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Testimony

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**ECONOMIC
DEVELOPMENT**

**Efficiency and
Effectiveness of
Fragmented Programs Are
Unclear**

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



G A O

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Chairman Graves, Ranking Member Velazquez, and Members of the Committee:

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

Our recent work includes information on 80 economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA) and the Small Business Administration (SBA). SBA administers 19 of the 80 programs. According to the agencies, funding provided for these 80 programs in fiscal year 2010 amounted to \$6.2 billion, of which about \$2.9 billion was for economic development efforts, largely in the form of

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

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

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

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

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

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

Building on our past work, we are in the planning phase of a new, more in-depth review that will focus on a subset of these 80 programs, including a number of SBA programs. We plan to evaluate how funds are used, identify additional opportunities for collaboration, determine and apply criteria for program consolidation, and assess how program performance is measured.

For our May 2011 report on potential overlap and fragmentation in the federal government's economic development efforts, we utilized

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

information from previous GAO products as well as our ongoing work following up on the recommendations in those products. We also relied on our recent evaluation of economic development programs at Commerce, HUD, SBA and USDA. During this evaluation, we compiled publicly available information on each program to determine the economic activities that the programs can fund and the ways the agencies distribute economic development funding, as well as the geographic areas and primary recipients that the agencies target. We then relied on the agencies to review this information, confirm its accuracy, and provide clarifications as necessary. Based on the information we collected and the clarifications that the agencies provided, we determined that these data were sufficiently reliable for the purposes of this review. Our report also includes self-reported data on program funds from the agencies for background and contextual purposes. We relied on the agencies for the program-specific funding data because the agencies are the only source for this type of information. We met with officials from each of the agencies to discuss each of the programs and the program missions. Because SBA officials view all of their programs as being related to economic development, we included all SBA programs in this review. The work on which this statement is based was performed from October 2011 through April 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overlap Appears to Exist in the Design of Economic Development Programs

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

Table 1: Economic Development Activities by Agency

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

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

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

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

Agencies Are Collaborating on a Limited Basis

To address the potential for overlap and fragmentation among federal programs, we have previously identified collaborative practices agencies should consider implementing in order to maximize the performance and results of federal programs that share common outcomes.⁴ These practices include leveraging physical and administrative resources, establishing compatible policies and procedures, monitoring collaboration, and

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

reinforcing agency accountability for collaborative efforts through strategic or annual performance plans.

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

A Lack of Information on Program Outcomes Is a Longstanding Concern

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

- Commerce's Economic Development Administration (EDA), which administers eight of the programs we reviewed, continues to rely on a potentially incomplete set of variables and self-reported data to assess the effectiveness of its grants. This incomplete set of variables may lead to inaccurate claims about program results, such as the number of jobs created. Moreover, EDA staff only request documentation or conduct site visits to validate the self-reported data provided by grantees in limited instances. We first reported on this issue in March 1999 and issued a

⁵[GAO-08-1123](#).

subsequent report in October 2005.⁶ In response to a recommendation we made in 2005, EDA issued revised operational guidance in December 2006 that included a new methodology that regional offices are to use to calculate estimated jobs and private-sector investment attributable to EDA projects. However, during our review we found that the agency still primarily relies on grantee self-reported data and conducts a limited number of site visits to assess the accuracy of the data. While acknowledging these findings, EDA officials stated that they employ other verification and validation methods in lieu of site visits. These methods include reviews to ensure the data are consistent with regional trends and statistical tests to identify outliers and anomalies. We plan to assess the quality and adequacy of these methods as part of our work going forward.

- SBA has not yet developed outcome measures that directly link to the mission of its Historically Underutilized Business Zone (HUBZone) program, nor has the agency implemented its plans to conduct an evaluation of the program based on variables tied to its goals.⁷ We reported in June 2008 that while SBA tracks a few performance measures, such as the number of small businesses approved to participate in the program, the measures do not directly link to the program's mission.⁸ While SBA continues to agree that evaluating program outcomes is important, to date the agency has not yet committed resources for such an evaluation.

Without quality data on program outcomes, these agencies lack key information that could help them better manage their programs. In

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

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

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

addition, such information could enable congressional decision makers and others to make decisions to better align resources, if necessary, and to identify opportunities for consolidating or eliminating some programs.

Framework for Future Analysis

Currently, we are in the planning phase of a new, more in-depth review that will focus on a subset of these 80 programs, including a number of SBA programs. In our May 2011 report we compared the 80 programs by identifying the primary targeted recipient for each program, and in our work going forward we plan to further differentiate the programs.⁹ In addition, we will build upon previous work, such as reports on Women's Business Centers and programs to assist service-disabled veteran-owned small businesses. Specifically, in November 2007, we reported that although SBA requires Women's Business Centers to coordinate with recipients of funding under two other similar SBA programs, SBA had provided limited guidance or information on successful coordination.¹⁰ In October 2008, we reported that weak coordination among the multiple agencies that provide federal resources to assist veterans, including service-disabled veterans, or individuals starting small businesses could add to the difficulty that veterans face in navigating federal programs.¹¹ As we move forward with work on economic development programs, we plan to evaluate how funds are used, identify additional opportunities for collaboration, determine and apply criteria for program consolidation, and assess how program performance is measured.

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

⁹In commenting on our May 2011 report ([GAO-11-477R](#)), SBA stated that the report provides an initial starting point for investigation but does not attempt to set forth specific data about the differences among the programs' features.

¹⁰GAO, *Small Business Administration: Opportunities Exist to Improve Oversight of Women's Business Centers and Coordination among SBA's Business Assistance Programs*, [GAO-08-49](#) (Washington, D.C.: Nov. 16, 2007). SBA requires Women's Business Centers to coordinate with local Small Business Development Centers and SCORE chapters because all three programs provide training and counseling services to small business clients.

¹¹GAO, *Multiple Agencies Provide Assistance to Service-disabled Veterans or Entrepreneurs, but Specific Needs Are Difficult to Identify and Coordination Is Weak*, [GAO-09-11R](#) (Washington, D.C.: Oct. 15, 2008).

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Related GAO Products

Small Business Administration: Steps Have Been Taken to Improve Administration of the 8(a) Program, but Key Controls for Continued Eligibility Need Strengthening. [GAO-10-353](#). Washington, D.C.: March 30, 2010.

Small Business Administration: Actions Needed to Improve the Usefulness of the Agency's Lender Risk Rating System. [GAO-10-53](#). Washington, D.C.: November 6, 2009.

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