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SBA'S STATE TRADE EXPANSION PROGRAM: THE STATES' PERSPECTIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE, TRADE, AND ENTREPRENEURSHIP

OF THE

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SBA'S STATE TRADE EXPANSION PROGRAM: THE STATES' PERSPECTIVE

TUESDAY, JUNE 11, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE,
TRADE AND ENTREPRENEURSHIP,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building. Hon. Abby Finkenauer [chairwoman of the Subcommittee] presiding.

Present: Representatives Finkenauer, Golden, Crow, Craig, Chabot, and Joyce.

Chairwoman FINKENAUER. Good morning. The Subcommittee will come to order.

I would first like to just say thank you to our witnesses who came from all over the country to be here today. It means a lot that you guys took time out of your busy schedules to be here and testify in front of the Subcommittee. It means a great, great deal.

I would also like to thank Ranking Member, Dr. Joyce of Pennsylvania for his work on these issues that I know are very important to his district, mine, and those of the folks who sit on this Committee. Together, we have held a couple of meetings now on trade and I am glad that we share this priority. I look forward to continuing our bipartisan work on the Subcommittee.

As a congresswoman from Iowa's 1st Congressional District, I know firsthand that for our small businesses and our farmers, the ability to access new markets and export goods promotes economic success at home and in our communities.

Today's hearings will focus on how Congress can improve the State Trade Expansion Program, or STEP as we call it, which offers competitive grants to states and territories to help small businesses, agriculture, entrepreneurs, and small business manufacturers export their products overseas.

Given the importance of trade in my home state, especially for our farmers and small businesses and manufacturers, I am disappointed that no one from the Iowa Economic Development Authority was able to join us here today. But to make sure that my friends from the Iowa Economic Development Authority, along with other hardworking entrepreneurs in northeastern Iowa, have the chance to share their experiences with the State Trade Expansion Program and provide feedback on how we can make this program work better as we look toward our reauthorization, I plan to host a roundtable in my district on this same issue on July 1st.

For that reason, I am especially excited to hear from each of you today. I hope to share your insights with my constituents at home and see how your experiences compare to those of Iowa business owners. So, thank you again for taking the time.

Like in Iowa, exporting unlocks opportunities for small businesses and entrepreneurs all throughout the country. You guys see this every single day. By selling their goods and services abroad, small businesses can drive economic growth in their communities and in turn create jobs, boost wages, and spur innovation.

Despite the many opportunities, only 1 percent of our nation's 30 million small firms sell their products overseas. Recognizing both the challenges and benefits of exporting, Congress created a three-year pilot program to help small businesses export. Five years later, Congress made STEP permanent and authorized $30 million in funding through the upcoming fiscal year.

STEP gives small businesses the tools they need to start exporting and expanding into new markets and helps connect small businesses with international consumers. STEP provides grants to states to host trade shows here and abroad and organize trade missions for small businesses.

Many small businesses operate with razor-thin margins, and only a few employees. They do not always have the resources to attend a trade show, design an international marketing campaign, or navigate a foreign country's complex rules and regulations. With STEP, small businesses and entrepreneurs can focus on building relationships with consumers abroad and not worry about the red tape.

As we prepare to reauthorize the program, it is very important to hear from the stakeholders—the folks who are doing this day to day—and learn what needs to be done to improve the program and make sure that it works as it is supposed to.

Earlier this year, Dr. Joyce and I held a hearing on the reports and audits conducted by our nation's watchdogs, which raised concerns with SBA's implementation of the program. The issues range from short timelines to burdensome reporting requirements to a lack of timely and consistent communication from SBA. I have also heard similar concerns from the Iowa Economic Development Authority about the tight turnaround times with the applications. I have testimony from them that I would like to enter into the record.

Today's hearing gives us the chance to hear from stakeholders and our states that are working hard to ensure small businesses can take advantage of this program, and again, make it work how it is supposed to. In order to strengthen the program and make it a wise investment of taxpayer dollars, we need your input. I have heard just how much the Iowa Economic Development Authority (IEDA) appreciates this program, and they are proud to offer a cost-effective and efficient way for small businesses in the Hawkeye state to explore export opportunities around the globe. The IEDA was able to make 37 grants to small businesses, and nearly 40 percent of those grants went to rural businesses.

I hope this hearing underscores the importance of STEP all across the country and provides us with a roadmap for reauthorization.

I look forward to hearing from the witnesses on the panel today and the ideas they have to strengthen STEP. I also look forward to hosting a roundtable on this important program in my district in the coming weeks.

I want to thank the witnesses again for being here today, and I would now like to yield to Ranking Member Dr. Joyce for his opening statement.

Mr. JOYCE. Thank you, Madam Chairwoman.

Three months ago, we held an Oversight hearing on the SBA's State Trade Expansion Program, what we call STEP. Representatives from the U.S. Government Accountability Office (GAO) and SBA's Office of the Inspector General (SBA OIG) identified to us program management weaknesses and recommended reforms. Today, we reinforce our commitment to seeing that SBA fulfills its goals relating to this program and maximizes every dollar to help small businesses reach their significant potential on the international market.

Two of our witnesses will explain the role of state trade agencies as administrators of STEP programs. The other two represent countless small businesses that have utilized STEP funds to enter into that vast foreign market that our Chairwoman just referenced. Each witness will demonstrate the innovative ways that STEP funds can be used to alleviate the burdens faced by small exporters.

We know that small exporters have a large impact on the American economy. I visited those within my district. I visited J&J's Truck Bodies in Somerset County, Pennsylvania. I have seen the importance of STEP grants.

State export agencies use STEP funds for a diverse array of services. Each service has its own set of metrics and expected outcomes. The program's flexibility benefits participants but hinders SBA's ability to measure impact and define the success for STEP grants.

In the small business world, and I come from that small business world, one size does clearly not fit all. When Federal dollars are involved, there needs to be a happy medium which accommodates program flexibility and accountability. Small businesses and state officials here today value the STEP program and want to see it reach its highest potential. We, in Congress, we here today on the Small Business Committee, share that sentiment. As we collect feedback from program participants today, I hope SBA is listening.

Thank you for our witnesses for traveling here, for providing your valuable insight into the STEP program.

I yield back, Madam Chairwoman.

Chairwoman FINKENAUER. Thank you, Dr. Joyce. The gentleman yields back.

If Subcommittee members have an opening statement prepared, we would ask that they would be submitted for the record.

I would now like to take a minute to explain the timing rules. Each witness gets 5 minutes to testify and each member then gets 5 minutes for questioning. There is a lighting system in front of you to assist you. The green light will be on when you begin, and the yellow light comes on when you have 1 minute remaining. The

red light comes on when you are out of time, and we ask you to stay in that timeframe that we have set to the best of your ability.

I now would like to introduce our witnesses.

Our first witness is Wade Merritt, president of Maine International Trade Center and state director of international trade within the Maine Department of Economic and Community Development. In this role, he is responsible for directing the trade and investment policy for the state. Mr. Merritt has worked his way up from frontline staff, to regional office director, to ultimately leading the organization. He has also served as past president of SIDO, the national association of state trade offices, and currently serves on its board of directors. Mr. Merritt has been involved with the State Trade Expansion Program since its inception and has a wealth of experience. I look forward to hearing about the evolution of growth in the program. Thank you for being here.

Our second witness is Ms. Jennifer Bacon, the co-founder of FlapJacked, a small business in Westminster, Colorado, that makes high-protein pancakes, muffins, and cookies that are not only healthy but tasty. Jennifer and her husband initially developed FlapJacked's first product, the protein pancakes and baking mix, to encourage her children to eat healthfully and ensure their son Jace was receiving proper nutrition. Her company has utilized the STEP program to travel to Mexico and open new international markets. I am excited to hear about FlapJacked and how the STEP program has helped you tap into those new markets, and I am very grateful for your time here today. Welcome, Ms. Bacon.

Our third witness is Mr. Clifton Broumand, the founder and CEO of Man and Machine, located in Landover, Maryland. Good to see you again. Man and Machine is a global leader in community peripherals and custom hardware engineering solutions. The company develops medical grade keyboards and mice, which allow work stations to be easily cleaned and disinfected between patients. Under Mr. Broumand's leadership, the company has grown from three employees in a small office building to a 19,000 square office complex and state-of-the-art production line. I believe when I first met you, you were introduced as "The Big Cheese." We are very excited to have you here today.

I would now like to yield to our Ranking Member, Dr. Joyce, to introduce our final witness.

Mr. JOYCE. Again, thank you, Madam Chairwoman.

Our fourth and final witness is Jennifer Black, who is the executive director of Export Development for Pennsylvania's Office for International Business Development. Ms. Black plans and directs Pennsylvania's export promotion and international trade initiatives, including the Global Access Program, which is partially funded by STEP grants. She also manages Pennsylvania's authorized trade representatives in Central and Eastern Europe, Germany, The Netherlands, India, and assists companies in growing sales to these specific markets. Ms. Black is a NASBITE Certified Global Business Professional and holds a master degree in public and international affairs from the University at Pittsburgh.

Thank you for your hard work on behalf of Pennsylvania exporters.

Madam Chairwoman, I yield back.

Chairwoman FINKENAUER. Thank you.

Mr. Merritt, you are now recognized for 5 minutes.

STATEMENTS OF WADE MERRITT, PRESIDENT AND STATE DIRECTOR OF INTERNATIONAL TRADE, MAINE INTERNATIONAL TRADE CENTER; JENNIFER BACON, CO-FOUNDER, FLAPJACKED; CLIFTON BROUMAND, FOUNDER AND CEO, MAN & MACHINE, INC.; JENNIFER BLACK, EXECUTIVE DIRECTOR, EXPORT DEVELOPMENT, PA DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT OFFICE OF INTERNATIONAL BUSINESS DEVELOPMENT

STATEMENT OF WADE MERRITT

Mr. MERRITT. Thank you, Madam Chairwoman, Chair Finkenauer, Ranking Member Joyce, and of course, Congressman Golden.

Let us try that again.

Chair Finkenauer, Ranking Member Joyce, and of course, Congressman Golden, members of the Subcommittee, thanks for having me. My name is Wade Merritt. I am the president of the Maine International Trade Center, and as mentioned, a board member and past president of SIDO. It is my pleasure to be here with you today.

The State Trade Expansion Program, or STEP, is a cooperative program of the Small Business Administration and State Offices of International Trade. We are generally divisions of state government, but some, like me, are public-private partnerships.

For those of you not familiar with what the state are doing on international trade, we are generally tasked with promoting our individual states to a global audience. I introduce our program as "connecting Maine's businesses and communities to international opportunities." This has traditionally been export promotion and the attraction of foreign investment, but also in our case it has included diversification of the defense supply chain, promotion of our educational institutions, facilitation of research and development connections between our state and the Nordic and Arctic regions.

So the question was asked of us in the summer of 2009, how best can SBA best support growth in exporting and convince more SMEs to export? Our response was driven from our experience in the field: find a way to provide direct support and allow states to design and implement programs that best fit the needs of their individual business communities.

That is where STEP is vital to our mission as states, providing the resources and necessary motivation to get those SMEs to take the leap.

Maine is not Pennsylvania; and Pennsylvania is not Maine. A one-size-fits-all program will not achieve maximum impact and efficiency.

But one that allows for thoughtful and creative methods and is able to support states' own plans will. The flexibility of the program can be its greatest strength and it can allow for the highest possible return on investment.

