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# Small Business Administration Trade and Export Promotion Programs

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# Summary

According to Census Bureau data, approximately 1% of small businesses in the United States currently export. With roughly three-quarters of world purchasing power and almost 95% of world consumers living outside U.S. borders, more attention is being paid to the potential of small business export promotion programs to grow small businesses and contribute to national economic output. In addition, some Members of Congress believe the contributions of small businesses to commercial innovation and economic opportunities for firms and workers could be enhanced through greater access to growing international markets.

Consistent with these policy goals, the Small Business Administration (SBA) provides export promotion and financing services to small businesses through its loan guaranty programs, management and training programs, and other initiatives. SBA's Office of International Trade (OIT) coordinates these activities as it assists with four stages 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.

The Small Business Jobs Act of 2010 (P.L. 111-240) elevated trade within SBA by establishing an assistant administrator to lead OIT and report directly to the SBA administrator. The act also first authorized the precursor to what is now known as the "State Trade Expansion Program" (STEP), which provides grants to states and territories to assist small businesses based on a trade promotion plan developed by the applicant state. The STEP program was appropriated $18.0 million for FY2016.

In FY2016, SBA's export-related loans amounted to approximately $1.5 billion (approximately 5.0% of the value of SBA's annual loan portfolio). Although SBA has three loan programs that are specifically targeted toward exporters, most of SBA's lending support for export-related activities occurred through its broader loan programs. Surveys indicate that relatively few clients of SBA's management and training programs request trade-related counseling.

This report begins with the history, role, and scope of SBA's export promotion activities and the creation of OIT. Next, it uses quantitative and qualitative data from SBA to provide performance analysis of SBA's international programs. This report concludes with a discussion of three policy issues for Congress.

First, export promotion programs could have a policy rationale if barriers to entry are indicative of a market failure to efficiently allocate investment toward small exporters (e.g., because of disproportionately high costs to comply with trading regulations or insufficient information about the net benefits of trade). Many of these conditions, though, could be due to higher risk profiles for small exporters instead of a market failure.

Second, export promotion is sometimes viewed as important to U.S. trade "competitiveness," by boosting U.S. exports in sectors that are cutting-edge, or have become displaced by lower-cost producers overseas. Some critique this theory by arguing that these policies are economically inefficient, if they distort capital from flowing to activities with the highest economic return.

Third, the range of federal export promotion programs has led to administrative challenges among some small-business clients and potentially led to the duplication of services using taxpayer money. The Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125) enacted reforms intended to address some of these concerns. The 115th Congress might consider progress made toward these reforms as part of its small business policy agenda.

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# Introduction

Some Members of Congress believe the contributions of small businesses to commercial innovation and economic growth could be enhanced through greater access to growing international markets. According to U.S. Census Bureau data, small businesses (i.e., firms with fewer than 500 employees) comprised 97.7% of all U.S. exporting firms in 2014, but these businesses account for 33.4% of the value of exports.[1] Only 1% of small businesses in the United States export.[2] With roughly three-quarters of world purchasing power and almost 95% of world consumers living outside U.S. borders, more attention is being paid to the potential of small business programs to increase employment in the export sector.[3]

Advocates of export promotion programs also argue that helping small businesses to export will lead to more jobs. A commonly held view is that small businesses are the major source of job creation in the U.S. economy and thus policymakers should try to encourage the growth of small businesses as a means to increase employment. Economists have debated for decades the extent to which small businesses contribute to job creation.[4] More recent studies indicate that small business owners have different aspirations concerning the growth of their firms and that small, new firms (i.e., startups) are more likely to expand than small businesses generally.

Economists generally do not view job creation as a justification for providing federal assistance to small businesses.[5] They argue that in the long term such assistance will likely reallocate jobs within the economy, not increase them. In their view, jobs arise primarily from the size of the labor force, which depends largely on population, demographics, and factors that affect the choice of home versus market production.

This report begins with the history, role, and scope of the Small Business Administration's (SBA's) export promotion activities and the creation of SBA's Office of International Trade (OIT). OIT is charged with coordinating SBA's export promotion activities, including management and training programs, grants, and loan programs. Next, the report describes the three major forms of SBA trade-related assistance: (1) export-promotion-focused loans, (2) management and training programs, and (3) the State Trade Expansion Promotion (STEP) grant

[1] U.S. Census Bureau, "Exhibit 1a," *Profile of U.S. Importing and Exporting Companies 2013-2014*, April 5, 2016, at https://www.census.gov/foreign-trade/Press-Release/edb/2014/index.html.

[2] According to Congressional Research Service (CRS) analysis of Census Bureau data, there were 297,519 firms with fewer than 500 employees that exported in 2014. According to a CRS phone call with the U.S. Census Bureau on November 3, 2016, this data includes both employer- and nonemployer-firms. Census data also indicates that there were 5,806,382 employer firms with fewer than 500 employees and 23,836,937 nonemployer firms in 2014. For exporter data, see U.S. Census Bureau, "Exhibit 1a," *Profile of U.S. Importing and Exporting Companies*, April 5, 2016, at https://www.census.gov/foreign-trade/Press-Release/edb/2014/index.html. For total employer-firm data, see U.S. Census Bureau, "U.S. and states, NAICS sectors, small employment sizes less than 500," Statistics of U.S. Business, at https://www.census.gov/data/tables/2014/econ/susb/2014-susb-annual.html. For nonemployer-firm data, see U.S. Census Bureau, "Nonemployer Statistics," at http://www.census.gov/econ/nonemployer/.

[3] Office of the United States Trade Representative, *Economy and Trade*, at https://ustr.gov/issue-areas/economy-trade.

[4] For more discussion of the debate among researchers on small business and job creation, see CRS Report R41523, *Small Business Administration and Job Creation*, by Robert Jay Dilger and CRS Report R41392, *Small Business and the Expiration of the 2001 Tax Rate Reductions: Economic Issues*, by Jane G. Gravelle and Sean Lowry.

[5] For further information reviewing the theoretical arguments and empirical literature on small business and job creation, see CRS Report RL32254, *Small Business Tax Benefits: Current Law and Main Arguments For and Against Them*, by Gary Guenther; and CRS Report R41523, *Small Business Administration and Job Creation*, by Robert Jay Dilger.

program. It then uses quantitative data from SBA and qualitative data from other sources to present performance analysis of SBA's international programs.

The report also discusses three policy issues for Congress. First, are there market barriers impeding smaller firms from exporting? Second, is there a compelling interest for the government to promote exports in the name of national "competitiveness"? Third, are SBA's export promotion policies duplicative of other federal programs? These policy issues could arise in future debates over the size and scope of SBA's international trade programs. This debate will likely be framed by the issues of fiscal responsibility and the promotion of economic opportunities for firms and employees.

# SBA's Office of International Trade

SBA provides export promotion and financing services to small businesses through its business loan programs, management and training programs, and other initiatives. SBA's OIT coordinates these activities as it assists with four stages 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. SBA also participates in the regional network of U.S. Export Assistance Centers, which are managed by the Department of Commerce's International Trade Administration.[6]

Despite its name, OIT primarily encourages export promotion rather than international trade, generally. None of OIT's programs have a specific goal to help small businesses gain access to lower-cost or specialized imports, such as for use as inputs in their production processes.[7] This export-oriented focus is consistent with other federal agencies.[8]

OIT's programs are funded through a combination of the SBA's appropriations for business loan programs (i.e., subsidy costs) and for salaries and expenses. Congress does not directly provide an appropriation amount for each of the SBA's three export-focused loan programs or for trade-related counseling provided through SBA's management and training programs.

