

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Subcommittee on Rural Affairs, Agriculture, Trade, and Entrepreneurship
FROM: Chairwoman Abby Finkenauer
RE: Assessing the Government's Role in Serving Rural American Small Businesses (Part One)
DATE: November 14, 2019

On **Thursday November 14, 2019 at 10:00 a.m. in Room 2360 of the Rayburn House Office Building**, the House Committee on Small Business Subcommittee on Rural Affairs, Agriculture, Trade, and Entrepreneurship will hold a hearing entitled, "Assessing the Government's Role in Serving Rural American Small Businesses (Part One)." Rural America, encompassing about 72 percent of our nation's total land and approximately 46 million residents, plays a critical role in our economy. Yet, rural businesses face many unique challenges, such as access to capital, training, and technology.

The hearing will examine the U.S. Department of Agriculture's (USDA) Rural Business-Cooperative Service programs and Small Business Administration's (SBA) programs, and how these agencies can work together to support entrepreneurship, economic growth and business development in rural communities. Members will have the opportunity to hear from representatives from the USDA and SBA on federal programs that support businesses and economic development in rural communities. The witnesses include:

- Ms. Bette Brand, Administrator, United States Department of Agriculture, Rural Business-Cooperative Service, Washington, DC
- Ms. Michelle Christian, Director of Rural Affairs, United States Small Business Administration, Washington, DC

Background

Rural America plays a critical role in our economy. Approximately 46 million people live and work in rural America. Significant industry sectors include agriculture, mining, manufacturing, services, trade and tourism.¹

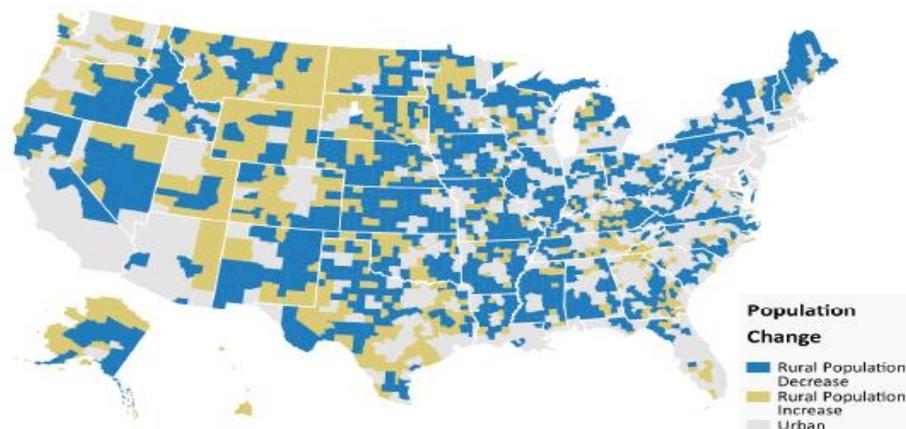
In the past, population shifts in rural America have been relatively balanced. However, the period between 2010 and 2016 was the first recorded period of rural population decline in the U.S.² Rural areas face many unique challenges that can put them at a competitive economic disadvantage. Low

¹ U.S. DEP'T OF AGRICULTURE, RURAL AMERICA AT A GLANCE, (2017), <https://www.ers.usda.gov/webdocs/publications/85740/eib-182.pdf> [hereinafter RURAL AMERICA AT A GLANCE 2017].

² *Id.*

population and geographic isolation impact market and workforce development. Other key challenges include lower median incomes and persistent poverty as well as limited business resources and access to capital.³ Remote and especially economically challenged areas have seen an outmigration of young adults, resulting in an aging population.⁴

Two-Thirds of Rural Counties Lost Population 2010-2016



Source: Census Bureau 2010-2016 Population Estimates.

While many parts of the country have seen economic progress and rising employment levels since the Great Recession, rural America has not recovered as quickly and has only accounted for 4 percent of employment growth since 2013.⁵ Slow rural population growth, coupled with an aging population, have contributed to a declining labor force and a much slower rate of employment growth when compared to metro areas.

