U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

AUDIT REPORT
ISSUE DATE:
SEPTEMBER 07, 2000
REPORT NUMBER: 0-25

TO: Theodore R. Wartell, Director, Office of Policy
Don Christensen, Associate Administrator for Investment

Robert G Seabrooks

FROM: Robert G. Seabrooks,
Assistant Inspector General for Auditing

SUBJECT: Audit Report – Results Act Performance Measurement for the Small Business Investment Company Program

Attached is a copy of the subject audit report. The report contains one finding and seven recommendations. You concurred with three of the recommendations but non-concurred with the remaining four. The four recommendations will be elevated to the Deputy Administrator for resolution during the audit follow-up process. We have synopsized your comments in the report and included them as an attachment.

The finding included in this report is the conclusion of the Office of the Inspector General Auditing Division based upon the auditors testing of the auditee's operations The finding and recommendations are subject to review and implementation of corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Please provide your management response to the recommendations within 30 days from the date of this report on the attached SBA Form 1824, Recommendation and Action Sheet.

Should you or your staff have any questions or wish to discuss the issues further, please contact Garry Duncan, Director, Credit Programs Group at 202-205-7732.

Attachment

AUDIT REPORT

RESULTS ACT PERFORMANCE MEASUREMENT FOR THE SMALL BUSINESS INVESTMENT COMPANY PROGRAM

AUDIT REPORT NUMBER 0-25

September 07, 2000

AUDIT REPORT
RESULTS ACT PERFORMANCE MEASUREMENT
FOR THE
SMALL BUSINESS INVESTMENT COMPANY PROGRAM

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SUMMARY

In late 1998, Congressional leaders requested that Inspectors General review how effectively their agencies are measuring performance under the Government Performance and Results Act of 1993 (Results Act) and the reliability of the underlying data. In response to these requests, the Office of the Inspector General initiated a series of audits to evaluate the performance indicators the Small Business Administration (SBA) developed for its major programs.

This report examines whether the Investment Division (ID) effectively implemented the performance measurement requirements of the Results Act for the Small Business Investment Company (SBIC) program.

In enacting the Results Act, Congress intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set goals for program performance and to measure results. To implement the Act, executive agencies must prepare multiyear strategic plans, annual performance plans that include performance indicators, and performance reports. Our audit objective was to determine if the ID is effectively implementing the performance measurement requirements of the Results Act for the SBIC program. To answer this objective, we determined if: (1) program goals and performance indicators align with the mission, (2) the performance indicators focus on the results of the program in terms of efficiency and effectiveness, and (3) reliable supporting data exists.

We found that the SBIC program did not have performance goals and indicators to show that the program was meeting certain purposes of the Small Business Investment Act. The performance indicators listed in SBA's fiscal year 2000 annual performance plan are activity-oriented and do not address Results Act priorities, such as programmatic outcomes, customer satisfaction, service quality, or cost. Also, some of the underlying data supporting performance measurement data was not reliable. Specifically, 26 percent of the FY 1999-dollar amount of SBIC financings were from prior years and most likely, some FY 1999 financings will be reported in the FY 2000 report, due to untimely reporting by SBLCs. In addition, data for performance goals and measures relating to whether a business was 50 percent owned by women or minorities were unsupported.

We recommend that the Director, Office of Policy provide specific guidance concerning the preparation of organizational performance goals and indicators. In addition, a memorandum of understanding should be executed with the Bureau of Labor Statistics or other statistical gathering organization to obtain access to information on jobs created by SBA loans. Also, we recommend that the Associate Administrator for Investments: (i) develop appropriate goals and indicators, (ii) institute a strategy to verify and validate performance measurement data, and (iii) require managers to assert to the accuracy and completeness of performance data.

SBA management responded that the draft report was overly critical and misleading in its treatment of the SBIC mission, adequacy of performance indicators, and implied absence of validity and reliability of data and means to validate the data. Management disagreed with our conclusion that the Investment Division had not fully implemented the requirements of the Results Act. They added that the Annual Performance Plan is the Agency's plan, not the

Investment Division's, and that the Investment Division had more than 75 performance indicators of which only six were allowed by the Agency to be included in the plan. They stated that these performance indicators span areas important to management and demonstrate true outcomes of the program.

Management agreed to publish guidance on preparing organizational performance goals and indicators, attempt to obtain job creation data from the Bureau of Labor Statistics, develop outcome oriented performance indicators, and include performance indicators for cost and customer satisfaction. Management disagreed with the remaining recommendations. These recommendations will be elevated to the Deputy Administrator for resolution during the audit follow-up process. We have attached the full text of management's response as Appendix C.

INTRODUCTION

A. Background

In 1993, Congress passed the Results Act with the objective to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The General Accounting Office (GAO) has interpreted the Act to mean there should be a focus on Federal management and decision-making away from a preoccupation with the activities that are undertaken and toward a focus on the results of those activities as reflected in lives of the citizens government serves. Further, GAO believes the Results Act is intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set both long-term strategic and annual goals for program performance and to measure results. Performance indicators are values or characteristics used to measure results associated with annual goals. Also, the Results Act requires agencies to prepare annual reports on their performance for the previous fiscal year.

The Office of Policy has overall responsibility for ensuring requirements of the Results Act are carried out in the SBA. The Investment Division of SBA is responsible for administering Title III of the Small Business Investment Act of 1958, as amended.

The SBIC program implements Title III of the Small Business Investment Act of 1958, as amended. Congress created the program because it determined that there were not adequate facilities for providing long term financing to small business. Three situations in particular were identified as calling for long term loans and equity financing:

- Inception of a new business,
- Growth, expansion, and maintenance of market position for an existing business, and
- Ownership transfers to continue a business' existence.

As a result of Congressional identification of the above, the Small Business Investment Company program was created to provide venture capital that is not available in adequate supply, to small businesses to enable them to grow, modernize, and expand – and in the process – to improve and stimulate the economy.

More than 300 SBICs, which are privately owned and managed investment firms licensed and regulated by SBA, carry out the program. These firms use their own capital, plus funds borrowed at favorable rates with a SBA guarantee, to make venture capital investments in small businesses. Each SBIC must make a showing of its knowledge, experience, and capability to make the type of investments envisioned under the Act and meet certain minimum capital requirements. According to SBA, as shown in the table below, Federally licensed SBICs handled over half of all small business venture capital financing nationwide in fiscal year 1999. Totaling $4.2 billion, these financings equal about 25 percent of the $16.7 billion in venture capital available to small businesses. In fiscal year 2000, SBA expects to assist 3,700 small businesses with $3.5 billion in Federally backed venture capital.

