reasons for slippage in those cases where the milestones were not met, and a plan of action to overcome that slippage.</p>
		<p>Client descriptions in terms of the number of loans made during the quarter and the amount of hours spent on TA for each loan made. A year-to-date update of the same information. A description of the type of TA provided to each borrower during the quarter (site visits, in office counseling, classroom instruction, etc.). A description of TA provided in previous quarters to individuals becoming borrowers during this quarter and for whom reimbursement will be sought.</p>

Appendix A
Comparison of Quarterly Grant Performance Reporting Requirements*

Circular A-110	2001 Revised Notice of Award	“Nuts & Bolts” Guide
		A narrative discussion relating directly to the information submitted on Standard Forms 269 and 272 [Financial Status Reports]. Discuss actual expenditures vs. budgeted expenditures by budget category. A narrative discussion of program effectiveness, significant intermediary accomplishments, difficulties encountered, significant borrower accomplishments are also included.
(3) Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.	(iv) Other pertinent information, including significant accomplishments.	Any other pertinent information regarding significant accomplishments.


* **Bolding added to text.**



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: April 22, 2003

TO: Emilie M. Baebel
Assistant Inspector General
for Inspection and Evaluation

FROM: James E. Rivera 
Associate Administrator
for Financial Assistance

SUBJECT: Comments on Final Draft Inspection Report- Microloan Program

Please find attached this office's comments regarding the final draft inspection report entitled *The Microloan Program: Moving Toward Performance Management*. We understand that the Office of Field Operations and the Office of Entrepreneurial Development, both to which you sent copies of the draft report, will submit comments to you separately.

We appreciate the opportunity to comment on this comprehensive report.

Please call me if you have any questions. My number is 205-6490. Or, you may call Jody Raskind, Chief, Microenterprise Development Branch at 205-6497.

Thank you.

Attachment

cc: ADA Entrepreneurial Development
AA Field Operations
Mary Jeanne Martz
Soroya Vega
Charles Thomas
Jody Raskind

SBA IS AN EQUAL OPPORTUNITY EMPLOYER AND PROVIDER

The Final Draft inspection report entitled *The Microloan Program: Moving toward Performance Management* is offered at a time when positive discussion and constructive criticism can only be helpful to the continued growth, expansion, and improvement of the program. To that end, the comments offered by the Office of Financial Assistance both reword some verbiage and provide additional comment regarding some conclusions.

These comments are offered under the subtitles used in the Inspector General's Draft Final Report.

Executive Summary:

To maintain a positive approach, we suggest that the first paragraph (page 1) be reworded to read:

"The Small Business Administration's (SBA) Microloan program is working to develop sufficient information to effectively monitor program results beyond microloan volume information. A number of program improvements have been realized in the last five years, however performance and oversight issues remain. In order to demonstrate the effectiveness of the program in terms of performance management, officials need to improve (enforcement of reporting requirements, and (2) systems to monitor, measure, and evaluate participant performance."

Similarly, we suggest that the summary of the second issue (page 1) be reworded to read:

"Past monitoring had not been sufficient to catch microloans made to clearly ineligible businesses or duplicate microloans. Much needed and significant technology improvements currently being made to the microloan database and data collection system will assist loan monitoring, increased on-site marketing, oversight, and assistance to program participants. For instance, several intermediaries had low microloan volume and some NTAPs had not clearly reported obtaining private sector loans for their clients. Additionally, there are intermediaries in almost every SBA district, but SBA district office roles in Microloan Program monitoring and marketing are not clearly defined for field personnel so that district office activities varies significantly. A greater, and more uniform, level of involvement by the district offices will require (1) goal incentives, and (2) timely and accurate data from program participants."