However, some of these trends have begun to reverse. The overall population living in rural counties has increased for the first time this decade and the levels of unemployment and poverty has decreased slightly; however, these national trends are not reflected in every rural county and this increase in net migration was more often seen in rural areas that are more densely populated, near a major city, or known for their scenery.⁶ While less diverse than urban areas, rural America has become more economically and demographically diverse than it has been in decades with 84 percent of rural counties overall experiencing increases in racial or ethnic diversity.⁷

Business and Entrepreneurship in Rural Communities

Throughout rural America, many businesses and industries specialize in resource-based activities such as agriculture, forestry, mining, fishing, or natural resource-based recreation. In addition to these industries, manufacturing has been an important source of rural employment since the 1950s

³ The White House, Rural Policy Learnings Memo, Oct. 6, 2016, 1-2
<https://www.whitehouse.gov/sites/whitehouse.gov/files/images/Rural%20Policy%20Learnings%20Memo.pdf>.

⁴ RURAL AMERICA AT A GLANCE, *supra* note 1.

⁵ U.S. DEP'T OF AGRICULTURE, RURAL AMERICA AT A GLANCE (2018),
<https://www.ers.usda.gov/webdocs/publications/90556/eib-200.pdf> [hereinafter RURAL AMERICA AT A GLANCE 2018].

⁶ *Id.*

⁷ U.S. DEPT. OF AGRICULTURE, ECONOMIC RESEARCH SERVICE, RACIAL AND ETHNIC DIVERSITY IS INCREASING IN RURAL AMERICA, *available at* https://www.ers.usda.gov/webdocs/publications/44331/10597_page7.pdf?v=41055.

as jobs in other sectors have declined.⁸ Today manufacturing makes up about 15% of rural employment.

Besides manufacturing, three major service industries now provide the bulk of rural employment: education and health (25%); trade, transportation, and utilities (20%); and leisure and hospitality (11%).⁹ Agriculture has an outsized impact on the economies of certain rural communities and creates jobs in related industries and supply chains. It is worth noting that 90% of total farm household income now comes from off-farm sources though and only 1.3% of Americans are directly employed by farming or ranching.¹⁰

Supporting entrepreneurship and small businesses is key to economic development in rural America. In rural America, entrepreneurs start businesses at higher rates than urban Americans and are more resilient than urban start-ups.¹¹ Rural development policies to-date have largely been focused on creating, expanding, and retaining employment in rural areas. Sixteen different federal agencies administer more than 88 programs that focus on rural economic and business development.¹² The Rural Development Policy Act of 1980, which designated USDA as the lead federal agency of rural development, offers the greatest number of rural development programs.¹³ The Farm Bill is the major legislative vehicle for changes in rural development policy.

Many of the federal programs focused on rural business development are administered by the USDA's Rural Business-Cooperative Service. These programs provide loans and grants to support entrepreneurs and rural businesses as well as technical assistance and training for rural businesses. The Small Business Administration also administers several programs that support business development, including loan guarantees and capital access support, federal contracting programs, economic development programs, and training and technical assistance to assist entrepreneurs and small businesses.

SBA and Rural America

The SBA administers several programs to improve access to financing and spur economic development, as well as entrepreneurial development programs. While not specifically focused on rural businesses, the SBA programs can be used by urban and rural businesses alike. Given the challenges facing rural America such as access to capital, geographic isolation, distance to SBA resources, low population density, and increased poverty, there have been several initiatives to increase SBA's footprint in rural America.

⁸ TADLOCK COWAN, CONG. RES. SERV., RL31837, AN OVERVIEW OF USDA RURAL DEVELOPMENT PROGRAMS (2016) [hereinafter CRS RL31837].

⁹ RURAL AMERICA AT A GLANCE 2017, *supra* note 1.

¹⁰ U.S. DEP'T OF AGRICULTURE, ECONOMIC RESEARCH SERVICE, 2019 FARM SECTOR INCOME FORECAST (2019).

¹¹ Brian Thiede, Lillie Greiman, Stephan Weiler, Steven Beda, Tessa Conroy, *The Conversation, Six Charts that Illustrate the Divide Between Rural and Urban America*, THE CONVERSATION (Mar. 16, 2017), <https://theconversation.com/six-charts-that-illustrate-the-divide-between-rural-and-urban-america-72934>.

¹² TADLOCK COWAN, AN OVERVIEW OF USDA RURAL DEVELOPMENT PROGRAMS, CONGRESSIONAL RESEARCH SERVICE, RL31837 (2016).

¹³ Rural Development Policy Act of 1980, Pub.L No. 96-355 (1980).