As I mentioned, we are a public-private partnership. Eighty-one percent of our clients have fewer than 100 employees; 68 percent

of our employees have fewer than 25. Last year we worked with over 320 businesses in Maine and completed over 1,100 trade assistance consulting and research projects. Anybody who has ever visited our state knows that it is very rural, with just eight municipalities exceeding SBA's definition of urban, and with that type of population mix there are always challenges with resource deployment and service delivery.

The STEP program directly supports two of our core functions and allows us to extend our resources and be more inclusive and expansive in our product offering. These programmatic areas are driven by responsiveness to our business community, and asking the questions: What do they need? And what do they want?

In 2018, utilizing STEP funds, we launched a refreshed trade education series, which reflected a multi-tiered approach from basic information to highly advanced topics offered through multiple channels to extend our reach into rural communities. We have just completed Maine International Trade Day with over 400 attendees and a focus on opportunities for the state's forest and marine industries and how greater engagement with the Nordic region could help drive positive economic change. These efforts not only provide much needed education but also engagement, bringing small businesses from all over the state into our STEP pipeline.

It is our goal to engage the small business community in exporting and to do that through collaboration with our Federal and state colleagues and counterparts, and encouraging them to use all of the resources available to them.

Like many states, we organize trade events at international trade shows, offering cost-effective opportunities for businesses to meet international buyers and distributors. During 2018, MITC coordinated a presence at nine trade shows supporting Maine's food, seafood, composites, and life sciences industries. All of these efforts had some measure of STEP support, and the variety of shows and destinations allowed for exporters at all levels of sophistication to have a chance to participate.

The results have been inspiring. For the past 2 grant years, our small businesses have reported almost $29 million in actual sales, from an investment of just $300,000 of Federal funds. I will do the math for you. That is roughly a 100:1 return on investment.

I want to thank the Committee for taking an interest in this program. We look forward to working with you and the agency to ensure STEP reaches its full potential. Although there are issues with the management of the program that I and my peers feel can be worked on and improved, and I am sure that we will take questions on, there can be no doubt that the outcomes of the program are significant and they are important.

It is critical that international markets be an integral part of small businesses' growth strategy, and it is critical that those small businesses have the support, whether financial, technical, or even emotional, that they need to play offense and to be successful. For many states and the businesses we serve, the STEP program is an important part of that equation.

Thank you for your time, and I look forward to the discussion.

Chairwoman FINKENAUER. Thank you, Mr. Merritt.

Ms. Bacon, you are now recognized for 5 minutes.

STATEMENT OF JENNIFER BACON

Ms. BACON. Chairwoman Finkenauer, Ranking Member Joyce, and members of the Subcommittee, I am here and pleased to discuss how the SBA's STEP program has impacted my small business in Colorado.

My husband, Dave Bacon, and I founded FlapJacked in 2012 and believe that healthy meals should not only fuel our bodies but also taste fantastic. Of course. We began our FlapJacked journey as a result of trying to get our five children to eat healthier. We sought cleaner ingredients with more protein for our active lifestyles. This was especially important for our son who has autism. He has difficulty with the texture of most proteins. Jace was not getting the nutrition that he needed to thrive, so we set out to reinvent his favorite foods, which are pancakes, muffins, and cookies.

Currently, FlapJacked can be found domestically in more than 20,000 stores, including large retailers such as Kroger and Walmart.

It is our goal to expand the brand of Better-for-You space in the United States and abroad. We feel that healthy foods should be afforded by all people in all economic statuses, especially for children, but that can be difficult to accomplish while maintaining a healthy margin. Oftentimes, we are approached by distributors in other countries asking for payment terms with extremely slim margins.

It took us over a year to establish trust in our first export customer. We would not accept terms and were advised by our local agricultural agency to beware. This is a huge risk for a young company such as ours, and at that time we were netting just under $1 million in sales.

The STEP program funds have enabled FlapJacked to get in front of retailers directly and bypass expensive distributors, making it easier to offer our products at affordable prices. We have benefitted from three grants to date that have allowed us to attend trade shows such as Fancy Foods in 2017, and ANTAD (Mexico) in both 2018 and 2019. The STEP program also pays directly to cover tradeshow expenses such as both, graphics, booth set up, shipping of samples, and printing of brochures. We have found that the support at the trade shows give us a full understanding of the market with great support that included meetings with retailers, providing translation assistance as well. They take on store tours, meet distributors, media. The meetings are face-to-face and are incredibly invaluable.

STEP funds received to date total $6,200, which we have attributed about $50,000 in sales in 2018, additionally, and we are on track for about $75,000 additional sales in 2019. That is greater than a 10x ROI on the money that we have received to date.

The additional income, which is paid 100 percent prior to shipping our product from our exporters is instant cash influx into the business. Walmart, for example, is net 90, so this has enabled us to build the proper team to handle the growth. In 2018, we added three new hires to the team that were local to our community, and in 2019, we add one new hire.

STEP is not just worth the $6,200 cash reimbursement and additional income. To attend a show such as ANTAD on our own, it would have cost approximately $12,000 to $15,000, not including

travel and hotel. The disadvantages would be no translation, no direct meetings, our own set up and tear down, printing of materials and shipping of samples. The Colorado Agricultural Department pays 25 percent for four shows of which the STEP funds pay 75 percent of approximately $65,000. This allows 10 to 12 Colorado companies to exhibit within a Colorado pavilion group of booths at the show.

Relationships are extremely important to our export partners, and STEP funds allow us to create these direct relationships with retailers. These relationships now belong to us, which is completely invaluable.

One important factor is it takes time and trust, and it can take months and sometimes years—upwards of a year, pardon me—so the shows are a great facet for meetings for existing and new partners to really build those relationships around the globe.

When we show up year after year, it shows that we are here to stay. We evoke trust within our partners, and proudly in 2018, FlapJacked won the Colorado Exporter of the Year. We have created a space for Better-for-You categories domestically, and now abroad, actively exporting to 15 countries where we receive consistent POs and have sold to over 25 countries total.

FlapJacked would like to advocate for continuing to support the STEP program to assist small, women-owned businesses like mine to expand and grow beyond our borders and our reach. The STEP program not only allows us to grow through export and create jobs but to actively stimulate our economy and enhance financial security for our communities and families.

Thank you for your time and attention. I look forward to answering any questions you may have.

Chairwoman FINKENAUER. Thank you, Ms. Bacon.

Mr. Broumand, you are now recognized for 5 minutes.

STATEMENT OF CLIFTON BROUMAND

Mr. BROUMAND. I want to thank the Chairwoman and the Subcommittee for allowing me to speak about STEP.

Again, my name is Clifton Broumand. I am "The Big Cheese" at Man and Machine. We do not have standard titles. I do not take myself that seriously.

We manufacture waterproof keyboards and mice, of which I have some samples, in Maryland and also in China using our molds that we have designed. Most of our competitors are from China or Europe but we have an 18,000-19,000 square foot facility where I have about 19 employees who work in supporting the manufacturer of keyboards and mice that we ship worldwide literally from Australia to Europe, all over Europe, and we have an office in Europe and in Taiwan. Our customers include HP, Dell, GE, Boeing, Coors, Sara Lee, and more hospitals than I can mention.

The reason I am here today is to discuss STEP and the successes and failures of the program in regards to small businesses such as mine. Notice, I have also brought up failures because that is a growth area, too for us. That shows us what we need to do to get better.

Programs such as STEP help prime the pump to develop export markets. They do not give us all the money. You have to pay to

play in these programs. And it helps in two ways. One of the ways it helps is with export grants, which allow us to have matching funds to attend trade shows. And the second, it allows the states to have these trade pavilions, which we are a part of because it allows us just to walk in and start showing our product without having to spend the money that Ms. Bacon explained that we would have to spend for just a small booth and all the other costs involved.

And they also bring together all the small business owners so they can learn best practices and learn where other companies have made mistakes. So it is not just giving money to sell. It is also networking within your own state and with other states and learning what they do because most of the time you are in a USA pavilion that allows you to learn from others.

So sales rarely happen immediately in my business. We sell business to business, and one of the things that has happened is that we are also asked how much have you sold at this trade show? And the answer normally is none. It takes years, sometimes up to 5 years for people to hear, to literally take our product and go through a whole process to put our keyboards in a hospital.

And so one of the questions is measurement, of how successful can this program be if you cannot measure sales? So with us, we do about $75,000 a year in the Middle East, which we use the export grants for, for the Arab Health Show. So more than 1 percent of my business is just from the Middle East, and it is due directly to these exports grants which is $3,000 every 2 years. So it is not like I am getting a lot of money but we are getting a big bang because of it.

One of the other things that you might want to measure is to see how many companies come back to another trade show, even if they do not get the grant, because that is really showing somebody it is effective because a business owner is not going to spend their money without knowing that there is some return if it is all their money at that point in time. So that is another option of looking at how effective is this? Are people coming back without having to get an export grant?

In regard to the failures that we have seen in this program, I have done the Paris Air Show with Maryland. We have done other shows, and other than at the trade show in Paris, other than great French food, we really did not get much business. But we learned from it and now we have developed an oil proof keyboard and mouse that nobody else in the world has.

So what I see is that there are definitely things that have to be dealt with in this program, but that is in any program that you have. The question here is, does it, basically, $1,500 a year that adds up to $75,000 a year in sales is a pretty good return on investment. And I would do that any day of the week. And I think a lot of small businesses would if they knew about this program.

Thank you.

Chairwoman FINKENAUER. Thank you, Mr. Broumand.

Ms. Black, you are now recognized for 5 minutes.

STATEMENT OF JENNIFER BLACK

Ms. BLACK. Thank you.

Chairwoman Finkenauer, Ranking Member Joyce, and members of the Subcommittee, thank you very much for the opportunity to appear before you today.

My name is Jen Black. I serve as the executive director of Pennsylvania's Export Development program.

To summarize my written testimony, I will begin by providing some background that I hope will give context to further discussion on how we have leveraged STEP funds to benefit small businesses across our commonwealth, and ways we believe the STEP program can be improved to help all of us build upon the success we have already achieved together.

We know that exporting makes an impact. In 2018, goods exports from Pennsylvania were valued at over $41 billion, and helped to support 176,000 Pennsylvania jobs.

Of all the exporters in our state, 89 percent are small- and medium-sized firms (SMEs), and it is in support of SMEs where our export assistance program, those of our Federal partners, and SBA's STEP program play a critical role.

Through Pennsylvania's Export Development program, companies can access customized consulting and in-market support services to help them develop and successfully execute their international marketing and sales objectives.

We administer our program in partnership with 10 economic development agencies across Pennsylvania, and we also maintain 15 trade offices worldwide covering 51 markets.

Last year through our program we worked with 1,009 companies, the majority of which are SMEs, and confirmed over $810 million in client-reported export sales.

Using economic modeling, we estimate these sales helped to support 6,354 jobs in Pennsylvania, and generate $45.8 million in state and local tax revenue.

In addition to our program, Pennsylvania companies have access to an extensive 'export ecosystem' of Federal Government service providers, including SBA district offices, 18 small business development centers, and two U.S. commercial service offices. Together, we offer a wide variety of complementary programs and services to new exporters and experienced exporters alike, as outlined in our Federal-State Annual Plan. The STEP grant is certainly an important component and asset to our share admission.

