S. HRG. 116–55

REAUTHORIZATION OF THE SBA'S INTERNATIONAL TRADE PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

APRIL 10, 2019

Printed for the Committee on Small Business and Entrepreneurship

Available via the World Wide Web: http://www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE
36–841 PDF WASHINGTON : 2019

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

ONE HUNDRED SIXTEENTH CONGRESS

MARCO RUBIO, Florida, *Chairman*
BENJAMIN L. CARDIN, Maryland, *Ranking Member*

JAMES E. RISCH, Idaho
RAND PAUL, Kentucky
TIM SCOTT, South Carolina
JONI ERNST, Iowa
JAMES M. INHOFE, Oklahoma
TODD YOUNG, Indiana
JOHN KENNEDY, Louisiana
MITT ROMNEY, Utah
JOSH HAWLEY, Missouri

MARIA CANTWELL, Washington
JEANNE SHAHEEN, New Hampshire
EDWARD J. MARKEY, Massachusetts
CORY A. BOOKER, New Jersey
CHRISTOPHER A. COONS, Delaware
MAZIE K. HIRONO, Hawaii
TAMMY DUCKWORTH, Illinois
JACKY ROSEN, Nevada

MICHAEL A. NEEDHAM, *Republican Staff Director*
SEAN MOORE, *Democratic Staff Director*

C O N T E N T S

OPENING STATEMENTS

WITNESSES

Panel 1

Panel 2

ALPHABETICAL LISTING

REAUTHORIZATION OF THE SBA'S INTERNATIONAL TRADE PROGRAMS

WEDNESDAY, APRIL 10, 2019

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met, pursuant to notice, at 2:32 p.m., in Room 428A, Russell Senate Office Building, Hon. Marco Rubio, Chairman of the Committee, presiding.

Present: Senators Rubio, Ernst, Young, Romney, Hawley, Cardin, Cantwell, and Shaheen.

OPENING STATEMENT OF HON. MARCO RUBIO, CHAIRMAN, A U.S. SENATOR FROM FLORIDA

Chairman RUBIO. Today's hearing will come to order, and I want to thank the witnesses who are here and some who are on their way.

Today's hearing is titled the "Reauthorization of the SBA's International Trade Programs." It is the Committee's second in a series focused on reauthorization of the Small Business Act. It builds on last week's capital access reauthorization hearing in many ways.

Our first hearing discussed the SBA's 7(a) guarantee lending programs at large. This week we are going to dive into the export-specific loan programs, a division of the 7(a) program that is offered though the SBA's Office of International Trade. We will also examine the State Trade Expansion Program, which is commonly referred to as STEP.

Despite boasting a remarkable 30.2 million small businesses in our country, the SBA's Office of Advocacy reports that a little under 288,000 businesses are involved in export. That means less than 1 percent of small firms are exporting. That is problematic because three-fourths of the world's purchasing power and 96 percent of the world's consumers reside outside of the United States. So you can see the potential for small business growth through expansion into international markets.

My home State of Florida was the eighth largest exporter in the country. More than 232,000 jobs in Florida are supported by international trade, and 56,664 small businesses are operating as exporters. So why do not more small businesses export?

The most recent Small Business Exporting Survey, prepared by the National Small Business Association and the Small Business Exporters Association, reports high barriers to exporting. Small businesses report in the survey a lack of exporting education, concerns that they will not get paid by foreign buyers, and of fear regulatory barriers and complexity.

The State Trade Expansion Program that I mentioned a moment ago, or STEP, provides matching grants to U.S. States and territories to help more small businesses begin exporting or expand the volume of goods and services they already export.

The impact that STEP has had on small businesses has been truly remarkable. In 2016, STEP aided more than 7,000 small businesses and returned approximately $31 for every one Federal dollar invested.

In addition to STEP, the SBA Office of International trade also administers three export-specific loan programs. They are the Export Express loan program, the Export Working Capital loan program, and the International Trade loan program. All three are offered through the 7(a) loan program.

The export-specific loan programs were reported to have collectively only provided small businesses with a total of $734.6 million in loans last fiscal year.

We know that loans are also made to exporters through the general 7(a) loan guarantee program as opposed to the export-specific products due to a lack of clarity from SBA on requirements and eligibility. That is according to many SBA lenders.

Many of the states with the highest number of SBA export-specific loans are represented by members of this Committee.

Last fiscal year, Florida, New Jersey, Illinois, Washington, and Missouri were listed among the top 10 export loan markets. Despite making up half of the top loan markets, a total of only 144 export-specific loans were made in these five states. In fact, only 476 export-specific loans were offered nationwide last fiscal year.

The total number of export-specific loans not only concerned me in terms of their limited small business impact, but also with regard to the program's overall efficiency levels.

Currently, the SBA employs over 20 GS–15-level individuals to administer the export-specific loan programs, making the administrative costs of the program remarkably high. In addition to the cost of salaries and expenses for these 20-plus employees, taxpayers also support office space and travel expenditures, again, to support less than 500 export-specific loans in a single year.

Today's hearing will give us the important opportunity to assess the SBA international trade programs and examine potential improvements from both committee members and our witnesses.

And with that, now I recognize the Ranking Member, Senator Cardin.

OPENING STATEMENT OF HON. BENJAMIN L. CARDIN, RANKING MEMBER, A U.S. SENATOR FROM MARYLAND

Senator CARDIN. Well, thank you, Mr. Chairman.

I am going to just emphasize some of the points that you made in your opening statement, and that is we are pleased that this is our second hearing on the reauthorization of the SBA programs. We dealt with access to capital in the last hearing, and today we will deal with the international trade.

We know that small businesses are the growth engine of America. That is where jobs are created and innovation takes place. We also know that so many small businesses are not engaged at all in international trade, even though their products could be in international trade. And we also know, as you pointed out, the global marketplace is where most consumers are. So it only makes sense for us to try to connect small businesses to the global market.

SBA has tools that we need to take a look at. That is our responsibility at the Small Business and Entrepreneurship Committee.

You mentioned the primary program, the State Trade Expansion Program, STEP. There are also three investment programs that are available under the small business that we need to take a look at to see how those programs are working as well.

Quite frankly, according to the most recent performance reports on STEP, every dollar invested in a program returns $31, so it is a pretty good return. I understand that there is a lot of capacity that needs to be expanded, but we are getting a good return today.

The report also found that STEP generated more than $500 million in export sales and assisted more than 7,000 small businesses nationwide. More than 3,000 of those businesses were able to explore export opportunities for the very first time. That is exactly why we have the STEP program.

In total, STEP and the three SBA export loan programs—the Export Express loan program, the Export Working Capital loan program, the International Trade loan program—led to $3.1 billion in export sales for small businesses in FY18.

As we will hear from our witnesses today, exporting is no easy task, and for a small businesses, it can seem overwhelming.

On top of creating a good product that consumers want, companies must learn how to access international markets and then find capital to expand into those markets.

Small businesses with their razor-thin profit margins and smaller staff simply do not have the time and money it takes to travel abroad, make the contacts with potential trading partners, and navigate the rules that govern international trade.

To help small business overcome these barriers, Congress created STEP in 2010. The program awards grants to State economic development agencies so they can help small businesses attend international trade shows and connect with customers in foreign markets. The grants also allow economic development agencies to provide counseling and training to help small businesses understand the rules of international trade.

I have seen the benefits of these programs in my home State of Maryland, which has received seven STEP grant awards since Congress created the program. The grants have helped Maryland small businesses and helped sciences, defense, cybersecurity sectors, and expanding into international markets.

And today I am thrilled that we will have the opportunity to hear about one of those success stories. Scott Gornall from BAON Enterprises, a software distribution firm located on the Eastern Shore of Maryland, will tell us how a 2018 STEP-funded trade mission to Asia and Europe resulted in the company signing its first international deal, and even better, the company made many vital connections on the trip that continue to fuel its international expansion. That is exactly why we set up STEP.

STEP is an invaluable resource for American small businesses, which is why we must take every opportunity we have to improve the program to make it even more effective, and I hope this hearing will help us lead to those results.

A GAO report released last month found that the State economic development agencies face severe obstacles in administering STEP grants, including cumbersome red tape, inconsistent communication from the agencies, and inflexible requirements. Let us hear about that. Let us see what we can do to make this program more efficient and less burdensome on the groups that we are trying to help, the State economic development agencies.

So I am looking forward to hearing from both panels of our witnesses. I hope that we can have a concrete discussion.

I might say, Mr. Chairman, that the administration's FY2020 budget proposing a 60 percent cut in STEP is not the direction I hope we go in. Given the President's emphasis on reducing the trade deficit, it is hard to understand why the Administration would propose drastic cuts to a program that has proved to increase American exports.