Office of Rural Affairs

The Office of Rural Affairs was statutorily established in 1990 under the management of the SBA.¹⁴ It was established to:

“(1) achieve an equitable distribution of the financial assistance available from the Administration for small business concerns located in rural areas; (2) to the extent practicable, compile annual statistics on rural areas, including statistics concerning the population, poverty, job creation and retention, unemployment, business failures, and business startups; (3) provide information to industries, organizations, and State and local governments concerning the assistance available to rural small business concerns through the Administration and through other Federal departments and agencies; (4) provide information to industries, organizations, educational institutions, and State and local governments concerning programs administered by private organizations, educational institutions, and Federal, State, and local governments which improve the economic opportunities of rural citizens; and (5) work with the United States Tourism and Travel Administration to assist small businesses in rural areas with tourism promotion and development.”¹⁵

The law also called for the SBA to catalog programs administered by state and federal agencies that assist small businesses in rural areas and to work with other federal agencies to actively assist rural small businesses.¹⁶

The “Office of Rural Affairs and Economic Development” was initially established within the Office of Financial Assistance at SBA, and in Fiscal Year 1995 was relocated to the Kansas City Field office in order to more closely serve rural constituents. Later, the Deputy Regional Administrator for Region 6 was assigned to the position of Advocate for Rural Affairs within the Office of Advocacy and held this position until his retirement in 2005. Within the last several months, the SBA has named a National Director for the Office of Rural Affairs. However, the agency has not provided Congress with any new information about the position or the Office of Rural Affairs.

504 Loan Rural Initiative Pilot Program

In 2018, the SBA established the 504 Loan Rural Initiative Pilot Program.¹⁷ Under this pilot program, a Certified Development Company (CDC) can make a 504 loan outside of its area of operation if the project is in a rural county and in the same SBA region. As part of this program, SBA has waived certain requirements normally part of the 504 loan program, such as: the CDC does not need to demonstrate that it can adequately fulfill its 504 program responsibilities for the 504 loan; and the SBA does not determine whether the CDC has satisfactory SBA performance.¹⁸

¹⁴ Small Business Administration Reauthorization and Amendments Act of 1990, Public Law 101-574 (1990).

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ U.S. SMALL BUS. ADMIN., 504 LOAN PROGRAM RURAL PILOT GUIDE, AUG 22, 2018.

¹⁸ 504 Loan Program Rural Initiative-Waiver of Limitation on Lending Authority, 83 FR 34021, July 18, 2018.

SBA and USDA Collaboration to Support Rural Businesses

The USDA and SBA have entered into formal agreements in 2013 and again in 2018, to coordinate their efforts to support businesses in rural areas. However, it is unclear how the agencies' programs are being coordinated. According to a 2012 Government Accountability (GAO) report, the agencies did not determine roles and responsibilities, find ways to leverage each other's resources, or establish compatible policies and procedures.¹⁹ Without collaboration and coordination between agencies, the USDA and SBA may not be able to make the best use of limited federal resources to serve small businesses and entrepreneurs in the most effective and efficient manner.

The previous Administration set up a White House Rural Council to promote economic growth and prosperity in rural areas.²⁰ This interagency working group was chaired by the Secretary of Agriculture and included SBA, among 25 other agencies and divisions. The council's goal was to better coordinate federal programs in order to maximize the impact of federal investment in rural areas. The council announced several initiatives, such as helping rural small businesses access capital, developing policies to address the unique characteristics of rural America, and reducing barriers to federal resources.²¹ The council worked to increase capital access for rural small businesses, with USDA and SBA committing to provide \$175 million in microloans to small businesses in rural areas, as well as support more training and development opportunities.²² The Administration also established a rural portfolio with the Small Business Investment Company (SBIC) Impact Investment Program to invest in distressed rural areas, through which SBA extended more than \$400 million worth of investments in rural America in FY 2011 alone.²³

The current Administration disbanded the Rural Council and established an interagency task force comprised of 22 other federal agencies and divisions, focused on agriculture and rural prosperity.²⁴ The task force has issued five calls to action and, through the USDA, has released a report on agriculture and rural prosperity.²⁵ Additionally, in 2018 the USDA and SBA entered into a specific memorandum of understanding to promote stronger business and agriculture economies in rural America.²⁶ As part of this, the SBA and USDA have held outreach events around the country to help rural small businesses and entrepreneurs learn about SBA and USDA programs.