**Table 1** provides OIT's total program costs from FY2007 to FY2016 and the President's budget request for FY2017. Total program costs include obligations covering the full cost for administering OIT's major programs and services. This includes direct costs from the operating

[6] For more information on the Department of Commerce's export promotion programs, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias Akhtar.

[7] It appears, however, that some SBA management and training programs are capable of providing this sort of counseling to their small business clients. For example, see Caron Beesley, "Importing Goods into the U.S.—An Introductory Guide for Small Business Owners," SBA, July 3, 2012, at http://www.sba.gov/community/blogs/importing-goods-us-%E2%80%93-introductory-guide-small-business-owners.

[8] The economic theory that could support export promotion programs is discussed in the "Small Business Barriers to Exporting and Possible Market Failures" section of this report. Another argument often cited for export promotion programs is that exports support job creation in the United States. However, comparative advantage theory in economics indicates that exports from foreign countries help those countries pay for imports from the United States and that voluntary trade occurs because it is mutually beneficial to all parties involved. See Federal Reserve Bank of Dallas, *The Fruits of Free Trade*, 2002, at https://www.dallasfed.org/assets/documents/fed/annual/2002/ar02.pdf. In addition, given the nature of global supply chains, foreign imports into the United States could also contain some intermediate components made in the United States. For example, see Galina Hale and Bart Hobijn, "The U.S. Content of 'Made in China,'" *Federal Reserve Bank of San Francisco, Economic Letter*, August 8, 2011, at http://www.frbsf.org/economic-research/files/el2011-25.pdf.

budget plus compensation and benefits; agency-wide costs, such as rent and telecommunications; and indirect costs, such as agency overhead (e.g., financial management).[9]

**Table 1. SBA's Office of International Trade Total Program Costs, FY2007-FY2016 and FY2017 Request**

| Fiscal Year | Total Program Costs[a] (in thousands of dollars) |
|---|---|
| FY2017 (Request) | $9,471 |
| FY2016 | $9,451 |
| FY2015 | $9,025 |
| FY2014 | $10,586 |
| FY2013 | $9,543 |
| FY2012 | $8,943 |
| FY2011 | $7,681 |
| FY2010 | $8,016 |
| FY2009 | $4,660 |
| FY2008 | $4,154 |
| FY2007 | $5,258 |

**Sources:** U.S. Small Business Administration (SBA), *Congressional Budget Justification and Annual Performance Report*, various years, at https://www.sba.gov/about-sba/sba-performance/performance-budget-finances/congressional-budget-justification-annual-performance-report.

a. These nominal amounts include direct costs from the operating budget plus compensation and benefits; agency-wide costs, such as rent and telecommunications; and indirect costs, such as agency overhead (e.g., financial management). Total program costs for administering the State Trade Export Promotion (STEP) grant program are not included in the Office of International Trade's (OIT's) total program costs. In a telephone call with CRS on June 12, 2013, SBA indicated that approximately 90% of the cost of issuing export-related loans is captured under the total program costs for capital access programs.

In terms of scale, OIT's total program costs of $9.5 million in FY2016 accounted for approximately 1.4% of SBA's total program obligations for the year (not including disaster assistance).[10] For FY2015, OIT's total program costs were approximately $9.0 million.[11] For FY2017, the President requested that $9.5 million be funded toward the total cost of OIT's programs (with an exact increase of $20,000 compared with the enacted amount for FY2016).

Before December 2010, OIT was a division within SBA's Office of Capital Access. It was led by the director for International Trade, who reported to the associate administrator (AA) for Capital Access. The Small Business Jobs Act of 2010 (P.L. 111-240) required the SBA administrator to appoint an AA for International Trade no later than December 27, 2010. Accordingly, OIT's

[9] Total program costs for administering the State Trade Export Promotion (STEP) grant program are not included in the Office of International Trade's (OIT's) total program costs.

[10] According to SBA, its total program obligations are approximately $896.3 million in FY2016 ($236.4 million of which is for disaster assistance). See SBA, *FY2017 Congressional Budget Justification and FY2015 Annual Performance Report*, pp. 25-26, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

[11] This amount does not include the majority of program costs associated with making export-related loans, which are largely included under the total program costs for *capital access programs* in SBA's annual budget justification. See the notes in **Table 1** for more information.

reporting structure was realigned such that the AA for International Trade now reports directly to the Office of the SBA Administrator. On December 23, 2010, the SBA administrator approved the reorganization that included the formation of the OIT and appointed the first AA for International Trade in August 2011. These administrative changes were intended to raise the profile of SBA's export promotion activities within the agency.

SBA is one of several federal agencies that assist in the promotion of small business exports and in export promotion more generally.[12] SBA's website provides a table of federal programs that help to finance small business exports.[13] Most of these federal programs are located within other organizations, such as the Export-Import Bank of the United States, the Department of Commerce, the Department of Agriculture, the U.S. Trade and Development Agency, and the Overseas Private Investment Corporation.

SBA is also member of the Trade Promotion Coordinating Committee (TPCC), an interagency committee whose objective is to coordinate and set priorities for federal agencies involved in export promotion. The TPCC then proposes a unified export promotion budget to the President. The TPCC is composed of 20 member agencies, including the Department of Commerce, Export-Import Bank, SBA, Department of State, U.S. Trade Representative, and Department of the Treasury. The Secretary of Commerce chairs the TPCC.[14]

# Export Promotion-Focused Loan Programs

SBA identifies small businesses interested in export promotion through a combination of informational and financial programs. Technically speaking, all of the SBA's loan programs can be used by small businesses looking to begin exporting or expand their current exporting operations. Indeed, many of SBA's loan programs contribute to this mission (discussed in the "Data Analysis of Performance" section of this report).

SBA has three loan programs that specifically focus on export promotion:

- *Export Express loan program*, which provides working capital or fixed asset financing for small businesses that will begin or expand exporting;
- *Export Working Capital loan program*, which provides financing to support export orders or the export transaction cycle, from purchase order to final payment; and
- *International Trade loan program*, which provides 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.

**Table 2** summarizes the key features of SBA's three export promotion-focused loan programs.

[12] For a summary of these other federal export promotion activities, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias Akhtar.

[13] SBA, "Financing your Small Business Exports," at https://www.sba.gov/managing-business/exporting/export-loans/financing-your-small-business-exports.

[14] For more information, see CRS Report R41495, *U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress*, coordinated by Shayerah Ilias Akhtar.