I look forward to hearing from our witnesses.

Chairman RUBIO. Thank you.

Our first witness, our only witness on the first panel, is Mr. David Glaccum. He is the Associate Administrator of the SBA's Office of International Trade. He was appointed by Administrator McMahon just 2 months ago, and before that, he had served as the Policy Advisor, Deputy Chief of Staff, and most recently as Chief of Staff to former UN Ambassador Nikki Haley, and before that, he survived his work as Chief Counsel to Senator Lindsey Graham.

[Laughter.]

And he has a bachelor's degree in Culinary Management from the Art Institute of Pittsburgh and then a JD from the University of South Carolina School of Law.

Thank you for being here. Welcome to the committee.

STATEMENT OF DAVID GLACCUM, ASSOCIATE ADMINISTRATOR, OFFICE OF INTERNATIONAL TRADE, U.S. SMALL BUSINESS ADMINISTRATION

Mr. GLACCUM. Thank you.

Chairman Rubio, Ranking Member Cardin, and members of the committee, it is an honor for me to be here today to discuss the Small Business Administration's Office of International Trade.

As just mentioned, prior to joining the SBA, I served as Chief of Staff to the United States Ambassador to the United Nations, Nikki Haley, and before that, I worked for her in the governor's office in South Carolina. And prior to joining Governor Haley's team, I had the honor to serve as Chief Counsel to South Carolina Senator Lindsey Graham on the Senate Judiciary Committee, and I would just like to note, as I said in my written testimony, that it was a great honor when I worked with your staff, Senator Cardin, to get the National Blue Alert bill passed, which I know we worked on for many years, and 2015 we got it passed.

Senator CARDIN. I thought that face looked familiar.

[Laughter.]

Mr. GLACCUM. Yes. That is right.

So, anyways, but I worked with many members of this committee.

But in my new capacity at the SBA, my mission is easy to explain. We seek to help small businesses find global customers. I am still fairly new in my role as Associate Administrator, but I feel we have already set a new tone and direction to better assist small businesses to export and compete in international markets.

Nearly 96 percent of consumers live outside the United States, and two-thirds of the world's purchasing power is in foreign countries. While 98 percent of U.S. exporters are small businesses, only about 1 percent of America's small businesses are exporting, and our job is to find out what is holding the rest of them back and break down those barriers, creating a value chain for small businesses.

We do this through three functions and divisions within our program office. First, our International Affairs and Trade Policy Division helps open global markets to small businesses. In USMCA negotiations, for example, our SBA team had a seat at the table through multiple negotiating rounds. As a result, the agreement is the first to feature a chapter dedicated to small businesses, and we look forward to the agreement being approved by Congress later this year.

Second, our Federal and State Trade Development Division focuses on working with our resource partners to identify small businesses with global sales potential, prepare them for success, and facilitate new market opportunities.

We also seek to expand small business global market entry through the STEP program, which I know many of you are aware of and has already been discussed.

In 7 program years, STEP has supported export activities in 127 countries. Over the last 3 completed years, $44 million have been awarded, resulting in almost $1.5 billion in U.S. export sales reported.

Third and finally, we have our International Trade Finance Division, which in partnership with our private-sector lenders, helps finance export sales through three programs that can guarantee up to 90 percent of export-focused loans. Those products are the International Trade loan of up to $5 million, the Export Working Capital loan of up to $5 million, and the Export Express loan of up to $500,000.

In Fiscal Year 2018, we booked over 470 export finance loans for nearly $735 million, supporting over 10,900 jobs, and $2.6 billion in reported export sales. And while the work we do has been impactful, we can and will expand our reach to improve this small business value chain.

I will continue to look at how we position our staff across our district offices and how they support our exporting mission. We will be more strategic with what markets we target to ensure they align with growth sectors in the United States, and along those lines, SBA is engaged in several preliminary international trade engagements. And like the USMCA, we will ensure that small business interests are represented.

We will be more aggressive in our marketing campaign so that lenders and small businesses are aware of our programs, and those

Government-wide that could help them export. This requires our continued partnership with other Federal agencies like the Department of Congress and the U.S. Trade Representative.

And we are reviewing our finance products to make sure we implement necessary changes to adapt them to current market conditions.

The effort under way by this committee to reauthorizing Small Businesses Administration programs provides an opportunity for us to work together and identify results-based updates to our programming that will recalibrate and modernize our toolkit to accomplish our mission, and in my case, that mission is to help small businesses reach global customers.

So I am honored to be here in front of you all today, and I thank you again for the opportunity to testify. And I look forward to answering any questions you have.

[The prepared statement of Mr. Glaccum follows:]

U.S. Small Business Administration

Statement of David M. Glaccum
Associate Administrator
Office of International Trade
U.S. Small Business Administration

before the
Senate Committee on Small Business and Entrepreneurship

Hearing on "Reauthorization of SBA's International Trade Programs"

April 10, 2019

Statement of David M. Glaccum
Associate Administrator
U.S. Small Business Administration

Chairman Rubio, Ranking Member Cardin, and members of the Committee. It is an honor for me to be here with you today to discuss the Small Business Administration's Office of International Trade. I am still fairly new in my role as Associate Administrator, this being my eighth week, but over that time, with Administrator McMahon's leadership and strong support, I feel we have set a new tone and direction to accomplish our mission of helping small businesses export and enhancing their ability to compete in international markets.

Prior to joining the SBA, I served as Chief of Staff and Counselor to United States Ambassador to the United Nations, Nikki Haley, and before that I was Governor Haley's Deputy Chief of Staff and Policy Advisor in South Carolina. Prior to joining Governor Haley's team, I had the great honor and pleasure to work in the United States Senate, when I served as Chief Counsel to South Carolina Senator Lindsey Graham on the Senate Judiciary Committee. In that capacity, I worked with many of your offices on important pieces of legislation. Namely, Ranking Member Cardin, it was a proud day for me when the National Blue Alert legislation was signed into law in 2015, a bill I worked very closely with your office on over many years and one that I still have the gold-line framed at my house. I have great respect for this institution, and the work that both the Senators and staff do to guide our country in the right direction, and I look forward to working with you as you look to improve some of our program areas.

Under Administrator McMahon's leadership, the SBA has a renewed focus on our international programs as she stated when she was before this committee in February. My mission at the SBA is easy to explain: help small businesses export more and expand the number of small businesses that export. We know that small businesses that export grow faster, pay higher wages, and have greater economic stability, and we believe there is tremendous growth potential.

The statistics are known, but I believe they are worth repeating because they provide the backdrop for what we seek to accomplish. Nearly 96 percent of consumers live outside the United States and two-thirds of the world's purchasing power is in foreign countries. 98 percent of U.S. exporters are small businesses, accounting for a third of total export value – roughly $730 billion. That sounds significant, and in fact is significant, but with a global GDP of nearly $85 trillion, 28 percent of which is export related, it's only the tip of the iceberg. With only about 1 percent of America's small businesses exporting, our job is to find out what's holding the rest of them back and break down those barriers.

We have information on this. According to the National Small Business Association's 2016 Small Business Exporting Survey, 37 percent of small businesses said they don't know where to start. Another 24 percent said the regulatory environment is too complex. And 17 percent said they can't get financing. These are all solvable problems. In fact, the SBA's Office of International Trade is mandated to address these very challenges.

One of my goals for my time at SBA is to better connect the distinctive divisions within my office so that they are more purposefully linked and mutually supportive, creating a value chain for small businesses. We do this through three main pillars.

First, our International Affairs & Trade Policy Division helps open global markets to small businesses. U.S. small business exporters, often without even realizing it, depend and rely on the outcomes of negotiated trade agreements for access to key global and emerging markets. So, our team, working with other federal agencies, seeks input from the small business community ahead of negotiations and then represents their interests as part of the interagency team at the negotiation table led by USTR. Our team also seeks to foster open small business ecosystems in key growth markets, such as Latin America, the Gulf-states, and Southeast Asia to promote sales opportunities for American small businesses abroad.

Second, our Federal & State Trade Development division supports international business growth in a different way. Their focus is working with our resource partners to identify small businesses with global sales potential, prepare them for success, and facilitate new market opportunities. This entails training and certifying small business counselors on international trade so they are better prepared to identify clients with potential for global market growth, and leading the interagency TPCC Small Business Working Group to align resources to assist export promotion.