The Inspector General's fourth issue (page 2) indicates that current data gathering is generally adequate and appropriate but indicates that data is focused on activity rather than outcome. The Office of Financial Assistance would like to point out that the data currently gathered is consistent with the purpose of the statute which is to assist women, low-income, veteran, and minority entrepreneurs and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small businesses in those areas suffering from a lack of credit due to economic downturns. Additionally, the Inspector General's recommendation for data gathering at the time of repayment of a microloan is inconsistent with other loan program data

gathering requirements and would be burdensome on both intermediaries and the microbusinesses that received assistance.

The Inspector General's seventh recommendation (page 3) asks that OFA ensure the establishment of an NTAP competition process for a one year award with a predetermined number of option years to begin no later than one year after the publication of this report. OFA indicates herein that the limitation on option years has been initiated as of grants awarded to NTAPs during FY2003, thus making way for future competition.

The Inspector General's eighth issue (page 3) indicates that cost data is not currently being used to help manage the Microloan Program. Cost data is used regularly and is the basis for a number of conclusions in the FY2004 Budget Request and Performance Plan, as well as for legislative changes regularly suggested in reauthorization legislation packages.

The Inspector General's ninth recommendation (page 3) calls for the collection of outcome measures that specifically focus on business sustainability and job creation over the loan term- as resources permit. There is limited availability of resources for longitudinal studies but also signifies ongoing work in the private sector such as the "FIELD Study" being conducted by the Aspen Institute as well as a current study on the value of technical assistance being conducted jointly by the Department of Labor and SBA known as "Project Gate".

Purpose:

The Inspector General indicates that the initial purpose of the inspection report (page 4) was to evaluate the effectiveness of the SBA's Microloan Program and whether the program was achieving its legislative objective. The Inspector General also indicates that after examining the types of data collected, the focus of the report shifted to the types of effectiveness data available, redefining program effectiveness, and improving data collection to fit the new definition of effectiveness.

The data currently collected is in direct concert with the purpose of the statute. The statute indicates effectiveness as making microloans and providing technical assistance to the target market as mentioned above. And, that in addition to collection of data called for in the statute, SBA also collects job creation and retention data so as to further support the value of the program.

Background:

The Inspector General puts forth the view that rural microenterprise development programs are reluctant to participate in the Microloan Program because they believe that microlending is too risky (page 5). To support this concept, the Inspector General provides a footnote regarding the Guaranteed Lending Pilot.

The connection between the concept, as presented, and the footnote is unclear.

OFA offers technical corrections to the last two sentences on page 5 and suggests that they should read:

"According to program officials, since FY1992, more than \$203 million have been loaned to microbusinesses under the Microloan Program to more than 17,400 entrepreneurs, with an average microloan size of approximately \$11,600. Agency losses on loans to intermediary lenders account for less than 1% of all dollars loaned by SBA to intermediaries since 1992."

Scope and Methodology

OFA offers a technical correction to the first sentence in this section (page 6) and suggests that it should read:

"Our research focused primarily on exploring the Microloan Program's legislative history, reviewing the literature on microenterprise development and measurement, examining a sample of the program's intermediary and NTAP files and production data, and conducting interviews."

SBA Microloans: Intermediaries- Becoming and Intermediary

OFA offers technical corrections to the first and last sentence of the first paragraph of this section (page 7) and suggests that the beginning of the first sentence should read:

"To be considered eligible to become an SBA intermediary..."

and, the last sentence should be changed to read:

"Moreover, SBA is to give priority to applicants that specialize in making microloans averaging \$10,000 or less. Once in the program, intermediaries with portfolios that maintain a low average microloan amount may qualify for specialized intermediary status."

Becoming a Microborrower

OFA suggests that the first paragraph of this section (page 8) be expanded for clarity by adding the following sentence:

"This diversity in approach is by design as the agency seeks to make microloans available in a manner consistent with local approaches as opposed to imposing a uniform approach on local experts."

Reporting Requirements

Again, for purposes of clarity, OFA suggests the following changes to the third paragraph of this section (page 9) so that the first sentence would read:

"As a minimum performance standard (published in September 2001 and first implemented during FY2002), ..."

and, a last sentence would be added reading:

"However, this will be remedied somewhat by the updated electronic reporting system currently under development and due for implementation during the summer of 2003."