**Table 2. Key Features of SBA's Three Export Promotion Loan Programs**

| Key Feature | Export Express Loan Program | Export Working Capital Program | International Trade Loan Program |
|---|---|---|---|
| *Who Qualifies?* | Small business applicant must demonstrate that the loan will enable it to enter a new export or expand in an existing export market. Business must have been in operation for at least 12 months (although not necessarily in exporting). | Must be an eligible, for-profit business; meet SBA size standards; and show "good character," credit, management, and ability to repay *(same as 7(a) loan program)*.<br>Applicants must also demonstrate need for short-term, working capital for exporting. | Must be an eligible, for-profit business; meet SBA size standards; and show "good character," credit, management, and ability to repay *(same as 7(a) loan program)*.<br>Applicants must also be engaged or preparing to engage in international trade or adversely affected by competition from imports. |
| *Use of Proceeds* | Revolving lines of credit (up to seven years in maturity) or for a term loan for export transactions *(same as 7(a) loan program)*, including support for standby letters of credit; export development expenses, including trade show participation; and translation of product literature. | Short-term, working-capital loans to support export orders or the export transaction cycle, from purchase order to final payment. May be transaction based or asset based. Loan proceeds are eligible toward raw materials, inventory, labor, and the resulting foreign accounts receivable; overhead costs incurred to fulfill an export sales order; or standby letters of credit. | Term loans for permanent working capital (e.g., raw materials), equipment, facilities, land and buildings, and debt refinance related to international trade. |
| *Maximum Loan Amount* | Gross loan amount limited to $500,000 per loan. SBA guaranty amount limited to $375,000 to one borrower (and any affiliates). | Gross loan amount limited to $5 million per loan. SBA guaranty amount limited to $4.5 million to one borrower (and any affiliates). | The gross loan amount limited to $5 million per loan. SBA guaranty amount limited to $4.5 million to one borrower (and any affiliates). However, the amount guaranteed for working capital for the International Trade loan combined with any other outstanding 7(a) loan for working capital cannot exceed $4 million. |
| *Percentage of Guaranty* | 90% guaranty for loans of $350,000 or less;<br>75% guaranty for loans greater than $350,000. | 90% guaranty not to exceed $4.5 million. | 90% guaranty not to exceed $4.5 million (up to $4 million maximum guaranty for working capital). |
| *Maturity* | Terms up to 25 years for fixed assets and up to 7 years for revolving lines of credit for working capital *(same as SBAExpress loan program)*. | Generally 1 year or less, but may go up to 3 years. | Up to 25 years. |

| Key Feature | Export Express Loan Program | Export Working Capital Program | International Trade Loan Program |
|---|---|---|---|
| *Maximum Interest Rates* | Loans $50,000 or less: prime + 6.5%<br>Loans over $50,000: prime + 4.5% *(same as SBAExpress loan program).* | No SBA maximum interest rate cap, but SBA monitors for "reasonableness." | Loans less than 7 years:<br>$0-$25,000 = prime + 4.25%;<br>$25,001-$50,000 = prime + 3.25%;<br>over $50,000 = prime + 2.25%<br>*(same as 7(a) loan program).*<br>Loans 7 years or longer:<br>$0-$25,000 = prime + 4.75%;<br>$25,001-$50,000 = prime + 3.75%;<br>over $50,000 = prime + 2.75%<br>*(same as 7(a) loan program).* |
| | **All Export Promotion Loan Programs** | | |
| *Maximum Interest Rates* | (Fee charged on guarantied portion of loan only)<br>Loans $150,000 or less, in FY2017:<br>• Annual servicing fee = 0.546%<br>• Up-front guaranty fee = 0%<br>Loans of $150,001 or more, in FY2017:<br>• Annual servicing fee of 0.546%<br>• Up-front guaranty fee for loans with maturity one year or less: 0.25%<br>• Up-front guaranty fee for loans with maturity over one year:<br>$150,001-$700,000 = 3.0%<br>$700,001-$1 million = 3.5%<br>Greater than $1 million = 3.75% of the guaranteed portion over $1 million<br>• Qualified veterans receive 50% reduction of the up-front guaranty fee for loans of $150,001-$500,000<br>*(All maximum interest rate terms are the same as 7(a) loan program).* | | |

**Source:** SBA, *Loan Program Quick Reference Guide*, June 2016, at http://www.sba.gov/content/loan-program-quick-reference-guide; and SBA, "SBA Information Notice: 7(a) and 504 Fees Effective On October 1, 2016," at https://www.sba.gov/sites/default/files/lender_notices/5000-1389.fees_for_FY_2017.pdf.

To encourage the demand for smaller loans, the SBA

- waived the up-front loan guaranty fee and ongoing servicing fee for 7(a) loans (including export-focused programs) of $150,000 or less in FY2014-FY2016;
- waived the up-front loan guaranty fee for 7(a) loans of $150,000 or less in FY2017;[15]
- waived 50% of the up-front loan guaranty fee on all non-SBA*Express* (including Export Express) 7(a) loans of $150,001 up to and including $5 million in FY2015 and FY2016; and
- waived 50% of the up-front loan guaranty fee on all non-SBA*Express* (including Export Express) 7(a) loans of $150,001 up to and including $500,000 in FY2017.

[15] SBA, "SBA Information Notice: 7(a) and 504 Fees Effective On October 1, 2016," at https://www.sba.gov/sites/default/files/lender_notices/5000-1389.fees_for_FY_2017.pdf. An email from SBA to CRS, dated October 30, 2013, confirmed that the fee waiver exemptions from the general 7(a) program applied to international trade loans of $150,000 of less.

In addition, the Veterans Entrepreneurship Act of 2015 (P.L. 114-38) authorized and made permanent the SBA's practice of waiving the SBAExpress loan program's one time, up-front guaranty fee for veterans (and their spouse) beginning on or after October 1, 2015, except during any upcoming fiscal year for which the President's budget, submitted to Congress, includes a subsidy cost for the 7(a) program, in its entirety, that is above zero.[16]

In addition to these export promotion-focused programs, SBA also supports small business exports through its other business loan programs. These programs include the 504 Certified Development Company (504/CDC) program, standard 7(a) program, and specialized 7(a) programs (see the **Appendix** for a brief summary of these loan programs). The size of the export activity within each of these programs is discussed in the "Data Analysis of Performance" section of this report.

In many ways, SBA's export promotion loan programs share similar characteristics to other SBA loan programs. For example, the Export Express program resembles the SBA*Express* program. The SBA*Express* program shares several of the characteristics of the standard 7(a) loan guaranty program except that it has an expedited approval process (which increases the risk of loan losses), a lower maximum loan amount, and a smaller percentage of the loan guaranteed (both of which reduce SBA's exposure to potential losses).[17] Similarly, the Export Express program shares several characteristics with the standard International Trade loan program, such as an expedited approval process in exchange for a lower maximum loan amount ($500,000 compared with $5 million) and a lower percentage of guaranty.[18]

# Export-Related Aspects of Management and Training Programs

SBA provides trade-related counseling to small business owners through its management and training programs as well as through its participation in interagency counseling programs. Small Business Development Centers (SBDCs) are the largest SBA source of trade-related counseling. SBA also offers counseling through other programs, such as Women's Business Centers (WBCs) and the Service Corps of Retired Executives (SCORE).[19]

[16] For more information, see CRS Report R42695, *SBA Veterans Assistance Programs: An Analysis of Contemporary Issues*, by Robert Jay Dilger and Sean Lowry.

[17] SBA*Express* has an expedited loan approval process that some have argued increases the risk of loan losses. For example, the SBA's Office of Inspector General (OIG) has reported that just over half of the loan dollars guaranteed by the SBA in FY2011 were made using delegated authorities and that although the SBA has made some progress in improving its oversight procedures of these lenders, the agency does not always recognize the significance of lender weaknesses and the corresponding risk they pose for loan losses. See SBA's OIG, *Report on the Most Serious Management and Performance Challenges*, Report No. 13-02, October 15, 2012, p. 5, at http://www.sba.gov/sites/default/files/FY%202013%20Management%20Challenges%20OIG%20Report%2013-02%20.pdf. The percentage of guarantee is 50% under SBA*Express* program instead of a maximum of 75% or 85% under the standard 7(a) program.