Pennsylvania has applied for STEP funding every year. We were selected to receive awards in years 1 through 4 and again in years 6 and year 7. In the past two funding rounds, our STEP awards were less than what we applied for, so we scaled down our project plans and opted to put nearly all of our STEP funds toward our Global Access program (GAP). Through GAP, qualified companies can apply to receive 75/25 matching grants of up to $5,000 to help them offset the cost of export activities that meet their specific business objectives.

Last year, we supported 168 companies through the STEP program. Of these, 23 were new-to-exporting. We are confident the investment of STEP funds we make in support of our companies will continue to yield returns.

But even for a larger state program like ours, with an experienced team working on the STEP grant and a comprehensive per-

formance metrics and reporting system already in place, keeping up with STEP reporting is a challenge.

Our staff spends a significant amount of time compiling and consolidating data and running calculations manually to fill in the required forms. And in the end, we question how relevant some of the data is to a meaningful and constructive evaluation of our program and our progress.

Of course, we understand the importance of accounting for how taxpayer dollars are spent on this program. I mentioned earlier some of the key performance indicators and economic modeling we used to do the same at the state level.

But as we prepare for the 8th year of STEP, we encourage SBA to take further steps to reduce the administrative burden of managing the grant.

Specifically, we recommend SBA collaborate with states and the Committee to do two things. One, identify and define the most important data points and performance indicators needed to evaluate the STEP program. And two, optimize the application process and reporting requirements to capture and compile that data more efficiently.

Doing so will also enhance our ability to make the most of additional STEP funds to support more small business exporters. We strongly support increased funding for the STEP program to $50 million.

We believe additional funding for the STEP program, combined with reducing the administrative burden on clients, on states, and on SBA staff, will help all of us achieve our shared objectives.

Thank you and the Committee for your leadership and ongoing support of your leadership and ongoing support of the STEP program, and for the opportunity to share our state's perspective. I look forward to your questions.

Chairwoman FINKENAUER. Thank you, Ms. Black. Thank you to all our witnesses again that are here today. I am really excited for the discussion we will be having.

Let's get started.

I will begin by recognizing myself for 5 minutes.

This question is for Mr. Merritt and Ms. Black. I really want to highlight that Iowa does a great deal with STEP. In our state, STEP has provided $265,000 to help increase exporting opportunities for small businesses. I understand your states have also received sizeable amounts to expand exports in Maine and Pennsylvania. When the Subcommittee held a hearing in March on STEP, we learned that a dozen states only used 75 percent of their funds in 2015. The GAO credited these leftover funds to the fact that the timelines for states were too short. These tight turnarounds hindered their ability to fully utilize the program.

The Iowa International Trade Program reported only having 1 month from the day that the grant was announced to the day their application was due. Compared to other programs, I understand that timeline is terribly short and very difficult to meet.

Could you please discuss the application process and your experiences with it?

Ms. Black, do you want to start?

Ms. BLACK. Thank you.

So I did make some notes regarding the STEP 8 announcement this year. So we just submitted our STEP 8 applications last week. I think the deadline was Friday, the 7th of June. The funding announcement was made on May 1st with an initial deadline of the 31st, I believe, of May, and that was then changed. There were some problems with the downloads and some of the forms, and so the deadline was extended until June 7th. So in the end we had a month and a week to submit our applications.

Something I would like to point out is that when we filed the applications now that STEP is a 2-year program, we are estimating events that are going to happen as far out as 2021 in this latest round. And so I think having the ability to modify our project designs quickly and efficiently as we move through the award year would go a long way to states utilizing all of the funds.

I do not want to take all of the response time. But I do want to mention that in our case, we distribute funds first using state dollars. So we are cutting checks to companies for the GAP program with state funds. And then we ask SBA to reimburse us later. Because we are using state funds first, and we do not have a cushion of state dollars to supplement the GAP program, we are over allocating, but as reimbursements come in, they are sometimes less than what companies had anticipated. So almost by design I do not believe that we would be able to achieve 100 percent disbursement on our award. Thank you.

Mr. MERRITT. I will not go too far into the application process. I think I had a very similar experience to Jen Black's in Pennsylvania.

I do want to address the 75 percent utilization. I think we have talked a bit about the lateness of the award versus kind of our programmatic needs. Generally, our year as far as the overseas activities and the work that we do generally starts around September. It kind of follows the school year calendar if you can imagine that. Unfortunately, we end up not knowing whether or not we are going to have our award until September, until the middle or even late September. The busiest, or second busiest quarter of the year for state trade offices taking groups of companies overseas is that October to December quarter. So almost by default, we just lose that time as we have no idea whether we are going to be able to commit state dollars. I mean, commit STEP dollars to these programs, which definitely hinders the recruitment process.

The move to the 2-year award helped because we do not lose quarter five, which would be the first quarter of the second year. That certainly helps things, but we do lose that first quarter oftentimes.

Chairwoman FINKENAUER. Okay. In your view, would it make sense to standardize the process requiring SBA to announce grants no later than March 31st, give states 60 days from that date to complete the application, and then make sure those awards are finalized, for example, by August 1st of the year? Would that be helpful?

Mr. MERRITT. Absolutely. If there was predictability to this process and that timeline works beautifully, the earlier the better because we are often recruiting for shows in November in the summer, so August is great, 60-day window is great. And just being

able to have a predictable time that we know that this is what is going to happen. Part of the issue has been, for us anyway, we just do not know when it is going to be. And when it appears, it is kind of a bomb in the middle of the spring of like you have got 4 weeks to go. So.

Chairwoman FINKENAUER. Okay.

Mr. MERRITT. Predictability is important here.

Chairwoman FINKENAUER. So you can put it on the schedule. Would you agree with that, Ms. Black?

Ms. BLACK. Yes, I would definitely agree with my colleague from Maine.

Chairwoman FINKENAUER. Great.

Ms. BLACK. Thank you.

Chairwoman FINKENAUER. I saw your head nodding but I wanted to make sure we got it into the record.

Ms. BLACK. Yes, thank you.

Chairwoman FINKENAUER. Thank you, Ms. Black.

With that, my time has expired.

I will recognize Ranking Member Dr. Joyce for 5 minutes.

Mr. JOYCE. Thank you, Madam Chairwoman.

Mr. Merritt, I am going to extrapolate something that you said about Pennsylvania not being Maine and Maine not being Pennsylvania.

I will speak from this side. With our Chairwoman, I will tell you that Pennsylvania is not Iowa, and Iowa is not Pennsylvania. And yet, this is one of the strongest, bipartisan Committees you can find in the United States Capitol. We work well together. We work for you, and I think that you have to hear that from us, that statement has to be made clear.

I am going to address this to Ms. Black. Can you explain regional export network and how it affects trade opportunities to small businesses throughout Pennsylvania?

Ms. BLACK. Sure. Thank you.

We administer our export development program and partnership with these 10 economic development agencies across the state, which we refer to as our Regional Export Network. Our office provides a grant (using state fund only) to these agencies to help them identify and counsel small businesses who are interested in exporting. So we have sort of a hub and spokes model—the head office in Harrisburg and then we have our first points and local points of contact across the state. And using that network we are able to broadcast opportunities including the GAP program or other STEP-funded activities, and we are certainly reaching companies in urban areas and in rural areas and a lot of areas in between.

Mr. JOYCE. Can you continue and expand specifically regarding using organizations such as Southern Alleghenies Planning Commission within South Central Pennsylvania? How do they utilize? How do they work with you in this process, please?

Ms. BLACK. Sure. So this is through our state-funded program. We have identified these agencies, and each of them are staffed with experienced trade consultants who can provide technical assistance to companies. The Southern Alleghenies Planning and Development Commission is our partner in the Southern Alleghenies region. The manager there is Tina Taylor. She manages their inter-

national trade program and it is her role to be the face of Pennsylvania's Export Development Program in the field. And I should comment to Tina that she is doing a fantastic job.

Mr. JOYCE. When you choose businesses, when they are chosen in Pennsylvania, how do you look specifically for those that you feel are going to have the most advantage from a STEP grant?

Ms. BLACK. So there is a process for that. We do keep our Regional Export Network partners as the first point of contact. We want companies to submit GAP applications directly through them. They will evaluate the company's project plan based on the company's objectives and certainly, they are all unique as we heard today. The financial need of the company. And we ask the companies to specifically highlight to us the impact they believe this funding can make on their company in terms of sales, in terms of jobs, and certainly just in available capital.

So the first pass is done at the regional level. Applications are sent into Harrisburg and they are reviewed by Committee there. It is a competitive process, the GAP program, and applications are reviewed weekly and funds are awarded on a competitive basis, first come, first serve as far as the available funds.

Mr. JOYCE. This question is for all the members, all the panelists who are here today.

I realize how different each one of you and what you bring to the table. And so we are faced with what metrics would you suggest are best used to measure success? Dollars, certainly the amount invested versus the amount of return. Are there other measurable metrics that you would recommend that we bring into play when analyzing the success of this program?

Mr. Merritt, I would like to start with you, please.

Mr. MERRITT. Thank you, congressman, for the question.

The issue of metrics in the state trade programs has been something that our organization, the national organization has been working on for years. I can speak to what we are doing in Maine.

We do use the export sales numbers because we think that that is the easiest thing to quantify, or it is the closest thing to the ground to quantify to say this company, you know, we have heard from a couple of them today, because of this, because of our participation in a trade show, we were able to make this amount of sales. That one is kind of a straightforward one.

The other ones we look at are number of companies accessing the programs, but we also look at the number of new companies accessing the programs. Number of companies that are repeat customers. You know, that was one. The importance of going back time and again and making sure that you are developing the programs. There are a lot of these.

And then, of course, when we start getting into the qualitative work as well, having success stories from it, that is usually the most compelling. You have heard a couple of the stories here of this is what we have been able to do with it.

Mr. JOYCE. Mrs. Bacon, I, too, have a child with autism, and I realize what you have done by providing palliative protein to children who have sensory issues when eating. That is significant on so many levels.

But again, I am going to pivot back to are there measurable metrics besides dollars and cents that we should be using to evaluate your success?

Ms. BACON. For us, it is giving back to the community; right? But also the building of the relationships. So you know, as we have talked about, it takes a lot of time to build those relationships, and once those relationships are established they do not go away if you work at them. So like relationships with our kids and getting them to eat, it is also the same in business for us. But for us also it is adding the people, obviously, but really giving back into the community. Right? They make a paycheck in our town. They spend it in our town. So it is kind of that revolving interest of our team members.

Mr. JOYCE. Thank you.

Mr. Broumand, would you please comment to the metrics that we are using?

Mr. BROUMAND. As I said in my testimony also, I look at do you go back when you do not have money from the state? I think that actually really shows that it is successful for a business person because they are looking at what is my rate of return without any money coming into their pocket except for maybe the pavilion that you are in. It is do you have repeat customers? I think you said that, Mr. Merritt, that if I go back, then it must be pretty successful for me. If I do not go back, then it was not really giving me the return that I wanted and that is really telling you, are these programs I think helping small businesses?

Mr. JOYCE. I thank all the panelists. We wish you success.

Madam Chairwoman, thank you for indulging me the additional time.

Chairwoman FINKENAUER. Thank you, Dr. Joyce.

I would now like to recognize the Chairman of the Subcommittee on Contracting and Infrastructure, Mr. Golden.

Mr. GOLDEN. People do that all the time. Do not worry about. Thank you very much.