SBIC's Share of the Venture Capital Market

Performance Indicators	FY 1997/ CY 1996	FY 1998/ CY 1997	FY 1999/ CY 1998
# Venture Capital Financings by SBICs	1,351	1,566	3,096[1]
# Venture Capital Financings by Non-SBICs	2,136	1,821	1,824
Total Number of Financings	**3,487**	**3,418**	**4,920**
SBIC percent of total number of financings	38.7%	46.2%	62.9%
$ of Venture Capital Financings by SBICs	$2.1B	$2.9B	$4.2B
$ Venture Capital Financings by Non-SBICs	$10.1B	$11.2B	$12.5B
Total Dollar Amount of Financings	**$12.2B**	**$14.1B**	**$16.7B**
SBIC percent of total dollar amount of financings	17.2%	20.6%	25.1%

Objectives and Scope

The objective of the audit was to determine if the Investment Division is effectively implementing the performance measurement requirements of the Results Act for the SBIC Program. To fulfill this objective, we sought answers to three basic questions. Do the program's goals and performance indicators align with its mission? Do the performance indicators show the results of the program in terms of efficiency and effectiveness? How reliable is the supporting data?

To answer the mission alignment question, we reviewed SBA's strategic plan, the Fiscal Year 2000 Annual Performance Plan, and the Draft 2001 Performance Plan. We developed a logic model to identify the cause and effect relationships between the mission and purpose of the SBIC program, its core business processes, key products, and desired program outcomes. To evaluate the extent to which the performance indicators aligned with the statutory mission, we compared the indicators to each aspect of the mission to ensure that all aspects were addressed. If there was not a performance indicator for an aspect of the mission we considered this an area for improvement.

To determine whether the performance indicators addressed the Results Act requirements (program effectiveness and efficiency), we segregated the performance indicators into the following categories:

- i) Outcomes
- ii) Customer satisfaction
- iii) Partner satisfaction
- iv) Cost
- v) Output/process

[1] The number and amount of Capital Financings by SBICs was incorrect in SBA's FY 2001Annual Plan. We have inserted the correct figures based on reported numbers from the Investment Division which also appear in SBA's FY 1999 Annual Performance Report.

If a category did not have at least one performance indicator, we considered this an area for improvement.

To determine whether SBIC performance indicators were supported by reliable data, we traced reported performance measurement data for FY1999 back to original supporting documents in the Investment Division and at six SBICs. The underlying data was then analyzed to determine whether it was sufficient, accurate, objective, and relevant.

Fieldwork was performed from August 1999 through December 1999. The audit was performed in accordance with generally accepted Government Auditing Standards. The outside consulting firm, Results, Inc., was retained to assist us in the audit.

RESULTS OF AUDIT

Overall, we found that the SBA Office of Policy and the Investment Division had not fully implemented the performance measurement requirements of the Results Act for the SBIC program and some of its underlying performance data was not reliable. Specifically, the program did not have performance indicators to determine the extent to which it was accomplishing its mission under the Small Business Investment Act. We found that most indicators measured outputs, rather than outcomes. Outputs measure the level of activity or effort that was realized. Outcomes assess the actual results, effects, or impact of a program activity compared to its intended purpose. Much of this problem stems from the culture of the program and the absence of effective SBA initiatives or directives necessary to bring about a more outcome-oriented, customer-focused, cost-conscious approach to program management. Last, some of the program's performance data was not reliable, due primarily to the lack of effective data verification and validation strategies and methods.

FINDING BETTER PERFORMANCE GOALS AND INDICATORS NEED TO BE ESTABLISHED FOR THE SMALL BUSINESS INVESTMENT COMPANY PROGRAM

Performance indicators do not measure program purposes

In passing the Results Act, Congress, among other things, sought to improve Congressional decision-making. It wanted more information on the extent to which agencies were achieving statutory objectives. To provide this information, agencies need performance goals and indicators that reflect the purposes established in each program's enabling statutes. Establishing this link to the program's mission enables an agency to gain agreement on what it is trying to accomplish and how it will know if it is successful. Office of Management and Budget (OMB) guidelines state that, performance goals and indicators should be centered on a program's core purpose.

The performance goal and indicators for the SBIC program focus on its mission of providing venture capital to small businesses but did not fully comply with the Results Act as they did not determine the extent to which the mission under the Small Business Investment Act was being accomplished. For fiscal year 1999, the SBIC program had one annual performance goal, "Increase venture capital" and six performance indicators:

- License 65 SBICs
- License $800 million in private capital
- Invest $3.2 billion in small business
- Invest in 3,400 small firms
- Invest 28 percent in companies that are 50 percent minority owned
- Invest 7 percent in companies 50 percent women owned

We agree that increasing the number of SBICs, the dollars invested, and the number of firms invested in shows that the program is supplementing the flow of venture capital. However, these indicators do not address whether SBA is providing funds when and where the funds are not in adequate supply, as required by the Small Business Investment Act. Our reading of the statute and the legislative history leads us to conclude that the phrase “not in adequate supply” is a qualifier that requires management to focus on specific small business needs. The legislative history shows two of these needs to provide funding of startups and to specific types of businesses. While management has identified geographic needs and a deficiency of venture capital within a specific dollar range, none of these needs were incorporated in the goal or used as performance indicators in the published performance plan.

Management has interpreted the Agency’s SBIC mission as providing venture capital to all small businesses, with special emphasis on minority and women owned businesses, as shown by the performance indicators. They believe the phrase “not in adequate supply” has a broad application, and therefore, was being met. Because this interpretation does not consider the phrase “not in adequate supply” in conjunction with the targeted areas discussed in the legislative history, SBA needs to clarify or add goals that fully address the mission under the Small Business Investment Act. Management needs to obtain a clear definition of the phrase “not in adequate supply” in order to be assured that performance goals to address the success of the program’s mission are being met.

Performance indicators were not balanced

The SBIC program has identified six performance indicators to be used to gauge program success. All of them relate to activities of the program, but none of them address performance indicators such as program outcomes, customer satisfaction, partner satisfaction, or cost.

