

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members, Subcommittee on Rural Development,
Agriculture, Trade, and Entrepreneurship
FROM: Abby Finkenauer, Chairwoman
RE: Subcommittee hearing: “Challenges in SBA’s State Trade Expansion Program”
DATE: March 12, 2019

The Committee on Small Business Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship will meet for a hearing titled, “Challenges in SBA’s State Trade Expansion Program.” The hearing is scheduled to begin at **10:00 A.M. on Tuesday, March 12, 2019 in Room 2360 of the Rayburn House Office Building**. The hearing will review the state of the SBA State Trade Expansion Program (STEP). The Trade Facilitation and Trade Enforcement Act of 2015 directed SBA to establish the program to provide grants to states to increase the number of small businesses exploring trade opportunities. Members will hear how the SBA is performing in its management of the program along with compliance and grant challenges facing states and small businesses. The witnesses will be:

- Ms. Kimberly Gianopoulos, Director, International Affairs and Trade, Government Accountability Office
- Mr. Hannibal “Mike” Ware, Inspector General of the Small Business Administration

Background

According to the Office of Advocacy, approximately 288,000, or one percent, of the nation’s 30 million small businesses export their products abroad.¹ With 95 percent of consumers living outside of U.S. borders, more emphasis is being placed on the potential to expand our economy by helping small businesses sell their products overseas.

American agriculture and other producers play a critical role in this process. In 2017, U.S. agricultural exports totaled nearly \$141 billion, with roughly two-thirds of sales going to East Asia, Canada, and Mexico (see **Table 1**).² These farmers and producers create jobs, stimulate rural economic development, enhance local financial security, and, help support down and upstream small businesses.

The Small Business Jobs Act of 2010 authorized the Small Business Administration (SBA) to establish a three-year State Trade and Export Promotion (STEP) pilot grant initiative. The program has two objectives: (1) increase the number of small businesses that export and (2) raise the value

¹ SBA, OFFICE OF ADVOCACY, 2018 SMALL BUSINESS PROFILE (2018), <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>.

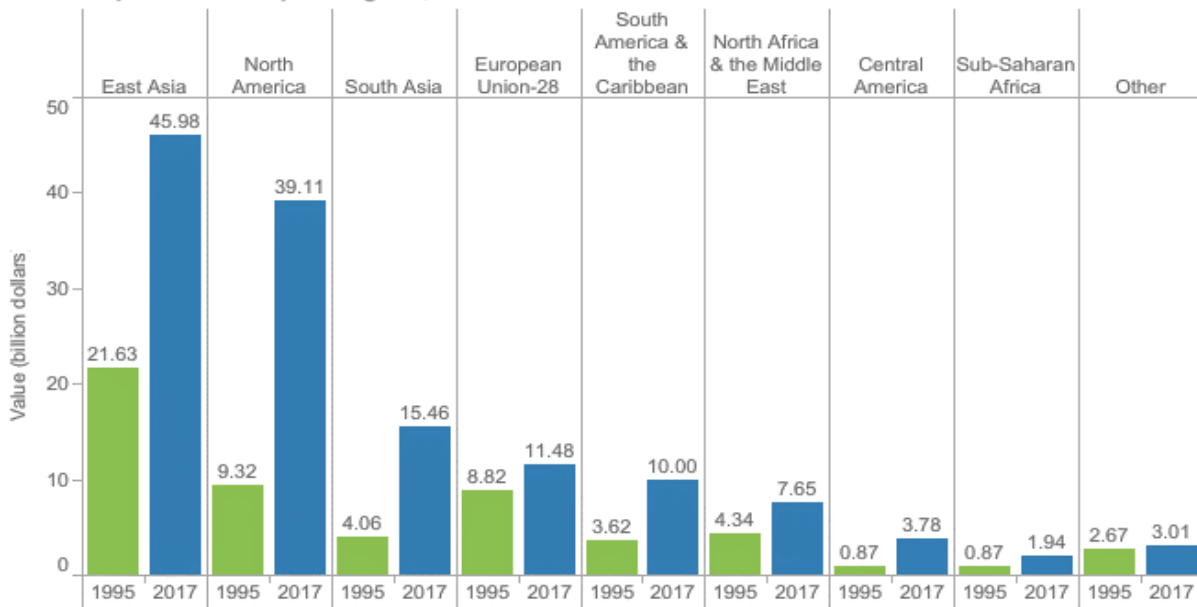
² USDA, ECONOMIC RESEARCH SERVICE, <https://www.ers.usda.gov/data-products/>.

of existing small business exporters.³ The Associate Administrator of the Office of International Trade is responsible for overseeing the program and awards matching funds to states and territories for participation in trade missions, international marketing efforts, workshops, export trade show exhibits, and other promotional activities.⁴

The Trade Facilitation and Trade Enforcement Act of 2015 renamed the program to the “State Trade Expansion Program,” and provided a \$30 million authorization through fiscal year 2020 (FY2020). The legislation also allows the Associate Administrator of the Office of International Trade to give priority to STEP proposals from states that have a small number of small businesses that export or proposals that would assist rural, women-owned, and socially and economically disadvantaged small businesses.⁵

Since its inception, SBA has awarded about \$139 million in grants to state trade offices, with an average return on federal taxpayer’s investment (ROI) of \$31 to 1, meaning that for every \$1 awarded, STEP reported approximately \$31 in sales.⁶

U.S. export values per region, 1995 and 2017



Source: Calculated by USDA, Economic Research Service using data from the Foreign Agricultural Trade of the United States (FATUS).

