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The Small Business Administration's State Trade Expansion Program

American small businesses regularly export to international markets, contributing to both domestic and global economies by trading with approximately 95% of the world population living outside the United States. But due to factors such as lack of experience or resources, some small businesses may encounter initial challenges breaking into or expanding their operations in foreign countries. Starting in 2011, the Small Business Administration's (SBA's) State Trade Expansion Program (STEP) has helped address these hurdles by offering competitive grants for projects that help eligible small business concerns (ESBCs) build their export activities. STEP awards are one of several SBA programs to promote small business exports. While other programs offer loans and management and training assistance, STEP is unique in that it offers grants.

STEP awards provide funding for a two-year period. For FY2023, the grants offered ranged from $100,000 to $1.4 million. As of FY2020, the most recent year for which data is available, SBA had 48 STEP grantees totaling $18 million. The program has three specific goals:

- increase the number of small businesses exporting;
- increase the dollar value of U.S. small business exports; and
- increase the number of small businesses exploring significant new trade opportunities, which includes both new export opportunities and expansions.

Recent Legislation

STEP, which Congress permanently authorized in the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125), has been the focus of significant legislative activity in recent years. In 2021, the House-passed Build Back Better Act (H.R. 5376) would have appropriated $30 million for STEP from unappropriated Department of the Treasury funds each fiscal year from FY2022 to FY2025. The funds would have remained available to the program for three fiscal years. The CARES Act (P.L. 116-136) extended the utilization period for STEP awards made in FY2018 and FY2019, making them available through FY2021. The CARES Act also allowed the SBA Administrator to reimburse grant recipients for financial losses related to canceled foreign trade shows and missions.

The STEP Improvement Act of 2023 (S. 77) was introduced in the 118th Congress. Among other things, the bill would require the SBA to collect additional performance data, including (1) the total number of ESBCs assisted, (2) the total dollar amount of export sales by ESBCs, and (3) number of ESBCs that have created new jobs through their participation in STEP. The legislation would require the SBA to conduct an annual survey to gather feedback on STEP. It also would extend STEP's authorization of appropriations—which expired in FY2020, although Congress continues to fund STEP through annual appropriations bills—through FY2028. Similar legislation was introduced in the 117th (H.R. 8844, which passed the House, and S. 5221) and 116th (H.R. 6133, which passed the House) Congresses.

STEP History, Uses, and Outcomes

Congress authorized the SBA to create a three-year State Trade and Export Promotion pilot grant program—a predecessor to the current STEP—in the Small Business and Jobs Act of 2010 (P.L. 111-240). Program advocates argued it would help small businesses and promote job creation following the Great Recession. The pilot program was funded for two years ($30 million in both FY2011 and FY2012), was not funded in FY2013, and the current version of STEP has received appropriations each year since ($20 million in FY2023). In 2016, Congress passed the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125), giving the program its current name and permanent statutory authority. This law authorized STEP to competitively award grants to all states, the District of Columbia, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

STEP grant funds may be used for the following purposes:

- participation in foreign trade missions;
- Department of Commerce subscription services;
- website fee payment;
- marketing media design;
- trade show exhibition;
- participation in export training workshops;
- reverse trade missions;
- procurement of consulting services; and
- other export initiatives, which must be deemed appropriate by the SBA's Office of International Trade Associate Administrator or Deputy Associate Administrator.

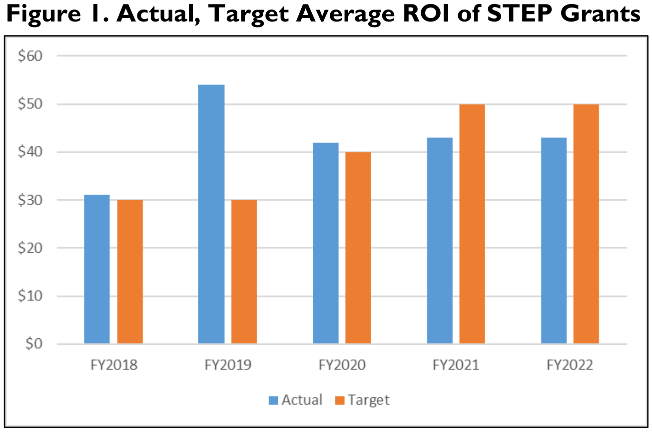
Other program provisions differ slightly among states. The 10 states with the largest number of small business exporters (California, Florida, Georgia, Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Texas) for FY2023 can receive no more than 40% of awarded STEP grants. STEP awards have a matching requirement. For states with high export volumes (California, New York, and

Texas for FY2023), the federal share of project costs is 65%, and the required state match is 35% of the sum of the federal award and the recipient's match amount; by this formula, for every $1 of federal funds, the state must fund 53.8 cents. For all other states, the federal share is 75%, with the state matching 25% of the sum of the federal award and the recipient's match amount, or 33.3 cents for every federal dollar. State matching funds must be at least 50% cash, with the rest either as in-kind or indirect expenses such as rent and utilities.