Some people probably do not know unless it was in the bio. Mr. Merritt actually helped work with the drafting of this original program back when Senator Olympia Snowe from Maine was chairing the Small Business Committee in the Senate. So we have got someone here with a lot of depth and knowledge of the program. You have been watching this for a while. So I think we have a good opportunity to get some good feedback from you.

It sounds to me like there has been an appeal from Ms. Black and you for a little bit of flexibility perhaps in the program once the money is out the door because you are dealing now with a 2-year program which was, I think you think, a good change, but what you are telling me is the business climate changes during the life of the grant program. Is there some kind of administrative burden that comes with that? Do you have to go back and request permission to modify your program? Or what is it that we could work with the SBA to make that process easier for you?

Mr. MERRITT. Thank you, Congressman.

Yes, absolutely. I mean, as Ms. Black mentioned with the 2-year program in the STEP 8 program application we are now having to predict activities that we would be undertaking in the summer of

2021. We are just on the cusp of the summer of 2019. So that does tend to make things a little bit difficult. The world changes a lot. Obviously, we built our expected ROI for this year on lobster exports to China, and that significantly impacted our ROI. I had to go back to the agency a couple times to explain them why we were not meeting our ROI targets because it is on the backbone of the lobster industry.

So the flexibility I think needs to—we do need some flexibility in our ability to kind of redeploy resources as they come in and recognizing that the plan that we lay out in the spring of 2019 is probably not going to have—it may not look like what it needs to look like by the time we get to 2021.

So the process that works that we do have to go through either a request process if the change is under a certain threshold, or we have to go through a more formalized process which tends to make it a bit more challenging.

Mr. GOLDEN. All right. So maybe we could look at the threshold or something along those lines. But more flexibility. So it is like a change package kind of request.

All right. You brought up lobster so, you know, it is an interesting time to talk about that.

One of the questions I actually had for you is, I mean, I know you get in, you do one-on-one. You probably work with the Maine Lobster Dealers Association on some of that export, increasing that market to China. You know, and one would think that they might be looking at other markets. But do you also work with cooperatives? Because I know that you have got the IAMAW Local 207 group there, and they have done some hard work to get out and fine some new markets in years past. But are you able to work with cooperatives as well?

Mr. MERRITT. Good question. We are not allowed to work directly with the cooperatives, but we are allowed to work with the members of the cooperative. So, yes. And we have had some great successes with the Dealers Association for the Lobster Industry, but also a lot of the other industry associations in Maine that share membership essentially with our organization in getting the word out through those communities and helping them access the market.

Mr. GOLDEN. Is there a purpose behind not being able to work with a cooperative directly?

Mr. MERRITT. It is the program is specifically designed for for-profit entities. So, an association is a nonprofit, therefore, we cannot go directly that way.

Mr. GOLDEN. Not like the lobsterman is the business?

Mr. MERRITT. The lobsterman is the business in that case; yes.

Mr. GOLDEN. Right. Yep, okay.

And just in general, could you just brag about the program a little bit in terms of—I just wrote down a list of things I suspect you are working on in Maine and I hope you are. So we have got small, you know, kind of lighter manufacturing development going on in the state. Are you working on increasing manufacturing exports? You talked about composites and forest products. I would love hearing that. Farming and fishing, too. Like, what are you having the most success with?

Mr. MERRITT. Well, as you all know, our state is a state of natural resource-based small businesses. So the lobster industry and the forest products industry tend to kind of lead the charge. But also, yeah, absolutely. Lighter and small manufacturers, the composites industry which comprises everything from boat builders to civil infrastructure, some of the research, spinouts that are going out of the University of Maine. We have been working with those folks. We just completed a grant through the Department of Defense. They are an OEA program to help diversify the defense supply chain. That grant has ended and we are going to start moving those companies over to the STEP program. They have been active in the STEP program in the past.

So it is benefitting companies all around the state. And in a number of different industry sectors. We pick on the lobster industry because that tends to drive the export numbers but there is a lot more to it and the companies that we are working with.

Mr. GOLDEN. Well, I am out of time here. I am going to probably have a second round, but I do want to just comment that——

Chairwoman FINKENAUER. Well——

Mr. GOLDEN. Are you going to let me keep going?

Chairwoman FINKENAUER. Yes. You use the minutes.

Mr. GOLDEN. All right. Very good.

You know, it sounds like a good measure of success for the program if I am hearing you all correctly, it would be that kind of analysis or return on investment because it makes a pretty strong argument for why we are making a worthy expenditure and a good use of taxpayer dollars. One for 100 is pretty good. I think I saw nationally this was like one for 30 or something along those lines.

I did want to ask, and this is for anyone, but I think, Mr.—is it Mr. Broumand?

Mr. BROUMAND. Close enough for government work.

Mr. GOLDEN. I am sorry. Well, I would like it to be better.

But you kind of indicated, I think, about this a little bit, but do you have anything to say about what the program could do, or any of you can take this in regard to maybe marketing the program itself so that more businesses know about it, more manufacturers, more farmers, more lobstermen, whatever it may be, know to come out and actually apply. What is it about the program that people are not hearing about it maybe?

Mr. BROUMAND. Well, I think that part of the problem inevitably is that everybody gets so insular in trying just to survive as a small businessperson that you are not looking out. I have always looked out but I think that that is in, like for example, in Prince Georges County where my company is located, their economic development is trying to do that and it would be helping the local, like you have the regional groups in Pennsylvania, helping them tell more people, hey, this exists. Again, it is more of trying to get people to open up rather than just focus on the local area, what they do.

Mr. GOLDEN. Do you all feel like SBA is doing a good enough job of having a strategy for making sure that the word is getting out there, or is that something that you think about?

Ms. BLACK. Well, I do not mean to speak out of turn but I think in our case our feeling is that it is our responsibility as the state

program managers to craft a program that makes sense for our states and then to market that effectively to companies. Could we do a better job? For sure. We could do a better job marketing Pennsylvania's program without a doubt. So that is always a challenge. And I think leveraging our partnerships with our Federal colleagues across the state makes a big difference, and certainly I think word of mouth-companies that have utilized these financial assistance programs and can talk about the benefits to their company. I mean, we have seen here today there is really no better way to tell the STEP story, I think, than to hear it right from companies.

Chairwoman FINKENAUER. And the gentleman's time has expired. Thank you, Chairman Golden.

And I would now like to recognize the Ranking Member of the Small Business Committee, Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chair. And thank you to the Ranking Member as well. I just like to step in and see how these Subcommittees are going sometimes. This one seeks to be functioning very well. So I want to commend both the Chair and the Ranking Member.

I will be brief. I think, and this may have already been mentioned as so many things have been. I apologize. But about 96 percent of the consumers on the globe that we all share live outside the borders of the United States. And I know it is a pretty small percentage of small businesses. I think 1 percent or so of small businesses that actually sell their products overseas through trade.

And so the function that you all have at the state level and in conjunction with the Federal Government obviously and some of the funding and things is critical. So we thank you for the good work that you are all doing.

But last few years have been kind of tumultuous times when it comes to trade for various reasons. It was somewhat disconcerting to me as somebody who would consider myself more or less a free trader over the years, to see both the candidates in the latest presidential race on both sides, for example, come out against TPP. And it got kind of a bad name, and I think the United States, for example, at the international level, rather than be worked about China, so that is a reason to keep us out of TPP. It gave them a disproportionate share of the power with the United States being absent. And so that is my point of view. And the current administration does not necessarily share that and they believe more in bilateral trade agreements rather than regional agreements which I think they are both important and valuable to the U.S.

But going back to what I was saying, kind of tumultuous nature, whether it is the tariffs or kind of—I will just leave it, let us say the tariffs. What impact has that had on you all and what you are trying to do for your clientele, the people that you are working with, the emphasis on trying to get more people to sell their products on the markets and around the globe? You know, what additional challenges are there? Do we need to educate the public more about the fact that trade does not mean that we are exporting jobs? It generally means we are exporting products and jobs are being created here. It does not mean that jobs sometimes do not get exported. But if we do it right that is not what the effect should be.

So just sort of, you know, what impact has this general environment that we have seen in recent years relative to trade, how has that impact what you all do?

Yes, sir?

Mr. BROUMAND. It has impacted us a great deal in regard to time and effort. As a small business, I am losing focus to developing new products and manufacturing. Right now, because we sell computer gear, our components come from China and we assemble them and sell them all over the world. Now, we have to worry about do I build it in Taiwan and bring it into the country so I do not get impact in regard to the tariffs? For products that I am making for Australia right now, we are trying to manufacture in Australia and Europe. I actually have to do production now in China rather than bringing it here to do the production. People like American made products. They appreciate American made products. The quality we bring is paramount. But now, if I have to pay tariffs for a product coming in to build and then to ship out, I cannot be competitive with the Chinese, nor with the Germans. So the amount of time I have wasted, I just cannot even—it is so frustrating.

And my brother says, you know, do not buy into it. And he is a doctor. Nothing against doctors. But he is not a manufacturer and he does not understand all the ramifications. For a small business person, you know, GE or General Motors, they might have hundreds of people doing this. I have me and my operations manager having to figure this stuff out. It is very frustrating.

Mr. CHABOT. Madam Chair, my time is about to expire. I do not know if any of the other witnesses might want to respond to that question but, thank you.

Chairwoman FINKENAUER. I would be happy to expand the time.

Ms. BACON. Hi. For OS, our products are made in the U.S. So we do not have a lot of issues in terms of the manufacturing. But where we do make decisions because of tariffs are our ingredients suppliers and where those come from. Sixty-five percent are U.S. The rest is imported. So a lot of times we make choices based on how that impacts our business. Thank you.

Mr. CHABOT. Thank you very much. I yield back.

Chairwoman FINKENAUER. Thank you, Ranking Member Chabot.

Thank you to all of the witnesses who came here today. I know you took time out of your very busy schedules to be here and it means a great deal. Your stories are so important for us to make sure that when we reauthorize STEP, we do it the right way and fix the things that need to be fixed. We know that STEP offers many promising opportunities for entrepreneurs in Iowa and across the country. By connecting small businesses with customers overseas, we know STEP can help entrepreneurs grow their businesses at home and abroad. You showed that here today.

When small businesses succeed, their communities thrive. Increased economic activity from exports helps support Main Street businesses and gives other companies the chance to grow. I wanted to very specifically say thank you to our small business owners who came here today, taking time out of your very busy schedules. I know there is a lot going on for you right now, very specifically

when it comes to trade and its impact on your businesses, but to hear from you firsthand helps us to do our jobs better. Thank you, thank you, thank you, for being here.

I again want to say it is unfortunate the Iowa Economic Development Authority could not be here today, but I am very grateful I had a chance to hear from folks in Pennsylvania and Maine about all the work that you guys are doing when it comes to STEP. You know firsthand what works and what does not. I am also very grateful for the small businesses sharing their stories to really tie this all together.

We must make it easier for small businesses to compete in the global market, especially at a time like this. STEP has the potential to help entrepreneurs across the country tap into new markets, and we have seen that from what works. Again, we now are learning what we need to fix to make sure it continues.

I look forward to again hearing from Iowans on this program in the coming weeks and working with my colleagues on both sides of the aisle to take the feedback we have received today and make critical improvements to STEP and ensure it better serves our communities and small businesses.

We have a lot of work to do, and I am grateful every day to get to work across the aisle and show up for Iowans and our country. I'm grateful that you guys are here helping us do the job the right away.

Now I would like to ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

And if there is no further business to come before the Committee, we are adjourned. Thank you.

