

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

To: Members, Committee on Small Business
From: Committee Staff
Date: May 23, 2017
Re: Hearing: "Accomplishments and Challenges at the SBA's Office of International Trade"

On Tuesday, May 23, 2017 at 11:00 a.m., the Small Business Committee will convene a hearing to examine efforts of the Small Business Administration's (SBA) Office of International Trade (OIT) to increase exports, coordinate export promotion activities with other federal agencies, and assist United States small businesses' engagement in the global marketplace. Increasing small business exports continues to be a top priority for both United States lawmakers and the federal government. While nearly 300,000 small businesses are currently exporting to foreign markets, many small businesses face significant challenges in getting their goods and services abroad.¹ To help address these challenges, Congress redirected the SBA to increase its role in export activities, including export counseling and financing.² The Committee will hear directly from the SBA about its ongoing efforts to assist small businesses seeking to engage in the international trading system.

I. Office of International Trade

The SBA is required to perform several functions to support small businesses navigating the obstacles to engaging in international trade. Although the SBA conducts outreach efforts, its primary activities include counseling and training, provided mainly through nonfederal partner entities called Small Business Development Centers (SBDCs).³ In addition to the counseling provided by SBDCs, the OIT provides advice to small businesses seeking financial assistance to "fill market gaps that arise because private sector is unable to provide adequate credit to support certain export transactions with greater real or perceived risk."⁴ OIT also explains to small businesses the availability of export finance products offered through other agencies or entities such as those offered by the United States Export Import Bank (Ex-Im).⁵ Finally, the OIT is responsible for representing the SBA on the Trade Promotion Coordinating Committee (TPCC)⁶ to aid in the implementation of the National Export Initiative (NEI).⁷

¹ <https://ustr.gov/issue-areas/small-business>.

² Small Business Jobs Act of 2010, Pub. L. No. 111-240, §§ 1201-1209, 124 Stat. 2504, 2520-36.

³ GOVERNMENT ACCOUNTABILITY OFFICE (GAO), EXPORT PROMOTION, SMALL BUSINESS ADMINISTRATION NEEDS TO IMPROVE COLLABORATION TO IMPLEMENT ITS EXPANDED ROLE 1 (2013) (GAO-13-217) [hereinafter "GAO SBA Collaboration Report"], available at <http://www.gao.gov/assets/660/651685.pdf>.

⁴ SBA, FY 2017 CONGRESSIONAL BUDGET JUSTIFICATION 73 (2016) [hereinafter "SBA FY 2017 BUDGET"], available at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf. OIT has no regulatory role with respect to international trade loans available from SBA private lending partners. Such lending is overseen by SBA's Office of Capital Access.

⁵ GAO SBA Collaboration Report, *supra* note 3, at 7.

⁶ The TPCC is an interagency task force that coordinates and develops the Administration's government-wide export promotion plan. It consists of seven lead federal agencies and 13 additional agencies. The committee is chaired by the Secretary of Commerce and the Under Secretary of Commerce for International Trade. Furthermore, the TPCC has four main initiatives including training, marketing, program integration, and information sharing.

⁷ Exec. Order No. 13,534, 3 C.F.R. 198 (2010). The NEI was a policy implemented by the Obama Administration and continues to be an objective according to the SBA FY 2017 Congressional Budget Justification.

a. Trade Promotion, Training, and Counseling

The OIT serves as the SBA's main channel for trade promotion and counseling. One system SBA employs for coordinating trade promotion activities is the collocation of OIT's Export Finance Specialists with United States Department of Commerce trade specialists, Ex-Im staff, and other public and private organizations. These offices are designated as United States Export Assistance Centers (USEACs). Their objective is to assist small- and medium-sized businesses as a one-stop shop for companies seeking export training and assistance.⁸ OIT field staff at these locations operate in a number of capacities; USEACs are located throughout the United States.⁹

In addition to the personnel assigned to the USEACs, the SBA has designated a District International Trade Officer in each SBA District Office. Given that designation, one would think that their primary mission would relate to international trade. However, according to GAO, their primary duties involve other functions and they spend only 15 percent of their time on export promotion responsibilities ranging from attending outreach events and answering businesses' questions regarding exports.¹⁰

The SBA reports that "in FY 2015, they guaranteed \$1.45 billion in loans to small exporters."¹¹ The SBA noted the development of a small business counselor training certification program in partnership with the United States Department of Commerce and the TPCC. This network now includes more than 600 international trade-certified counselors within the SBDC network.¹² The SBA also collaborates with the Department of Commerce by sending export finance specialists to counsel and train staff for 19 of the Department of Commerce International Buyer Program's (IBP) industrial shows and three international trade shows.¹³

According to a recent GAO report, there are numerous barriers to small business participation in export markets. The process is complex and requires knowledgeable and dedicated personnel.¹⁴ The efforts of small businesses are not always aided due to the lack of coordination by TPCC member agencies that provide counseling, especially information about financial products that could alleviate some of the risks associated with exports.¹⁵

b. Financing Products

A function of the United States' national export strategy is increasing small businesses' access to trade financing. The SBA participates by offering several financial products aimed solely at small businesses involved in international trade.¹⁶ The SBA performs this duty through several financing vehicles.