OFA further suggests that in the fourth paragraph of the same section, (also page 9), the Inspector General add a sentence that reads as follows:

"The minimum performance standards published in September, 2001, will be helpful in ensuring a more timely submission of audit information."

Data Quality and Monitoring

The Inspector General indicates in the first paragraph of this section that a number of microloans had been provided to ineligible businesses.

Please provide the number found and translate it in the report to the percentage of total loans that were reviewed as a part of the sample. In addition, OFA would like to point out that during the time of the Inspector General's review of the data, all data was being scrubbed (and continues to be scrubbed) for conversion to the new electronic reporting system and, that microlenders found to be making ineligible loans were notified that the loans must be liquidated.

For purposes of clarity, Please change the paragraph comprising this section as follows. The paragraph currently reads (page 10):

"... Some of them had been in the system for over two years. According to program officials and staff, the workload in the past has been too heavy for detailed data quality monitoring. 14 "

OFA suggests that footnote 14 be eliminated and the paragraph reworded as follows:

"... Some of them had been in the system for over two years. According to program officials, the heavy workload of the past limited the amount of daily detailed data monitoring. It is noted that of 2500 records reviewed, less than 1% were duplicated."

The elimination of this footnote brings forward actual data quality results and reduces the reader's reliance extraneous referencing.

Database Issues

OFA suggests that for purposes of clarity the date

"1999" in the second sentence (page 11)

be changed to read:

"During the early part of FY1999"...

Please clarify the fourth sentence of the first paragraph (page 11) of this section, which currently reads:

"First, SBA has not required that all of the information be provided..."

"(A)ll of the information" is not defined.

Finally, in terms of this section and again for purposes of clarity and positive criticism, OFA suggests that a sentence be added to the end of the first paragraph that would read as follows:

"This is to be corrected with the updated reporting system now in development and, as indicated above, due to begin use during the third quarter of FY2003."

Microloan Technical Assistance: NTAPs and Intermediaries- Becoming a Technical Assistance Provider

At the suggestion of the Office of General Counsel, OFA offers a technical correction to the first sentence of this section (page 12) to change the statutory reference to read:

"Section 7(m)(1)(A)(iii)(II) of the Small Business Act, as amended..."

OFA offers a technical correction to footnote now numbered 17, (also page 12). After correction, the footnote should read:

"xx The last Microloan Program Training Conference was held in FY2001. OFA has submitted a Request for Proposals for future training conferences to OGC for approval."

Reporting Requirements

For purposes of clarity, OFA also suggests that a sentence be added to the end of the second paragraph of this section (page 13) which would read:

"This issue has been addressed as of FY2003. Grant applications from existing intermediaries and NTAPs must include executive summaries that include milestones and set goals."

As a technical correction, OFA suggests changes to the fourth paragraph (page 14) of this section as follows. The middle of the paragraph currently reads:

"... and difficulties encountered. Much of this detail is not regularly reported by all intermediaries. Even when grantees..."

In fact, the detail referred to is collected from intermediaries in the electronic reporting system, as opposed to the paper based reports, OFA believes that it is collected, but may have been overlooked. We suggest that the corrected sentences should read:

"... and difficulties encountered. Because some of this information is collected via the current electronic reporting system, the information on paper may appear to be incomplete. This requires analysts to refer to two sets of information and data to garner a clear picture of performance. When grantees discuss..."

In addition, the sentence reading

"... the majority failed to note the total number of technical assistance hours..."

should be corrected to read:

"...the majority failed to note the total number of post-loan technical assistance hours..."

OFA suggests the following change to the fifth paragraph of this section (page 14) changing the sentence currently reading:

"We were told that, since FY2001, the program office has refused payment..."

so that it reads:

"To reduce the level of non-compliance, the program office has, since October, 2000, refused payment of reimbursements to participants that are delinquent in their reporting."