[Whereupon, at 11:04 a.m., the Subcommittee was adjourned.]

APPENDIX

Testimony of Wade Merritt
President, Maine International Trade Center

House Committee on Small Business
Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship

"SBA's State Trade Expansion Program: The States' Perspective"

June 11, 2019
10:00 a.m. EDT

Chair Finkenhauer, Ranking Member Joyce, and of course Congressman Golden, members of the subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship – thank you for having me. My name is Wade Merritt and I am the President of the Maine International Trade Center and board member and past president of SIDO, the national association of state trade offices. It's my pleasure to be here with you today.

The State Trade Expansion Program, or STEP, is a cooperative program of the Small Business Administration's Office of International Trade and those offices of international trade – generally divisions of state government but some, like me, are public-private partnerships.

For those of you not familiar with what we do, we are generally tasked with promoting our individual states to a global audience; I introduce our program as "connecting Maine's businesses and communities to international opportunities" – traditionally export promotion and attraction of foreign investment, but in our case also the diversification of the defense supply chain, promotion of our educational institutions, and facilitation of research and development connections between our state and the Nordic and Arctic regions.

As you well know, STEP was created through the Small Business Jobs Act of 2010 – I am very proud to note that I worked with the Senate Small Business Committee on crafting the original legislation because one of the early champions of the program was our former Senator, Olympia Snowe, who served as ranking member at that time.

The question was asked of us in the summer of 2009: how can SBA best support growth in exporting and convince more SMEs to export? Our response was drawn from our experience in

the field: find a way to provide direct support, and allow states to design and implement programs that best fit the needs of their individual business communities.

That's where STEP is vital to our mission – providing the resources and necessary motivation to get those SMEs to take the leap.

Maine is not Pennsylvania; and Pennsylvania is not Maine. A one-size-fits-all program will not achieve maximum impact and efficiency.

One that allows for thoughtful and creative methods and is able to support states' own plans will. The flexibility of the program can be its greatest strength and allow for the highest possible return on investment.

As I mentioned, we are a public-private partnership. 81% of our clients have fewer than 100 employees; 68% have fewer than 25. Last year we worked with 320 clients, and completed over 1,100 trade assistance consulting and research projects. Anyone who has ever visited our state knows that it is very rural, with just eight municipalities exceeding SBA's definition of urban, and with that type of population mix, there are always challenges with resource deployment and service delivery.

The STEP program directly supports two of our core functions and allows us to extend our resources and be more inclusive – and expansive – in our product offerings. These programmatic areas are driven by constant feedback from and responsiveness to our business community. What do they need? What do they want?

In 2018, utilizing STEP funds, we launched a refreshed trade education series, GlobalU, which reflected a multi-tiered approach from basic information to highly advanced topics – many offered through multiple channels to extend our reach. We've just completed Maine International Trade Day with 400 attendees and a focus on opportunities for the state's forest and marine industries – and how greater engagement with the Nordic region could help drive positive economic change. These efforts not only provide much needed education, but also engagement – bringing small businesses from all over the state into our STEP pipeline.

It is our goal to engage our small business communities in exporting – and to do that through collaboration with our federal and state colleagues, and encouraging them to use all of the resources available to them.

Like many states, we organize trade events at international trade shows, offering cost-effective opportunities for businesses to meet international buyers and distributors. During 2018, MITC coordinated a presence at nine trade shows supporting Maine's food, seafood, composites, and life sciences industries. All of these efforts had some measure of STEP support, and the variety of shows and destinations allowed for exporters at all levels of sophistication to have a chance to participate.

The results have been inspiring – for the past two grant years, our small businesses have reported almost $29 million in actual sales, from an investment of just $300,000 of federal funds, roughly a 100:1 return on investment.

I want to thank the committee for taking an interest in this program and we look forward to working with you and agency to ensure STEP reaches its full potential. Although there are issues with the management of the program that I and my peers feel can be worked on and improved – and that I'm sure I will take questions on - there can be no doubt that the outcomes of the program are significant and important.

It is critical that international markets be an integral part of small businesses' growth strategy, and it is critical that those small businesses have the support, whether financial, technical, or even emotional – that they need to play offense and be successful. For many states and the businesses we serve, the STEP program is an important part of that equation.

Thank you for your time and I look forward to the discussion.

FOODS YOU LOVE WITH PROTEIN YOU NEED

United States House of Representatives Committee on Small Business Subcommittee on Rural Development, Agriculture, Trade and Entrepreneurship.

June 6, 2019

Statement of Jennifer Bacon, Co-Founder, FlapJacked™

Chairwoman Finkenauer, Ranking Member Joyce, and Members of the Subcommittee: I am here to discuss how the Small Business Administration's (SBA) State Trade Expansion Program (STEP) has impacted my business in Colorado.

My husband, Dave Bacon, and I founded FlapJacked in 2012 on the premise that "we are what we eat" and believe that healthy meals should not only fuel our bodies but also taste fantastic. We began our FlapJacked journey as a result of trying to get our 5 children to eat healthier. We sought cleaner ingredients and shifted away from today's carb-heavy foods to provide more protein for our active lifestyle. This was especially important for our Autistic son who had difficulty with the texture of most proteins. Jace wasn't getting the nutrients he needed to thrive and so we set out to re-invent his favorite foods (pancakes, muffins and cookies) to include the balanced nutrition that his body needed.

Currently FlapJacked can be found domestically in more than 20,000 stores nationwide including large retailers such as Kroger and Walmart.

It is our continued goal to expand our brand exposure in the Better-For-You (BFY) space from the United States to abroad. We feel that healthy foods should be afforded by all people in all economic statuses (especially for children) but that can be difficult to accomplish while maintaining a healthy margin when exporting. Often times we are approached by distributors from other countries that ask for payment terms with extremely slim margins. It's also difficult to weed through the serious players versus scam artists.

960 W 124th Avenue, Suite 100, Westminster, CO 80234 | P: 720-476-4758 | F: 702-447-3477 | FLAPJACKED.com

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On our own, it took us over a year to establish trust in our first export customer from the Dominican Republic. We would not accept terms and were advised by our local agricultural agency (USDA) to beware. We would only accept 50% deposit on all orders, assuming that at least our cost of goods sold would be covered. If the export partner wouldn't pay, we would not fill future orders. This was a huge risk for a young company. At that time, we netted just under $1 million in sales.

The STEP program funds have enabled FlapJacked to get in front of retailers directly and bi-pass expensive distributors and middlemen making it easier to offer our products at affordable prices. We have taken advantage of STEP grants when they become available. To date, we have benefited from three grants that have reimbursed us for travel and allowed us to attend the following trade shows at no cost to FlapJacked; Fancy Foods 2017; ANTAD (Mexico) 2018; ANTAD (Mexico) 2019. In addition to the reimbursement funds the STEP program also pays directly to cover trade show booth, graphics, booth set-up, shipping of samples and printing of brochures. We have found that the support at these trade shows give us a full understanding of the market with great positioning and support which included meetings with retailers with translator's present. They take us on store tours, meet distributors, co-packers, and media. These meetings are face to face encounters that are invaluable.

Step funds received to date total $6200 in which have attributed $50k in sales in 2018 and we are on track to have $75k in sales in 2019. That's greater than a 10x ROI. This additional income (which is paid 100% prior to shipping product) is instant cash influx to the business. (Walmart, for example is net 90). This has enabled us to build the proper team to handle the growth. In 2018 we added 3 new hires to the team and in 2019, we added 1 new hire.

STEP is not just worth the $6200 cash reimbursement and additional income. To attend a show such as ANTAD on our own, it would have cost approximately $12-15k per show. The disadvantages would be no translation available, no direct meetings, our own set up and tear down, printing of materials and shipping of samples not to mention hotel and travel costs. Colorado Agricultural Department (CAD) pays 25% for 4 shows of which the STEP funds pay 75% of approximately $65k per show. This pays for 10-12 Colorado companies to exhibit within a Colorado pavilion group of booths in the show.

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FOODS YOU LOVE WITH PROTEIN YOU NEED

Deep relationships are extremely important to our export partners and STEP funds allow us to create direct relationships with retailers in countries vs relying on a distributor to do all the work and take a hefty margin. These are relationships that now belong to us, which is invaluable. One important factor of these relationships are that they take time and trust and they can takes months and sometimes upwards of a year, so the shows are a great facet for meeting new and existing partners in person from around the globe. At each show, we also meet and nurture relationships with current partners at both shows such as CPT (Middle East), Kron (Guatemala), International Exports (Middle East) and Takanawa (Iceland).

When we show up year after year, it shows that we are here to stay and evoke trust with our partners. Proudly, in 2018 FlapJacked won Colorado Exporter of the year. FlapJacked has created space in Better For You (BFY) categories domestically and now abroad, actively exporting to 15 countries where we receive consistent PO's and have sold to over 25 in total.

FlapJacked would like to advocate for continuing to support the STEP program to assist small, women-owned businesses like mine to expand and grow beyond our borders and our reach. The STEP program not only allows us to grow through export and create jobs, but to actively stimulate our economy and enhance financial security for our communities and families.

Thank you for your time and attention. I look forward to answering your questions.

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Testimony of Clifton Broumand 11 June 2019, Washington DC.

I want to thank the Chairwoman and the subcommittee for allowing to express my opinions here today about the importance of STEP and State support in Export sales.

My name is Clifton Broumand. My title at Man & Machine is "The Big Cheese." I started Man & Machine, Inc ("MMI") in 1982. MMI manufactures waterproof rugged keyboards and mice in Landover Maryland. We also integrate Privacy Filters into LCD Monitors for HIPAA compliance and additional data security.

In the 1990's MMI was the largest LCD repair facility in the world. After recognizing that the price of LCD's were dropping, my company looked to find another line of business. We started selling waterproof keyboards made in Germany in 2000. In 2003 we decided to start production in the USA. We are one of only 2 companies that manufacture keyboards in the USA. Almost all our competitors are in China or in Europe. We have an 18000 sq ft facility in Landover Maryland. Even President Bush visited our office and plant 12 years ago. We are very proud of our abilities.

MMI has 19 employees in Maryland with 10 of them directly responsible to produce these keyboards and mice. We also have 3 engineers in Landover and one in Taiwan to design and support our Really Cool Keyboards and Might Mouse products. We have 26 employees and direct contractors worldwide. On average, my associates have been with Man & Machine for over 18 years. I am proud that I have been indirectly responsible for many of my employees being able to buy homes, send their children to University and live a good life.

MMI customers include HP, Dell, GE, Boeing, Coors, Sara Lee and more hospitals than I can mention. Our gross sales are about $6 million per year.

Over the past 6 years or more, 30% of our sales have been generated overseas. MMI has an office in The Netherlands which handles our sales and supports in the EU. We also sell our US manufactured products in the Middle East and Australia. In addition, MMI has lower cost keyboards and mice built in China based upon our designs sold that are all over the world. Export sales are imperative to MMI's survival and success.

The reason I am here today is to discuss STEP and the successes and failures of the program in regards to a small business such as mine. Notice I also said failures. Because there have been times that some of the attempts with our grants and trade shows with the State of Maryland have not helped my with any sales. The analogy I use is in regards to baseball...If a batter hits .300 over a long enough career, he will go to the Hall of Fame. STEP allows small businesses to get to the plate. Frequently our new ventures we will not be successful, but over the long run, we will have the ability to grow and succeed. No business is successful 100% of the time.