We also seek to expand small business global market entry through the State Trade and Export Promotion grant program, or STEP, which I know all of you here today are aware of. STEP provides matching-fund awards to states and U.S. territories to assist small businesses to succeed in the international marketplace. The states use these to encourage and support global market growth through participation in trade shows or other export promotion activities. In seven program years, STEP has supported export activities in 127 countries. Over the last three completed years, $44.25 million has been awarded, resulting in almost $1.5 billion in U.S. export sales reported. This translates to a federal taxpayer return on investment of more than $30 in export sales for every $1 awarded. If you look solely at dollars used versus dollars awarded, that return on investment grows to more than $40 to $1.

Third and finally, we have our International Trade Finance Division, which in partnership with our private sector lenders, helps finance export sales through three programs that can guarantee up to 90 percent of export-focused loans – the International Trade Loan, Export Working Capital Loan, and Export Express Loan. In Fiscal Year 2018, we booked 476 export finance loans for nearly $735 million, supporting over 10,900 jobs and $2.6 billion in reported export sales.

While the work we do has been impactful, we can and will expand our reach to improve this small business value chain. We will be more strategic with what markets we target to ensure they align with growth sectors in the United States. We will be more aggressive in our marketing campaign so that lenders and small businesses are aware of not just our programs, but all U.S. government programs that could help them export. And we are reviewing our finance products to make sure we implement necessary changes to adapt them to current market conditions.

To successfully accomplish all three, it will be important that we continue to partner with the small business committees in both the House and Senate. The effort underway to reauthorize Small Business Administration programs provides an opportunity for us to identify results-based updates to our programming that will recalibrate and modernize our toolkit to accomplish our mission. And in my case, that mission is to help small businesses reach global customers.

Again, it is an honor to be before you here today. When I started as a Senate staffer seven years ago, I couldn't have imagined sitting on this side of the dais. I truly look forward to working with you to reach our shared goals.

Thank you, and I look forward to answering any questions you have.

Chairman RUBIO. Thank you.

We will start with the Ranking Member.

Senator CARDIN. Thank you very much. Thank you for reminding me about Blue Alerts. That was a great effort, so thank you on that.

I want to start by just asking you. If you can respond now, fine. If not, if you will let our committee know. I heard from a lot of the economic agencies in regards to the STEP program about the burdensome application process. They say it can top out over 100 pages. It seems to be a bureaucratic challenge for many economic agencies to request these grants.

Are you looking at the process to see whether we cannot streamline that and make it more cost effective for the agencies that are applying for the grants?

Mr. GLACCUM. Thank you for that question, Senator.

In fact, we are, and it is a big application packet. It can require up to 28 different pieces of information, but everything that is currently required is either statutorily required, such as the consultation letter with other Federal agencies or the governor's designated entity or OMB regulations or other Federal grant CFR regulations that require certain financial accounting or some of our program-specific internal Office of Grant Management requirements.

So we are looking at that, and since I have been there, our team is dedicated to streamlining that process, our STEP team, and we are seeing what things potentially we can reduce.

As I am aware right now, everything is either required by one of those three entities. Our internal processes, we do through all of our granting or all of our loan programs or through statute or regulation, but I commit that we will continue to work to make sure we are only requiring what is necessary to make the program effective and reduce the burden on states.

Senator CARDIN. I understand some of this might be our responsibility to clarify or change, and that is why I say if you will make suggestions to us as we are looking at reauthorizing the STEP program, we can consider those types of issues.

We also are interested in what data is important for you to be able to collect in order to be able to have the information you need to make policy judgments, and it would be nice to know whether we had the right mix today or whether we can streamline that process also in order to make this a more efficient process.

Mr. GLACCUM. We are evaluating that, both on what kind of information is required to get the best use. As you all noted, over $30 to 1 in investment, but if you look at dollars spent, because our utilization rate is down, it actually goes up to $40 to 1. So, if states are putting the money to use, it actually increases the return on investment.

We are looking at that to see if there is more information we can request or seek to either streamline the process or find the best uses, but we look forward to working with you all on that. Yes.

Senator CARDIN. In the 2015 reauthorization of STEP, you were given authority to prioritize within STEP. So you can prioritize for women, for underserved communities, for rural areas. Can you tell us how that authority is being used and whether you think this is an area that we could work on in order to make sure we target underserved communities, women-owned businesses, and rural areas more than we have in the past?

Mr. GLACCUM. Yes, Senator, and thank you for that question.

So we do have the authority to prioritize them, and we do encourage through our funding announcement and our guidance that states seek out eligible small business interests that are in those communities.

So, currently, we do track that information, those as they come in. If they are reporting, it is either a rural or minority or woman-owned business, we track that information, and if it is in line with our broader SBA mission led by the Administrator to help in those communities.

So I do think it is something we can do better at, meaning internally as we review applicants and as we award points, but it is certainly something we encourage and track and would like to work with you all on.

Senator CARDIN. Good. I appreciate that.

We also appreciate your observations in regards to the three loan programs that you have as to whether the underserved communities can get access to those loans at the percentages that we would like them to get access to it.

So if we need, in the reauthorization process, to give you additional authority or direction there, it would be helpful for us to know.

One of the data points I would like to know is how many of those loans are going to underserved communities, rural communities, and to women. That would be useful for us to understand.

We know overall in the SBA, those numbers are low, but my guess is in regards to international trade, it may even be lower than that. So it would be useful for us to have that information in how we can fine-tune these tools, perhaps giving you greater discretion, so that you can also reach out to try to bridge the gap that currently exists in these areas.

Mr. GLACCUM. Yes. And I, unfortunately, do not have those numbers in front of me, but we will make sure we get that information.

Senator CARDIN. I appreciate that. Thank you very much.

Mr. GLACCUM. Thank you, Senator.

Chairman RUBIO. Senator Ernst.

Senator ERNST. Thank you, Mr. Chair, and thank you, Mr. Glaccum for being here today, too.

Trade is very critical to success, especially in Iowa. One in five jobs in Iowa is tied directly to trade, so I am glad that we are taking some time today to discuss ways that we can strengthen and improve small business export development and, of course, create more opportunities for our small businesses—very, very important to Iowans—so thank you.

I would like to start out by talking a little bit more about the STEP program, and thank you. I think this is a great focus for the committee today. I just want to talk through some of the concerns that I have heard coming from Iowans.

You have addressed some of them already, but if you have additional feedback, I would certainly love to hear that.

Some of the things that Iowans have just communicated to us are those administrative challenges. You talked about the streamlining opportunities that we might have. I think that that would be important.

So administrative challenges associated with a program, some of those would be inconsistent timing of funding opportunity announcements—that has been a concern—questions not being answered in a reasonable time frame, and a lack of feedback or justification regarding applications. Can you address some of those concerns and maybe what could be done different to address some of those Iowans' concerns?

Mr. GLACCUM. Yes, Senator, and thank you for that question.

So I have heard all three of those concerns, and to take the funding announcement, that is a process that has been somewhat inconsistent, and we are trying to improve that. So that it is never going to get to a place where we can say this day every year, but certainly a better range so that there is not such variance so that the states can participate—or plan appropriately.

We are looking at that internally to see not only how we can maybe reduce the administrative burden, but also that helps us turn around our internal process as we go through our reviews to make sure the funding announcement goes out consistently, so absolutely.

As far as turning around information in a timely manner, our staff, even before I got there, they have already started changing on that. But, certainly, since I have been there, we are seeking ways to not over-communicate, but increase communication as much as we can.

So, for example, we have implemented a district call that we want all STEP recipient economic developments to do district calls with our STEP director and his team of our program managers so that we can share the information.

We recently did a call I think 2 weeks ago with governors' offices working through our leg-affairs team, so that we can put it on their radar that this is coming. So it is an effort to—even before the funding announcement goes out, but put as much information as we can in advance so that, hopefully, states and State development offices can plan appropriately.

So we are going to continue to increase, find ways, continue these kind of regular communication with governors' offices and State development organizations.

So, in all, we are aware of some of these burdens, and we are trying to find ways to streamline the process, make it easier, because I assure you, as much as you all do, I want these dollars to be used. I want them to be put to use. My focus is growing exports for small businesses.

Senator ERNST. Right.

Mr. GLACCUM. And we know it is effective programs.

Senator ERNST. Okay.

Mr. GLACCUM. I look forward to any—and we continue to look forward to any feedback that might also help improve our processes.

Senator ERNST. Yeah. Thank you very much. I appreciate that, and thanks for being proactive on that. I guess with the calls that are done, I think that is a great way to do it as well, just make folks aware of what is happening, what is going on in the SBA, and those funding opportunities. So thank you for being aware of that and actually then taking action on some issues that have been identified. I appreciate that.

I would like to go on and talk a little bit about the international trade partners with trade agencies in other Federal departments. What are you doing to take a look at some of these other departments, the trade programs that they have? How are you collaborating or maybe sharing some of the different best practices through those trade programs?