⁸ <https://www.sba.gov/content/us-exports-assistance-centers>.

⁹ *Id.*

¹⁰ GAO SBA Collaboration Report, *supra* note 3, at 7-8.

¹¹ SBA FY 2017 Budget, *supra* note 4, at 70.

¹² *Id.* at 75.

¹³ The SBA defines the International Buyer Program as an event that small business exporters meet pre-screened prospective buyers from around the world in one domestic venue.

¹⁴ GAO, EXPORT PROMOTION: TRADE AGENCIES SHOULD ENHANCE COLLABORATION WITH STATE AND LOCAL PARTNERS (2014) (GAO-14-393) [hereinafter "GAO Federal and State Trade Report"], available at <http://www.gao.gov/assets/670/663362.pdf>.

¹⁵ *Id.* at 1.

¹⁶ SBA, FY 2016 CONGRESSIONAL BUDGET JUSTIFICATION 72 (2015), available at https://www.sba.gov/sites/default/files/files/1-FY_2016_CBJ_FY_2014_APR_508.pdf.

There are three prominent export loan programs offered by SBA. The Export Working Capital Program is designed to finance a small business processing foreign transactions on exported goods and services with a maximum of \$5 million loan and 90 percent guaranty.¹⁷ Small businesses also have the option of employing the International Trade loan program that also provides loans up to \$5 million in financing with a 90 percent guaranty.¹⁸ The International Trade Loan is for use by a business already engaged in exporting with plans to increase production. The Export Express Loan Program is offered through select SBA lenders.¹⁹ Such loans are applicable to a wide range of export activities by small businesses new to exporting; the loan offers “a 90 percent guaranty on amounts up to \$350,000 and a 75 percent guaranty on amounts up to \$500,000; the program offers lenders enhanced coverage in support of small business exporters.”²⁰

The Small Business Jobs Act required the SBA to hire 30 dedicated export finance specialists by September 27, 2012.²¹ The GAO notes that the SBA only has hired 19 trade finance officers and export development specialists mandated by the Congress.²² In the Small Business Administration’s FY 2016 Congressional Budget Justification, the SBA cites a lack of resources as an explanation for its failure to hire the required level of staff,²³ even though the SBA requested a total of \$25 million in outreach efforts not statutorily required while it asked for an increase of \$385,000 for the Office of International Trade.

II. Challenges for the OIT and GAO Recommendations

By request of the Committee on Small Business, the GAO has conducted several investigations of the President’s national export strategy, and more specifically, the overall effectiveness of the SBA OIT’s ability to coordinate their export promotion efforts with other TPCC agencies. In three separate examinations, the GAO found that the SBA has proven to have major shortcomings in its implementation of their collaboration efforts and requirements to report on how federal export promotion resources align with the NEI. Lastly, GAO findings suggest that mismanagement of resources has resulted in an ongoing failure to meet the OIT staffing requirements.²⁴

In a January 2013 GAO study, investigators found that “[w]hile the SBA collaborates to some extent with other key agencies on its export promotion activities, additional collaboration could enhance agency efforts and reduce overlap.”²⁵ The GAO went on to mention that the SBA does not have a clearly defined role and lacks the ability to leverage client information resources not shared by other agencies.²⁶ As a result, the GAO recommended that the SBA work more closely with Commerce and Ex-Im to identify roles and responsibilities among the agencies. GAO also recommended that the agencies increase the sharing of client information, where possible.²⁷

¹⁷ *Id.* at 74.

¹⁸ *Id.*

¹⁹ Export Express Loans only may be offered by lenders authorized to participate in the SBA’s Express loan program.

²⁰ *Id.* at 74.

²¹ GAO SBA Collaboration Report, *supra* note 3, at 25.

²² *Id.*

²³ SBA FY 2016 Budget, *supra* note 4, at 72.

²⁴ GAO, SMALL BUSINESS ADMINISTRATION, LEADERSHIP ATTENTION NEEDED TO OVERCOME MANAGEMENT CHALLENGES 114 (2015) (GAO-15-347) [hereinafter “GAO Report on SBA Leadership”], available at <http://www.gao.gov/assets/680/672648.pdf>.

²⁵ GAO SBA Collaboration Report, *supra* note 3 at 1.