[18] The percentage of guaranty is 75%/90% under the Export Express program versus 90% for the International Trade and Export Working Capital loan programs. The 90% guaranty for SBA's Export Working Capital loan program is similar to the 90% guaranty in the Export-Import Bank's (Ex-Im) Working Capital Guarantee program. However, Ex-Im's program differs slightly from SBA's (it has no limit on loans compared with SBA's limit of $5 million). For more information comparing these programs, see U.S. Government Accountability Office (GAO), *2013 Annual Report: Actions Needed to Reduce Fragmentation. Overlap, Duplication, and Achieve Other Financial Benefits*, GAO-13-279SP, April 2013, p. 112, at http://www.gao.gov/assets/660/653604.pdf.

[19] SBDCs provide a vast array of technical assistance to small businesses and aspiring entrepreneurs. Women's Business Centers (WBCs) represent a national network of educational centers designed to assist women start and grow

In addition, SBA partners with other agencies to provide small business export counseling. For example, SBA provides a small business counselor training certification program and engages in counseling services to small business in partnership with the Department of Commerce-led U.S. Export Assistance Centers (USEACs). In FY2015, SBA counseled 3,387 small business owners and trained 8,120 small business owners on export finance at various USEACs.[20]

# State Trade Expansion Program (STEP) Grants

The Small Business Jobs Act of 2010 authorized SBA to establish a three-year State Trade and Export Promotion (STEP) pilot grant initiative. Congress initially appropriated funding for the program for two years: $30 million in FY2011 and $30 million in FY2012.

Under the STEP initiative, the SBA awarded grants to states in FY2011 and FY2012 with the goal of assisting eligible "small business concerns" with exporting.[21] The program's objectives were to (1) increase the number of eligible small business concerns in the state that export and (2) increase the export volume of those eligible small businesses that already export. SBA awarded STEP grants to states to execute export programs that assist eligible small business concerns in

- participation in a foreign trade mission;
- a foreign market sales trip;
- a subscription to services provided by the U.S. 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 AA for SBA's OIT.

Under the first grant competition in 2011, SBA awarded 51 cooperative agreements, totaling nearly $29 million. Under the second competition in 2012, the agency awarded 52 cooperative agreements, totaling nearly $30 million. Individual state project award amounts varied based on proposed project plans and budgets. In the first grant competition, the average award was $568,000. In the second grant competition, the average award was $577,000.[22] Some of the projects that SBA prioritized in awarding the grants included assistance to eligible small business concerns that are owned and controlled by socially and economically disadvantaged individuals, women, or veterans or service-disabled veterans; located in rural areas; new-to-market export

small businesses. The Service Corps of Retired Executives (SCORE) is a nonprofit association dedicated to entrepreneur education where working and retired executives and business owners donate their time and expertise as volunteer business counselors and provide confidential counseling and mentoring free of charge. For more information on these programs, see CRS Report R41352, *Small Business Management and Technical Assistance Training Programs*, by Robert Jay Dilger.

[20] SBA, *FY2017 Congressional Budget Justification and FY2015 Annual Performance Report*, p. 75, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

[21] Small business concerns that are eligible to participate in STEP activities must be in business for more than one year; operate profitably; demonstrate an understanding of costs associated with exporting; possess a strategic plan for exporting; and meet small business size requirements as defined in 13 CFR 121.

[22] SBA, State Trade and Export Promotion (STEP) Pilot Grant Initiative, CFDA# 59.061, at http://www.sba.gov/content/state-trade-and-export-promotion-step-grants-pilot.

opportunities to the People's Republic of China; or part of a regional, industry-focused, innovation cluster.[23]

SBA was authorized to competitively award STEP grants to the 50 states, District of Columbia, Commonwealth of Puerto Rico, Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands.[24] Under the STEP initiative, in most cases SBA provided 75% of the funding required for the total project and states provided 25%. However, for the top three states in value of exports, SBA provided 65% of total funding, whereas these states provided 35%.[25]

The SBA's Office of Inspector General (OIG) audited the STEP program for overall management and effectiveness during program's initial year of operations (FY2011).[26] The Small Business Jobs Act of 2010 required the SBA to report to Congress "the effect of each grant on exports" in the state receiving the grant. The OIG emphasized that the SBA did not establish baselines to measure changes in a state's small business exporters or exports and that the program's performance goals were not specific and results-oriented.[27] The OIG also found that some states focused on goals that did not directly increase the number of small business exporters or the export volume of existing small business exporters. Following SBA's comments on the study, OIG determined that SBA management was responsive to nearly all issues raised in the report as SBA prepared its FY2012 round of STEP awards.[28]

At the state level, SBA reports the most recent rounds of federal STEP awards, level of state match, and cumulative STEP award amounts over the history of the program.[29]

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, 2014 (P.L. 113-76), which appropriated $8 million for the STEP program in FY2014. On December 16, 2014, the President signed into law the Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235), which appropriated $17.4 million for the STEP program in FY2015. The Consolidated Appropriations Act, 2016 (P.L. 114-113) appropriated $18.0 million for the STEP program in FY2016.

In the 114th Congress, the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125) renamed the program as the "State Trade Expansion Program," reformed some of the program's procedures, and provided $30 million in annual authorization for STEP grants from FY2016 through FY2020.[30] In terms of program administration, P.L. 114-125 allows the Associate

[23] For information about the initial round (FY2011-FY2013) of STEP award amounts by state and a summary of each state's activity, see SBA, "State Trade and Export Promotion (STEP) Program Fact Sheet," at http://www.sba.gov/content/state-trade-and-export-promotion-step-fact-sheet.

[24] Section 1699(a) of the National Defense Authorization Act for Fiscal Year 2013 (P.L. 112-239) added the Northern Mariana Islands to the definition of eligible "states" for STEP.

[25] SBA, Fact Sheet – SBA Office of International Trade State Trade and Export Promotion Grant Program, Program Announcement No. OIT-STEP-2012-01, at http://www.sba.gov/sites/default/files/files/STEP%202012%20PROGRAM%20ANNOUNCEMENT%20FACT%20SHEET%20MARCH%2027%202012.pdf.

[26] SBA's OIG, *The SBA Need to Improve Its Management of the State Trade and Export Promotion Grant Program*, Report No. 12-21, September 25, 2012, at http://www.sba.gov/sites/default/files/Audit%20Report%2012-21%20Review%20of%20STEP%20Grant%20Program.pdf.

[27] Ibid.

[28] According to p. 15 of the OIG report, SBA was not responsive to requests for documentation for how STEP awards were made for FY2011 and FY2012. OIG concluded that documentation had not been properly maintained.

[29] For current STEP awards, see SBA, "State Trade and Export Promotion (STEP)," at https://www.sba.gov/managing-business/exporting/step.

[30] P.L. 114-125 also included provisions intended to improve coordination between the federal government and the states, to authorize reverse trade missions and procurement of consultancy services, and to require the SBA Inspector

Administrator (AA) for International Trade to give priority to STEP proposals from states that have a relatively small share of small businesses that export or would assist rural, women-owned, and socially and economically disadvantaged small businesses and small business concerns. P.L. 114-125 requires the AA for International Trade to submit to the House and Senate Small Business Committees a report detailing the revised STEP program's structure and procedures, management plan, and merit-based review process.