Mr. GLACCUM. Thank you for that question, Senator, because it is something I have been focused on in the early weeks of me being in the position.

There are a tremendous amount of resources available to companies to help with export promotion, export finance and otherwise, but it does not seem that we always do—we the Federal Government—do a great job of really coordinating and working in a systematic approach to benefit whoever our client is, and in my case, it is small business.

So what we are doing is—there is the Trade Promotion Coordinating Committee, which is operated out of Commerce, but we are the chair of the Small Business Working Group, and before I came, they met very infrequently, I think quarterly at most. And it was not based on a readouts really how do we work together, as kind of a report on things we are all doing.

So we are going to take a more systematic approach to making sure that all the programs that are available are aligned. We are going to try and do more joint field events to where we are bringing in, whether it is commerce or whether it is EXIM or any of the other Federal partners—USDA—we are working with Foreign Ag Service—to really have a targeted approach working through our regional staff so that we can bring all available resources to the potential exporters, make them aware.

It is tough for small businesses. They do not have a bunch of time to scour through the alphabet soup that is Federal programs. So we are going to do a better job of aligning our program areas and creating a real export strategy for small businesses that we hope we can share in easy digestible formats so small businesses can use that.

Senator ERNST. I appreciate that.

There are a lot of programs available out there. We want to make sure our small businesses and entrepreneurs know about them, so I appreciate it.

And just if I could on a side note, you are aware of the flooding that is going on. We just had a little discussion about it. We do have flooding going on through the Midwest. I was at an informational meeting a number of weeks ago, almost immediately after the flooding had started, and SBA already had their PIOs out on ground and were at those informational meetings for our constituents. So I just want to thank everybody from SBA for being active and engaged in that.

Thank you.

Chairman RUBIO. Thank you,

Senator Hawley.

Senator HAWLEY. Thank you, Mr. Chairman.

Mr. Glaccum, I noticed in the SBA's Congressional Justification and Annual Performance Report that you mentioned SBA's plan to pair with other Federal agencies, including USDA, which you mentioned just a second ago, to expand financing infrastructure for small business. The potential of the USDA partnership is particularly interesting for me because the Missouri export of agricultural products is, of course, a major driver of our economy. Agriculture is our number one industry. Many of our small businesses in the State of Missouri are farms or in some way involved in the agricultural sector.

Can you expand as to what that kind of partnership that you have mentioned in the report—what that might look like or what it will look like in the future?

Mr. GLACCUM. Yes. Thank you for that question, Senator.

So on the export side, it is still fairly new, but we are trying to replicate some of the good work that has already been done between USDA and SBA on the regular lending.

So, for example, it is really just sitting down and figuring out what we all do and how we can address the communities and benefit them.

So there was a recent event through our district office, regional office, and the same USDA counterparts in South Carolina where we brought a bunch of constituents in, and this was not for the international specifically, but just rural in general, to talk through how our programs can work together and create the value chain.

So we have recently over the past, I would say, 4 weeks tried to expand that partnership outside of USDA, SBA regularly, but also doing the FAS, Foreign Ag Service, and our office on how we can then take a targeted approach, similar approach in the field and bring the programs available to agriculture or other rural export potential businesses.

So it is really a field operation where we align and make sure we are doing stuff together. We do not want USDA doing an event on a Tuesday and SBA comes in on a Friday and maybe we have the same clients and maybe we do not, but really finding a targeted approach in the field. And so we plan to do that with USDA, specific export programs, and something that the—before I got there, certainly, the Administrator had already made a focus, a priority for our agency.

Senator HAWLEY. Very good. Thank you for that. I look forward to working with you on that.

Let me ask you about some of the complaints that I hear about STEP now, switching to STEP in particular. I think we are going to hear on the next panel from a gentleman who had some experience as a small businessman.

I can tell you that the Missouri Department of Economic Development has communicated to my office that they feel that the STEP program is very—the administrative burden placed on small businesses is acute and that this is a very significant problem with STEP assistance.

Let me just ask you, because you do not get to be on the same panel with them, but Mr. Mencia, who is going to testify next, he has made some particular recommendations. I would just be curious about your reaction to these to improve the STEP grant process, and these are, I have to say, very similar to ones that the Missouri Department of Economic Development has talked about with my office.

So, for example, he encourages us to think about reducing the administrative burden, the reporting requirements, to establish a consistent partnership in funding with all of the states, to increase funding overall, and then to allow more flexibility for states to allocate or repurpose funds. Do you have reactions to any of those proposals?

Mr. GLACCUM. I do on the administrative burden. Like I said, we are and will certainly engage with this Committee on ways to decrease the burden because we believe, based on our review, these are what are required, either by our internal control processes, and again, it is a grant program where we are responsible for distribution of those dollars and proper accounting and financial meeting, so it is something we take very seriously with the taxpayer dollars.

But there are ways we can reduce it, we think, and so we are taking a look at exactly what those are, and we will get back.

So the administrative burden, we have heard that numerous times, and it is something we are taking a serious look at.

As far as the increase in the amount, right now we are hovering for the last 3 years at about an 80 percent utilization rate. My focus is on taking the money that Congress has generously appropriated and increasing that utilization rate, and until I can get—use $18 million, I do not know what I would do with more, although I do hope that we will increase that at the end of this year through some of the changes we have already made, such as a 2-year performance period, and others will increase that. But that is something we are focused on.

So some of those items—and our repurposing of dollars, that is a conversation I have had just this week with our team. Some things are mandated at 10 percent or more of a change in either budget areas or key personnel changes. We have to seek certain approvals. It is in the Federal Register. Under 10 percent, though, I think we can provide greater flexibility, and it is something my team is already looking at.

Senator HAWLEY. That is great. That is good to hear. Thank you very much.

Thank you, Mr. Chairman.

Mr. GLACCUM. Thank you, Senator.

Chairman RUBIO. Thank you.

Just to keep building on it, the STEP program has a lot of promise to it in terms of the results, but we have been hearing for a long—I know you have been there since February, but for the time I have been on this committee and certainly since we came in and started talking about reauthorization, going back to the burdens of administering STEP grants, the states are not usually—having served at the State level and the legislature and the likes, states are not usually walking away from money unless it is really bad or hard to use. And that seems to be the case here.

We have heard things about how long it takes for the application and an unpredictable time frame.

The one thing that has also been pointed out is that this requires the states to outline specific activities that they intend to support through the use of grant funds, including the dates, the times, the locations of the events. For example, we are going to take a trade mission on February 8th or whatever it might be. If any of those details change, then they have to come back and redo the whole programming. It requires the states to have to go back to SBA to request the reprogramming of the funds if it is a—I do not even know. Even if it is a technical change or it requires a substantial, but these things change from time to time. That is just one example.

And what we heard—and I think we will hear later today—is how complicated and inconsistent and time consuming that becomes.

I think what you just testified is that it is your understanding that that is what the current law requires you to do and that therefore would require a legislative fix on our part to be able to streamline this and make it more attractive for states to use?

Mr. GLACCUM. Thank you for the question, Senator.

Yes. The reprogramming of funds, if it is related to scope of program, so in the budget area, or staff that are implementing a grant, because we check the staff, those do require prior approval over 10 percent, if it impacts the program over 10 percent.

If it is under 10 percent, there is more flexibility, and that is something we are looking at to make sure we are not placing additional burden internally. We do require notification of any changes, even under 10 percent, and we, like I said, just recently had internal conversations about how we can reduce that burden because we are allowed flexibility in the Federal Register. Yes, sir.

Chairman RUBIO. So I think what we can do is two things here. Hopefully, one is that you will figure out under the existing authorities if we can build in some flexibility.

No one I think is against ensuring that programs are being properly administered, and they are for the purpose that was previously approved. But we also want to make sure that there is flexibility built in for things that might change the scope of it or the timing of it or whatever it might be, that you are fully utilizing that.

And on our end, of course, one of the things I hope the committee will do is work to figure out what more flexibility we can give you.

And we are going to talk to the states about it because ultimately we want them to be using this and to be involved in it.

Now, I want to ask also about something I mentioned in my opening statement. There are 21 SBA export finance managers across the country. Most are compensated at the GS–15 level, and they work to administer the SBA export loan programs.

Now, based on the data that we have over the past 10 years, each one of these 22 finance experts are doing on average just 22 loans per year. Now, that does not mean that they are not—that they are just sitting around doing nothing. It means that there seems to be a mismatch between the number of people assigned to this program and the number of loans they are doing on average per year.

