

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, Committee on Small Business
FROM: Nydia Velázquez Chairwoman
DATE: September 20, 2022
RE: Committee Hearing: SBA Management Review: Office of International Trade

The Committee on Small Business will meet for a hybrid hearing entitled, “SBA Management Review: Office of International Trade.” **The hearing is scheduled to begin at 10:00 A.M. on Tuesday, September 20, 2022, in Room 2360 of the Rayburn House Office Building, and virtually via the Zoom platform.**

The hearing will review the Small Business Administration’s (SBA) Office of International Trade (OIT). OIT is responsible for supporting small business international trade development and works in cooperation with other federal agencies, public-, and private-sector groups to encourage and assist small businesses looking to export. The flagship program for the Office is the State Trade Enhancement Program (STEP), which provides grants to states and territories to directly support small businesses looking to export. This hearing will allow Members to hear more about OIT’s operation of STEP, their outreach activities, and how Congress can continue to support and modernize small business exporting.

Witness

- Mr. Gabriel Esparza, Associate Administrator, Office of International Trade, U.S. Small Business Administration.

Background

Nearly 96 percent of consumers live outside the United States, with two-thirds of the world’s purchasing power in foreign countries.¹ Exporting is an opportunity for small businesses to expand sales and impact the global marketplace. Approximately 166,384 small businesses in the United States currently export, accounting for about 26 percent of all U.S. exports.² These small businesses account for roughly \$341 billion of \$1.32 trillion in export sales and 96 percent of all

¹ *Benefits of Exporting*, Small Bus. Admin., <https://www.sba.gov/business-guide/grow-your-business/export-products>.

² CONG. RSRCH. SERV., R43155, Small Business Administration Trade and Export Promotion Programs (2022) [hereinafter CRS].

exporters.³ However, they make up only 3 percent of total small businesses with employees in the United States.⁴

Small firms often face unique challenges in exporting largely attributable to a complex and process, which they may not have the time or resources to learn and navigate.⁵ 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.⁶ Since small firms are essential to our economy and the majority of consumers live outside the U.S., more emphasis must be placed on the potential to expand the number of small businesses successfully exporting. Doing so is critical for long-term growth of small businesses and the U.S. economy overall. The SBA is just one of several federal agencies that assist in the promotion of small business exports and in export promotion more broadly.

Office of International Trade

Prior to December 2010, OIT was a division within SBA's Office of Capital Access (OCA) and led by a Director for International Trade.⁷ The Small Business Jobs Act of 2010 officially raised the office to the Associate Administrator level within SBA.⁸ OIT is responsible for supporting small business international trade development, primarily through export promotion and works in cooperation with other federal agencies and public and private sector groups to encourage small business exports and provide small business export assistance.⁹ Specifically, OIT participates in the regional network of 21 U.S. Export Assistance Centers (managed by the Department of Commerce) and coordinates with SBA District Offices and service-provider partners.¹⁰

SBA's OIT assists with four areas of export promotion: (1) identifying small businesses interested in export promotion; (2) preparing small businesses to export; (3) connecting small businesses to export opportunities; and (4) supporting small businesses once they find export opportunities.¹¹ The primary export program under OIT's jurisdiction is the State Trade Expansion Program (STEP). In addition, the SBA offers several export promotion focused loan programs including the Export Express loan program, Export Working Capital (EWCP) loan program, and the International Trade loan program.¹²

The State Trade Expansion Program

The Small Business Jobs Act of 2010 authorized the SBA to establish a three-year State Trade and Export Promotion pilot grant initiative.¹³ The program had two objectives: (1) increase the number of small businesses that export and (2) raise the value of existing small business exporters. The

³ CRS, *supra* note 2.

⁴ *Id.* at 1.

⁵ *Id.* at 14.

⁶ CRS, *supra* note 2.

⁷ *Id.* at 4.

⁸ P.L. 111-240.

⁹ CRS, *supra* note 2.

¹⁰ *Id.* at 2.

¹¹ *Id.* at 2.

¹² *SBA export products*, U.S. Small Bus. Admin., <https://www.sba.gov/business-guide/grow-your-business/export-products/international-sales/sba-export-products>.

¹³ P.L. 111-240.

Associate Administrator of OIT 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.

The Trade Facilitation and Trade Enforcement Act of 2015 renamed the program the “State Trade Expansion Program (STEP),” and provided a \$30 million authorization through fiscal year 2020.¹⁴ The Act allowed the Associate Administrator of OIT 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 or economically disadvantaged small businesses.

STEP grants are available to all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands. In most cases, the SBA provides 75 percent of total project costs and states provide 25 percent of the sum of the federal award and the recipient match amount.¹⁵ However, for the top three states in value of exports, as determined by the U.S. Census Bureau’s export data (California, Texas, and New York), the SBA provides 65 percent of total project costs, and these states provide 35 percent of the sum of the federal award and the recipient match amount.¹⁶

STEP awards are for two years, a base year and an option year. The option year is at the SBA’s discretion but is routinely awarded on the basis of prior year performance and funding utilization. STEP grant amounts range from a minimum of \$100,000 each in the base and option year to a maximum of \$900,000 each in the base and option year.¹⁷ In addition, the 10 states “with the highest number of small business exporters”, as determined by the Department of Commerce’s latest data, may not receive more than 40 percent of available funds.¹⁸ For FY 2022 applications, these states were California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas.¹⁹

As world travel came to a stop at the onset of the pandemic, Congress sought to provide relief to states participating in STEP. The CARES Act extended FY 2018 STEP grants for an additional year through September 2021, in order to allow States increased time and flexibility with the grant funds they had already received.²⁰ Accordingly, in FY 2021, SBA awarded 32 continuation awards and administered three sets of STEP grants from prior years— 48 grants from FY 2020, 41 grants from FY 2019, and 47 grants from FY 2018.²¹ In FY 2021, SBA supported \$832 million in export sales from STEP and assisted over 3,400 small businesses.²²

¹⁴ P.L. 114-125.