²⁶ *Id.*

²⁷ *Id.*

The SBA Administrator chairs the TPCC's Small Business Working Group – the subgroup of the TPCC responsible for promoting small business export growth.²⁸ However, in a July 2013 report, GAO found that the TPCC agency representatives do not have a comprehensive understanding of the countrywide resources employed to increase exports by small businesses.²⁹ Additionally, GAO staff observed that the TPCC has “provided less information on budget resources than previous strategies.”³⁰ The GAO recommended that the TPCC report in its National Export Strategy the allocation of resources by individual agencies and their alignment with the strategy's priorities, and the TPCC Secretariat agreed.³¹ If SBA provides TPCC with this information, it should highlight to relevant decision makers the need for SBA to prioritize resources for expanding small business participation in international trade.

One effort at coordination initiated through the TPCC is the creation of the Export Outreach Teams, which are a joint SBA-Commerce initiative to strengthen local networks of export service providers. The GAO found serious shortcomings in the implementation of these Export Outreach Teams³² and “in some cases, activities were missing key participants and were inconsistent with the objectives, in part because SBA is not fully monitoring implementation of the teams across its 68 district offices.”³³

Finally, in September 2015, the GAO released its review of SBA's agency-wide management deficiencies. The report noted concerns regarding “SBA's commitment to addressing management challenges that could keep it from effectively assisting small businesses.”³⁴ GAO recommends that the SBA more effectively implement the SBA's expansion of the OIT field staff as required by the Small Business Jobs Act of 2010 and provide updated plans for OIT staff that include funding sources and time frames.³⁵

III. STEP Grant Program and SBA Office of Inspector General (OIG) Recommendations

The Small Business Jobs Act of 2010 authorized the State Trade and Export Promotion (STEP) grant program in an effort to both increase the number of small businesses that export and raise the value of existing small business exporters.³⁶ This program authorized a three-year pilot program to award grants to states to execute export programs that assist eligible small business concerns in a variety of export activities.³⁷

²⁸ SBA FY 2017 Budget, *supra* note 4, at 70.

²⁹ GAO, EXPORT PROMOTION, BETTER INFORMATION NEEDED ABOUT FEDERAL RESOURCES (2013) (GAO-13-644), available at <http://www.gao.gov/assets/660/655947.pdf>.

³⁰ *Id.* at 1.

³¹ *Id.*

³² Export Outreach Teams are part of a Commerce-and-SBA-led initiative to strengthen local networks of export service providers.

³³ GAO Federal and State Trade Report, *supra* note 14 at 1.

³⁴ GAO Report on SBA Leadership, *supra* note 24, at 1.

³⁵ *Id.* at 114.

³⁶ 15 U.S.C. § 1207(b).

³⁷ OIG, EVALUATION REPORT, REVIEW OF SBA'S STATE TRADE AND EXPORT PROMOTION GRANT PROGRAM (2017) (17-11) [hereinafter “OIG Evaluation Report”], available at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_17-11.pdf?utm_medium=email&utm_source=govdelivery. Export promotion activities are considered: participation in a foreign trade mission; a foreign market sales trip; a subscription to services provided by the United States Department of Commerce; the payment of website translation fees; the design of international marketing media; a trade show exhibition; participation in training workshops; or any other export initiative determined appropriate by the Associate Administrator for SBA OIT.

In the Trade Facilitation and Trade Enforcement (TFTE) Act of 2015³⁸, the State Trade and Expansion Program replaced the pilot STEP grant program.³⁹ The TFTE also required a report to the Small Business Committee by the OIG on the use of funds provided to small business concerns through the STEP grant program.⁴⁰ The OIG report makes a number of recommendations. The report recommends that the Chief Financial Officer (CFO), the Associate Administrator for OIT, and the Chief Operation Officer “implement corrective actions to ensure consistency in financial reporting within SBA.”⁴¹ OIG also notes the need for the CFO to develop a process to ensure that the SBA submits data more accurately and efficiently to the USAspending.gov website⁴² and that the Associate Administrator for OIT establish and document oversight procedures to more effectively monitor the grant recipients progress in meeting required benchmarks.⁴³

IV. Conclusion

Increasing small business exports continues to be a top priority for the SBA OIT. It is clear that the OIT must better coordinate export promotion activities with other federal agencies and should work to deliver assistance to United States small businesses seeking greater engagement in the global marketplace more efficiently and effectively. In previous hearings and briefings, the Small Business Committee has encouraged the SBA OIT to make the changes recommended by GAO and OIG to accomplish its objectives. Furthermore, improvements to OIT operation will more clearly define the SBA’s overall role in international trade. This hearing will examine the efforts of the OIT to increase exports and promote United States small businesses’ participation in international trade.

³⁸ Pub. L. No. 114-125 § 503.

³⁹ *Id.*

⁴⁰ OIG Evaluation Report, *supra* note 36, at 3.

⁴¹ OIG Evaluation Report, *supra* note 36, at 4.

⁴² OIG Evaluation Report, *supra* note 36, at 5. OIG learned from the SBA that, of the eight grants reviewed – that had supporting documentation showing how the grant recipients spent their funds – five of the recipients did not spend the majority of their funds.