Given the loan number of SBA export loans, would it be more efficient for SBA to solely support exports through the general 7(a) program and thereby freeing up, whether it is those employees or their mission, to increase the agency's focus and resources on the

STEP program and other efforts to grow the number of small businesses that are involved in exporting? In essence, is there a possibility here for a reallocation of resources to help build up the STEP program, bring in more exporters, and handle the loans through the 7(a) that seems to have the critical mass already to be able to process work?

Mr. GLACCUM. Thank you for that question, Senator.

I think trade finance is different than domestic finance, and therefore, it fills a gap. And our programs, our three programs fill a gap that might not be available to an SME seeking to export.

And so we do a great job. SBA does a great job, and I do not know the particulars, of course. You all met with Capital Access last week. We do a great job of meeting the needs of small businesses as they seek to grow, but there—and whether—and we could still do that through the 7(a). As you referenced, we do support exporters to that program.

But the nature of international trade finance is just different than 7(a). So I think we are trying to do a couple of things. One, I agree—and as I mentioned previously, we can do a better job of aligning the strengths of field staff, and that is not just our 21 staff that work for OIT, but also working through our district and regional offices with those loan officers. And a lot of them already have, which is required by the law, DITOs, or international trade officers, district international trade officers. They have collateral duty that are supposed to not only promote our normal 7(a) programs but also work with our international programs.

So we are currently undertaking a review process—or we are past review, and we are starting to align our programs with our normal field offices, our 68 field offices, to see how our specialists can work with those assigned in the district offices to promote these loan programs.

But we are also looking at the programs themselves. I do think some of the regulations internal—this is an SBA thing that we are looking at—are not matching the program with who our audience is. The exporters are different than domestic, and while there are differences in what the programs can be used for, their operation falls under our bigger domestic umbrella.

So both in clarifying things for lenders and small businesses, which I know you all mentioned in your opening, but also just the operation of them themselves, which we have received a lot of lender feedback, both at our annual lender roundtable, but just developing these relationships on how we can improve the programs themselves to increase their volume.

So I really think these programs in international finance itself are a key element if we want to seek to increase exporters, especially SMEs. They have difficulty getting access to this type of capital, but I do think we can do a better job internally and are going to do a better job internally aligning what resources are available to us to make sure that we can do more lending.

Chairman RUBIO. Ranking Member.

Senator CARDIN. Can I just comment on that? I think the Chairman has raised a very valid point.

I agree with you. I think we need to maintain export loan programs under the SBA, but I think it is really troublesome, the volume that is being done, under 500 a year in the three programs combined.

And as we look at reauthorization, I think it would be helpful to get your suggestions as to why this program is not being better utilized. We have been told it is not widely known that these loan opportunities exist, but also, do we have the three right categories? Should there be further refinement in order to meet the needs that are out there? Should we do better in promoting it? I think all of those are questions that we would like to have information on as we move forward because I think the Chairman is raising a very valid point.

Absent us dealing with this, as the efficiency factor on the staff versus the number of loans that come out, there is going to be a hard time maintaining these programs, unless we can make them more popular and better utilized.

Chairman RUBIO. Senator Young, you just arrived. Did you have a question?

Senator YOUNG. Well, thank you, Mr. Chairman.

I wanted to ask you—proceed. Mr. Glaccum, thank you so much for appearing before the committee.

With respect to the STEP program, there was a March 2019 report. Have you been asked about that thus far from the GAO as it relates to the STEP program?

Mr. GLACCUM. No, sir.

Senator YOUNG. Well, having just walked in, I will ask you about that.

This report, again, March 2019 GAO report, noted that the Small Business Administration does not have proper procedures in place to guarantee that states meet their match requirement.

The same report also found a low rate of grant dollar utilization by a number of states receiving STEP dollars. Can you tell me what steps the Small Business Administration is taking to remedy both of these programmatic issues within the STEP program, sir?

Mr. GLACCUM. Yes, and thank you for that question, Senator.

So on the first aspect, we have—you know, we work very closely with GAO when they are doing this type of oversight, and we have already engaged with the Office of Grant Management who helps with the backbone of operation of the program to make sure that before we are closing out loans, the requirements for match are included.

So we hope that through these new processes, managed out of Office of Grant Management, so not by our program managers, we will have better oversight to make sure that everything is in compliance.

On utilization rate, I did talk briefly on that earlier. There are a few things we are doing. One is greater coordination. We have dedicated a staff member to working with states and their State development offices to coordinate between our district offices and our field staff that are on the ground that might know of more small businesses that are eligible because of their daily interactions and they have a product and feed them to STEP, make sure everybody is aware of STEP. So that is one thing we are doing.

And we are also trying to really focus on best practices. I mean, I know it sounds like a simple thing, but some states do this really well and spend their money and get a higher rate of return, and so how do we try and replicate that? Even though it is going to be different sectors, all states are different. They have different priorities, but how do we replicate some of the good work that some are doing with states that might not? So what are the greatest returns on investment? How do we coordinate our resources? How do we align the best uses, the eight approved uses, to make sure that states are able to utilize it? Because dollars actually used actually produce a fairly high rate of return, and we want to increase that.

So we are taking a new look at how we implement the program, and hopefully through greater coordination and awareness of other programs available, we can increase utilization.

Senator YOUNG. Excellent. Thank you.

With respect more broadly to SBA international trade programs, are there overlapping functions across different SBA international trade programs that perhaps this committee should take into consideration so that we might consolidate the programs and scale up those that are working most effectively?

Mr. GLACCUM. That is what the Ranking Member just mentioned.

We are taking an internal look at exactly that and to see what aspects of the programs are most effective to fill the trade financing gap for small businesses, and we look forward to working with the committee once we have a better answer.

Senator YOUNG. Okay. Back to the STEP program, SBA reported to Congress that the program had more than $31 of return per Federal dollar invested in FY16. Given—and should probably invest like a trillion dollars in it, then, right, you know, based that? No. That was tongue-in-cheek for the record.

[Laughter.]

Given that less than 1 percent of U.S. small businesses reach international markets, what do you believe is the most effective step that a State like mine, Indiana, can take to maximize ROI from a STEP program grant?

Mr. GLACCUM. Yeah. And I would just like to note that that is 30 total, including dollars that are not used. So if you look at dollars used, it has raised over 40 to 1, so it is actually money going in.

I think getting, expanding the net, I think we want to make sure that there are more eligible small businesses that know about the program and are seeking to do it.

We, of course, would like nothing more than states—or eligible small businesses to be able to use it year over year until they build their capacity to take on, but we really want to broaden and make sure we are reaching people that might not have thought about it. Have you thought about what global markets are out there, what customers are available to you? Bring that information to them and hope to get more small businesses involved in the STEP program because I think that will both increase its utilization rate but potentially expand its ROI.

Senator YOUNG. Well, following up, I come from a small business family. I have discussed this quite a bit, first with my father, now with my brother who is working in the business, and they shy away from most Government programs. I think in past, we may have utilized the SBA program for loans, but setting that aside, it is just intimidating. They do not know where to start. They do not want to burn a lot of time because time is essential when you are the owner or top manager at a fairly small family enterprise.

So what is SBA doing to make sure that rank and file entrepreneurs, what sort of reforms might have been made, understand what programs are out there for them and how they might utilize them most effectively to their advantage?

Mr. GLACCUM. Yeah. We are currently about to roll out a new marketing strategy to produce this exact type of information, and I really think it is——

Senator YOUNG. Through social media? Can it be targeted to particular types of sectors and sizes of business?

Mr. GLACCUM. Yes. Through our website and just good old-fashioned materials that we can hand out when a small business walks into one of our resource partners, an SBDC. So we are looking outside of just what is our footprint, meaning big SBA footprint, our 68 district offices, but who are our resource partners, who are private-sector partners that can talk about these programs, what trade associations and others that represent a lot of potential exporters or exporters and help others find natural partners to really share this information.

But I do think our resource partners, women's business centers, small business development centers, and others can help provide this kind of information because they are the normal touch.

And yes, they get funded by us, but they are not the Federal Government, so it is a lot better.

And it is also increasing communication with our states. I mentioned earlier that we are—through STEP, we have recently done a governor's staff call, where we hosted a call to talk about STEP and answer any questions they had. We had a director's call with the economic development agencies that participate in this, but it is really information sharing because, again, although we feed it to the states and states give it to the small businesses, the states are a little—it is a little more comfortable, and as you know working there—and I have worked in a governor's office—it might be a more natural—an easier relationship than thinking of it as just a Federal program. So it is really increasing our information sharing with our partners, I think.

Senator YOUNG. Excellent. Thanks for your service.

Thank you, Mr. Chairman.

Chairman RUBIO. Thank you.