OFA requests that two final sentences be added to the sixth paragraph of this section (page 14) that would read as follows:

"The Program office points out that reports are due quarterly while requests for reimbursement may be submitted in a more condensed time frame. Therefore, not all financial information must be accompanied by narrative details of activity."

The final section (pages 14 and 15) of this paragraph currently reads:

"Although SBA's Microloan Program staff maintain checklists indicating whether the required performance and financial reports are submitted, there is no checklist that indicates whether the performance reports contain the required information. Of the grant files we reviewed, while some very good reporting is being done, few-- either Intermediary or NTAP-- consistently adhered to the performance reporting requirements. Although reports may be returned because they are incomplete, we did not find a clear record of penalties imposed for missing or late reports. Because the technical assistance grant reporting formats are so varied and are also submitted only on paper, the reports are often difficult to follow. Based on the grantee reporting that is received, program officials cannot-- with available resources-- adequately judge microloan technical assistance effectiveness."

For purposes of clarity, and in keeping with corrections made previously in these comments, The reader would be better advised if the paragraph read as follows:

"Although SBA's Microloan Program staff maintain checklists indicating whether the required performance and financial reports are submitted, the current method of reporting does not lend itself to a checklist that indicates whether the reports contain the required information. Of the grant files we reviewed, some very good reporting is being done. But, a significant number of reports required some type of follow-up on the part of Program staff. Although reports may be returned because they are incomplete, we did not find a clear record of penalties imposed for missing or late reports, other than the refusal to pay reimbursements within a normal time frame. Because the technical assistance grant reporting formats are so varied and are also submitted on paper as well as through the current electronic reporting system, they are difficult to follow. Based on the grantee reporting that is received, program officials cannot, with available resources, adequately compare the effectiveness of one type or level of technical assistance over another.

Funding

Additionally, a technical correction is offered to the final paragraph of this section (page 16). The sentence currently reads:

"...one Intermediary- one grant"

It should read:

"... one Intermediary- one grant- one year"

Conclusions and Recommendations

The sixth sentence in the first paragraph of this sentence (page 17) currently reads:

"These include change in the..."

The Inspector General may want to change it to read:

"These include the change in the..."

A technical correction to the footnote (currently numbered 24) is requested as follows. It currently reads:

"... November 1, 1995. Nevertheless, the report..."

OFA suggests that it should read:

"...November 1, 1995 and changed the due date to November 1, 1996. The report..."

OFA also respectfully requests the elimination of the last sentence of this section as we would consider duplication of data at the Inspector's indicated rate of less than 1% to be reliable.

Monitoring and Oversight.

Positive framing of conclusions will be constructive for the Agency and the program. To that end, we request that Conclusion 1 (page 17) be reworded to read:

"Program officials have recognized weaknesses in reporting and are developing systems, including one due to be implemented during the third quarter of FY2003, to rectify the issue."

Further, we would request that the first section of supporting information for this conclusion (page 17) also be reworded for positive effect, clarity, and reduction of subjective phraseology. Our requested change would read:

"Data on SBA microloans is reported electronically, but is not always reported within the required seven day time period. Program monitoring of the grant component for both the Intermediaries and the NTAPs depends, in part, on the written reports discussed on pages 13-14 of this report. We found that:

- (1) performance reporting requirements are not always met and are sometimes outside of the required schedule
- (2) while within OMB guidelines, multiple non-comparable reporting formats are used; and
- (3) data is either not available or not readily useable for assessing effectiveness, and making useful comparisons. "

Finally, based on the subjective nature of the statement, OFA requests elimination of the last sentence of the first conclusion which currently reads:

"Yet microloan program grantees have generally not met, for example, reporting requirements for setting goals and making comparisons with actual accomplishments."

