



## National Sustainable Agriculture Coalition

November 20, 2009

Branch Chief  
Regulations and Paperwork Management Branch  
U.S. Department of Agriculture  
300 7th Street, SW, 7th Floor  
Washington, DC 20024

*Delivered via regulations.gov*

**Re: Rural Microentrepreneur Assistance Program (7 CFR 4280) - Proposed Rule with Request for Comments --** (Federal Register Vol. 74 at pp. 51714-51731)

Dear Chief:

I am submitting these comments on behalf of the National Sustainable Agriculture Coalition (NSAC) and its 39 member organizations regarding the Proposed Rule for the Rural Microentrepreneur Assistance Program (RMAP). NSAC represents family farm, rural development, and conservation organizations from around the U.S. that share a commitment to federal policy that promotes healthy, economically vibrant rural communities, sustainable agricultural production systems, and family-based farms and ranches. We are excited by the potential RMAP has to spark real sustained rural growth and appreciate this opportunity to offer our comments on the Rural Development Agency's proposed rule for the program.

RMAP was conceived and passed to address two distinct needs in rural America: to increase the capacity of rural communities to create jobs by supporting microenterprise development organizations (MDO) that provide a panoply of necessary business training, financial education and assistance programs, and to increase the capital available to potential rural microentrepreneurs who can not get funding through conventional lending channels.

While we understand the impulse of the Agency's desire to funnel as much as possible of the available funds into lending we believe that without investing in the organizations that provide the training that give microentrepreneurs the skills to be successful the loans will be much less likely to be repaid. Microenterprise lending, especially lending to businesses that can not get credit in the conventional market, will only see low default rates if substantial time and money has been put into developing the businesspeople themselves. The pay-off is not quite as immediate but this is the only way to sustain genuine rural economic growth.

In fact, the Managers of the Food, Conservation and Energy Act of 2008 (FCEA) made a point of stating in the conference report (at page 814) that *"in making grants available to microenterprise development organizations to support microenterprise development, the Managers intend that the Secretary shall not require an organization to have received a loan in order to receive a grant..."*

With this in mind, NSAC recommends that the Agency's proposed rule better reflect the intent of the FCEA by removing the proposed \$25,000 or ten percent of available funding limit on grants

referred to as enhancement grants and re-instating them as an integral and equal part of the RMAP program receiving a substantial portion of the funding available each year. These funds must be available to use for the variety of services MDOs provide prospective and existing entrepreneurs and not be limited to increasing the capabilities of MDO staff.

We believe RMAP will do much good in reversing the economic and financial crisis in rural communities. With many rural areas underserved or not served at all by MDOs, the Agency should be doing all it can to recruit as many qualified organizations as possible to become engaged in rural training and microentrepreneur lending. The proposed rule's scoring should encourage the effort to build MDO networks to serve these communities with as many organizations with the necessary expertise as possible.

Many of the MDOs currently doing good work are small organizations themselves. All the time they are required to spend on paperwork is time not spent doing what they do best -- and what we want them to do -- providing the necessary training and education for entrepreneurs to build successful, sustainable businesses. The application process should be the time for MDOs to prove their worth and if successful, they should be able to drawdown funds in a practical way that conforms to the rhythms of microlending.

Our more detailed comments follow. Thank you for considering our recommendations in the development of a final rule.

Best regards,

*Kate Fitzgerald*

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## Detailed NSAC Comments and Recommendations

### IV. F. Regulatory Flexibility Act - *Use of Interest*

In this section the Agency states its expectation that MDOs participating in the program will be able to cover most of their administrative costs by "the interest rate spread between the one percent loan from Rural Development and the interest rate on loans made to the microentrepreneurs by the MDO." This seems to be in conflict with subsequent sections of the proposed rule that severely limit MDO uses of interest income and must be clarified.

#### **4280.301. Purpose and Scope -- *Rural Microenterprise Development Grants***

The purpose section of the proposed rule leaves out a very important and substantial portion of the statute, rural microenterprise development grants. The proposed rule also creates a new grant category for enhancement grants.

The final rule should be amended to include the missing statutory subprogram. In our view, there are two appropriate ways to accomplish this. One would be to retain the enhancement grant category, which is overall a very helpful idea, and to create a rural microenterprise development grant category and purpose statement. The other would be to incorporate the enhancement grant idea into the rural microenterprise development grant category and purpose as a noteworthy addition to the statutory requirements.