The 115th Congress could consider a number of modifications to the STEP program based on the results of an SBA Office of Inspector General report mandated under P.L. 114-125. According to statute, the report reviewed "the extent to which recipients of grants under the [STEP] program are measuring the performance of the activities being conducted and the results of the measurements" and "the overall management and effectiveness of the program." Additionally, Congress could consider whether to permanently reauthorize the STEP program.[31]

# Data Analysis of Performance

This section analyzes export-related performance data for SBA's business loan and management and training programs. SBA provided the loan approval and loan amount data to CRS, as they are available only by request. Although qualitative data on SBA's trade-related programs are limited, this section presents publicly available survey responses. These qualitative data include surveys commissioned by SBA and small business trade associations on the visibility, utilization, and outcomes of SBA's loan, management, and training programs.

## Loan Programs

SBA has three loan programs that are specifically targeted toward exporters, and many of SBA's broader loan programs also support export-related activities. A brief description of SBA's non-export focused business loan programs is included in the **Appendix**.

**Table 3** displays the number of SBA-approved loans for export activities and the total amount of those loans for FY2011 through FY2016.[32] These loan guarantees include loans that were serviced through SBA's three major export promotion-focused programs as well as through SBA's non-export-promotion-focused programs.

General to provide to the Congress a report on the revised STEP program within 18 months of the first grant award.

[31] For example, see the STEP Up for American Small Businesses Act (H.R. 2543; S. 1011) in the 114th Congress.

[32] Loans *approved* by SBA differ from loans *disbursed* by SBA. The latter represents the actual amount of SBA support that goes toward small businesses. Some small business owners that are approved for an SBA loan do not receive the funds for a variety of reasons: they find credit elsewhere, their business shuts down, etc. Thus, disbursements are always lower than approvals.

**Table 3. SBA Approved Loans for Export-Related Activity, FY2011-FY2016**

| Performance Measure | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|---|---|---|---|---|---|
| Number of Export-Related Loans | 1,528 | 1,470 | 1,577 | 1,639 | 1,783 | 1,663 |
| Number of Export-Related Loans as a Share of All 7(a) and 504/CDC Loans | 2.5% | 2.7% | 2.9% | 2.8% | 2.6% | 2.4% |
| Amount of Export-Related Loans ($mil) | $918.8 | $923.6 | $1,188.4 | $1,335.1 | $1,456.2 | $1,446.0 |
| Amount of Export-Related Loans as a Share of all 7(a) and 505/CDC Loans | 3.8% | 4.0% | 5.2% | 5.7% | 5.2% | 5.0% |

**Source:** SBA data provided to CRS on October 6, 2016.

**Notes:** Loan amounts and values are reported for all approved loans, not all disbursed loans. Given that some borrowers cancel loans (for various reasons), the disbursed loan amounts are expected to be smaller than approved loan amounts.

Although SBA approvals for export-related activity have generally increased since the creation of the Office of International Trade in 2011, these loans have consistently remained a relatively small portion of the SBA's overall loan guarantee portfolio.

**Table 4** disaggregates the total number of loans approved for export-related activities by loan program. In general, no single loan program was responsible for the majority of SBA's export-related loans during the time covered by the data. The majority of loans were issued under programs outside of the three export-focused loan programs. When added together, the three export-focused loan programs comprised 31% of export-related loans approved in FY2014, 31% of loans approved in FY2015, and 29% of loans approved in FY2016. Among SBA's various business loan programs, the highest share of export-focused loans was made under the SBA*Express* program. SBA's Preferred Lenders Program (PLP; a subset of the standard 7(a) loan program) also provided one of the larger shares of loan approvals in each of the years analyzed.

**Table 4. SBA Loan Program Approvals for Export-Related Activity, by Loan Program, FY2014-FY2016**

| | FY2014 | | FY2015 | | FY2016 | |
|---|---|---|---|---|---|---|
| **Loan Program** | **Loans Approved** | **Share of Export Loans** | **Loans Approved** | **Share of Export Loans** | **Loans Approved** | **Share of Export Loans** |
| SBA*Express* | 406 | 25% | 434 | 24% | 433 | 26% |
| Preferred Lenders Program (PLP) | 271 | 17% | 309 | 17% | 284 | 17% |
| International Trade | 193 | 12% | 216 | 12% | 215 | 13% |
| Export Working Capital | 185 | 11% | 176 | 10% | 166 | 10% |
| Small Loan Advantage (SLA) | 152 | 9% | 153 | 9% | 156 | 9% |
| Accredited Lenders Program (ALP) | 109 | 7% | 148 | 8% | 114 | 7% |
| Other 7(a) | 126 | 8% | 104 | 6% | 111 | 7% |
| Export Express | 124 | 8% | 156 | 9% | 101 | 6% |
| General 504 | 51 | 3% | 54 | 3% | 41 | 2% |
| Community Advantage (CA) | 9 | 1% | 30 | 2% | 32 | 2% |
| Certified Lenders Program (CLP) | 6 | 0% | 3 | 0% | 8 | 0% |
| Rural Lenders Program (RLA) | 2 | 0% | 0 | 0% | 1 | 0% |
| Premier Certified Lenders Program | - | - | - | - | 1 | 0% |
| Patriot Express | 5 | 0% | - | - | - | - |
| **Total** | **1,639** | **100%** | **1,783** | **100%** | **1,663** | **100%** |

**Source:** CRS analysis of SBA data provided to CRS on October 6, 2016.

**Note:** Percentages may not add up to 100% in each fiscal year due to rounding.

**Table 5** disaggregates the total amount of loans approved for export-related activities by loan program. As with the number of loans approved, the majority of total, export-related loan amounts were issued under programs outside of the three export-focused loan programs. The SBA*Express* and Export Express programs account for a smaller share of total loan amounts than total loan numbers, primarily because the maximum cap on the amount of these loans is lower than for most other SBA loan programs.

As shown in **Table 5**, the International Trade program accounted for the highest share of the amount of credit approved annually by the SBA to small business exporters in FY2015 and FY2016, but the PLP accounted for the highest share of the amount of credit approved for SBA export-related loans in FY2014. The three export-focused loan programs accounted for 48%, 50%, and 50% of export-related loan approval amounts in FY2014, FY2015, and FY2016, respectively. The PLP also accounted for less than 22% of the loan amounts approved annually over the same period.

**Table 5. SBA Loan Program Approval Amounts for Export-Related Activity, by Loan Program, FY2014- FY2016**

| | FY2014 | | FY2015 | | FY2016 | |
|---|---|---|---|---|---|---|
| **Loan Program** | **Amount ($mil)** | **Share of Export Loans** | **Amount ($mil)** | **Share of Export Loans** | **Amount ($mil)** | **Share of Export Loans** |
| International Trade | $285.4 | 21% | $394.6 | 27% | $375.4 | 26% |
| Preferred Lenders Program (PLP) | $326.9 | 24% | $315.8 | 22% | $334.5 | 23% |
| Export Working Capital | $307.4 | 23% | $307.5 | 21% | $313.0 | 22% |
| Accredited Lenders Program (ALP) | $115.8 | 9% | $149.1 | 10% | $120.7 | 8% |
| Other 7(a) | $133.0 | 10% | $112.3 | 8% | $119.1 | 8% |
| General 504 | $51.0 | 4% | $59.8 | 4% | $54.9 | 4% |
| SBA*Express* | $52.9 | 4% | $53.1 | 4% | $52.7 | 4% |
| Small Loan Advantage (SLA) | $25.2 | 2% | $27.2 | 2% | $29.4 | 2% |
| Export Express | $23.5 | 2% | $28.0 | 2% | $22.3 | 2% |
| Certified Lenders Program (CLP) | $11.7 | 1% | $3.8 | 0% | $17.9 | 1% |
| Community Advantage (CA) | $1.3 | 0% | $5.0 | 0% | $4.6 | 0% |
| Premier Certified Lenders Program | - | - | - | - | $1.3 | 0% |
| Rural Lenders Program (RLA) | $0.3 | 0% | $0.0 | 0% | $0.3 | 0% |
| Patriot Express | $0.7 | 0% | - | - | - | - |
| Total | **$1,335.0** | **100%** | **$1,456.2** | **100%** | **$1,446.0** | **100%** |

**Source:** CRS analysis of SBA data provided to CRS on October 6, 2016.

**Note:** Amounts and percentages for each category may not add up to totals in each fiscal year due to rounding.

In FY2015, the latest-available data, SBA reported that OIT helped 1,513 small business exporters to access capital through its export loan program. By comparison, this is an increase from the 1,392 small business exporters SBA assisted in FY2014.[33]

SBA does not publish data on the value of the exports supported by SBA loan programs.