MMI started selling overseas in the early 90's. My first overseas trip, I actually ended up in the Maryland pavillion at CeBit in Hannover Germany. For a small business, the support of our state has been very important. Small businesses such as mine have limited resources to expand overseas. But the interesting thing is that foreign customers prefer US designed or manufactured products.

Programs such as STEP help prime the pump to develop export markets and export sales.

STEP helps my company in 2 ways: First it helps with Export Grants that provide matching funds to allow small businesses to attend trade shows overseas to develop export sales.

Secondly, the STEP allows states to provide a framework in respect to State Pavilions at trade shows all over the world. These Pavilions take care of most of the effort needed to prepare for trade shows. Small businesses can pretty much show up with their products or services and develop a distributor network and potential clients. These pavilions also help bring together small business owners to help them learn best practices and learn where other companies made mistakes.

Sales rarely happen immediately. Unless you are really good or really lucky. It takes time to develop and nurture a distribution network that supports local clients. And it takes time to sell an overseas client. They need time and connections to feel comfortable with the US made products or services.

The Maryland Export Grants are matching grants that require us to pay for part of the trade show expenses. These grants are not just giving us money. We have to

pay to play. We as small business owners have to make decisions about the return of investments. These grants help us expand our export business.

We are also asked by the State for the sales that come from the trade shows to quantify the effectiveness of these grants. This question is normally asked right after the show and maybe a few months afterwards. I do not think that this can actually measure our success or failure since it can take upwards of years to make a sale. We are in B2B sales. We sell to dealers that sell to end users. And those end users are normally hospitals or health care providers. In addition, pure sales numbers do not tell about the networking and learning that can be done at the show.

So let's talk about our failures and successes in STEP. First the failures.... We have done the Paris Air Show with Maryland. We got exactly nothing from the experience other than great French food and seeing Paris. But our products, although used by Boeing in their Wing Fabrication Plant, did not evoke any interest that ended in sales. We also did the Hannover Messe Industrial Show a few years ago that really did not produce enough sales to justify the trip over. But we learned about what works and what doesn't work. Because of our failures, we have designed and now manufacture in the USA the only true Oil Proof Keyboard on the Market. Even our failures in the program allowed us to succeed at a later date.

Now to our successes. We have been doing Arab Health in Dubai for many years. Initially we tried to do the stand on our own, but the costs and time to do the trade show was prohibitive. The Maryland Pavilion and the Export Grants allowed me to continue and develop relationships with dealers all through the Middle East and even in Australia and Europe. Maryland takes care of the logistics, support and graphics. All we have to do is show up and sell.

The time frame to make a sale in the Middle East can be long. Upwards to 5 years from the time that someone first sees your products to final delivery for a new hospital in maybe Saudi Arabia or Lebanon. But if they don't continue to see you at the shows, they could choose another company. The Chinese have a huge pavilion and they subsidize 50% of their companies' costs.
On average we have sold about $75,000 per year to the Middle East. Although this might not seem like much, the profit from these sales pays the bills.

Also by our attendance at Arab Health, we have been able to nurture relationships with other workstation manufacturers that we are leveraging in other markets such as Europe and Australia. These other vendors are going to show our products in their stands expanding our reach without additional major expenses. They even allow me to be in their booth without paying. This expansion via networking at the shows that I have attended with Maryland is difficult to quantify, but to me, it is worth 10's of thousands of dollars to my company.

There are other trade shows that Maryland has a Pavilion. For example, Maryland is at Medica, the largest medical show in the World. I first exhibited there 15 years ago in the Maryland Pavilion. They even supplied translators to help me. I did not receive a grant for that first show and honestly, I don't know if STEP was involved in the Maryland Pavilion so many years ago. But Maryland's support was the base of our growth in the Medical Marketplace in the EU and beyond. I see many of the same companies exhibit with Maryland year after year and hear they are successful and happy for the help. Maryland has even expanded due to its success.

If there was another "Ask" that I could add to this testimony, it would be to do more trade shows in other countries such as Japan, Malaysia and China. There is no reason that small American companies should fail to enter the Chinese markets. We have products and services that others want and will buy.

Since first exhibiting at Medica with Maryland, Man & Machine has gone on it's own and expanded and set up our own sales and warehouse in The Netherlands. Europe provides $1.7 million in sales on an annual basis. WIthout export sales in Europe, Man & Machine would probably not exist.

Man & Machine has been helped by STEP and Maryland's Business Development Program. Could we have done it without the program? sure.. But it would have been more difficult and time consuming. I appreciate any help that we can get. I commend STEP and look forward to using the Program for years to come.

Testimony of Jennifer Black
Executive Director, Export Development
Pennsylvania Department of Community & Economic Development
Office of International Business Development

House Committee on Small Business
Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship

"SBA's State Trade Expansion Program: The States' Perspective"

June 11, 2019

10:00 a.m. EST

Chairwoman Finkenauer and Ranking Member Joyce, thank you for the opportunity to appear before you today.

My name is Jen Black; I serve as the Executive Director of Pennsylvania's Export Development program.

Part of the Pennsylvania Department of Community and Economic Development, our office – the Office of International Business Development (OIBD) – administers two internationally-focused economic development programs: foreign direct investment (FDI) promotion and export development.

As the Executive Director for Export Development, I lead a team of international trade consultants committed to providing Pennsylvania companies with the programs, services and resources they need to be successful in the international marketplace.

I will begin by presenting a few statistics that highlight the importance of international trade – and exporting in particular – to Pennsylvania's economy, followed by an overview of Pennsylvania's Export Development Program and the "export eco-system" of service providers we work with to support our small businesses.

I hope this background will provide some context for further discussion on how we have leveraged STEP funds to benefit small businesses across our commonwealth and ways we believe the STEP program can be improved to help all of us build upon the successes we have already achieved together.

As we know, international trade – both imports and exports – plays a key role in creating and supporting good-paying jobs in the United States. In Pennsylvania, international trade is estimated to support 1.52 million jobs. That's more than 1 in 5 Pennsylvania jobs. From 1992 to 2017, Pennsylvania's trade-related employment grew 6 times faster than total employment.

Exporting alone supports more than 176,000 in Pennsylvania.

In 2018, goods exports from Pennsylvania were valued at over $41 billion, placing Pennsylvania 10th among U.S. States by value.

Pennsylvania is home to a significant number of large manufacturers and multinational firms, but it is important to note that 89% of all Pennsylvania exporters are small- and medium-sized firms (SMEs) with fewer than 500 employees.

It is in support of SMEs where our export assistance program and those of our federal partners play a critical role.

Pennsylvania's Export Development program is designed to help our companies – primarily SMEs – develop and successfully execute their international marketing and sales objectives.

We administer this program in partnership with our Regional Export Network (REN), 10 economic development agencies across Pennsylvania that serve as local points of contact for businesses in their communities. Each REN office is staffed with experienced international trade specialists who have the knowledge and training necessary to provide a wide range of counseling and technical assistance to clients across industries.

We also maintain service contracts with fifteen (15) independent consultancies worldwide to serve as Pennsylvania's authorized trade representatives. Covering 51 countries, these representatives provide business matchmaking services, arrange business meetings and coordinate schedules for clients traveling to the market, conduct background checks on potential partners, among other services.

Our capacity to deliver meaningful export assistance is reflected in our results. Last year (FY 17), we worked with 1,009 companies, the majority of which are SMEs. When asked to quantify outcomes following assistance they received through our program, clients reported over $810 million in export sales. These sales figures illustrate the significant investment of time and money our clients make in developing international markets for their products and services.

Using economic modeling, we estimate these sales helped to support 6,354 jobs in Pennsylvania and generate $45.8 million in state and local tax revenue.

In addition to our program, companies in Pennsylvania have access to an extensive "export eco-system" of service providers in Pennsylvania, including SBA district offices and resource

partners, 18 Small Business Development Centers (SBDCs) and 2 U.S. Commercial Service offices (Philadelphia and Pittsburgh).

Together, we offer a wide variety of complementary programs, services and resources that benefit new exporters and experienced exporters alike, as outlined in our Federal-State Annual Plan.

The STEP grant is an important component and asset to our shared mission.

Pennsylvania has applied for STEP funding every year. We were selected to receive STEP awards in Years 1 – 4 and again in Year 6 ($585,000) and Year 7 ($500,000.)

In the past two funding rounds, our STEP awards were less than what we applied for, so we scaled down our project plans and removed a number of proposed activities, including programs we designed in partnership with our federal colleagues.

We opted to utilize nearly all of our STEP funds to support our Global Access Program (GAP), a financial assistance plan that offsets a portion of the costs SMEs incur as they pursue international business opportunities. GAP provides up to $5,000 (per award period) to qualifying companies to reimburse 75% of eligible expenses associated with specific export promotion activities.

GAP grant awardees are determined by a competitive process. Applications are reviewed by committee and funding decisions rendered on a first come, first-served basis.

GAP is designed to be flexible and permit the innovative use of funds. Companies are encouraged to apply for allowable activities that meet their specific business objectives and financial need. We do not prescribe which specific trade missions or trade shows are eligible activities under GAP, for example. The result is a dynamic program that allows companies to leverage GAP funds to their own best advantage.

Companies used GAP funds to participate in trade shows, trade missions and business trips, and to purchase specialized U.S. Commercial Service services such as Gold Key Service.

The program is very well-received by Pennsylvania's business community. Last year, 168 companies participated in the GAP program.

Of these, 23 were new-to-exporting, including Bella Lucia, a producer of gluten-free pizzelles located in Altoona, PA. Bella Lucia utilized GAP funds to exhibit at the Summer Fancy Food Show held in New York City last June. During that show, they took orders directly from retailers – something that rarely happens – and met with key contacts from Canada interested in their cookie line. Bella Lucia are headed back to New York City at the end of this month for the 2019 show to exhibit again and build on those connections.

Experienced exporters also benefit by using GAP funds to explore new market opportunities. One example is J&J Truck Bodies and Trailers, a division of Somerset Welding & Steel located in Somerset, PA. In early 2018, they utilized GAP funds for a U.S. Commercial Service Gold Key and travel to Ghana. While there, they signed with a representative to introduce their product line in Ghana, a long-time goal of the company.

There are many other examples of companies likes these – companies from across Pennsylvania and from a wide cross-section of industries – that have leveraged GAP funds to help build their international business.

We are confident the investment of federal funds in support of these companies is making a positive impact and will continue to yield returns.

That said, one of our primary concerns remains the complexity of the STEP reporting requirements.

Even for a larger state program like ours – with an experienced team working on the STEP grant and a comprehensive performance metrics and reporting system already in place – keeping up with STEP reporting is a challenge. Despite entering most of our STEP data into our in-house database as we receive inputs from clients, our staff invests a significant amount of time compiling and consolidating data and running calculations manually in order to complete the STEP reports each quarter.

We understand the importance of accounting for how taxpayer dollars are spent on this program. I mentioned earlier the key performance indicators and economic models we use to do the same at the state-level.

But as we prepare for the eighth year of STEP, we encourage SBA to collaborate with states and the Committee to identify and define the most important data points and performance indicators needed to evaluate the effectiveness of the STEP program, and optimize the reports to capture and compile that data more efficiently.

Reducing the administrative burden – on clients, on states and on SBA staff – will also enhance our ability to leverage additional STEP funds in support of more small business exporters. We strongly support increased funding for the STEP program to $50 million.