The Results Act provides information to agencies about the types of performance indicators they need to develop to effectively implement the Act. Congress believes that an Agency should have a mix of performance indicators that permit it to weigh competing interests including:

- Outcome indicators linked to statutory objectives or the underlying purposes of a program;
- customer satisfaction indicators designed to provide information on the quality of services provided as well as the manner in which they are delivered; and
- cost indicators to tell how efficiently a program is operating.

A recent GAO report evaluating SBA's fiscal year 2000 Annual Performance Plan faulted the plan's continuing focus on outputs rather than outcomes.[2] Our analysis reached conclusions similar to GAO's finding. The Results Act offers an alternative if goals cannot be expressed in objective, quantifiable and measurable form for a particular program activity. Agencies may obtain authorization from the Office of Management and Budget to use an alternative form of expressing performance goals or state why it is not feasible or practical to express a performance goal in any form. SBA did not pursue these alternatives.

○ *The job creation performance indicator has flaws*

According to SBA’s fiscal year 2000 Annual Performance Plan, job creation is a major outcome of the Agency. However, SBA does not measure the number of jobs created as a result of

[2] Managing for Results- Opportunities for Continued Improvement in Agencies' Performance Plans, (GAO/GGD/AMID-99-215, July 1999)

the individual venture capital investments made in small businesses[3]. Instead, it calculates the number of jobs created by the SBIC program by dividing the total dollar value of SBA-backed investments by $32,500, which SBA believes is the level of investment required to create one new job. According to SBA's FY 2000 Annual Plan, the $32,500 figure is the average of job creation costs reported in separate studies conducted by the Association of Small Business Investment Companies and the Investment Advisory Council. Following this approach, SBA estimates that the SBIC program will create 83,000 jobs this year.

SBA's approach for measuring the jobs created by the SBIC program is flawed. It calculated theoretical effects rather than observing actual effects. According to OMB Circular A-11 performance indicators must have their roots in actual results, not estimates. Moreover, SBA's estimating technique of taking the average of two studies conducted by different organizations at different times with different assumptions can only yield accurate results by coincidence. To treat different studies as similar and then project from the past to present is a flawed analytical practice because of the extremely high-risk nature of assumptions about the extent to which past business operations and conditions resemble those of today.

SBA could obtain jobs created data through more rigorous enforcement of its own 1997 rules requiring SBICs to report it.[4] However, according to program officials, the response rate from the SBICs was poor and the information that was provided had no assurance of reliability. The officials stated that they were reluctant to insist that the SBICs submit the required data because of the extra cost and paperwork burden it places on them. In addition, because job creation is an outcome measure for all SBA credit programs, SBIC officials stated that they were waiting for an agency-wide initiative to gather job creation information. At the time of our audit, SBA had not developed an agency-wide method for obtaining this data.

○ *Unavailability of data on job creation*

Accurate, reliable job creation data already exists in Federal databases. The Bureau of Labor Statistics (BLS) in the Department of Labor maintains detailed employment records on every business in America. Each business has a unique Federal Employer Identification Number they use to pay taxes, social security, and unemployment insurance. At least quarterly they report specific information to Labor on the number of employees on their payroll. The BLS stores and analyzes this information in its database. SBA also uses the Federal Employer Identification Numbers to identify the small businesses it assists with loans and venture capital. Our preliminary discussions with the BLS disclosed that SBA could obtain access to information on the exact number of net new jobs created by entering into a joint memorandum of understanding. In addition, SBA would have the capability to develop the historical baseline and trend analysis data it needs to demonstrate how effectively its programs perform over time.

Job creation is one of several outcome indicators SBA proposed which can reflect the program's impact. While job creation is one way to measure the program results there is not

[3] The SBIC Program management disagreed that job creation was one of their program indicators.

[4] Title 13 CFR Section 107.630 (e) requires that SBICs report economic impact information annually for each financing consisting of the full-time equivalent jobs created or retained, the impact of the financing on the revenues and profits of the business, and on taxes paid by the business and its employees.

necessarily a direct correlation between SBA assistance and job creation. External factors and the nature of the business can also have an impact.

- *The program lacked customer satisfaction and cost indicators as envisioned under the Results Act*

The SBIC program's performance indicators do not include indicators of customer satisfaction and cost as envisioned under the Results Act and as encouraged by OMB Circular No. A-11, Section 220.9.

Customer satisfaction indicators provide information about the quality of a program's products. SBIC program managers say they receive feedback from investment companies they regulate, but do not get any feedback from the small business concerns the program was designed to assist. An example of a customer satisfaction indicator would be the percentage of positive comments from a customer survey or Internet feedback site. Another customer satisfaction indicator would be a comparison of elapsed times for closing an investment against a set standard.

Cost indicators measure the efficiency of program operations. In its report on the Results Act, the Senate Committee on Governmental Affairs stated that the indicators of unit cost are those most useful to agency staff in managing programs, rather than simply those indicators developed for financial management. The Committee also expected agencies to assign high priority to the development of unit cost indicators.[5] SBIC program managers stated that while they do not have any cost indicators, the program is cost effective. According to SBA's fiscal year 2001 annual plan, tax revenues generated each year from successful SBIC investments more than cover the cost of the program which was $6.8 million in FY 1999. Even if the program is cost effective overall, that does not eliminate the need for cost type performance indicators. The purpose of these indicators is to create a continuing focus on controlling costs over time. As envisioned under the Results Act, cost goals and indicators would allow the program to demonstrate its cost effectiveness and identify areas where further improvements are possible.

SBIC performance indicator data was not always reliable

We concluded that some of the underlying data describing the level of the SBIC's program performance indicators or outputs were not reliable. We define data as reliable if it is complete, accurate and consistently obtained over time. Specifically, we found that the number and dollar amount of financing were not properly included in the year funds were disbursed. In addition, we found no underlying data supporting minority and women owned business status reported by SBICs.

- *SBA inaccurately reported investment amounts and financing*

The number and dollar amount of financing by SBICs reported each year was neither complete nor accurate due to late reporting by the SBICs. For FY 1999, the Investment Division

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[5] Report of the Committee on Governmental Affairs United States Senate to Accompany S. 20, 103rd Congress, Report 103-58, June 16, 1993, page 30.

reported 3,096 financings for a total of $4.2 billion. This figure included 796 financings from prior years, 719 financings from FY 1998, 67 from FY 1997, and 10 from years ranging from 1994 to 1996, that totaled $811 million. Therefore, it appeared to be overstated by 26 percent.