The GAO Report

The Committee on Small Business asked the Government Accountability Office (GAO) to review SBA’s management of STEP. On March 12, 2019, the GAO released a report entitled, “*Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds*, (GAO-19-276).” The report examines (1) the

³ SBA, OFFICE OF INTERNATIONAL TRADE, <https://www.sba.gov/offices/headquarters/oit>.
⁴ Small Business Jobs Act of 2010, Pub. L. No 111-240, 15 U.S.C. §649.
⁵ Trade Facilitation and Trade Enforcement Act of 2015, P.L. 114-125, 15 U.S.C. §649.
⁶ SBA, STATE TRADE EXPANSION PROGRAM ANNUAL REPORT TO CONGRESS FISCAL YEAR 2016, 2018 REPORT.

extent to which the SBA's management process adheres to the program requirements, and (2) whether SBA has taken the necessary steps to address challenges reported by states using grant funds.

SBA Compliance with Program Requirements

The Trade Facilitation and Trade Enforcement Act of 2016 (TFTEA) requires:

- Proportional Distribution Requirement – SBA's OIT is required to identify the ten states with the highest number of small businesses and ensure that the total amount of STEP grant funds to these ten states does not exceed 40 percent of the total amount appropriated for that fiscal year.
- Total Match Requirement – In most cases, the SBA provides 75 percent of the funding required for the total project, and states provide a 25 percent non-federal match, with an exception for the top three states in value of exports, which provide a 35 percent non-federal match.
- Cash Match Requirement – The non-federal match must not be less than 50 percent cash.

GAO found that the OIT has a process to meet the proportional distribution requirement, but it lacks a process to make sure states have met the total match requirement and lacks a process to determine whether states are meeting the cash matching requirement.

With regard to the total match requirement, GAO reviewed 80 awards over a two-year period, (FY2015 and FY2016), and found that in four instances states failed to meet the requirement by about \$76,000. Specifically, SBA closed out these grants without ensuring that the match had been met. While SBA determined the states had in fact met the total match requirement after closer review, GAO determined that SBA did not have a process in place to document whether states were meeting the requirement.

With regard to the cash match requirement, the OIT collects information about the types of expended matching funds but it does not regularly analyze these funds during or at the close of the grant cycle to determine if the non-federal match is at least 50-percent cash. As a result, the GAO determined that SBA cannot ascertain if states are meeting this requirement, and the agency is at risk of closing out grants without documentation.

SBA Response to Ongoing Challenges to Using Stage Grant Funds

In assessing the challenges, GAO found that 20 percent of the grant funds were not used during the two-year period. In FY2015, 40 states used 80 percent of the funds, leaving \$2.3 million unused. In FY2016, 41 of 43 recipient states, used 82 percent of the funds, leaving \$3.2 million unused.

In response to informal feedback from states, SBA had made some changes to the program, which included converting the program from a one-year grant to a two-year grant, eliminating travel preauthorization requirement, and reducing the length of the technical proposal. Most states felt the changes, which were introduced in the FY2017 funding cycle, would improve the program.

To gain further insight, in March and April 2018, GAO conducted interviews with representatives from 12 of the 40 states that did not use 25 percent or more of their grant funds in FY2015. These 12 states represent approximately 70 percent of unused funds. GAO learned that these states continue to face obstacles in using the full award amount. GAO grouped the most commonly reported challenges into three broad categories: (1) compressed program timelines; (2) administrative burden; or (3) poor communication within the OIT. It was also found that the OIT does not have a systematic process to collect states' perspectives on challenges.

SBA Has Not Effectively Shared Best Practices

The OIT has no formal process to share best practices with states that have difficulties using their funds. Nineteen states used all or almost all their funds in FY2015. While SBA publishes high-level "best practices" information in its annual report, the agency does not formally share this information among states to improve programs, mainly because what may work well in one state may not be transferable to another state.

GAO Recommends

GAO recommends that SBA develop procedures to ensure compliance with the legal matching fund requirements, take steps to assess risks to program goals from low grant fund use rates, and enhance the sharing of best practices among states receiving the grants.⁷

The Office of Inspector General Report

The Trade Facilitation and Trade Enforcement Act of 2015 required SBA's Office of Inspector General (OIG) to conduct a review of STEP and submit a report to the Small Business Committees. The OIG has issued two reports: (1) Review of SBA's State Trade and Export Promotion Program and (2) Audit of SBA's State Trade Expansion Program.