Thank you for coming today. I appreciate it very much. Thank you for your time. We wish you the best. We look forward to working with you on all these items. Thank you.

Mr. GLACCUM. Thank you.

Chairman RUBIO. So we are in the middle of a vote now, and at some point, someone will arrive and take the chair while I go vote and then come back.

But I am going to go ahead and begin to seat the second panel. I know two of our witnesses, I believe, are en route. Two are here, and as they help you settle in, I will just do the introduction.

Signe Pringle is the Managing Director of the Office of International Investment and Trade and Maryland Department of Commerce. Ms. Pringle is responsible for the State's international operations, including attracting foreign direct investment and export promotion. In addition to her role at the Maryland Department of Commerce, Ms. Pringle currently serves as the president of the State International Development Organizations, or SIDO.

"SIDO." Is that how I pronounce this?

Ms. PRINGLE. "SIDO."

Chairman RUBIO. SIDO, okay. Like Fido, SIDO. All right.

Scott Gornall serves as the Vice President of Sales and the owner of BAON Enterprises. Before joining BAON, Scott was Vice President of Sales for Rosoka Software, Inc., a natural language processing or NLP product company. BAON is a U.S. Small Business Administration-certified small, woman-owned, and economically disadvantaged company. Scott is also a veteran of the U.S. Marine Corps, where he served as a communications engineer for years.

Thank you both for being here. We are waiting for Manny Mencia, who is the Senior Vice President of International Trade and Development for Enterprise Florida. Their flight was delayed, but I understand they are en route and should be here soon.

And Daniel Pische is the Senior Vice President with the First American Bank, where he also serves as a member of their Senior Loan Committee. He oversees First American Bank's SBA product line as well as their lending team in South Florida.

So, Ms. Pringle, we will being with you. Thank you for being here. We appreciate it very much.

STATEMENT OF SIGNE PRINGLE, ASSISTANT SECRETARY FOR BUSINESS DEVELOPMENT, MARYLAND DEPARTMENT OF COMMERCE; AND PRESIDENT, STATE INTERNATIONAL DEVELOPMENT ORGANIZATIONS

Ms. PRINGLE. Thank you very much.

Chairman Rubio, thank you for the opportunity to testify before you today. Missing the members and the Ranking Member Cardin, but happy to be here today.

My name is Signe Pringle, and I am the Assistant Secretary at the Maryland Department of Commerce. And I oversee the offices of business development, finance programs, the office of military and federal affairs, and international investment and trade, and I lead the team focused on attracting investment into Maryland as well as assisting Maryland exporters.

I am also currently the president of SIDO, which is the State International Development Organizations, and here in that capacity as well.

I was going to echo my colleague's comments from Florida, but he is not here. He has not had a chance to talk yet, so I do want to mention that we greatly appreciate your strong support for the State Trade Expansion Program, to STEP, and other resources to assist small firms through the export process.

For today's hearing, I want to discuss how we assist small businesses in Maryland to start and expand their exports and then want to talk specifically about the SBA STEP program.

As we discussed or we are going to be discussing further, international trade plays a key role in creating and supporting good jobs in our State. In Maryland, 99.5 percent of the jobs, the businesses are small businesses, and only nearly 582,000 of these small businesses, 6,500 export, and that is only 1 percent of total businesses that export from Maryland, which is on par with the national average.

Through the Maryland Department of Commerce, we are helping more Maryland companies extend their reach to international markets. Maryland has 16 foreign offices around the world to help these companies market their products and services and connect with potential clients and customers abroad.

In 2018, Maryland exports increased by almost 30 percent, compared to the previous years. We are on the right track clearly, but additional resources such as the STEP program are critical to our mission.

As mentioned earlier in earlier panels, small businesses are often experiencing difficulty navigating the resources and the available services that are out there. That is why a strong partnership between the State and Federal agencies, such as SBA's STEP, small business development centers, as well as U.S. Department of Commerce are crucial to our mission.

And as I mentioned earlier, STEP is an important component, an asset to our shared mission, as it gives the resources and confidence for those small businesses that are looking to expand or start exporting to—for markets.

More than 50 Maryland companies take advantage of the STEP program annually, and that number has a range from 50 to 80 per year and report upwards of $50 million in confirmed export sales as a result of the assistance received.

Last year Maryland reported 30 percent return on investment on STEP funds that were used to supplement the State's export promotion budget.

Maryland small businesses do various international trade shows around the world. Just to name a few, we go to Medica in Germany, Arab Health in UAE, as well as Paris Airshow in France.

Just as an example, a company based in—Maryland company based in Baltimore County that makes pneumatic tube systems for hospitals and health care clinics has used STEP funds to attend the Arab health trade show with the State of Maryland in previous years, and as a result, the company has reported $6 million in confirmed export sales to UAE and Qatar and now displays at the Arab Health trade show every year in their own booth.

The STEP program has enabled Maryland to boost its export program promotion and assist additional small businesses by providing the necessary resources and tools to gain access to these international markets.

However, we all agree that we need to make some key changes to the STEP program when it comes to administrative burden and lessening that.

For a small State with limited staff as Maryland, we believe that our staff time is best used to serve small businesses directly and assisting them with their efforts to expand globally.

At SIDO, we are committed to working closely with SBA and Congress on continuing to improve the STEP program, and I also want to compliment our SBA STEP team for their partnership and participation at SIDO annual conferences.

In conclusion, I do want to comment a few of these proposed changes to the STEP grants and the reauthorization, which include reducing the administrative burden, establishing consistent partnership and funding with all states, increasing the funding to $30 million or more, and allowing more flexibility for states to allocate and repurpose the funds.

I want to thank the committee again for your support and leadership on this issue. Again, we strongly support the reauthorization and full funding of the STEP grant program and look forward to working with you.

Thank you and the committee for the opportunity to appear before you today, and I look forward to your questions.

[The prepared statement of Ms. Pringle follows:]

STATE INTERNATIONAL DEVELOPMENT ORGANIZATIONS

Maryland
DEPARTMENT OF COMMERCE

Testimony of Signe Pringle
Assistant Secretary at Maryland Department of Commerce
On behalf of the State International Development Organizations (SIDO)

Senate Committee on Small Business and Entrepreneurship
"Reauthorization of the SBA's International Trade Programs"

April 10, 2019

2:30 p.m. EST

Chairman Rubio, Ranking Member Cardin, and Members of the Committee, thank you for the opportunity to testify before you today.

My name is Signe Pringle; I am the Assistant Secretary at Maryland Department of Commerce. I oversee the offices of business development, finance programs, military and federal affairs, and international investment and trade. I lead a team focused on attracting investment into Maryland and helping our companies export.

I am also the current president of the State International Development Organizations, or SIDO, and also here in that capacity.

SIDO is the only national organization focused on supporting Governor's international trade agendas and represents the state trade agencies. SIDO is a partner of the National Governors Association and The Council of State Governments.

SIDO helps state international trade agencies better serve American exporters by sharing innovative ideas, resources, and developing policies that help more small businesses export. SIDO works closely with our federal trade partners, including the Trade Promotion Coordinating Committee, the International Trade Administration, and the U.S. Small Business Administration.

On behalf of SIDO and our state trade offices throughout the country, thank you for your commitment to small business exporters. We appreciate the Committee's strong support of the State Trade Expansion Program – or STEP – and look forward to working with you on the reauthorization.

For today's hearing, I want to discuss how we assist small businesses in Maryland to start or expand their exports; and then I want to talk specifically about the SBA's STEP program.

As we've discussed, international trade plays a key role in creating and supporting good jobs in our states. According to the U.S. Department of Commerce, in 2018, exports accounted for nearly 12 percent of the U.S. gross domestic product and supported over 11.5 million jobs.

In Maryland, 99.5 percent of the total businesses are small businesses. Of the nearly 582 thousand small businesses, only 6,500 of those are exporting their product or services. That is only one percent, the same as our national average.

Through the Maryland Department of Commerce, we're helping more Maryland companies extend their reach to international markets. Maryland has 16 foreign offices around the world to help these companies market their products and services and connect with potential customers and partners abroad.

In 2018, Maryland exports increased by almost 30% compared to the previous year. We are on the right track, but additional resources such as STEP funds are critical to our mission.

In Maryland, we're are a smaller state and are uniquely positioned next to our nation's capital. We also have a strong infrastructure – including the Port of Baltimore; interstates 95, 81, 70 and 68; and our excellent rail system – all that helps support the movement of our goods.

However, small businesses often experience difficulty navigating and accessing the available resources in order to grow globally. That is where strong partnerships between the state and federal government, specifically the SBA/STEP, Small Business Development Centers (SBDCs) and U.S. Department of Commerce, play a key role.