## Survey Responses

SBA's Office of Entrepreneurial Development occasionally publishes a study to assess the impact of the programs it offers to small businesses. The survey asks questions about several aspects of the client's experiences with these programs, including programs' impact on their staffing decisions and management practices. The survey is sent each year to a stratified random sample of clients participating in the three largest SBA management and training programs: Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and the Service Corps of Retired Executives (SCORE).[34]

[33] See SBA, *FY2017 Congressional Budget Justification and FY2015 Annual Performance Report*, p. 71, at https://www.sba.gov/sites/default/files/FY17-CBJ_FY15-APR.pdf.

[34] For more information on these programs, see CRS Report R41352, *Small Business Management and Technical*

The last public survey, published in September 2013, was sent to 29,957 SBDC clients, 2,997 WBC clients, and 25,183 SCORE clients in March 2013 to "provide an analysis of client attitudes toward their counseling experiences and client perceptions of the impact of that counseling on their businesses."[35] Of the 58,137 surveys sent, researchers received 9,459 responses (a 16% response rate).[36] The survey labels these three SBA-supported entities as "resource partners."

In general, the surveys indicate that these programs assisted small businesses at all stages of development. They also indicate that most of the small business owners who participated in these programs and responded to the survey found the programs useful and changed their management practices or strategies as a result of their participation in the programs.[37]

Relatively few survey respondents reported that they had sought information and counseling related to international trade. Among all of the survey participants, interactions with SBA resource partners most often led to a business plan (54% of survey respondents), a marketing plan (45%), or changes to general management (35%). In contrast, 4% of survey respondents reported that SBA resource partners delivered assistance concerning international trade (up from 2% in the 2012 survey).[38]

Given the few trade-specific questions in this SBA-commissioned survey, it is difficult to draw conclusions concerning the low shares of international trade-related outcomes among clients of the largest SBA management and training programs. One interpretation could be that few small businesses have the desire to export, thus few small businesses sought out counseling on how to increase exports. An alternative explanation could be that the focus of performance management analysis of international trade programs should be on small business *exporters* rather than SBA's small business clients more generally.

# Issues for Congress

This section of the report introduces three policy issues for consideration as Congress looks to the future size and scope of SBA's export promotion activities: (1) are there barriers to exporting or market failures impeding smaller firms from international trade? (2) is there a compelling interest for the government to promote exports in the name of national trade competitiveness? and (3) are SBA's export promotion policies duplicative of other federal programs? These issues will likely be framed by the rising concerns about fiscal responsibility and sustained economic recovery.

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*Assistance Training Programs*, by Robert Jay Dilger.

[35] SBA, Office of Entrepreneurial Development, "Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling," September 2013, p. 10, at http://www.sba.gov/sites/default/files/files/OED_ImpactReport_09302013_Final.pdf.

[36] More specifically, there were 5,460 SBDC client respondents (18% response rate); 3,470 SCORE client respondents (14% response rate); and 340 WBC client respondents (18% response rate). Ibid., p. 8.

[37] Ibid., pp. 19-21. For more analysis of these surveys, see CRS Report R41352, *Small Business Management and Technical Assistance Training Programs*, by Robert Jay Dilger; and CRS Report R43083, *SBA Assistance to Small Business Startups: Client Experiences and Program Impact*, by Robert Jay Dilger.

[38] Among the 2012 survey participants, interactions with SBA resource partners most often led to a business plan (among 34% of survey respondents in 2011), a marketing plan (29%), or a financial strategy (20%). In contrast, only 2% of survey respondents reported that SBA resource partners delivered assistance concerning international trade. No 2012 survey respondents who were clients of WBCs reported that SBA resource partners delivered assistance concerning international trade. See SBA, *Impact Study of Entrepreneurial Dynamics: Office of Entrepreneurial Development Resource Partners' Face-to-Face Counseling*, September 2012, pp. 27 and 65, at http://www.sba.gov/sites/default/files/files/SBA_Converted_2012_d.pdf.

## Small Business Barriers to Exporting and Possible Market Failures

Proponents of federal support for small business exports argue that small businesses face inherent barriers to participating in international trade. Some of the commonly cited barriers in academic literature include

- insufficient capacity to export,
- not enough information or lack of awareness of services available,
- logistical difficulties in international distribution,
- challenges in export marketing,
- difficulties in obtaining export financing,
- no perceived demand abroad,
- bureaucratic processes and regulations (i.e., red-tape), and
- no desire to export.[39]

Restricted access to credit is also indicative of a barrier to small business exports. A survey of the empirical literature suggests that access to finance and the cost of credit not only pose barriers to small business trade financing in many countries (including the United States) but also constrain small businesses more than large firms.[40] Smaller firms often find it difficult to obtain commercial bank financing (especially long-term loans) for a number of reasons, including lack of collateral, difficulties in proving creditworthiness, inadequate credit history, small cash flows, higher risk premiums, underdeveloped bank-borrower relationships, and high transaction costs.

In general, economic theory suggests export promotion programs increase economic inefficiencies and reduce national welfare. Specifically, economic theory indicates that in most instances firms and workers will locate to the most efficient and productive areas to do business in the long run, without the assistance of government policy. From this perspective, government policies, such as export promotion programs, that create incentives to engage in one form of economic activity, potentially at the expense of another, result in net social loss of economic efficiency because finite resources are not being used to produce their maximum output for the lowest cost.[41] Economic theory indicates that these policies create a distortion in the market, such that resources are directed from an area of higher productivity to an area of lower productivity.

At the same time, most economists believe that some government assistance could be justified in the presence of a *market failure*, in which the market is unable to efficiently allocate resources on its own. If there is indeed a market failure, then there could be an economic basis for small

[39] For a discussion of studies that examine each of these commonly cited barriers to small business exports, see Kurt J. Miesenbock, "Small Business and Exporting: A Literature Review," *International Small Business Journal*, vol. 6, no. 2 (1988), pp. 42-61; and U.S. International Trade Commission, *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, Investigation No. 332-508, January 2010, pp. 2-15 to 2-16, at http://www.usitc.gov/publications/332/pub4125.pdf.