Management collected the data on financings based on the date received as opposed to the date the financing was made. When asked why the data was collected in this manner, management stated that not all SBICs are prompt about their filings and that it is necessary to prepare investment activity reports shortly after year-end. Management believes that if this process is consistently applied, the number and dollars will average out the same over time. See Appendix B for Management's Analysis of Financing Data. While it is apparent that there is some "averaging out" over time, this lacks precision because the number and dollar amount of financings vary significantly each year, and because, as noted with FY 1999, the late reported financings include multiple prior fiscal years. To ensure reliable information is reported to Congress, management needs to obtain reports of financing information in the fiscal year of occurrence.

- *SBA lacked support for women and minority data*

The SBICs reviewed did not have support for the data related to performance goals and indicators of whether businesses were 50 percent owned by women or minorities. They reported information on women and minority ownership on the basis of personal observation or knowledge of the small business concern, but no records were kept to document the information reported. As a result, none of the reported data was reliable because it was not complete and verifiable.

Our review included Specialized Small Business Investment Companies (SSBICs), which are SBICs that target entrepreneurs who are considered socially or economically disadvantaged. The SSBICs maintain documentation known as an Eligibility Profile on each of the small business concerns they serve. The profile attests to minority status of the small businesses receiving venture capital assistance. In addition, the information is verified during the SSBIC examinations. The "Profile", is prepared and signed by key officials of the SSBIC at the time of the initial financing. If the SBIC program intends to retain as a performance indicator financings to minority and women owned businesses, it must develop a data collection method similar to the SSBICs or otherwise ensure that data is complete and verifiable.

Cause of deficient program indicators

We believe the absence of specific guidance concerning the preparation of organizational performance measurements contributed to the lack of results-oriented performance indicators. SBA directives centered on the development of activity/output performance indicators and did not discuss service quality, delivery, or customer satisfaction, and did not specifically require organizations to have performance indicators that addressed their missions. The guidance did ask organizations to develop cost performance indicators. Also, SBA directives did not provide strategies for verification and validation of data.

Recommendations

To improve the implementation of the performance measurement requirements of the Results Act for the SBIC program, SBA should develop new performance goals and indicators and validation procedures.

We recommend that the Director, Office of Policy:

1.A Provide specific guidance concerning the preparation of organizational performance goals and indicators. This guidance should require that performance measurement requirements address a program's statutory mission and include measurements of program outcomes, service quality, and cost. The guidance should also include a process that satisfies the Results Act provisions for obtaining OMB's authorization to express a performance goal or measure in an alternative form when it is not feasible or practical for a particular program activity.

1.B Enter into a memorandum of understanding with the Bureau of Labor Statistics or other appropriate statistical gathering organization to obtain access to historical and quarterly information on the number of jobs created by its loan and venture capital programs over the past 5 years and in the future.

We recommend that the Associate Administrator for the Investment Division:

1.C Obtain a working definition of the phrase "not in adequate supply" as used in the Small Business Investment Act.

1.D Develop a program goal that will address the entirety of the program's mission including the adequacy of venture capital supply.

1.E Develop program indicators to gauge mission effectiveness, key outcomes, quality of services and the delivery processes, customer and partner satisfaction, and program costs.

1.F Institute a strategy to verify and validate performance measurement data.

1.G Assert to the accuracy and completeness of performance data, or if data is not currently accurate and complete, explain how the division plans to overcome any quality problems in the future.

Management's Response

According to SBA management, the report was overly critical and misleading in its treatment of the SBIC mission, adequacy of performance indicators, and implied absence of validity and reliability of data and means to validate the data. Management disagreed with our conclusion that the Investment Division had not fully implemented the requirements of the Results Act. They added that the Annual Performance Plan is the Agency's plan, not the Investment Division's, and that the Investment Division had more than 75 performance indicators of which only six were allowed by the Agency to be included in the plan. They stated that these performance indicators span areas important to management and demonstrate true outcomes of the program.

Management did, however, concur with some of the report recommendations. Specifically, they concurred with recommendation 1.A to publish guidance on preparing organizational performance goals and indicators; 1.B to attempt to obtain job creation data from the Bureau of Labor Statistics; and, 1.E to develop outcome oriented performance indicators and to include performance indicators for cost and customer satisfaction.

Concerning the remaining four recommendations, management disputed our report and provided the following comments:

> For recommendations 1.C and 1.D, management stated that "SBA has historically interpreted the statutory phrase "not in adequate supply" as a Congressional statement of fact justifying the program rather than a qualifier that requires the program to focus on specific small business needs." They believe this position is supported by studies done by SBA's Office of Advocacy that found that only about 1.3 percent of companies needing venture capital funding received it in 1999.
>
> For recommendations 1.F and 1.G., management stated that the approach used by the Investment Division for reporting the number and dollar amount of financings, and the number of businesses financed, is based on when the data is received in lieu of when the financing occurred. They stated that this approach has been used for years, will continue to be used, and is the more practical approach. They maintain that, contrary to what is stated in the audit report, this method actually understated the data.
>
> Concerning the Investment Division's support for data on businesses owned by women and minorities, management stated that SBIC managers typically develop detailed knowledge of the ownership of prospective portfolio concerns as a result of their due diligence. For this reason, they believe the information is reliable. They further state that there are insufficient resources to allow the SBIC examiners to verify the data. See Appendix C for the full text of the response.

Evaluation of Management's Response

> The Investment Division's performance indicators as included in the SBA's published Annual Performance Plan do not demonstrate the stewardship and accountability required by the Results Act. In the response, management states that the "more than 75" performance indicators developed by the Investment Division were related to things important to internal management. We believe the performance indicators should be focused on key things that are important to Congress and the American people. This is why the Results Act stresses having outcome-oriented goals and performance indicators to show whether the program is accomplishing the intended purpose. Of the "more than 75" performance indicators less than 7 were outcome-oriented. Performance indicators such as "how many small concerns receiving SBIC financing were still in business after 5 years" or

“how many small concerns experience growth in employment, revenue, or equity after receiving SBIC financing” would demonstrate the kind of stewardship and accountability demanded by the Results Act.