¹⁹ U.S. GOV. ACCOUNTABILITY OFF., REPORT TO CONGRESSIONAL COMMITTEES GAO-12-819, ENTREPRENEURIAL ASSISTANCE, GAO-12-819 (2012).

²⁰ THE WHITE HOUSE, EXECUTIVE ORDER 13575, ESTABLISHMENT OF THE WHITE HOUSE RURAL COUNCIL (2011).

²¹ White House Rural Council, *Rural Strategies that work: Lifting up Federal policies that are responsive to the assets and challenges of rural America* (Oct. 5, 2016).

²² Karen Mills, *White House Rural Council Growing Rural Economies, Creating Jobs*, (Jun. 19, 2013) <https://obamawhitehouse.archives.gov/blog/2013/06/19/white-house-rural-council-growing-rural-economies-creating-jobs>.

²³ THE WHITE HOUSE, OFF. OF THE PRESS SECRETARY, PRESIDENT ANNOUNCES NEW JOBS INITIATIVE FOR RURAL AMERICA, August 16, 2011.

²⁴ THE WHITE HOUSE, EXECUTIVE ORDER 13790, PROMOTING AGRICULTURE AND RURAL PROSPERITY IN AMERICA (Apr. 25, 2017), <https://www.whitehouse.gov/presidential-actions/presidential-executive-order-promoting-agriculture-rural-prosperity-america/>.

²⁵ U.S. DEP'T OF AGRICULTURE, REPORT TO THE PRESIDENT OF THE UNITED STATE FROM THE TASK FORCE ON AGRICULTURE AND RURAL PROSPERITY (2017).

²⁶ U.S. Dep't of Ag, *USDA and SBA Join Forces to Help Businesses in Rural America*, USDA Press (Apr. 4, 2018) <https://www.usda.gov/media/press-releases/2018/04/04/usda-and-sba-join-forces-help-businesses-rural-america>.

Overview of USDA Rural Development Programs

USDA Rural Development has a broad mission focused economic development and improving the quality of life in rural communities. A major function of USDA Rural Development is providing technical and financial resources to rural businesses and communities. The rural development mission area includes the Rural Housing Service, the Rural Utilities Service, and the Rural Business-Cooperative Service. The Rural Business-Cooperative Service implements several loan and grant programs to support rural businesses.

Business and Industry Direct and Guaranteed Loans

The Business and Industry Guaranteed Loan (B&I) program provides guaranteed loans in rural areas to address a variety of business needs, including construction, expansion and repair, and business acquisition. These loans are administered in partnership with private-sector lenders. Loan funds can be used to purchase land, supplies, and materials as well as pay startup costs of rural business development.²⁷ This program can be used by public, private, and cooperative organizations. The B&I program is the largest rural business program at USDA, with a program level of \$892 million (the total value of all loans given under the program) in 2017.²⁸

Intermediary Relending Program

The Intermediary Relending program provides direct loans not to businesses, but to other entities that support rural business development, such as private nonprofit corporations, state or local government agencies, Indian tribes, and cooperatives. These intermediary organizations then lend the funds to rural businesses or other development entities. The intermediary also provides assistance to loan recipients with economic development projects, establishment of new businesses, expansion of existing businesses, creation of new employment opportunities, and saving existing rural jobs.²⁹

Rural Economic Development Loan and Grant Program

The Rural Economic Development Loan and Grant program makes grants to utilities to establish a revolving loan fund to promote economic development in rural areas. The revolving loan fund provides capital to nonprofit organizations and municipal organizations to finance community facilities in rural areas that promote job creation as well as education and training to enhance marketable job skills.³⁰ Loans can also be provided with zero interest to Rural Utility Services borrowers to re-lend the funds at zero interest to rural businesses.³¹

Rural Business Development Grants

Rural Business Development Grants are made to public bodies, nonprofit organizations, Indian tribes, and cooperatives for training and technical assistance to rural businesses, economic planning for rural communities, and training for rural entrepreneurs or economic development officials. Funding may be used to identify and analyze business opportunities, provide technical assistance, conduct economic development planning, and establish centers for training,

²⁷ CRS RL31837, *supra* note 8.

²⁸ Anil Rupasingha and John Pender, *Rural Businesses that Review USDA Business and Industry Guaranteed Loans are Less Likely to Fail*, AMBER WAVES, Sep. 3, 2019.