In combination, we believe these improvements will help all of us achieve our shared objective of providing high-quality resources, services and programs to help our small businesses succeed in the global marketplace.

Thank you and the Committee for your leadership and ongoing support of the STEP program, and for the opportunity to share our state's perspective.

I look forward to your questions.

Questions For the Record
Subcommittee Hearing on State Trade Expansion Program: States' Perspectives
June 11, 2019, 10:00 AM
2360 Rayburn House Office Building

Questions for Mr. Wade Merritt, President and State Director of International Trade, Maine International Trade Center, AND Ms. Jennifer Black, Executive Director, Export Development, Pennsylvania Department of Community and Economic Development

1. **Concerns have also been raised about the length of the application and the requirements for detailed information, which is not always practical in an ever-changing business environment. What can we do to make it easier for states to apply for grants?**

JB: There are several steps SBA could take to make it easier for states to apply, starting with publishing the Funding Opportunity Announcement (FOA) at the same time each year and setting a fixed number of days until the deadline. Knowing when to expect the FOA and how long we have to submit applications will enable states to plan accordingly.

We recommend an application window of at least 60 days from the date the FOA is published.

WM: I completely agree. The unpredictability, and shortness, of the application window does make it complicated from a planning perspective. The other issue is the application process itself – specifically the paperwork – which I'll address below.

2. **SBA reduced the length of the application's technical proposal from 18 to 10 pages in FY2017. Did this help, and are there ways to further streamline the paperwork requirements?**

JB: Reducing the length of the technical proposal did not help simplify the application process in any significant way. As we understood the guidance prior to FY 17, 18 pages was set as the maximum number of pages that would be reviewed and evaluated, not a minimum required number.

In addition to the technical proposal, our STEP 8 application included 28 attachments. According to the guidelines, all were required. While some of the attachments are necessary to provide context to our application and supplement our technical proposal, others are not directly relevant to our eligibility, our financial position or our capacity to execute the proposed plans.

Reducing the number of required attachments would help simplify the application process. We understand SBA is moving in this direction which is welcomed news.

WM: While I appreciated the shortening of the technical proposal from 18 to 10, I feel that a 10 page maximum is maybe a page or two too short. By the time we get through the list of

prescribed items (milestone goal charts, financial assistance plans, etc.) there is little space left to actually describe the goals of the overall project, and how they fit into state plans, in anything more than a cursory way.

That said, the issue really isn't the technical proposal. As above, it's the 28 attachments that are around the technical proposal, which include:

- Six attachments that have overlapping but unaligned budget information, the bulk of which are manually calculated and therefore leaves substantial room for error:
    - Proposed Plan: Presents budget information **by quarter**, broken down by activity to support milestone goals;
    - Technical Proposal: Presents budget information **by milestone goal**, broken down by activities to support those goals;
    - SF-424: Presents overall budget information **by federal and non federal sources** for the entirety of the period of performance;
    - SF-424A: Presents overall budget information **by federal and non federal sources** for the entirety of the period of performance. On Page 1, this is broken down by federal object class. On Page 2, this is split into federal/nonfederal sources and projected quarterly for the first year of the period of performance and full year for the second;
    - A10-12: Presents overall budget information **by federal object class**, broken down by federal and non federal sources. This form also carries staff salary information;
    - Budget Narrative: Written paragraphs explaining the uses of federal and non-federal funds, organized by federal object class.
- Two attachments (SF-424 and SF-424A) are completed offline as part of the application package, and then redone online for the Grants.gov process.

3. **GAO reported that the lack of clear, consistent, and timely communication from SBA hindered state's ability to utilize funds. In some instances, states had to wait weeks, and even months, for responses to emails that they sent to the Office of International Trade. Unfortunately, states had to forgo some planned activities. Could you please address some of the communication issues between SBA and states?**

WM: While I can't speak to this issue specifically, I can think of other areas where communication could be improved:

- The Q&A time during the application period is too short. Coupled with the timing of the application period, I don't think I've ever started on my application before the Q&A is closed. This means I need to rely on my out-of-state colleagues for advice, which presents its own challenges (see Question 4);
- States have all experienced abrupt policy changes that are rolled out to with little to no explanation, some of which don't make sense in a vacuum (ie, states are not allowed to say an activity took place in the United Kingdom, we now need to specify England, Wales, Scotland, or Northern Ireland) but that require commitment of resources to address.

Another example of an abrupt policy change was the US content requirement. Rolled out with no explanation as part of the Notice of Award process in the current year, there was no information given until the agency was asked about it, and there has been no guidance issued nine months later.

JB: We included additional suggestions on ways to improve communications below (See Questions 4, 6, 7, 10 and 13.)

4. **GAO reported that SBA's communication with the states is channeled through each program manager, even if the content is relevant to all recipients. If the program information were to be communicated from one source would that improve the accuracy, consistency, and timeliness of the information to states?**

JB: Yes, it would be very beneficial for SBA to communicate relevant, general content to all recipients through a single source. Also, when SBA presents information and updates verbally (on a group call or at a conference), it would be helpful if they followed-up by providing the same in writing.

WM: Agreed. To follow up on the question above on communication, if I have missed the application period's official Q&A session, I need to reach out to peer states for guidance. Though I don't have a specific instance in mind, I try and make sure that the state I'm getting help from has the same grant officer because the answers may differ.

5. **Does your office participate in any other federal grant programs? If so, how does your experience with STEP compare to these other programs and what lessons could be learned from the other grant programs?**

WM: We have recently completed a DOD/OEA diversification planning grant as a subawardee; we are the state representative for FoodExportUSA which is funded through the USDA/MAP; and we were the grantee for an EDA/EDAP grant in 2014-2017. The reporting (and application) requirements were far less onerous for the EDA than for STEP, and for comparable amounts of money ($812,000/3 years). In EDA's case, we submitted quarterly financial forms and reimbursement requests, semiannual written performance narratives, and a final performance report. For the DOD/OEA award, we submitted a monthly itemized invoice to our parent department (the grantee) who then drew down funds, and submitted a final written report. I would strongly suggest reviewing the EDA program for what I think could be a better way.

JB: We have not participated in any other federal grant programs recently enough to offer a direct comparison. In the past, we received grants from the Appalachian Regional Commission (ARC) and the U.S. Economic Development Administration (EDA) to support small business exporters. Given the similarities to the STEP program, a review of the how ARC and EDA manage grants to states could provide useful comparisons.

6. **I have heard that SBA does not provide feedback to states on the STEP grants, leaving states to wonder why the full amount was not awarded or without insight as to what should be done to improve the proposal in the following year. Do you know**

what criteria SBA uses to awards STEP grants and should the process be more transparent?

JB: The Funding Opportunity Announcements (FOA) for FY 19 (STEP 8) outlines how applications are scored. (See Section 5.2, pages 26-30; and Section 5.3, page 30 of OIT-STEP-2019-01.) Also in the FOA, it states: "There will be no debriefing process for unsuccessful non-Federal entities." (Section 6.1, page 30.) It has been our experience that SBA does not provide final scores or offer insights into how applications can be improved, nor do they explain how funding amounts are determined.

WM: No idea on how these decisions are made; we've been asked to reduce our budget in the past but the last couple of years we've gotten what we asked for. This conversation has been going on for years among the states. I would think this would be in the SBA's best interest, as the process is opaque. States end up making their own conclusions as to how decisions were made.

7. **The GAO report found that SBA does not have a formal mechanism for states to provide feedback on the program. What could SBA do to solicit states concerns?**

JB: One of the forms SBA requires quarterly – the PPR – includes a Program Management Narrative sheet that states use to share good STEP practices, issues and concerns. We welcome the opportunity to talk with our program managers about the notes we make on these points. We are committed to working together to improve the STEP program and would be pleased to share our ideas. Ask us.

WM: Not only ask, but take them seriously, and don't get defensive when we suggest possible solutions. We recognize that SBA has a job to do, and we are invested in the program's success because we can see the benefits to our companies.

8. **STEP is authorized through fiscal year 2020. In your view, what should Congress do to improve the program?**

JB: As I stated in my testimony, reducing the administrative burden of managing the STEP program – on clients, on states and on SBA staff – will enhance our ability to make the most of additional STEP funds to assist more small business exporters. We strongly support increased funding for the STEP program to $50 million. Additional funding will also enable SBA to increase the number of awardees (a stated goal) while also providing states with the adequate funding levels necessary to ensure STEP-funded programs and initiatives are reaching as many qualified companies as possible.

WM: The program is a tale of two cities: on the one hand, the benefits to the businesses we serve are undeniable, but on the other the administrative burden causes states to openly discuss abandoning the program altogether. It is the commitment to our companies that keeps us here. I completely agree with the above points.

9. **Adequate funding for states is a necessity to ensure an effective program. Would you support a minimum funding award for states? If so, what would be a reasonable level?**

JB: We would support a minimum funding award for states but only if the amount of funding for the program is increased overall. At the current funding level, baseline award amounts may not be sufficient to support comprehensive programming, especially given the current restrictions on how STEP funds can be utilized, and costs states incur to administer the program.

WM: It depends on your definition of "adequate" and "effective," as it will differ greatly from state to state. Just because the grant is bigger doesn't mean states have twice the number of eligible companies, or twice the staff to manage the grant. I would be very cautious about unintended consequences of setting a minimum – either small states dropping out or returning significant amounts of unspent cash. I would also suggest exploring expanded uses of federal funds (staff development, for example) if there's going to be a minimum award level.

10. **I understand that the states have to plan to every extent practicable for the coming year, and understandably plans may change – a trade mission may be cancelled, or a small business can back out. What is the process for repurposing funds for other activities, and how responsive is SBA?**

We have not needed to repurpose funds as described above.

Other states have mentioned that the main problem in repurposing funds occurs in the reporting and administration, specifically in the PPR milestones activity. They've also stated it can take months to get guidance from SBA on how to change the reporting on the PPR.

11. **How does the federal-state partnership work with the implementation of the program?**

WM: We work closely with our federal partners at the US Commercial Service and SBA field office to communicate with the business community about the program. In addition, Commerce and SBA serve as ex-officio members of our board of directors, and the Commerce representative is a member of the STEP selection committee. We reimburse companies for the costs of US Commercial Service services as well.

JB: As described in my testimony, Pennsylvania has an extensive "export eco-system" of federal government service providers. Together, we offer a wide variety of complementary programs and services to new exporters and experienced exporters alike, as outlined in our Federal-State Annual Plan. Companies can request reimbursement for the costs of the U.S. Commercial Service services, such as Gold Key, trade mission fees and associated travel costs, through our financial assistance plan (Global Access Program, GAP.)

12. **In response to the GAO and IG reports, SBA has made some improvements to enhance communication with states and reduce the burdensome requirements. Has this helped and what more can be done to improve the process?**

We appreciate the steps SBA has taken to address both issues. We look forward to collaborating with SBA as they consider additional improvements, such as those suggested above.

13. The GAO report found that SBA does not formally facilitate the sharing of best practices among the states. How might this improve the program, and do you have any thoughts on how this can be achieved?

SBA should be encouraged to take a proactive role in identifying best practices among states.

A program or initiative that is successful in Maine or Pennsylvania might not work as well in another state, but we can still learn from each other as we look for ways to improve our programs.

There are a number of topics around which SBA could provide guidance, including overall administration (project design elements), client engagement, reporting and financial management.