[40] See Joe Peek, *The Impact of Credit Availability on Small Business Exporters*, SBA Office of Advocacy, April 2013, at http://www.sba.gov/sites/default/files/files/rs404tot%283%29.pdf. For cross-national studies see International Finance Corporation (IFC), *The SME Banking Knowledge Guide*, 2010, http://www1.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/industries/financial+markets/publications/toolkits/smebknowledge+guide; Bert Scholtens, "Analytical Issues in External Financing Alternatives for SMEs," *Small Business Economics*, vol. 12 (1999), pp. 137-148; and Thorsten Beck et al., "The Determinants of Financing Obstacles," *Journal of International Money and Finance*, vol. 25, no. 6 (2006), pp. 932-952. However, consistency among national indicators limits extensive comparisons of SME financing across countries.

[41] Economists typically view the most efficient means of production as the one that provides the most benefit at the lowest cost.

business export promotion programs (assuming the costs of these programs were less than the aggregate increase in economic activity).

Although studies indicate that smaller firms face barriers to exporting, many of these conditions are not necessarily indicative of a market failure. Higher risk profiles for small exporters could be justified by their higher rates of failure and compounded by their ability to absorb risks associated with international transactions (e.g., currency fluctuations, transportation costs). Incomplete information among small businesses concerning the benefits of internationalization and how to internationalize their business could be indicative of a market failure, though, particularly if more information could allow small businesses to operate more efficiently and increase competition.

## Small Business Exports and U.S. Trade "Competitiveness"

There has been an ongoing debate among economists and business experts about the theoretical basis linking trade competitiveness to economic outcomes. Most economic policy experts agree that the major determinant of economic growth is domestic productivity growth (e.g., net increases in investment, labor supply, or technology that allows for a more efficient use of capital or labor). However, other experts are divided concerning the merits of encouraging the development of sectors that produce tradable goods and services as a means to improve net exports, increase jobs, and encourage productivity growth.

Proponents of national trade competitiveness theory believe individual countries have a compelling policy interest to increase the real (inflation-adjusted) income of their citizens, often through promoting growth in specific, tradable sectors.[42] Supporters of trade competitiveness theory are largely focused on strategies that guide individual businesses in the marketplace.[43] These firm-level strategies are then applied to the national level to inform public policy. Specifically, government policy can either reduce a business's profit (e.g., through national regulations) or increase a business's bottom line (e.g., by subsidizing production) such that domestic firms in the near term can have a greater financial profit in a head-to-head "competition" with their international competitors. Loss of competitiveness, these advocates claim, will lead to the loss of American jobs, the movement of U.S. business operations overseas, and reduced investment by foreign businesses in the United States, among other outcomes.

Some view a strong network of small businesses as being critical for U.S. economic competitiveness in the international market. In part, this notion comes from the belief that small businesses are the primary source of job creation in the United States and that access to international markets could further increase the number of jobs created by small businesses. In a related argument, proponents of small business exports say that small businesses are critical for innovative, international supply chains. For example, in an article for the *Washington Post*, then-SBA Administrator Karen Mills described small businesses' supply chain networks with larger

[42] Some point to persistent trade deficits and the corresponding increase in U.S. international indebtedness as an indication of a decline in the long-run competitiveness of the United States. However, these conditions do not necessarily lead to a decline in standards of living (e.g., real GDP). See Lawrence R. Klein, "Components of Competitiveness," *Science*, vol. 241, no. 4863 (July 15, 1988), pp. 308-318; and George N. Hatospoulos, Paul R. Krugman, and Lawrence H. Summers, "U.S. Competitiveness: Beyond the Trade Deficit," *Science*, vol. 241, no. 4863 (July 15, 1988), pp. 299-307.

[43] For a sample of scholars on U.S. competitiveness theory, see Harvard Business School, *U.S. Competitiveness Project*, at http://www.hbs.edu/competitiveness/overview.html.

firms and small businesses' innovations in production as being important in the promotion of U.S. international economic competitiveness.[44]

In contrast, economic theory generally does not support international competitiveness as a national policy goal. A 1994 article by economist Paul Krugman provides an argument against trade competitiveness theory based on the economic theory of comparative advantage.[45] In summary, Krugman argues that firms might *compete* with one another, but countries *trade* with each other. To support this statement, Krugman says that firms go out of business when they fail to compete in the marketplace, but countries do not. When a country fails to be competitive in a particular industry, national resources (e.g., capital, labor) are then used toward production in a different industry. Krugman argues that this process allows for a more efficient allocation of resources because countries are guided by market signals to specialize in the industry in which they possess a comparative advantage instead of using government resources to provide incentives for economic activity in an industry in which they are relatively less efficient in production. In summary, Krugman reaffirms traditional economic theories that contend that government policies that promote employment in certain sectors redirect employment from other sectors and that productivity gain (in the form of higher wages) for workers in the higher-valued industries is passed along to other workers in the form of higher prices (and lower productivity).[46]

Even if other countries are providing government incentives for their national small businesses to export, some economists would still say that Krugman's thesis holds. According to this logic, the United States should not engage in policies that lead to an inefficient allocation of resources and net loss in national welfare because its trading partners do so. Others expand upon Krugman's theoretical reasoning by arguing that the drive for national competitiveness, relative to another country, could be used to justify trade protectionism, restrict capital or labor mobility, increase unemployment by sending political signals of support for certain industries, or engage in "beggar-thy-neighbor" policies of international retaliation that consume national resources.[47]

## Duplication of Services

In the past, Congress has passed legislation to increase export promotion programs targeting small business across various federal agencies. For example, Congress has increased minimum percentage targets of the Export-Import Bank's (Ex-Im's) aggregate loan, guarantee, and insurance authority for financing exports by small businesses over the past 30 years.[48] The Export-Import Bank Reauthorization Act of 2006 (P.L. 109-438) required the president of Ex-Im to establish and maintain a Small Business Division. As previously mentioned, Congress elevated the goal of export promotion within SBA when it established an assistant administrator to head the OIT in the Small Business Jobs Act of 2010 (P.L. 111-240).

[44] Karen Mills, "U.S. competitiveness hinges on the strength of small business suppliers," *The Washington Post*, May 6, 2013, at http://www.washingtonpost.com/business/on-small-business/sbas-karen-mills-us-competitiveness-hinges-on-the-strength-of-small-business-suppliers/2013/05/06/03f517b8-b412-11e2-9a98-4be1688d7d84_story.html.

[45] See Paul R. Krugman, "Competitiveness: A Dangerous Obsession," *Foreign Affairs*, vol. 73, no. 2 (March/April 1994).

[46] Paul R. Krugman, "Proving My Point," *Foreign Affairs*, vol. 73, no. 4 (July/August 1994).

[47] Rudolf Scharping, "Rule-Based Competition," *Foreign Affairs*, vol. 73, no. 4 (July/August 1994).

[48] The Supplemental Appropriations Act, 1984 (P.L. 98-181) required Ex-Im to make available for FY1986 and thereafter not less than 10% of its aggregate loan, guarantee, and insurance authority for financing exports by small businesses. The Export-Import Bank Reauthorization Act of 2002 (P.L. 107-189) increased this minimum annual percentage to 20% in subsequent fiscal years. Ex-Im uses SBA's size standards methodology to determine whether a company qualifies as a small business.

More recently, though, the possible overlap and duplication of services across federal agencies that support export promotion programs for small business has become a concern for some Members of Congress. These concerns are largely driven by desires for more efficient delivery of government services, reductions in spending, and elimination of duplicative programs.