²⁹ CRS RL31837, *supra* note 8.

³⁰ *Id.*

³¹ *Id.*

technology, and trade.³² Funding may also be used for projects that support the development of business enterprises that finance or facilitate the development of small and emerging businesses and infrastructure.³³

Rural Cooperative Development Grants

Rural Cooperative Development Grants are made to nonprofits and institutions of higher education for the establishment and operation of centers to help improve the economic conditions in rural areas through the creation of new or improved cooperatives.³⁴ A portion of these grants should be going to serve socially disadvantaged groups.

Rural Microentrepreneur Assistance Program

The Rural Microentrepreneur Assistance Program (RMAP) provides grants to microenterprise development organizations and approved microlenders who support small businesses with 10 employees or less in rural areas.³⁵ These lending organizations can use funds from USDA to make fixed-interest rate microloans for rural microenterprises. The program also provides grants to organizations that support rural microenterprises for training or services.

Value Added Producer Grants

Value Added Producer Grants provide funding to farmers and ranchers, as well as cooperatives and nonprofits, to develop and create value-added products.³⁶ The goals of this program are to generate new products, create and expand marketing opportunities and increase producer income. Grant funding can also be used for training and technical assistance to value-added agricultural producers.

Rural Energy for America Program

Rural Energy for America program provides funding to farmers and ranchers, as well as small businesses in rural areas to support increased energy efficiency and renewable energy. The program provides grants for energy audits and renewable energy development, as well as loans and grants for renewable energy systems or energy efficiency improvements.³⁷

Rural Business Investment Program

The Rural Business Investment Program authorizes Rural Business Investment Companies to make equity capital investments in rural businesses. These investment companies are financed with both private funds and debt instruments guaranteed by the federal government. According to the Congressional Research Service, the program operates under a memorandum of agreement with the Small Business Administration.³⁸

³² *Id.*

³³ *Id.*

³⁴ *Id.*

³⁵ CRS RL31837, *supra* note 8.

³⁶ *Id.*

³⁷ *Id.*

³⁸ *Id.*

Overview of SBA Programs

Similar to the USDA, the SBA implements several loan and grant programs, as well as entrepreneurial development programs. While not specifically focused on rural businesses, the SBA programs do not prohibit use by businesses located or serving rural areas.

Overview of SBA Entrepreneurial Development Program

The four main SBA entrepreneurial development programs include Small Business Development Centers (SBDC), SCORE, Veterans Business Outreach Centers (VBOC), and Women's Business Centers (WBC). Each of these programs provides small business owners and entrepreneurs with technical and managerial training to support their business aspirations.³⁹

1. Small Business Development Centers

The largest of the resource partners within SBA's entrepreneurial ecosystem, the SBDC network is comprised of 63 lead organizations and more than 900 SBDC centers around the country.⁴⁰ They are located in rural, urban, and suburban communities nationwide, and many are housed at universities or state agencies. The network delivers free face-to-face counseling and at-cost training in all aspects of small business management to new and existing small businesses. The services include, but are not limited to, assisting small businesses with developing a business plan, accessing capital, marketing, regulatory compliance, technology development, and international trade.⁴¹

2. SCORE

SCORE utilizes an expansive network of volunteers who provide free or low-cost mentoring and training to entrepreneurs throughout the country. Through its network of volunteers, SCORE has more than 11,000 expert business advisors at 350 chapters nationwide.⁴² SCORE provides personalized one-on-one counseling to help entrepreneurs start, grow, and manage their small businesses. It also offers workshops, both online and in local communities. Among other services, SCORE helps entrepreneurs with developing a business plan, building a website, growing an online brand, managing cash flow, and determining a company's legal structure.⁴³

3. Women's Business Centers

Women's Business Centers (WBCs) are another critical component of SBA's entrepreneurial ecosystem. WBCs were created to assist small businesses primarily owned by women, many of whom are socially and economically disadvantaged. The WBC program funds more than 100 centers nationwide and offers a full range of counseling and training services for all stages of

³⁹ U.S. SMALL BUS. ADMIN., ABOUT OFFICE OF ENTREPRENEURIAL DEVELOPMENT, <https://www.sba.gov/offices/headquarters/oed/about-us> (last visited Oct. 31, 2019).