In 2021, the SBA commissioned an evaluation of STEP by an outside consulting firm (2M Research). The study found domestic firms expanding export operations most frequently use STEP funds to participate in trade show exhibitions, whereas newly exporting firms most frequently use awards for export training workshops. The evaluation found that, from FY2014 to FY2018, export sales from STEP-funded participation in trade show exhibitions dominated overall sales for STEP-funded activities, generating almost $2 billion; other export initiatives (including foreign sales trips) made $600 million; and foreign trade missions and reverse trade missions each earned about $200 million. ESBCs in four states—Michigan, New Jersey, North Carolina, and Washington—accounted for 68% of sales from STEP-funded trade show exhibitions. Lastly, the study calculated that reverse trade missions had the highest return on investment (ROI) for STEP activities, followed by marketing media design and trade show exhibitions.

The SBA establishes an annual target average ROI for STEP. Average ROI is calculated as the dollar amount of small business exports for every $1 in STEP grants. **Figure 1** presents the actual and targeted average ROI for STEP for FY2018 to FY2022. As shown, STEP exceeded the targeted average ROI from FY2018 to FY2020. However, STEP did not achieve its target ROI in FY2021 and FY2022, when the COVID-19 pandemic disrupted the global economy.

Figure 1. Actual, Target Average ROI of STEP Grants



Source: SBA, *FY2024 Congressional Budget Justification FY2022 Annual Performance Report.*

Policy Considerations

As American small businesses and the world economy recover from the COVID-19 pandemic, Congress may discuss how STEP can play a role in that process. To do so, Congress may continue its debate on which STEP performance metrics should be reported regularly. This could assist in better evaluating the program's outcomes.

With some performance metrics leading to potentially nebulous conclusions, and with STEP activity concentrated in a few activities, Congress may wish to determine which metrics it considers most useful for evaluation and oversight and what, if any, role those metrics may play in driving amendments to the program. A list of required performance metrics and an analysis of them was included in the STEP Improvement Act of 2020.

The results of the 2021 STEP evaluation provided somewhat conflicting data about the effectiveness of allowable uses for STEP awards. Congress may wish to consider which findings are more significant than others, and if that determination should impact the range of allowable uses for the grants. For example, the 2021 STEP evaluation found that from FY2014 through FY2018, of the nine allowable uses, export training workshops (10,381), trade show exhibitions (7,657), and other export initiatives (6,600) were, by far, the most utilized by STEP recipients (compared to 1,772 firms participating in foreign trade missions, the fourth most used.) But of those activities, only trade show exhibitions ranked as having one of the three highest ROIs. And yet, when asked what activity generated the highest sales, 49% of participating states identified trade show exhibitions—twice the percentage that selected the next-most profitable option. More granular and regular performance reporting may help clarify the connection between allowable uses and small business export growth.

The 2021 evaluation also found that some STEP benefits may accrue unevenly. As mentioned, between FY2014 and FY2018, 68% of all STEP-related export sales from trade show exhibitions were from ESBCs in four states, with one—Michigan—accounting for 36% of export sales. Congress could consider additional rules to ensure ESBCs in all states benefit from STEP grants, such as increasing the federal share of project costs for states that do not have a high volume of exports. Conversely, Congress may determine that STEP is working as intended; the 2021 evaluation found that ESBCs in states which have participated in STEP the longest had the most export clients.

Lastly, Congress may wish to consider how current and potential economic and business trends might impact STEP's design. For example, a number of STEP's most utilized activities, including trade show exhibitions and foreign sales trips, require business travel. The COVID-19 pandemic heavily diminished the ability of small businesses to travel abroad; this may have contributed to STEP missing its target ROI in FY2021 and FY2022. Members of Congress may consider whether additional allowable uses, such as the purchase of virtual meeting and conference tools, might address this issue and help exporting small businesses compete in an increasingly interrelated world economy.

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