¹⁵ SBA, Office of International Trade, “State Trade and Export Promotion (STEP) Program Fact Sheet,” at [https://www.sba.gov/sites/default/files/files/FACT%20SHEET%20STEP%20PROGRAM%20\(1-3-2013\).pdf](https://www.sba.gov/sites/default/files/files/FACT%20SHEET%20STEP%20PROGRAM%20(1-3-2013).pdf).

¹⁶ U.S. Small Bus. Admin., Office of International Trade, *State Trade and Export Promotion (STEP) Program Fact Sheet*, (2013) [https://www.sba.gov/sites/default/files/files/FACT%20SHEET%20STEP%20PROGRAM%20\(1-3-2013\).pdf](https://www.sba.gov/sites/default/files/files/FACT%20SHEET%20STEP%20PROGRAM%20(1-3-2013).pdf).

¹⁷ CRS, *supra* note 2.

¹⁸ *Id.*

¹⁹ U.S. Small Bus. Admin., Office of International Trade, *State Trade Expansion Program (STEP): Notice of Funding Opportunity no. OIT-STEP-2022-01*, (2022), pg. 4.

²⁰ P.L. 116-136.

²¹ U.S. Small Bus. Admin., *FY 2023 Cong. Justification and FY 2021 Annual Performance Report* (2022), pg. 61.

²² *Id.* at 61.

STEP Reauthorization

On September 15th, H.R. 8844, the “STEP Improvement Act of 2022”, was introduced by Representative Evans (D-PA) and Representative Kim (R-CA). The legislation would reauthorize STEP for four fiscal years and create a standardized application process to address concerns that SBA’s STEP application period was variable and short, making it difficult for states to plan. Further, the bill would increase grant spending flexibility by allowing states to revise their budget plans after the disbursement of funds provided that the states notify the Associate Administrator, and the change complies with allowable uses for grant funds. The bill would improve communication between the states and SBA through an annual survey of grantees and enhance STEP’s annual reporting requirements. Lastly, the legislation would allow small business under a year old to participate in the program.

Last Congress, the House suspended the rules and passed by voice vote H.R. 6133, the STEP Improvement Act of 2020. The bill was introduced by former Representative Abby Finkenauer (D-IA) and co-sponsored by former Representative Ross Spano (R-FL). H.R. 6133 would have reauthorized STEP for four fiscal years and made many of the same improvements to the program as H.R. 8844. H.R. 6133 was received in the Senate on September 15, 2020 and referred to the Committee on Small Business and Entrepreneurship.

SBA’s Export Lending

Most U.S. banks view loans for exporting as risky. To lessen this risk, SBA created three export specific programs to provide lenders with up to a 90 percent guarantee on export loans. OIT directly manages the three export loan programs: the Export Express loan program, Export Working Capital (EWCP) loan program, and the International Trade loan program. These loans are subprograms within SBA’s broader 7(a) loan program and thus, OIT works in conjunction with OCA on changes to any Standard Operating Procedures (SOPs) that would impact these loans.

- Export Express loan program — Export Express provide up to \$500,000 in working capital or fixed asset financing for small business that will begin or expand exporting.²³ To qualify, small businesses must have been in business for at least a year and demonstrate that the loan will help them enter a new export market or expand an existing one.²⁴ Funding can be used as a revolving line of credit (up to seven years maturity) or for a term loan for export transactions including support for standby letters of credit and export development expenses.²⁵
- Export Working Capital (EWCP) loan program — EWCP provides up to \$5 million in financing to support export orders or the export transaction cycle, from purchase order to final payment.²⁶ To qualify, applicants must be a for-profit business, meet SBA size standards, and show “good character” credit, management, and ability to repay. In addition, applicants must also demonstrate the need for short-term working capital.²⁷ The program

²³ CRS, *supra* note 2.

²⁴ *Id.* at 5.

²⁵ *Id.* at 5.

²⁶ *Id.* at 4&5.

²⁷ *Id.* at 5.

is intended to be a short-term working-capital loan to support export transactions with proceeds being used to acquire inventory, pay manufacturing costs of goods for export, purchase goods or services for export, support standby letters of credit, pre-shipment working capital, and post-shipment foreign accounts receiving financing.²⁸

- *International Trade loan program* — The International Trade loan program provides up to \$5 million in long-term financing to support small businesses that are expanding because of growing export sales or have been adversely affected by imports and need to modernize to meet foreign competition.²⁹ To qualify, small businesses must be applicants must be a for-profit business, meet SBA size standards, and show “good character” credit, management, and ability to repay and be engaged or preparing to engage in international trade or be adversely affected by competition from imports.³⁰ Loans may be used for raw materials, equipment, facilities, land and buildings, and debt refinance related to international trade.

Conclusion

Exporting provides small businesses with many opportunities to grow their business, yet only three percent of America’s small businesses are exporting their products. STEP provides valuable assistance to help entrepreneurs market and sell their products overseas, which in turn has the potential to stimulate economic growth in the United States. It is important to ensure that the program is being used to its fullest potential. As Congress prepares to reauthorize STEP, this hearing will provide members an opportunity to discuss what improvements can be made to improve the delivery of services and make it easy for small businesses to export.

²⁸ *Id.* at 5.

²⁹ CRS, *supra* note 2.

³⁰ *Id.* at 5.