One of these two approaches is required in order for the rule to conform to the statute.

#### **4280.302. Definitions and Abbreviations -- *Significant Outmigration***

We suggest that the definition of "*significant outmigration*" be outmigration of 7.5 percent over two Census periods and/or five percent outmigration over one Census period. This is less restrictive than the proposed rate of 15 percent or higher over the three most recent decennial censuses. This more accurately reflects the current trends in rural communities and will allow the program to be active in many more rural areas of the country.

#### **4280.310(a)(5). Program Requirements for MDOs -- *Enhancement Grants***

In the section of the Food, Conservation, and Energy Act of 2008 (FCEA) that creates RMAP (Section 6022), the language clearly reflects the dual purpose of the legislation to increase the capacity to help MDOs serve microentrepreneurs in rural areas and to provide funding for loans and technical assistance to entrepreneurs receiving loans. Section 6022 (b)(4)(A) directs that grants to MDOs will be to "*provide training, operational support, business and planning, and market development assistance, and other related services to rural microentrepreneurs.*"

We believe that the grants now referred to as enhancement grants should not be limited to improving internal operations within the MDO and should be used to support the whole panoply of services MDOs provide to ensure microentrepreneurs are successful. As recommended above with respect to the purposes section (4280.301), there must either be an expansion of purpose and renaming of what the rule calls enhancements grants, or the creation of a new section of the

rules for rural microenterprise development grants in addition to the proposed enhancement grants.

**4280.311(a) and (d)(2). Loan Provisions for Agency Loans to Microlenders -- *Use of Interest***

We believe that the Act intended this program to build the long-term small business capacity in rural America and that limiting the use of interest earned on loans to increase rural microloan revolving funds (RMRF) and loan loss reserve funds (LLRF) inhibits that growth. MDOs that make successful loans should be permitted to use interest earnings for the administrative costs that will allow the organization to increase program reach and excellence. Without strong organizations offering thorough training and financial readiness programs for entrepreneurs the success of the lending program will always be limited.

**4280.311(d)(10)-(12). Loan Provisions and Agency Loans to Microlenders -- *Disbursement Issues***

These sections address how, when, and how much loan funds MDOs will be able to draw down from the Agency and although the intent may be to increase accountability the result will be inefficiency and too much MDO staff time spent on paperwork instead of the training and business development activities that will stimulate rural economic growth.

We suggest that once a loan has been closed between the Agency and a microlender that the MDO be able to draw down at least half of the total loan amount. It seems arbitrary to insist that at least one loan be made within 30 days of disbursement and not particularly realistic given the realities of microlending in the field.

In addition, requests for draw downs should not require an iteration of specific pending loans for specific amounts but should be based on the organization's lending history schedule. The point to bear in mind is that successful microlending is more time consuming than conventional lending and that onerous paperwork requirements subtract from the time MDO staff can spend conducting outreach, providing technical assistance, and servicing loans. If an MDO has the track record, credibility and financial controls in place to warrant a loan from the Agency that MDO should be trusted to do their work and not be hamstrung by unnecessarily rigid requirements.

**4280.311(d)(13)(17). Loan Provisions and Agency Loans -- *Interest Rates***

In rural areas where the need for microenterprise lending is greatest good business loans will take longer to develop. The Agency should consider that increasing interest rates on funds not lent penalizes MDOs for investing in teaching business practices and careful lending and creates an incentive for risky loans.

**4280.311(e). Loan Provisions and Agency Loans -- *Maximum Loan to MDOs***

We recommend the agency consider raising the amount a MDO can borrow in a single funding round from \$500,000 to \$1 million and the maximum aggregate debt allowed from current \$2.5

million to \$5 million so that effective larger MDOs do not have their activities needlessly curtailed.

#### **4280.312(a)(1). Grant Provisions -- *Enhancement Grants***

Section 6022(b)(2) of FCEA explains that "*The purpose of the programs is to provide microentrepreneurs with -- (A) the skills necessary to establish new microenterprises; and (B) continuing technical and financial assistance related to the successful operation of rural microenterprises.*" The Agency has clearly limited the potential usefulness of enhancement grants by restricting their use to increasing the microlender's capabilities to "provide training, operational support, business and strategic planning, and market development assistance, and other related services" rather than allowing competent microlenders to use the grants to actually do these things in their communities.