We would ask that the sentence be replaced with the statement:

"The recently begun enforcement of newly implemented minimum performance standards will greatly assist with compliance"

Program Office Staffing and the role of the District Office

OFA disagrees with the Inspector General's second conclusion (page 18) which states that current monitoring is not sufficient to catch microloans made to clearly ineligible businesses or duplicate microloans. To support this opinion, the Inspector General points out that less than 1% (one percent) of the data showed duplication. Further, the Inspector General provides no numbers regarding ineligible microloans nor does it point to ongoing program improvements which are increasing the Program Office's ability to better monitor the types of loans being made.

OFA further disagrees with the Inspector General's statement, made in support of Conclusion 2, that the District Office role in terms of marketing and monitoring the Microloan Program has not been clearly defined. In fact, over time, a number of definitions have been offered by the Program Office to Agency management. It may be accurate to say that assignments of work have not been clearly delineated based on those definitions. However, this is an issue that goes to District Office goaling processes and is outside the control of OFA.

Finally in terms of Conclusion 2, the Inspector General refers to a study conducted during the last decade indicated that microlenders had low volume because they were not aggressively marketing their programs. We suggest that it would be very helpful to have the District Offices assist with program marketing and agree with the Inspector General that this will assist in increasing microloan program volume. We are cautious, however, not to confuse assistance to the Program Office as a call for de-centralization of Program operation.

OFA requests a rewording of the second paragraph of Conclusion 3 (page 20) for purposes of clarity. The sentence currently reads:

"Furthermore, program officials have often used letters and memos rather than...."

We request that it be changed to read:

"Furthermore, because Program officials had been advised in the past that because Program participants are not a part of the agency, they must use letters and memos rather than.... "

OFA requests that the last two sentences of the first supporting paragraph of Conclusion 4 (page 21) be changed for clarity and correctness. The sentences currently read:

"... this data should be collected as well. Further, the current state of the economy warrants increased attention to the quality of the portfolios.

We suggest that the sentences should read:

"... this data, while currently collected, should be included in published data summaries. Further, because the current state of the economy warrants increased attention to the quality of the portfolios, we feel it is important to complete the electronic reporting upgrades as quickly as possible."

OFA requests that Conclusion 7 (page 24) be framed in a historical context as the issues outlined in the conclusion have been remedied as of the FY2003 funding year. For instance, we suggest that the words "have historically" be inserted after the word "NTAPS" so that the first part of the conclusion would read,

"NTAPs have historically remained in the"

We further suggest that to support the corrected conclusion, the Inspector General add a sentence to the end of the supporting paragraph that reads:

"The Program Office has, as of FY2003, remedied this issue by limiting the number of remaining option years of funding for existing NTAP grantees."

OFA requests that the Inspector General state, in Recommendation 7 (page 24) that it realizes that any future competitions will be based on the availability of funding.

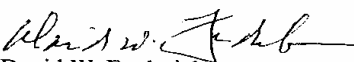
OFA thanks the Inspector General for the time, energy, and allocation of resources for this comprehensive inspection of the Microloan Program. With the offered suggestions and requested changes, we believe that this report will be very useful in directing the future of the Microloan Program. We also appreciate the help of the Inspector General in pointing to issues that remain even after years of positive improvements to program design, procedures, and reporting enhancements. Correction of these issues will strengthen the program and allow the Agency to better focus on the needs of the entrepreneur.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

May 1, 2003

TO: Emilie M. Baebel
Assistant Inspector General
for Inspections and Evaluation

FROM: 
David W. Frederickson
Associate Administrator
for Field Operations

SUBJECT: Comments on Final Draft Inspection Report – Microloan Program

The Office of Field Operations has reviewed the draft comments for the **The Microloan Program: Moving Toward Performance Management** and we generally agree with all of the comments made in both the original report as well as the edits and comments from the other program offices.

Our one concern, however, deals with the goaling incentives for Microloans. Microloans are already part of the SBA's goaling procedures, so we believe that it's not necessary to add incentives for Microloan lending since this is already being done by the Goals Committee.