As stated in our report, the Investment Division’s day-to-day efforts focus on the SBICs as opposed to the small concerns the program was created to assist. This focus does not require the development of outcome-oriented goals and performance indicators, and the collection of reliable data.

In regards to management’s response to the recommendations, we have the following comments:

1.A. The response is acceptable.

1.B. The response is acceptable. Milestones should be provided to show when the actions will be accomplished.

1.C. and 1.D. We do not agree with the Agency’s interpretation of the statutory phrase “not in adequate supply.” While there may be a shortage of venture capital, we believe the shortage is more acute in some geographical locations, in some industries, and to some borrowers. The phrase “not in adequate supply” applies to these acute shortages. This is a clear indicator that greater emphasis needs to be placed on geographical dispersion and targeting of the SBIC investments.

1.E. The response is acceptable. The addition of a partnership satisfaction indicator would assist the Investment Division in evaluating the program.

1.F. The approach used by the Investment Division to obtain data on the number and dollar amount of financings and the number of businesses financed does not satisfy the intent of the Results Act because it does not result in accurate data. Our review of a 5-year period disclosed the data was overstated. Management believes that the Investment Division maybe underreporting data overall. In either case, the data is not reported accurately.

Additionally, management assumes that data not reported in the proper year is reported in the next year. This is not necessarily true. Our review showed that data was sometimes reported up to 6 years late. SBICs are required to report financing information timely. Enforcement of this requirement would improve the accuracy of the data. SBICs that do not report data timely should be penalized.

Currently, SBIC managers are not self-certifying as to the gender or minority status of the borrowers, and have no underlying support for the data being provided to SBA. The SBICs could ask borrowers to provide this information in writing, thereby providing documentation to support the data submitted to SBA.

Appendix A

Definitions

Financing - financial assistance provided to a small business by a Small Business Investment Company

Outcomes - the results of a program activity compared to its intended purpose.

Outputs - the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner.

Performance goal - a target level of performance expressed as a tangible, measurable objective against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate.

Performance indicator - a particular value or characteristic used to measure output or outcome.

Verification - an assessment of data reliability considering data completeness, accuracy, consistency, and the timeliness and the related control practices.

Validation - the process for ensuring that measured values adequately represent performance related to the achievement of the agency program goals.

Management's Analysis of Financing Data

SBICs are required to submit a Portfolio Financing Report (SBA Form 1031) within 30 days of each new financing of a small business. Unfortunately, not all SBICs are prompt about their filings, with the result that SBA receives many Portfolio Financing Reports well after the end of the relevant fiscal year. SBA summarizes investment activity in reports prepared shortly after fiscal year-end. If SBA attempted to summarize the activity by disbursement date for a given fiscal year as suggested by the OIG, it would be necessary to constantly revise the activity reports to reflect the many subsequent filings so as not to understate performance. Instead, SBA has elected to report investment activity based on the date the Portfolio Activity Report is received. This procedure eliminates the need to constantly restate the information, and when constantly applied over time, the results will average out the same. This is illustrated in the following schedules. *(Please note that this information is disclosed exactly as reported by management and is not audited. Also, no data for these schedules was supplied by the OIG.)*

NUMBER OF FINANCINGS

Fiscal Year	# As Reported (Date of Receipt)	# Per IG (Date of Disburse)	Difference From IG	% Over / (Under) Reported	
1995	**2,221**	**2,174**	**47**	**2%**	**Over**
1996	2,107	2,570	(463)	-18%	Under
1997	2,731	3,199	(468)	-15%	Under
1998	3,456	3,277	179	5%	Over
1999	3,096	3,396	(300)	-9%	Under
5-yr Total	13,611	14,616	(1,005)	-7%	Under

AMOUNT OF FINANCINGS (1998 corrected)

Fiscal Year	$ As Reported (Date of Receipt)	$ Per IG (Date of Disburse)	Difference From IG	% Over / (Under) Reported	
1995	$1,249	$1,235	$14	1%	Over
1996	$1,616	$1,944	($328)	-17%	Under
1997	$2,369	$2,507	($138)	-6%	Under
1998	$3,239	$3,560	($321)	-9%	Under
1999	$4,221	$4,566	($345)	-8%	Under
5-yr Total	$12,694	$13,812	($1,188)	-8%	Under

NUMBER OF UNIQUE BUSINESSES FINANCED

Fiscal Year	# As Reported (Date of Receipt)	# Per IG (Date of Disburse)	Difference From IG	% Over / (Under) Reported	
1995	1,817	1,789	28	2%	Over
1996	1,589	1,942	(353)	-18%	Under
1997	1,903	2,272	(369)	-16%	Under
1998	2,499	2,344	155	7%	Over
1999	1,983	2,280	(297)	-13%	Under
5-yr Total	9,791	10,627	(836)	-8%	Under

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

AUG 11 2000

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Don A. Christensen
Associate Administrator for Investment

Theodore R. Wartell
Director, Office of Policy

SUBJECT: Response to Draft Audit Report – Results Act Performance Measurement for the Small Business Investment Company Program

Thank you for the opportunity to comment on your Draft Audit Report on SBA's implementation of the Results Act for the Small Business Investment Company (SBIC) program.

SBA is in its third full year of formal implementation of the GPRA, and we are making adjustments and improvements each year as we create a culture of accountability. We appreciate the Office of Inspector General's (OIG) attention and concur with some of the report recommendations:

- to publish guidance on preparing organizational performance goals and indicators,
- to include program outcomes, cost and customer satisfaction, and
- to continue to explore with Census and the Bureau of Labor Statistics (BLS) ways to access the aggregate databases to obtain information on the number of jobs created by SBA clients.

We believe, however, that the audit report was overly critical and misleading in its treatment of the SBIC mission, adequacy of performance indicators, and implied absence of validity and reliability of the data and means to validate the data. Specifically, we strongly dispute the OIG's assertions that:

- the program "does not fully comply with the Results Act,"
- the program lacks performance goals and indicators to show that it is meeting the mission of the Small Business Investment Act and that "performance indicators were not balanced,"
- the underlying program performance data are unreliable,
- the program has no strategy to "verify and validate performance measurement data."