From identifying foreign buyers, navigating international barriers, and participating in trade shows or missions, Maryland works closely with our federal partners to guide exporters through the process of global expansion.

STEP is an important component and asset to our shared mission. STEP provides the resources and confidence for those firms to start the export process – or expand to a new market.

More than 50 Maryland small businesses take advantage of the STEP funded export promotion program annually and report upwards of $50 million in confirmed sales as a result of the assistance.

Last year, Maryland reported 30 percent return on investment on STEP funds that were used to supplement the state's export promotion budget.

Maryland small businesses participate in a number of STEP funded international trade shows, including Medica in Germany (healthcare), Arab Health in UAE (healthcare), Paris Airshow in France (aerodefense), Avalon in Australia (aerodefense), Infosec in the UK (cybersecurity) and Expo Seguridad in Mexico (security), to name a few.

For example, a company based in Baltimore County, Maryland, that makes pneumatic tube systems for hospitals and healthcare clinics has used STEP funds to attend Arab Health trade show with the state in previous years. As a result, the company reports $6 million in export sales to the UAE and Qatar and now displays at Arab Health in their own booth every year.

It's important to note securing an export sale is not easy. Sometimes companies will not secure a final sale for a year or two. But with the support of STEP, they started the process, went on the mission, and now are exporting to new markets. That will help them grow and maintain good paying jobs in Maryland.

The STEP program has enabled Maryland to boost its export promotion program and assist additional small businesses by providing the necessary resources and tools to gain access to international markets. However, I agree that we need to make some key changes to reduce the administrative burden. For a smaller state with limited staff, our time is best served by assisting the small businesses.

At SIDO, we are committed to working closely with the SBA and Congress on continuing to improve the STEP program. I also want to complement the SBA STEP team for their partnership and participation at our annual conferences.

In conclusion, I want to echo Manny Mencia's comments regarding the improvements proposed to the STEP grant in the reauthorization. These include: reducing the administrative burden, establishing consistent partnership and funding with all states, increasing the funding to $30 million or more, and allowing more flexibility for states to allocate and repurpose funds.

I want to thank the Committee again for your support and leadership on this issue. Again, we strongly support the reauthorization and full funding of the STEP grant program and look forward to working with you.

Thank you and the Committee for the opportunity to appear before you today, and I look forward to your questions.

Senator ROMNEY [presiding]. Thank you, Ms. Pringle.

Mr. Gornall, apparently you have already been introduced. Is that correct?

Mr. GORNALL. I have.

Senator ROMNEY. You have. All right. Well, I will dispense, then, with reading a full description of your background, but an individual of substantial experience in the private sector and doing work around the world in sales and as an owner and vice president. So I appreciate your being here and would appreciate your testimony.

STATEMENT OF SCOTT GORNALL, VICE PRESIDENT OF SALES, BAON ENTERPRISES, LLC

Mr. GORNALL. Thank you very much, Senator.

Senator Romney, Ranking Member Cardin, greetings from the Eastern Shore, and distinguished members of the committee, thank you for the honor of testifying in our Nation's Capital in support of reauthorizing the Small Business Administration's STEP grant initiative.

Again, my name is Scott Gornall. Along with my business partner, Mary Valenti-Bloom, we are building BAON Enterprises on Maryland's Eastern Shore.

BAON is certified by the Small Business Administration as a small, woman-owned, HUBZone firm, and economically disadvantaged. We are a software distributor of data analytics and cybersecurity products, and as a distributor, we are slightly different in that all of our clients are other small businesses.

These business are not served by traditional wholesalers. They may be too small, too new, new to a geographic area, or require special technical skills, but they all have great growth potential. So, when we succeed, other small businesses succeed too.

Operating in a HUBZone means we are bringing economic development to a community that needs it more than most.

Technology development and sales is a global industry. Growth markets for our clients are just as likely to be in Singapore, London, and Frankfurt as Washington and Chicago.

A core part of our service is brokering partnerships between U.S. and international firms.

We applied for and received our first STEP grant in 2017, which we invested in travel across the European Union for 2 weeks. We attended numerous partner meetings and three trade shows in Scotland, England, France, and The Netherlands, and we became expert luggage packers.

The savings from the grant allowed us to also attend the Singapore Airshow in early 2018 as one of Maryland's delegates. As a small business, there would have been no way to justify such cost without some support.

Combined, these trips accomplished the following: $6,000 of STEP grant investment has directly or indirectly generated just over a quarter of million dollars in new revenue. Added $2 million to our pipeline over the next 24 months. It helped BAON close our first international customers. One of those customers has already placed a second large order. We were invited to join a prestigious legal technology incubator in Singapore. We were the first U.S.

firm to receive such an offer. We now have multiple new clients and partners in the United Kingdom, Austria, France, Italy, Singapore, and India. Our business has accelerated much faster than could otherwise have been possible.

The Singapore Airshow was instrumental in meeting two new partners in India, one of which is joining us in a multi-million-dollar health care proposal to the government of India. If awarded, the team would include, to our in-country partners, four U.S. small businesses, including Lamotte, which is a water testing company; Agile Innovations; and APS Global from Maryland; two larger U.S. firms; and Washington College in Chestertown, Maryland.

Recognizing that it is not just about business, we are working with our technology partners to donate products and training to nonprofits that would otherwise struggle to afford it.

The length of time needed to finalize customer contracts may be as long as 9 months. This means we should see continued benefit throughout 2019 and 2020.

The impact of our STEP grant has benefits well beyond just our business, nor is it limited to just a single fiscal year.

As taxpayers and based on our experience, we feel strongly that the STEP grant program is a good investment for the following reasons. First, it is targeted. Funds are limited to expenses directly tied to international marketing efforts. This is closely monitored and comes in the form of reimbursements. As a taxpayer, knowing that a business is willing to invest its own hard-earned money up front is a good indicator it will be well spent.

Second, there is cost sharing. Small business owners have to watch their money closely. Every expense is both an investment and a risk. Our grant reduced our cost but also helped to reduce the risk of international marketing events, which we may not have been able to justify for another year. We estimate we are now a full year ahead of schedule because of these grants.

Finally, it comes as part of a package that includes the fantastic team at Maryland's Department of Commerce, and this is very important. To us, our company, they are more than program administrators. They truly have become our business partners. Without them, we would not have had the level of success we enjoy today.

Secretary Schulz's Business and Industry Sector Development team is led by Ms. Pringle and includes a talented staff, some of whom are here today: Alex Clark; Jessica Reynolds; our point person and agent, Andrew Kreinik; and others. They work tirelessly for Maryland's business community. For example, we have two new partners in our portfolio, thanks to events hosted by them in Maryland.

Senators, BAON has applied for and been awarded a second STEP grant in January of this year to continue our efforts. We have already used this to meet with and sign two new partnerships. We plan to use some of these funds to engage with the incubator program in Singapore on behalf of our current clients.

In 2020, we plan to apply for the U.S. Commercial Service's Gold Key Matching Service. Our business pipeline looks very good, which means it should be the right time to be able to take full advantage of that program.

Senators, thank you for all of your efforts on behalf of the U.S. small business communities, and thank you for the opportunity to appear here today.

[The prepared statement of Mr. Gornall follows:]

Testimony of Scott Gornall
Vice President of Sales, BAON Enterprises, LLC
Senate Committee on Small Business and Entrepreneurship
"Reauthorization of the SBA's International Trade Programs"
April 10, 2019
2:30 p.m. EST

Chairman Rubio, Ranking Member Cardin and distinguished members of the committee. Thank you for the honor of testifying in our nation's capital in support of reauthorizing the Small Business Administration's STEP Grant initiative.

My name is Scott Gornall. Along with my business partner Mary Valenti-Bloom, we are building BAON Enterprises on Maryland's scenic Eastern Shore. BAON is certified by the Small Business Administration as a Small, Woman-owned, Economically-disadvantaged HUBZone firm. We are a software distributor of data analytics and cyber security products. And we are slightly different in that all of our clients are other small businesses not served by traditional wholesalers. They may be too small, too new, new to a geographic area or require special technical skills. But they all have great growth potential. So when we succeed, other small businesses do as well. Operating in a HUBZone means we are bringing economic development to a community that needs it more than most.

Technology development and sales is a global industry. Growth markets for our clients are just as likely to be in Singapore, London and Frankfurt as Washington and Chicago. A core part of our service is brokering partnerships between US and International firms.

We applied for and received our first STEP grant in 2017 which we invested in travel across the European Union for two weeks. We attended numerous partner meetings and three trade shows in Scotland, England, France and The Netherlands. We have become expert luggage packers. The savings from the grant allowed us to also attend the Singapore Air Show in early 2018 as one of Maryland's delegates. As a small business, there would have been no way to justify such cost without some support.