⁴⁰ U.S. SMALL BUS. ADMIN., OFFICE OF SMALL BUSINESS DEVELOPMENT CENTERS, *available at* <https://www.sba.gov/offices/headquarters/osbdc/resources/11409>.

⁴¹ U.S. SMALL BUS. ADMIN. *America's SBDCs is the association for SBDCs*, SBDC WEB RESOURCES, *available at* <https://americassbdc.org/about-us/>.

⁴² U.S. SMALL BUS. ADMIN, FY 2019 CONGRESSIONAL BUDGET JUSTIFICATION AND FY2017 ANNUAL PERFORMANCE REPORT.

⁴³ U.S. SMALL BUS. ADMIN, SCORE WEB RESOURCES, *available at* <https://www.score.org/our-impact>.

business development.⁴⁴ Many of the WBCs provide multilingual services, maintain evening and weekend hours to accommodate clients who work full time, and allow children to attend training sessions with their mothers.⁴⁵

4. Veterans Business Outreach Centers

The Veterans Business Outreach Center (VBOC) program provides counseling, training, and resource partner referrals to eligible service members, veterans, National Guard and Reserve members, and military spouses. With 22 centers nationwide, the VBOCs teach veteran entrepreneurs the fundamentals of business ownership, including the development of a five-year business plan, market research, legal considerations, and financing.

Overview of SBA Capital Access Programs

Access to capital is critical to the success of America's small businesses. The Small Business Administration (SBA) administers a number of loan guaranty programs designed to encourage lenders to provide loans to small businesses "that might not otherwise obtain financing on reasonable terms and conditions".⁴⁶

1. 7(a) Loan Guaranty Program

The 7(a) Loan Guaranty program is the government's primary small business loan program that assists small businesses in obtaining financing.⁴⁷ The 7(a) program provides government-backed loans to small businesses that are unable to obtain conventional loans, either because commercial lenders cannot provide these loans for the purpose, in the amount, or on terms that small business borrowers require.

2. 504/CDC Loan Guaranty Program

The 504 Loan Guaranty program backs long-term, fixed-rate loans to support investment in major assets, such as real estate or heavy equipment. 504 loans are made available through Certified Development Companies (CDCs), which are nonprofit corporations that promote economic development within their communities. CDCs are certified and regulated by the SBA, and work with SBA and participating lenders to provide financing to small businesses.⁴⁸

3. Microloan Program

The Microloan program provides direct loans to qualified nonprofit intermediary lenders who, in turn, provide "microloans" of up to \$50,000 to small businesses, entrepreneurs, and nonprofit childcare centers.⁴⁹ The program also provides marketing, management, and technical assistance to microloan borrowers and potential borrowers.⁵⁰ This program reaches various demographic groups that would otherwise not be served by the private sector or other SBA programs.

⁴⁴ Women's Business Centers, WBC RESOURCES, available at <https://irp-cdn.multiscreensite.com/fb72abcb/files/uploaded/WBC-One-Pager-and-2018-Policy-Priorities.pdf>.

⁴⁵ FY 2019 CONGRESSIONAL BUDGET JUSTIFICATION, *supra* note 29.

⁴⁶ ROBERT DILGER, CON. RES. SERV., R41146, SMALL BUSINESS ADMINISTRATION 7(A) LOAN GUARANTY PROGRAM (2019).

⁴⁷ *Id.*

⁴⁸ ROBERT DILGER AND SEAN LOWRY, CONG. RES. SERV., RL33243, SMALL BUSINESS ADMINISTRATION: A PRIMER ON PROGRAMS AND FUNDING (2019).

⁴⁹ ROBERT DILGER, CONG. RES. SERV., R41057, SMALL BUSINESS ADMINISTRATION MICROLOAN PROGRAM (2019).

⁵⁰ *Id.*

Conclusion

Federal agencies should continue to engage businesses and communities in rural areas in order to support small business and economic development. The USDA and SBA have focused their efforts on expanding access and lowering barriers to federal resources as well as helping entities located in or serving rural areas overcome capacity issues and take advantage of local assets. However, rural business and economic development programs that support entrepreneurs often overlap based on both the type of assistance they provide and the characteristics of the beneficiaries they target. This overlap is not necessarily duplicative but can make it difficult for small businesses and entrepreneurs to navigate the services available. The hearing will examine how USDA and SBA can work together to support rural America and ensure our rural communities can get the support they need to foster entrepreneurship, economic growth, and business development.