The Government Accountability Office (GAO) has identified overlap of services between SBA's export promotion activities and other federal agencies. GAO has compared SBA's programs with those at Ex-Im and various parts of the Department of Commerce.[49] Particularly, GAO noted that SBDCs and Commerce provide some similar one-on-one counseling services to small businesses and that SBA and Ex-Im offer overlapping loan guaranty programs through similar lending institutions. SBA and Commerce responded to these claims by saying that each agency tends to target different audiences by specializing in areas in which it has more experience. For example, Commerce works more with existing small business exporters to expand their range of products and services to more markets, whereas SBA works more with small businesses that are looking to begin exporting.

After conducting interviews with government officials and private-sector representatives, a 2013 GAO report concluded that overlap in services led to confusion for some small businesses. SBA and Commerce noted that both agencies have begun to clarify counseling roles and responsibilities through an interagency communiqué.[50] GAO recommended that SBA consult with Ex-Im and Commerce more closely to provide specific guidance regarding the agencies' export promotion counseling to small business and to identify ways to share client information. SBA has been responsive to some of GAO's concerns, but it has noted that legislation generally prevents SBA from sharing specific client information outside of the agency without prior consent.[51] GAO also recommended that SBA and Ex-Im may be able to explore options to harmonize export financing products and assist lenders in more easily adapting to the rules for both agencies' products. In any case, co-location of some of these services (in the form of U.S. Export Assistance Centers) could help to reduce the burdens on small businesses in obtaining comprehensive export counseling assistance.

Improving export program efficiencies has been the focus of several recent bills and could also become a larger issue if Congress grants the President the authority to reorganize certain business- and trade-related offices (and entire agencies) across the federal government under a single agency. In his FY2015 budget recommendation, President Obama included SBA as one agency whose trade-related functions could be consolidated under a single agency for trade promotion.[52] In the 112th Congress, the Reforming and Consolidating Government Act of 2012 (S. 2129) would have provided the President with much of this authority.

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[49] See Appendix I in GAO, *2013 Annual Report: Actions Needed to Reduce Fragmentation. Overlap, Duplication, and Achieve Other Financial Benefits*, GAO-13-279SP, April 2013, p. 232, at http://www.gao.gov/assets/660/653604.pdf; and GAO, *Small Business Administration Needs to Implement Its Expanded Role*, GAO-13-217, January 2013, at http://www.gao.gov/assets/660/651685.pdf.

[50] GAO, *Small Business Administration Needs to Implement Its Expanded Role*, GAO-13-217, January 2013, at http://www.gao.gov/assets/660/651685.pdf.

[51] Ibid., p. 33.

[52] Office of Management and Budget, *Fiscal Year 2015 Budget of the U.S. Government*, March 2014, p. 39, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/21st_century.pdf. For more analysis on executive branch reorganization initiatives, see CRS Report R41841, *Executive Branch Reorganization Initiatives During the 112th Congress: A Brief Overview*, by Henry B. Hogue; CRS Report R42555, *Trade Reorganization: Overview and Issues for Congress*, by Shayerah Ilias Akhtar; and CRS Report R42852, *Presidential Reorganization Authority: History, Recent Initiatives, and Options for Congress*, by Henry B. Hogue.

In the 113th Congress, several bills were introduced to help small businesses exporters, including the following:

- The Export Coordination Act of 2013 (H.R. 1909) would have helped to clarify the role of each federal agency in each part of the export process. More specifically, the bill would have revised the duties of the Trade Promotion Coordinating Committee (TPCC) and expanded its membership, and it would have required the Secretary of Commerce to make available more information on trade missions, trade fairs, and related activities.
- The TRADE (Transparent Rules Allow Direct Exporting) for Small Businesses and Jobs Act (H.R. 1916) would have assisted small businesses in increasing their exports and entering new markets by helping companies better understand foreign regulations and directing trade agencies to monitor and collect up-to-date information on changes to tariff and nontariff laws, regulations, and practices and to display this information in a clear and easy-to-read format.[53]
- The Small Business Export Growth Act (S. 1179) would have encouraged greater coordination between state and federal resources by creating a working group on the TPCC to streamline efforts among state and federal export promotion and assistance agencies, identify opportunities to consolidate unnecessary government offices, and require SBA to conduct greater export outreach to small businesses.
- The State Trade Coordination Act of 2013 (H.R. 1926) would have required increased representation and integration of state trade programs into federal trade promotion programs and established information sharing and reporting metrics between the states and the federal government.

In the 114th Congress, P.L. 114-125 enacted provisions that were similar to versions of the bills from the 113th Congress, above, or subsequent versions of those bills introduced in the 114th Congress. In particular, Sections 504 and 505 of P.L. 114-125 contained provisions that are intended to increase coordination of federal export promotion programs, reform the Export.gov web portal to be more accessible to small business exporters, integrate state trade programs into federal trade programs, and clarify the role of the TPCC in promoting state and federal export promotion programs. Both the SBA's AA for International Trade and the Secretary of Commerce have various roles in these trade promotion reforms, and the act mandates that these agencies produce plans for carrying out the reforms as well as a set of reporting metrics. These deliverables to Congress could inform the debate about small business trade promotion policy in the 115th Congress, and be possibly subject to congressional oversight hearings.

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[53] For a more detailed summary of each piece of legislation, see House Small Business Committee Chairman Sam Graves (MO), "Committee Members Introduce No-Cost Legislation To Help Small Business Enter Trade Market," press release, May 9, 2013, at http://smallbusiness.house.gov/news/documentsingle.aspx?DocumentID=333026.

# Appendix. A Brief Description of SBA Loan Programs Used to Support Export Activities

- **7(a) Loan Program:** SBA's flagship loan guaranty program for working capital.
    - *SBAExpress*: Expedited review process for 7(a) with more restrictive loan limits.
    - *Export Express*: Similar to SBAExpress. Eligible to businesses that intend to internationalize or expand their current export operations.
    - *Export Working Capital Program*: Short-term working capital loans for exporters.
    - *International Trade Export Program*: Term loans for permanent working capital related to international trade.
    - *Community Advantage (CA)*: Targeted community-based and mission-based financial institutions.
    - *Small Loan Advantage (SLA)*: Expedited review process for smaller loans in underserved communities.
    - *Preferred Lenders Program (PLP)*: SBA delegates the final credit decision and most servicing and liquidation authority and responsibility to carefully selected PLP lenders.
    - *Rural Lenders Program (RLA)*: Streamlined review process for smaller loans made by rural lenders.
- **504/CDC Loan Program:** Provides loan guarantees to Certified Development Companies (CDCs) for long-term fixed-asset loans (i.e., nonworking capital). Has job creation requirements.
    - *Accredited Lenders Program (ALP)*: SBA gives certain lenders increased authority to process, close, and service 504/CDC loans and provides expedited processing of loan approval and servicing actions.
    - *Premier Certified Lenders Program (PCLP)*: SBA designates qualified CDCs as Premier CLP CDCs and delegates to them increased authority to process, close, service, and liquidate 504/CDC loans.
- **Variations of 7(a) Program That Are No Longer Active:**
    - *Patriot Express:* Expedited review process with higher maximum loan amounts and lower maximum interest rates than SBA*Express.* Was eligible only to veterans, active-duty military members, reservists, and their spouses.

For more information, see CRS Report RL33243, *Small Business Administration: A Primer on Programs and Funding*, by Robert Jay Dilger and Sean Lowry; and Small Business Administration, *Loan Program Quick Reference Guide*, June 2016, at http://www.sba.gov/content/loan-program-quick-reference-guide.

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