Please call me if you have any questions. My direct line is 205-6556. You may also contact either my Deputy, Susan Walthall, at 205-6830 or my Special Assistant, George Koklanaris, at 205-6822.

Thank you.

cc: ADA Entrepreneurial Development
James Rivera
Mary Jeanne Martz
Soroya Vega
Charles Thomas
Jody Raskind



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

DATE: April 28, 2003

TO: Mary Jeanne Martz, Senior Inspector
Inspection and Evaluation Division, OIG

FROM: *Jane Palsgrove Butler*
Jane Palsgrove Butler, DADA/ED

SUBJECT: OED Response to OIG Final Draft Inspection Report -- *The Microloan Program: Moving Toward Performance Management*

The Office of Entrepreneurial Development (ED) has reviewed the OIG draft inspection report on the Microloan Program, specifically the recommendation that responsibility for administering the Agency's non-lending technical assistance (NTAP) program be transferred from the Microenterprise Development Branch, Office of Financial Assistance, Office of Capital Access, to the Office of Entrepreneurial Development. After careful review of the draft report, we have determined that ED cannot support the proposed recommendation. While we agree that some benefit could be derived from moving NTAP to ED, we believe that the potential drawbacks outweigh any possible benefits.

Of primary concern to ED are the extremely limited funding that the program has historically received, and the appropriations practice that requires NTAPs to compete with SBA microlenders for the scarce technical assistance (TA) funds available. SBA's annual budget includes a line item appropriation for "Microloan Technical Assistance." This amount is not broken down between the lending and the non-lending TA functions. Therefore, under the program's current structure, each year OCA/OFA/Microenterprise Division must determine the Agency's priorities, and must allocate the funding in such a way as to support those priorities. Because of this, we believe that it is important that responsibility for both programs remain in the same office so that appropriate decisions can be made about how best to divide the TA funds between the two programs.

For FYs 2002 and 2003, the entire "Microloan TA" appropriations were \$17 million, and \$15 million, respectively, and only \$1.8 million could be made available for the NTAP program each year. This has meant that SBA has not been able to grow the NTAP program as was authorized by legislation enacted in December 2000. That legislation increased the maximum

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number of *NTAPs* authorized from 25 to 55 (intending to allow one *NTAP* in each state and territory). In fact, because of budget limitations, there are currently only 15 participating *NTAPs*, no new *NTAPs* have been approved since the mid-1990s, and funding for individual *NTAP* grants has been capped at \$120,000 for each of the past two years although the maximum per grant amount authorized is \$200,000.

ED also is concerned about the proposed transfer of the *NTAP* function to ED because we do not have staff to take on this additional workload. One of the reasons that the IG recommended that the function be transferred is to “decrease Microloan Program staff workload, thus improving monitoring and oversight.” The wording of the recommendation implies that existing microenterprise program staff would remain in that program, and that no staff would be transferred with the *NTAP* responsibilities. Therefore, unless additional staff were provided (which is unlikely in the current budget environment), ED would have to absorb these new duties with existing staff. Current ED staffing does not allow us to dedicate our limited personnel and other resources to this new set of duties.

We also note that the *NTAP* program does not fit ED’s traditional TA model since the funds can be used only to support small businesses’ efforts to obtain private sector funding, and cannot be used for other specific or more general developmental purposes. Therefore, this TA function appears to fit more closely with its microloan program counterpart than with ED’s developmental programs.

Finally, we are concerned that movement of the program to ED might meet with Congressional resistance since the microloan program was established as an alternative to other more traditional loan and TA programs. We are aware, for example, that when the legislation to create the microloan program was being drafted, the drafters specifically rejected the SBDC network as providers of microloan TA. There was clear concern that microloan clients have special needs that make it more appropriate that TA services be provided by entities dedicated to the micro clientele.

For the reasons noted, ED does not support the recommendation that responsibility for the *NTAP* program be transferred to ED.