

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: “SBA’s State Trade Expansion Program: The States’
Perspective”
DATE: June 11, 2019

The Committee on Small Business Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship will meet for a hearing titled, “SBA’s State Trade Expansion Program: The States’ Perspective.” The hearing is scheduled to begin at **10:00 A.M. on Tuesday, June 11, 2019 in Room 2360 of the Rayburn House Office Building**. The hearing will review the state of the Small Business Administration’s (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.

On March 12, 2019, the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurial Development held a hearing titled, “Challenges in SBA’s State Trade Expansion Program.” They heard testimony from Ms. Kimberly Gianopoulos, Director, International Affairs and Trade, Government Accountability Office, and Mr. Hannibal “Mike” Ware, the Inspector General of the Small Business Development Administration, and examined the findings in their recent reports.

This hearing will allow Members to hear the states’ perspectives of STEP and its effectiveness in providing opportunities for small businesses. The witnesses will be:

- Mr. Wade Merritt, President and State Director of International Trade, Maine International Trade Center, Portland, Maine
- Ms. Jennifer Bacon, Co-Founder, FlapJacked, Westminster, Colorado
- Mr. Clifton Broumand, Founder and CEO, Man & Machine, Inc., Landover, Maryland
- Ms. Jennifer Black, Executive Director Export Development, Pennsylvania Department of Community & Economic Development in the Office of International Business Development, Harrisburg, Pennsylvania

Background

With electronic commerce (e-commerce) opening new markets, small businesses today have more opportunities to compete in the global market place by increasing the number of products and services they export. However, according to the Small Business Administration’s (SBA) Office of Advocacy, approximately 288,000, or only one percent, of the nation’s 30 million small businesses

export their products abroad.¹ Small firms often face unique challenges in exporting largely attributable to a complex and intimidating process, which they may not have the time or resources to learn and navigate. Other barriers include difficulty obtaining the working capital to fill foreign purchase orders, not knowing how to connect with foreign buyers, and lacking the expertise to understand other countries' rules and regulations.

Since small firms are so essential to our economy and with 95 percent of consumers living outside the U.S., more emphasis must be placed on the potential to expand the economy by helping small businesses sell their products overseas. Doing so is a critical component for long-term growth of small businesses and the U.S. economy overall.

The State Trade Expansion Program

Generally, the export process includes: (1) developing an export and marketing strategy; (2) identifying international customers; (3) obtaining working capital for exporting; (4) understanding and complying with foreign countries' rules and regulations; (5) preparing to receive and make international payments; and (6) shipping and distribution.²

To help small businesses familiarize themselves with these components and lead to more exporting, Congress enacted the Small Business Jobs Act of 2010, which authorized the 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 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 the "State Trade Expansion Program," and provided a \$30 million authorization through fiscal year 2020 (FY 2020). The legislation also allowed 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 a reported average federal taxpayer return on investment (ROI) of 31:1, meaning that for every \$1 awarded, STEP reported approximately \$31 in sales.⁶ In FY 2018, SBA announced that \$18

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

² SMALL BUS. ADMIN., SMALL BUSINESS EXPORTING - TAKE YOUR BUSINESS GLOBAL AND INTRODUCTION TO EXPORTING (2019).

³ SMALL BUS. ADMIN., 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 SMALL BUS. ADMIN., STATE TRADE EXPANSION PROGRAM ANNUAL REPORT TO CONGRESS FISCAL YEAR 2016, 2018 REPORT.

million in funding was awarded to 47 State international trade agencies through the STEP program. The federal awards ranged from \$144,750 to \$800,000.⁷

The GAO Report

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 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 Office of International Trade (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.

⁷ SMALL BUS. ADMIN., DIRECTORY OF STEP AWARDEES, (2018), <https://www.sba.gov/document/support--directory-step-awardees>.

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.

- Compressed Program Timelines – GAO found the compressed timeline hindered states' ability to use all the funds. First, the 30-day window for completing the application was too short considering the length of the application. Second, the variable application period made it difficult for states to plan accordingly. Between 2015 and 2017, SBA opened the application process at different points between February and May, which coincided with a busy period for trade activities. Third, the rewrite period of 21 days is too short to adjust intended activities and establish new performance targets when SBA modifies the amount of the award. Finally, September award announcements do not allow enough time to recruit companies to participate and use funds in the first quarter of the fiscal year, requiring companies to compress activities into the remaining quarters of the program cycle.
- Administrative Burden – GAO reported that states found the STEP application unrealistic because the detailed information required conflicts with the reality of exporting in an ever-changing business environment. Moreover, it is difficult to repurpose funds if plans unexpectedly change or new opportunities open up in a particular region or industry. Finally, states with the lowest use of funds described challenges with the number of forms required for quarterly reporting and the level of detail required.
- Poor Communication with OIT – States expressed concerns that rules, regulations, or requirements are inconsistently communicated to states. Moreover, states often had to wait weeks and months for a response, resulting in delays and states forgoing activities altogether.

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 Recommendations

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.⁸

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.⁹

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 the three various program offices responsible for managing the STEP grants – Office of Chief Financial Officer (OCFO), Office of Grants Management (OGM), and the OIT–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.

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

⁸ U.S. GOV'T ACCOUNTABILITY OFFICE, 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).

⁹ SMALL BUS. ADMIN, OFFICE OF THE INSPECTOR GEN., NO. 17-11, REVIEW OF SBA'S STATE TRADE AND EXPORT PROMOTION GRANT PROGRAM (MAY 4, 2017).

document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones. SBA resolved the recommendations.¹⁰

Audit of SBA's State Trade Expansion Program

In January 2018, the OIG issued the results of another audit, which focused on the extent to which STEP recipients measured program activity performance and the results of those measurements and the overall management and effectiveness of STEP. The report noted that SBA made significant progress in the overall management and effectiveness of STEP, but that SBA needed to improve its performance measures and program oversight.¹¹

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.

Furthermore, the OIG found that the SBA did not provide enough 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 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. SBA concurred and resolved five recommendations and closed one recommendation.¹²

¹⁰ *Id.*

¹¹ *Id.*

¹² SMALL BUS. ADMIN, OFFICE OF THE INSPECTOR GEN., NO. 18-11, AUDIT OF SBA'S STATE TRADE EXPANSION PROGRAM (Jan. 29, 2018).

Conclusion

Exporting provides small businesses with many opportunities to grow their business, 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. However, some states have reported challenges with using the full amount of the award and have found SBA's implementation of the program particularly challenging. It is important to ensure that the program is being used to its fullest potential. Members will have an opportunity to hear directly from states about the challenges in utilizing the grant. 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.