Appendix C

The Government Performance and Results Act (GPRA or the Results Act) has two overriding goals: (1) to declare value to the citizen of public sector programs, and (2) to improve internal management. Although the implementation of the Act requires submission of three formal Agency documents, it also requires a major change in culture. It includes the inculcation of the spirit of good stewardship and accountability and a system of performance management. We believe the SBIC program management does this and therefore is compliant with the Results Act.

The OIG conclusion that the SBIC performance measures lacked balance is based upon SBA's "Fiscal Year 2000 GPRA Annual Performance Plan Congressional Submission." However, that document is the *Agency's* performance plan; it is not the Investment Division's performance plan nor is it that of the SBIC program. The SBIC program is just one of the many tools that the Agency utilizes to meet its stated mission of "Helping Small Business Succeed." Consequently, the Agency plan limited the SBIC program to only six performance indicators, four of which relate to the program's mission and two relate to specific Agency goals, namely to increase the assistance provided to small businesses owned by women and minorities. ***In contrast, the Investment Division itself currently compiles more than 75 operational performance indicators that it uses in the management of the SBIC program. These are listed in the attached Exhibit A.***

With the exception of customer satisfaction, these indicators span most areas important to management: investment activity, program growth, oversight factors, liquidation efforts, funding, and program efficiency. Were one to read only the audit report, one would lose the richness of the performance measures and indicators that are used to "improve the internal management of the program," the second goal of the GPRA.

For example, we discuss SBIC program results and the value-added for the taxpayer on pages 14-15 of our first Annual GPRA Performance Report (FY 1999) and point out a number of outcome-oriented achievements:

- Tax revenues generated each year from successful SBIC investments more than cover the cost of the program. The American taxpayer's share of the profits totaled $180 million.
- In FY 1999, SBICs provided $4.2 billion in financing to small businesses.
- SBICs, with one-tenth the capital of their larger counterparts, made 53 percent of all venture capital deals.
- The SBICs program mix changed significantly during FY 1999. The total committed capital resources of bank SBICs grew by 35 percent, participating securities grew by 58 percent and debenture SBICs by 12 percent, but SSBICs decreased by 22 percent.
- SBICs invested $55 million in equity capital for women-owned small businesses.
- SBICs invested in eight of the *Fortune* Magazine's 1999 100 fastest growing firms at some point in their development: [FOIA Exemption 4]

These results are clear and unambiguous and demonstrate true outcomes of the program.

Response to Specific OIG Comments

Adequacy of Performance Indicators for the SBIC program mission. The statutory mission of the SBIC program is to "stimulate and supplement the flow of private capital and long-term loan funds which small business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply." (Original authorizing legislation, 15 USC 661) This mission is accomplished under the statute through the creation, funding and regulation of privately-owned and operated Small Business Investment Companies.

The OIG Report correctly observes that "for fiscal year 1999, the SBIC program had one annual performance goal, Increase venture capital and six performance indicators." (Page 4 of OIG Report) This performance goal is appropriate for the SBIC program as it corresponds directly to the program's mission of supplementing the flow of capital to small business. Four of the six indicators that were selected, namely

- the number of new SBICs,
- the amount of capital they added to the program,
- the absolute number of SBIC financings of small businesses, and
- the amount invested by SBICs in small businesses

directly and effectively measure the program's success in accomplishing that mission.

The other two indicators, the number of SBIC investments that went to minority and to women-owned businesses, are responsive to an overall Agency goal rather than the program's stated statutory mission of providing capital to small businesses in general.

This statement of the mission has formed the basis on which the SBIC program has operated from it inception, and it was on this basis that the FY 1999 GPRA performance goal was selected. The OIG Report, however, concludes that this is insufficient and that the GPRA plan must also address "whether SBA is providing funds when and where the funds are not in adequate supply." (Page 4 of OIG Report.)

SBA historically has interpreted the statutory phrase "not in adequate supply" as a Congressional statement of fact justifying the program rather than "a qualifier that requires the program to focus on specific small business needs" as the OIG Report argues on page 5. This interpretation of a general need is supported by studies commissioned by SBA's Office of Advocacy which found that there are at least 300,000 small businesses growing at a rate of 20 percent per years plus some 80,000 new growth business start-ups each year, all of which would qualify for venture capital. Against this demand, it is estimated that only 5,187 of the companies, or 1.3 percent of the total, received institutional venture financing in 1999.[1] Clearly, there is a major unmet capital need among small businesses in general.

The SBIC Program was initially created in 1958 based on a Federal Reserve study that showed a major capital gap existed for U.S. small businesses. Congress created the program to fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations.

Today, while venture capital is available in much greater supply overall, there continues to be a gap for small businesses, and SBICs help fill that gap. In contrast to the private venture capital industry, SBIC investments are far more broadly diversified in terms of their size, industry, and location, and they often include companies with more modest projected growth rates. For example, in 1999:

- the average size of an investment by venture capital firms was reported to be $9.7 million versus $1.4 million for SBICs;

- 86 percent of investments by venture capital firms was concentrated in high technology versus only 31 percent for SBICs;

- more than 50 percent of venture capital firm dollars were invested in just 2 states, California and Massachusetts, versus 6 states for SBICs, California, New York, Ohio, Texas, Pennsylvania, and Illinois.

Balance of Performance Indicators. The OIG Report specifically faults the SBIC performance plan for lacking data on job creation.[2] While there is no mention of job creation *per se* in the SBIC program's authorizing legislation, it is accepted that an ultimate objective of ***all*** SBA programs, including the SBIC program, is to assist American small businesses to grow and prosper. Increased employment is obviously an important indicator of success and economic growth. ***While the increases in employment (or other operating statistics such as sales or earnings) for individual recipients of SBIC funding can be measured, the overriding problems lie in determining how much of this change is attributable to the SBIC investment and then how to combine this into a measure for the program overall.*** The investments generated through the SBIC program certainly contribute to a small concern's growth in sales, earning and

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[1] Based upon VentureOne data, which excludes SBICs, plus Investment Division data for calendar year 1999.