If enhancement grants are either (a) retained but in addition to rather than instead of the statutory rural microenterprise development grants, or (b) are redefined and renamed to include all the activities articulated in the Act in addition to the proposed rule's enhancement concept, we strongly recommend that the Agency increase the cap on the grant amount an MDO may receive.

The statute does not place any limit on the amount of the grants to support rural microenterprise development. In fact, the purpose statement in the law could be read to suggest that these grants should generally represent 50 percent of the program, with technical assistance and financial assistance the other 50 percent. We therefore recommend that at a minimum, rural microenterprise development grants to an individual MDO be capped no lower than \$250,000 annually.

#### **4280.312(a)(1). Grant Provisions -- *Technical Assistance Grant Amounts***

The Agency's proposed rule violates the statute by limiting grants linked to loans at \$100,000. Section 6022(b)(4)(B)(ii) states the minimum amount of these grants is "*an amount equal to not more than 25 percent of the total outstanding balance of microloans made by the microenterprise development organization...as of the date the grant is awarded.*"

The rule should be revised to reflect the language of the law.

#### **4280.312(c)(1). Grant Provisions -- *Technical Assistance Grant Uses***

These funds should be allowed for support for prospective as well as current MDO borrowers. Technical assistance is an especially essential component of new microloans. Therefore we recommend the final rule clarify that both current and prospective borrowers are eligible.

#### **4280.312(c)(2). Grant Provisions -- *Technical Assistance Grant Fund Disbursement***

Limiting grant funds disbursement to quarterly drawdowns based on the actual loans the MDO makes will slow down the training activities in the field and ultimately the timing of loan-making. These funds should be granted and disbursed to MDOs so they can get to work preparing rural entrepreneurs so that the process of responsible microlending can begin.

#### **4280.316(a)(1)(4). Application Scoring -- *Organizational Ability***

It seems superfluous to award up to five points for an organizational chart and another five points for adequate resumes for a combined 10 points. These two categories can be combined for fewer points and demonstrating an understanding of microlending with equal emphasis on loan making and providing technical assistance should earn more than the current up to five points.

#### **4280.316(b)(1). Application Scoring -- *Effective Plan to Deliver Services***

The application scoring rules provide substantial points for MDOs with demonstrated track records of providing lending services to rural microentrepreneurs, but fail to provide points for effective plans to deliver such services. In the definition of “Microenterprise Development Organization,” the statute states an MDO is an organization that “*has a demonstrated record of delivering services to rural microentrepreneurs, or an effective plan to develop a program to deliver services to rural microentrepreneurs ...*” (Section 6022, (a)(3)(D) - emphasis added). In the final rule, provision should be made to provide significant points to an MDO with a proven microenterprise track record that has a viable plan to now provide lending services. This change will be critical to reaching micro businesses in underserved areas or among underserved populations.

#### **4280.316(b)(3). Application Scoring -- *Proper Weight for History of Technical Assistance***

Successful MDOs train many more microentrepreneurs than they provide loans. If they are good at the work some of the microentrepreneurs find they do not need credit or gain the knowledge to allow them to receive loans in the commercial credit market. The proposed scoring metric awards too many points for having made loans and disadvantages organizations whose emphasis is on training. The long-term positive effect of the program will depend on how successful it is at building community economic capacity, which depends at least as much on effective training as on lending. We suggest that more points be awarded for an MDOs successful training history.

#### **4280.316(b)(1)(v). Application Scoring -- *Demographic Proportionality***

Many of the most successful MDOs concentrate on training, technical assistance, and lending to one or several disadvantaged demographic groups. They have the knowledge and credibility to serve these underserved populations best and should not be disadvantaged for concentrating their work. We therefore recommend that this section be eliminated or the number of points reduced. In order to ensure the program is reaching diverse groups, we suggest that the Agency charge application reviewers to ensure proper lending coverage to all groups in a geographic area when they consider which MDOs to fund.

#### **4280.316(b)(5). Application Scoring -- *Administrative Costs***

Scrimping on administration is not a good way to run an effective program. MDOs should not receive points for reporting administrative costs that are either artificial or so low that the organization will be badly run. The statute provides for up to 10 percent for administrative costs. We therefore recommend this scoring section be eliminated in the final rule.