We encourage SBA to develop an annual STEP best practices guide on the application, administration, and overall use of the grant. This will be tremendous resource for states – especially those staff new to the STEP grant – and our effort to make it an effective program.

14. States have raised concerns that SBA's guidance is often inconsistent and inaccurate. What can Congress and SBA do to ensure that states have a clear understanding of definitions for sales, new-to-export, among others?

The Funding Opportunity Announcements (FOA) for FY 19 (STEP 8) includes a section of definitions (See Section 8, pages 33-36.) This is helpful as reference.

15. The IG report found that because there is no program-wide guidance, states use different criteria for reimbursing small businesses for trade missions and shows. In your view, do you have feedback on any actions taken by SBA to include reimbursement and activity thresholds for small businesses?

In your view, would it make sense to require these thresholds to be consistent program-wide?

SBA provides program-wide guidance on eligible activities, allowable costs, maximum reimbursement amounts for certain activities or expenses, among others. It follows that differences among states are programmatic – which trade missions they organize, which trade shows they attend, the number of allowable activities per year, the amount they offer in grants, etc. These programmatic decisions should be left up to the states.

16. SBA made changes to STEP in response to states' feedback, which they did when they lengthened the award period. Have award recipients noticed any benefit already from the change to a two-year award period?

Yes, having a two-year award period enables us to extend funding through our financial assistance plans to qualified companies for activities that take place August – November, a particularly busy time in the trade show calendar. Previously, we were either out of funds (near the end of the federal fiscal year, August – September) or just getting the program up and running (at the start of the federal fiscal year, October – November.)

That said, managing two (two-year) grants simultaneously presents challenges for many of us and significantly increases the administrative burden on states, especially given the quarterly reporting requirements.

17. As mentioned in the testimony, what works for a business exporting in Maine might not work in Pennsylvania. It seems to me that the flexibility of STEP is one of its greatest strengths. Can you talk a little more about how SBA, through STEP, allows states to design and implement programs that work best for individual states?

JB: We agree that the flexibility of STEP is one of its greatest strengths. Through STEP, states design and implement programs and organize events that meet the unique needs of our small business communities and industry sectors. We make every effort to ensure that STEP funds are invested wisely. We appreciate SBA's continued confidence in our ability to do that.

WM: Where STEP is most successful is where it is most flexible and allows for projects to follow individual state, and most importantly, individual company priorities. For example, Maine's business community is too small to reliably support specific trade shows in specific markets and specific times of the year – there may be a "cluster" of six companies, of which we need four to participate. In larger states there may not be such pressure – there may be a cluster of 30 companies to find those four. We've chosen not to fund specific trade shows for that reason – we've pulled back to individual subawards for companies instead, and allowed the business community to decide for themselves where their priorities are.

The flexibility to fill gaps and address state specific needs is an important part of the program.

pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

Jennifer Black
Executive Director, Export Development
Office of International Business Development,
Pennsylvania Department of Community and Economic Development
Harrisburg, PA

As the Executive Director of Pennsylvania's Export Development Program, Jennifer plans and directs the Commonwealth's export promotion and international trade initiatives.

Pennsylvania's Export Development team offers a wide range of programs and services designed to enhance the global reach and export capacity of Pennsylvania's business community. The team includes 15 authorized trade representatives worldwide, 10 in-state regional export partners and 4 international program managers in the Harrisburg headquarters.

Last year, Pennsylvania's Export Development team worked with 1,009 companies across Pennsylvania. As a result of the assistance they received, clients of the program reported over $814 million in export sales. These sales helped to support 6,354 jobs in Pennsylvania and generate $45.8 million in state and local tax revenue.

Jennifer has been a part of Pennsylvania's Export Development team for 18 years. Prior to serving as Executive Director, she managed the activities and provided oversight of Pennsylvania's authorized trade representatives in France, Germany, India, the Netherlands and the United Kingdom, among others.

Jennifer is a NASBITE Certified Global Business Professional (CGBP) and holds a Master's Degree in Public and International Affairs from the University of Pittsburgh.

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May 31, 2019

The Honorable Abby Finkenauer, Chairwoman
U. S. House of Representatives
Committee on Small Business & Entrepreneurship
Rural Development, Agriculture, Trade and Entrepreneurship Subcommittee
2361 Rayburn House Office Building
Washington, D.C. 20515-0515

Representative John Joyce, Ranking Member
U. S. House of Representatives
Committee on Small Business & Entrepreneurship
Rural Development, Agriculture, Trade and Entrepreneurship Subcommittee
2361 Rayburn House Office Building
Washington, D.C. 20515-0515

Dear Chairwoman Finkenauer and Ranking Member Joyce,

Iowa has been fortunate to have a successful State-funded grant program which has been in place since the 1980's.

STEP has allowed our state to not only strengthen the existing grant program but expand to offer a more robust range of international programs for Iowa small businesses. The challenge is the existing State program parameters, and the STEP parameters, do not co-exist effortlessly. We are left with the option of two separate (but similar) programs or creating one that combines parameters which creates a further limiting environment.

Iowa has received a STEP grant each of the seven years. The funding has ranged from $109,012 to $370,258. Although return on investment (ROI) is an ever-changing measure, Iowa's STEP 5 (most recent completed) ROI was 16.2.

Announcement, Deadline, Application:

Always Tight Timeframe
STEP 7 example: First Announcement was April 2, 2018. Second announcement (as incorrect information on first) was April 18. Answers to questions provided April 27. Deadline was May 16.

STEP 8 example: May 1 announcement was delayed from a mid-April goal with a May 31 application deadline. FOA and supporting documents contain inconsistencies and inaccuracies, inoperable forms, and were accessible only by certain versions of standard Microsoft programs. Clarification, correction, the legal review process and re-posting further shortened the application period, although the deadline was extended by one week. One question asked regarding the STEP 7 FOA (specific definition of US content as applicable to STEP) has still not been defined in the STEP 8 FOA.

Frequent/Unaddressed Questions
Iowa's STEP 7 question about domestic-held international shows and required documentation went unanswered until February 27, 2019 for a program that went into effect September 29, 2018. This delayed our program. It's challenging to get clear, concise guidelines/requirements as questions arise. Many times, these are in the form of an individual phone call, thereby not providing us written documentation for audit purposes. Another issue is that clarifications are not communicated consistently to all States.

Changes Implemented Without Consistency/Guidance
One Example: Previously the CE Mark testing was not eligible, but other certification testings were eligible.

Another example is the 51 percent US content which still has not been fully defined. This was added to the NOA (after we had provided goals). States have no choice but to move forward without criteria being fully defined.

Application Process Very Lengthy and Requires No Value Information
Application includes 30 attachments

One is the Technical Proposal which is limited to 10-pages but required to include many parameters and carries a high point value system.

Another is the Performance Plan which requires extremely detailed information such as the number of Market Expansion (ME) or New to Export (NTE) ESBCs, per quarter, per activity. As there is no way for States to predict number of ME/NTE per activity, per quarter, this information has no value.

One-sided Competitive Process
It is a competitive process yet provides no feedback for improvement or even the final scoring. Therefore, States have no direction for improvement next time. There is also no explanation as to why a State's application is cut 1/3 of their asking amount, which causes a complete redo of the Technical Proposal, budget and proposed performance plan by the State (more State's time).

Late & Incorrect Award
Iowa was awarded a STEP 7 award on September 21, with a start date of September 29. As the NOA included several errors, Iowa was forced to move forward with our program without a signed NOA until November 14.

Delaying Start of Grant
After managing 7 STEP awards, Iowa no longer plans activities in the first quarter of the STEP year due to the consistent tight timeframe of award announcement.

Two-Year Award:
STEP's move to a two-year grant alleviates some issues but creates others.
STEP 6: Iowa did not elect to take the two-year option. However, at the end of year one, we were not allowed to close out and forced to manage as a two year grant.

STEP Director time: Requires 50 percent of the STEP director's time STEP 7. STEP 6 has been reduced to 25 percent. Total 75 percent of one staff person dedicated to STEP at a cost of other responsibilities.

We have applied for STEP 8 but have concerns about our capacity due to the first quarter of STEP 8 will include closeout of STEP 6, 5th quarter report for STEP 7, as well as STEP 8 first quarter.

Activities, Utilization, Expenses:

Eligible Activities
There is still much confusion and inconsistencies on how and what States can use STEP funds. The eligible list of activities needs to be expanded as there are many ways to support our NTE/ME ESBCs. Examples and ideas have continually been provided to STEP.

Unfamiliarity with international business
STEP staff have learned some about international business, however, without a strong foundation of international understanding, requirements and changes are implemented without understanding of implications.

It also makes it challenging for States to communicate suggestions. Example: Compliance testing allowed, but not for CE Mark (until this year) and no explanation provided as to why one certification would be ineligible.

Reasonable Expenses Not Eligible

This year CE Mark is eligible; however, we still have no explanation as to why the consulting services are not. For example, a consulting service would be very helpful to a new exporter in identifying the required certifications needed to export to a market and informing the ESBC of the changes to the product that would need to be made specifically for that market.

Unreasonable Expenses for ESBCs

It is unclear as to why billboard advertising is allowed but more relevant items such as translation of labels, product manuals/datasheets are not. Smaller companies typically need help with the required/necessary expenses to export rather than boosting average advertising.

ROI for New to Export (NTE)
New to Export ESBCs require a large amount of support prior to achieving sales. There is currently not a component of the funding geared specifically toward these companies, without concern of devaluing ROI.

Additional Paperwork for Modification
When an activity is cancelled or does not utilize the allocated funding, States must revamp their performance plan and budget to submit to STEP for approval to move funds from one category to another category. It is a deterrent not only from the paperwork standpoint, but also in the minutiae detail of predicting number of ME/NTE by activity, by quarter. Recently other states indicated they are still waiting, after months, for the approval to shift funds. The process required to make changes is one of the reasons that states end up underutilizing grant funds.

Additional Ongoing Challenges

Time Spent on Paperwork
It has become common place for Iowa to have to modify the application itself, as well as each quarter's reports. As these processes are extremely lengthy and tedious, it multiplies when asked to make changes. In seven awards, we can count on one hand the number of times we have not had to redo this paperwork.

Ongoing Changes
Each year there are changes implemented to the STEP program which create a reduction in eligibility to ESBCs, activities or expenses. This does not allow the grant program(s) to gain the necessary traction.

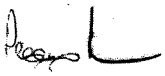
Issues on Required Forms
Quarterly reports contain irrelevant/unutilized information. Example, we now need to include the date the ESBC signed their certification on one of the forms. There are incorrect formulas/information in locked fields that SBA must correct which cause delays.

The STEP grant is very valuable to our State and eligible companies. As example, a company from Iowa District 1 has utilized our grant program 8 times since 2015 to exhibit at international caliber trade shows in the U.S. – 4 times with state grant dollars and 4 times with STEP grant dollars. They have just utilized a STEP funded grant to exhibit at the first foreign trade show in the company's history.

However each year we must weigh the staff time consumed by the administrative requirements and continual revisions and changes requested, against the limited funding available and the opportunity loss of prior staff responsibilities.

Thank you for considering our concerns. We look forward to continued discussions with you, distinguished committee members, and staff to make this program more administratively efficient and tremendously beneficial for our small businesses and entrepreneurs.

Sincerely,



Peggy Kerr
Team Leader
International Trade Office

cc: Stephanie Groen, Director, State-Federal Relations, State of Iowa
Andy Karellas, Executive Director, SIDO