[2] There is, in fact, a reference to job creation for the various SBA credit programs on Page 17 of the GPRA Annual Performance Plan for Fiscal Year 1999, although it is not listed among the specific performance measures for any of the programs. Based upon an extrapolation from earlier studies projecting jobs created per dollar of venture investment, it was estimated that the SBIC program added 83,000 jobs in FY99. The basis for this projection has since been corroborated by an Arizona Venture Capital Impact Study performed by the Zermatt Group.

employment, ***but the relative importance of this contribution cannot readily be measured.***

To date, we have been frustrated in our attempts to develop defensible measurements for the specific contribution that an SBIC investment makes to a company's success, and we have been reluctant merely to report gross changes in such measures because of their inherent inaccuracy. We can obtain the data needed for such a measure since SBIC regulations require licensees to provide pre-financing information for each investment that they make, and to update that data with their annual reports to SBA. This information includes revenues, earnings, taxes and number of employees. Once the data is obtained, however, our dilemma has been how to use it to measure SBIC program performance.

The attached Exhibit B discusses some of the fundamental problems inherent in the various approaches to attributing job creation to the SBIC program. So far we have been unable to find a defensible resolution to them, nor did the OIG auditors provide insight into a possible solution.[3] Lacking a more suitable indicator, the program will probably respond to the OIG Report's criticism by adopting something like "increase in operating data for selected recipients of SBIC financing" as a performance measure in the future, without worrying too much about defending its relevance.

Data Reliability. The OIG contention that "SBIC performance indicator data is not always reliable" (Page 7 of OIG Report) is based upon the fact that Number of Financings, Amount of Financings, and Number of Unique Businesses Financed for each year are totals from the reports actually received from SBICs during the year rather than totals based upon the actual date of the investments. This approach has been used consistently for many years and, as illustrated in Appendix B to the OIG Report, actually has resulted in an ***understatement of results*** rather than the 26 percent overstatement suggested by the Report. We continue to believe that this is a more practical approach, and will continue its use. However, we will make the basis for determination clear in future GPRA reports and will consider any alternatives that makes clear the difference between the actual date of the investment and totals contained in fiscal year reports.

Verification of performance measurement data. The second concern expressed regarding data reliability was that "measures related to whether a business was 50 percent owned by women or minorities were unsupported." (Page 8 of OIG Report) Even though there is no statutory or regulatory requirement for SBICs to make such targeted investments, SBA requires them to report these ownership percentages as of the date of each investment. Because SBIC managers typically develop detailed knowledge of the ownership of prospective portfolio concerns as part of their investment due diligence, we believe that we can rely on their "self certification" of the data. We do not have sufficient

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[3] The OIG auditors did, however, suggest that SBA enter into a memorandum of understanding with the Bureau of Labor Statistics to obtain employment data on each SBIC portfolio company. This approach that has been under consideration for some time with the Bureau of the Census for all of SBA credit and capital programs.

examination resources for the SBA examiners to physically verify the accuracy of these certifications. The fact that supporting documentation is provided under the Specialized SBIC program, as noted by the OIG Report, is not relevant since SSBICs are restricted by statute to investing only in specified targeted groups, and they have statutory and regulatory requirements to obtain such documentation.

Conclusion

In conclusion, we must emphasize that SBA in general, and the SBIC program managers in particular, are dedicated to fulfilling all of the Results Act's requirements. Within the constraint of available resources, we have developed and adopted performance measures that are meaningful as well as accurate. However, our emphasis on accuracy has led to our not including some of the outcomes indicators suggested by the OIG Report, such as job creation, since we were unable to directly attribute the observable results to the SBIC program's intervention. Similarly, in order to have measures of investment activity that are consistent, available promptly, and not subject to subsequent restatements, we elected to base them on the dates the reports were received even though this approximation tended to understate performance.

The OIG Report properly points out that the program's performance indicators do not address what it contends are Results Act priorities such as customer satisfaction, service quality, or cost. We will explore methods to correct these deficiencies in future performance plans.

The SBIC program has more than quadrupled in size over the past six years and today represents a $14.6 billion pool of professionally managed venture capital dedicated to the nation's small business community. Since almost $10 billion of this is private capital, the program clearly is serving its statutory mission of stimulating the flow of private capital to small business. And this has been achieved efficiently without increased staffing and with a decreasing requirement for annual appropriations. In fact, with the more than $200 million of SBIC profit participations that SBA has received to date in FY2000, the program's profits and fees over the past eight years now exceed its cumulative budget appropriations and direct operating costs for the period.

The SBIC program is an important contributor to SBA's mission of "Helping Small Businesses Succeed," and we will continue to demonstrate this in our future GPRA performance reports.

Attachments:
Exhibit A – SBIC Operational Performance Measures
Exhibit B – Considerations in Measuring SBIC Program Performance based upon the Operating Results of the Recipients of SBIC Financing

cc: Jere W. Glover, Chief Counsel for Advocacy
Kris Marcy, Chief Operating Officer

EXHIBIT A -- INVESTMENT DIVISION MEASURES OF PERFORMANCE

		FY97	FY98	FY99	9 months 6/30/00	
INVESTMENT ACTIVITY						
1	Amount of small business financings	$2,369M	$3,239M	$4,221M	$4,278.3	
2	Number of financings	2,731	3,456	3,096	3,471	
3	Number of small businesses financed	1,903	2,499	1,983	2485	
4	Amount of equity-type financings	$2,129M	$2,876M	$3,944M	$3,946.7	
5	Number of equity-type financings	1,351	1,566	2,035	2,084	
6	Number of firms receiving equity	841	1,004	1,232	1,349	
7	Amount of early stage financings (<2 yrs old)	$997M	$1,567M	$1,874M	$2,017	
8	Number of early stage financings (<2 yrs old)	1,003	1,456	1,169	1,533	
9	Number of early stage firms financed (<2 yrs)	791	1,115	806	1,208	
10	Amount of 50% minority financings	$117M	$173M	$128M	$176M -	
11	Number of 50% minority financings	712	887	528	757	
12	Amount of 20% minority financings	$147M	$204M	$187M	$277M	
13	Number of 20% minority financings	757	947	628	826	
14	Amount of 50% woment financings	$36	$31M	$55M	$84M	
15	Number of 50% women financings	207	208	176	217	
16	Amount of 20% woment financings	$126M	$94M	$115M	$176M	
17	Number of 20% women financings	295	302	279	333	
18	Amount of LMI investments (excl Medallion)	N/A	$611M	$746M	N/A	
19	Number of LMI investments (excl Medallion)	N/A	524	504	N/A	
20	Number of LMI firms financed (excl Medallion)	N/A	339	314	N/A	
PROGRAM COMPOSITION						
21	Number of SBICs	300	318	354	379	
22	Amount of private capital	$5,140M	$6,295M	$8,286M	$9,363M	
23	Amount of committed leverage	$1,697M	$2,652M	$3,763M	$4,678M	
24	Total committed capital	$6,838	$8,948	$12,049	$14,041M	
PROGRAM GROWTH						
25	Number of MAQs received	N/A	N/A	N/A	49	
26	Number of "go forth" letters issued	N/A	N/A	N/A	45	
27	Number of SBICs licensed	33	31	53	42	
28	Initial private capital licensed	$449M	$578M	$747M	$727M	
29	Net increase in number of active SBICs	18	18	36	25	
30	Net increase in private capital	$620M	$1,155M	$1,990M	$1,077M	
31	Number of applications in process	N/A	N/A	N/A	56	
32	Value of applications in process	N/A	N/A	N/A	$1,033.5M	
33	Number of active applications >6 months old	N/A	N/A	N/A	15	
34	Percentage of active applications >6 mos. old	N/A	N/A	N/A	27%	
OVERSIGHT						
35	Number of actions completed in Operations	2,181	2,397	2,173	1,405	
36	Number of actions overdue	50	79	78	137	
37	Percentage of actions overdue	2.30%	3.30%	3.60%	9.70%	
38	Number of examinations completed	217	230	230	183	
39	Examination cycle for leveraged SBICs	12.9 mos.	12.2 mos.	12.3 mos.	11.8	
40	Examination cycle for non-leveraged SBICs	18.4 mos.	18.6 mos.	18.1 mos.	20.9	
41	Percentage of exams without findings	65%	63%	60%	67%	