Review of SBA's State Trade and Export Promotion Program

In May 2017, OIG issued a report on the evaluation of the pilot program and found that SBA did not consistently report the awards and the amount expended, and more than 25 percent of the grant's awards were not used.

With regard to the issue of reporting, SBA awards a grant, with a defined amount of funds, to states and territories. Each program office should report an identical amount for each award. The OIG determined that three various program offices – Office of Chief Financial Officer (OCFO), Office of Grants Management (OGM), and the OIT– that are responsible for managing the STEP grants reported different award amounts and expenditures. For example, in FY2011, the OCFO reported nearly \$30 million in STEP grant awards, and the OGM reported \$29 million, a difference of \$1 million, which indicates that SBA did not implement effective controls over transactions. Moreover, SBA did not provide complete and accurate information in USAspending.gov, which is required within 30 days under the Federal Funding Accountability and Transparency Act of 2006.

⁷ GOVERNMENT ACCOUNTABILITY OFFICE, REPORT NUMBER GAO-19-276, SMALL BUSINESS ADMINISTRATION: EXPORT PROMOTION GRANT PROGRAM SHOULD BETTER ENSURE COMPLIANCE WITH LAW AND HELP STATES MAKE FULL USE OF FUNDS. (2019).

For the issuance of the unused funds, the OIG found that SBA could improve its oversight to ensure that the recipients are not losing opportunities to increase the number of small businesses exporting. While program managers track each grant recipient's use of funds quarterly and provide feedback to recipients, four grant recipients spent an average of 78 percent of funds, leaving more than a million on the table.

The OIG made three recommendations to improve the oversight of the program: (1) instruct the Chief Financial Officer, the Associate Administrator for OIT, and the Chief Operating Officer to implement corrective actions to ensure consistency in financial reporting; (2) instruct the Chief Financial Officer to develop a process to ensure that SBA submits timely, complete, and accurate data in USAspending; and (3) instruct the Associate Administrator of OIT to establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones. The OIG closed all recommendations.⁸

Audit of SBA's State Trade Expansion Program

In January 2018, the OIG issued the results of another audit, which focused on (1) the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) the overall management and effectiveness of STEP.

With regard to the issue of recipients' performance measurements, the OIG found that SBA relied on unverified return on investment measurements as the sole measure of the program's success. The OIG raised concerns because the data used to calculate the return on investment was unverified, self-reported, and potentially incomplete. Moreover, one of the two objectives of STEP is to increase the number of participants, and while the SBA collects this information, it does not utilize this data to measure the success of the program. The OIG recommends that SBA should consider using this data, but it must ensure that it is accurate and complete. The OIG also found discrepancies in how recipients defined performance measures, and the OIG reported that SBA did not provide sufficient guidance and clear definitions of program measurements to help small businesses.

In addition, the SBA did not provide sufficient guidance and monitoring to ensure the recipients were on track to use the full amount of the award. While SBA held conference calls with the grant recipients, they were not held on a regular basis and were more focused on programmatic and administrative changes. While the OIG reported that SBA made significant progress in refining the program, more work needs to be done to improve its performance measures and program oversight. The OIG concluded that the SBA is at risk of not fully realizing the potential of the program and thereby, increasing the number and value of small business exports.

The OIG recommended a total of six specific actions to improve the overall management and effectiveness of STEP. The OIG recommended that the Associate Administrator for the OIT (1) establish performance measurements to report on the number of small businesses receiving STEP assistance; (2) develop policies to ensure recipients are accurately reporting information that reconciles with the quarterly performance reports; (3) clearly define criteria; (4) require applicants to include reimbursement thresholds for small businesses and review to ensure it meets the

⁸ SBA, OFFICE OF THE INSPECTOR GENERAL, REPORT NUMBER 17-11, REVIEW OF SBA'S STATE TRADE AND EXPORT PROMOTION GRANT PROGRAM (MAY 4, 2017).

objectives of the Trade Facilitation and Trade Enforcement Act of 2015; (5) enhance quarterly review process to include strategic planning emphasize recipients' meeting performance goals; and (6) increase oversight of cooperative agreement recipients, and establish and implement risk-based approach to monitor recipients who are not meeting quarterly milestones. The OIG closed all recommendations.⁹

Conclusion

Exporting provides small businesses with many opportunities, yet only one percent of America's small businesses are exporting their products abroad. STEP provides valuable assistance to help entrepreneurs market and sell their products overseas, which in turn has the potential to stimulate economic growth and create jobs in the United States. It is important to ensure that the program is being used to its fullest potential. Members will learn about the challenges facing states in utilizing the grant and SBA's response to these challenges. As Congress prepares to reauthorize STEP, it is important to discuss what improvements can be made either by the agency or Congress to improve the delivery of services and make it easy for entrepreneurs to export.

⁹ SBA, OFFICE OF THE INSPECTOR GENERAL, REPORT NUMBER 18-11, AUDIT OF SBA'S STATE TRADE EXPANSION PROGRAM (JANUARY 29, 2018).