42	Number of findings > 180 days during year	0	0	0	0	
43	Percentage with incomplete economic data	84%	82%	80%	78%	
LIQUIDATION						
44	Number of transfers to liquidation	5	2	2	3	
45	Amount of leverage transferred to liquidation	$20M	$7M	$5M	$6M	
46	Number of open cases	137	119	109	102	
47	Amount of leverage in liquidation	$215M	$172M	$128M	$130M	
48	Number of cases closed	28	20	12	10	
49	Percentage of cases closed	18%	15%	10%	9%	
50	Leverage recoveries	$65M	$47M	$35M	$12M	
51	Percentage recovery on beginning balance	22%	21%	21%	9%	
52	Average age of cases in liquidation	7.3	8.1	8.8	8.35	
FUNDING						
53	Number of commitments (obligations) issued	75	142	106	80	
54	Value of commitments (obligations) issued	$372.5M	$1,150.6M	$1,367.2M	$1,235.6M	
55	Number of draws approved	66	148	439	654	
56	Number of draws effected	66	111	301	443	
57	Value of debenture poolings	$125.5M	$124.1M	$175.3M	$154.6M	
58	Value of participating securities poolings	$214.2M	$222.9M	$460.5M	$455.3M	
SUPPORT						
59	Number trained in Regulations Classes	250	253	256	316	
60	Number of participating securities distrbutions	18	26	36	90	
PROGRAM EFFICIENCY						
61	Number of Investment Division employees	80	85	83	79	
62	$ million committed leverage per employee	$21.20	$31.20	$45.30	$59.20	
63	$ million total capital per ID employee	$85.50	$105.30	$145.20	$177.70	
64	$ million invested in small bus. per employee	$29.10	$38.10	$50.90	$54.20	
65	Exams completed per examiner	$12.10	$12.80	$11.00	11.1	
66	Total operating budget	$6,663M	$6,789M	$7,421M	$5.393M	
67	Total compensation and benefits	$5,913M	$6,174M	$6,790M	$4.825M	
68	Fee income	$1.707M	$2.640M	$2.690M	$2.454M	
69	Budget authority utilized	$12.117M	$24.355M	$27.108M	$14.859M	
70	Net direct cost of program	$17.1M	$28.5M	$31.8M	$17.798M	
71	Leverage committed to SBICs	$372M	$1,162M	$1,367M	$1,236M	
72	Direct cost per $ million invested in small bus.	$14,432	$8,799	$7,533	$4,160	
73	Jobs created at $36,200 per job	65,000	89,000	117,000	118,000	
74	Total direct cost per job created	$263	$320	$272	$151	
75	Participating securities subsidy rate	3.29%	2.20%	2.19%	1.80%	
76	Debenture subsidy rate	3.19%	1.94%	1.38%	0.00%	
77	Participating securities profit distributions	$4.3M	$11.1M	$13.1M	$195.2M	

EXHIBIT B

Considerations in Measuring SBIC Program Performance based upon the Operating Results of the Recipients of SBIC Financing

In attempting to measure SBIC program performance, one approach would be to aggregate the increase in number of employees (or other factors such as the amount of revenues or earnings) for the year for all small businesses receiving SBIC financing during that year. However, in attributing this performance to the SBIC program, one must reconcile such considerations as:

(1) the relative size of each small business concern receiving the investment (an investment in a large firm growing at a 20 percent rate would seem much more valuable than the same amount invested in a small, early stage firm with the same growth rate);

(2) the proportion of the investment transaction provided by the SBIC (the SBIC's funding could be the entire investment or merely a small portion of a much larger syndicated financing);

(3) how to reflect the role of an SBIC's subsequent follow-on investment which also contributes to the business's reported performance; and

(4) the relative impact of other funding sources on each small business's performance, such as SBA's 7(a) or 504 programs whose performance plans should also receive credit for the recipient's performance.

In addition, it must be recognized that equity-type investments are long-term in nature and ***their impact cannot be measured by a single year***, a specific focus of annual GPRA performance measures.

To provide the longer-term view which recognizes the ongoing contribution of SBIC investments, one could attempt to measure program performance by the annual increase in the aggregate number of employees (or amount of revenues or earnings) of ***all*** companies in ***all*** SBIC portfolios at the end of the year. However, in addition to all of the problems noted above, such a measure would also be distorted by the changes in the portfolio's composition during the year, (i.e., increased by the additions of new investments not included in the previous year and reduced by sales or dispositions of portfolio investment during the year)[4]. Nonetheless, such a measure does provide some indication of the growth of companies receiving SBIC assistance is probably the best that can be done at this time.

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[4] Note that a very successful portfolio company going public, permitting the SBIC to sell its investment at a large gain, has the same negative impact as a unsuccessful portfolio company that failed.

Appendix D

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