Combined, these trips accomplished the following:

$6,000 of STEP Grant investment has directly or indirectly generated just over a quarter of a million dollars in new revenue.

Added $2 million dollars to our pipeline over the next 24 months

It helped BAON close our first international sales customers.

One of those customers has already placed a 2nd large order

We were invited to join a prestigious legal technology incubator in Singapore. The first US firm to receive such an offer.

We now have multiple new clients and partners in the United Kingdom, Austria, France, Italy, Singapore and India.

Our business has accelerated much faster than could have otherwise been possible.

The Singapore Air Show was instrumental in meeting two new partners in India. One of which is joining us in a multi-million dollar healthcare proposal to the Government of India. If awarded, the team would include, in addition to our in-country partners, four US small businesses (including Lamotte, Agile Innovations and APS Global from Maryland), two larger US firms and one US university (Washington College in Chestertown, MD).

Recognizing that it is not just about business, we are working with our technology partners to donate products and training to non-profits that would otherwise struggle to afford it.

The length of time needed to finalize customer contracts may be as long as nine months. This means we should see continued benefit throughout 2019 and into 2020. The impact of our STEP grant has benefits well beyond just our business. Nor is it limited to just a single fiscal year.

As taxpayers and based on our experience, we feel strongly that the STEP grant program is a good investment for the following reasons:

First, it is targeted. Funds are limited to expenses directly tied to international marketing efforts. This is closely monitored and come in the form of reimbursements. As a taxpayer, knowing a business is willing to invest its own hard-earned money up front is a good indicator it will be well spent.

Second, there is cost sharing. Small business owners have to watch their money closely. Every expense is both an investment and also a risk. Our grant reduced our cost but also helped to reduce the risk of international marketing events which we may not have been able to justify for another year. We estimate we are a full year ahead of schedule because of these grants.

Finally, it comes as part of a package that includes the fantastic team at Maryland's Department of Commerce. And this is very important. To us, they are more than program administrators. They truly have become our business partners. Without them, we would not have the level of success we enjoy today. Secretary Schulz's Business and Industry Sector Development team is led by Ms. Pringle and includes a talented staff. Alex Clark, Jessica Reynolds and our point person, Andrew Kreinik and others. They work tirelessly for Maryland's business community. For example, we have two partners in our portfolio which we met at an event hosted by them in Maryland.

Senators, BAON has applied for and been awarded a second STEP grant in January of this year to continue our efforts. We have already used this to meet with and sign two new partnerships. We plan to use some of these funds to engage with the incubator program in Singapore on behalf of our current client firms.

In 2020, we plan to apply for the US Commercial Service's Gold Key Matching Service. Our business pipeline looks very good which means it should be the right time to be able to take full advantage of what this program offers.

Senators, thank you for all of your efforts on behalf of the US small business community. And thank you for the opportunity to appear before you today.

Senator ROMNEY. Thank you very much.

We are next going to hear from Mr. Mencia, Senior Vice President of the International Trade and Development Division of Enterprise Florida. He also serves on the board of the Florida Export Finance Corporation, the World Trade Center in Miami, the Florida Trade Partners Alliance, and the Florida District Export Council. He obtained his Bachelor of Science degree from Florida International University in education and a Bachelor of Arts degree from St. Thomas University in political science.

Mr. Mencia, I appreciate your being here, and you can proceed with your testimony.

Senator CARDIN. Mr. Chairman, let me just note before Mr. Mencia begins, with the Ranking Member coming from Maryland and the Chairman from Florida, I do not have to worry about flights for our witnesses to come from our State. So we understand there may have been some challenges, and your timing could not have been better. And we certainly welcome both of our witnesses.

Senator ROMNEY. It does seem that the Ranking Member and the Chairman, who is voting right now, had something to do with the selection of the participants.

Senator CARDIN. That is not true.

Senator ROMNEY. Totally random?

Senator CARDIN. No. Florida and Maryland are number one in—it is actually Maryland and Florida are number one and two in this field.

Senator ROMNEY. Thank you, Mr. Ranking Member.

[Laughter.]

Senator CARDIN. Utah is three.

Senator ROMNEY. There we go.

Please, Mr. Mencia. Thank you.

STATEMENT OF MANNY MENCIA, SENIOR VICE PRESIDENT, INTERNATIONAL TRADE AND DEVELOPMENT, ENTERPRISE FLORIDA

Mr. MENCIA. Thank you, Mr. Chairman, Ranking Member Cardin, members of the committee, thank you for the opportunity to testify before you today. My name is Manny Mencia. I am the Senior Vice President for International Trade and Development for Enterprise Florida.

I am responsible for directing Florida's international trade programs and strategies, which focus on helping small businesses in our State to increase their exports. I am also the past president of the State International Development Organization, or SIDO, and that is the capacity that I am here today with.

On behalf of SDIDO and our State trade directors throughout the country, I want to thank you for your commitment to small business exporters. We appreciate your strong support of a State Trade Expansion Program, or STEP, and look forward to working with you on its reauthorization.

Today I want to discuss the importance of international trade for small businesses using Florida as an example and then talk specifically about the STEP programs, including recommendations on how we can improve the program.

According to the Business Roundtable, 2.4 million jobs in Florida are supported by international trade. That is one out of every five jobs, and more important, these are jobs that pay 17 percent higher than State average wages.

Florida has the largest—second largest concentration of exporters in the United States, more than 58,000, and we are among the top, among the top three on the percentage of our manufactured production that is exported, yet 95 percent of Florida exporters are small companies. And it is well documented that small companies need more support than the larger ones to be successful. That is where SBA and STEP play a key role.

For our State, STEP is a key component of our shared mission to help small business exporters. STEP provides small companies the incentive and the resources to start exporting or to expand into new markets.

In addition, the STEP grant program has been an important bridge to increase coordination and communication between the State and the Federal trade agencies.

And on that note, I also want to highlight another Federal partner, the U.S. Commercial Service. They play a very important role in identifying international buyers and investors and in supporting our State programs.

In Florida, we were regular participants in the STEP grant program from the start in 2011 and used it until 2015. With the assistance of STEP, EFI was able to launch an export diversification program that helped more than 400 small companies enter new markets and diversify their exports.

However, in recent years, the administrative burden of managing the grant program became too onerous for us, and it was simply no longer worth the time and investment. We have not applied for STEP for the last 4 years.

In Florida, we have been very fortunate to have the resources to continue to help small firms with exporting, but most states, especially the smaller states, do not have that luxury, and I fear that if we do not make some key changes and reduce the administrative burden, then more states would not apply, and therefore, it will jeopardize our mission and the objective that Congress envisioned when they created the STEP grant program.

At SIDO, we are committed to working closely with SBA and Congress on continuing to improve the STEP program. Before I provide my recommendations, I want to compliment the SBA STEP team for their increased communication and partnership with our states. They have been regular participants at our SIDO meetings, and that face-to-face time has helped with the overall execution of the grants.

Now, my recommendations, number one, reduce the administrative burden of STEP. This includes the application and extensive reporting requirements. The SBA requires a vast amount of reporting, many of which are not required or seen by Congress. The reporting takes a large amount of time that should be spent on helping small businesses.

Number two, establish a consistent partnership and funding for all states. The application and allocation of grant monies has been widely inconsistent and confusing for many states. In recent years, states that were not awarded grants did not receive feedback on why they were not selected. Moving to a formula grant and matching component will help establish a more transparent grant process and allow the states to prepare better.

Number three, increase funding to $30 million or more. To make the program more effective for both states and businesses, we need to increase the funding to make it worth it. This is especially true if we maintain the current administrative requirements. If not, we will see more states decide not to apply for the grants.

Number four, allow more flexibility for the states to allocate and repurpose grants. States need to have the flexibility to adjust their STEP programming to conform to market conditions. Increased flexibility would allow the states to fully use their STEP funding for the most efficient use, all working to get the best return on investment.

That concludes my testimony. I want to thank the committee again for your support and leadership on this issue, and we strongly support the reauthorization and funding of the STEP grant program and look forward to working with the committee. Thank you so much for this opportunity, and I look forward to your questions.

[The prepared statement of Mr. Mencia follows:]

Testimony of Manny Mencia
Senior Vice President International Trade & Development
Enterprise Florida
On behalf of the State International Development Organizations (SIDO)

Senate Committee on Small Business and Entrepreneurship
"Reauthorization of SBA's International Trade Programs"

April 10, 2019

2:30 p.m. EST

Chairman Rubio, Ranking Member Cardin, and Members of the Committee, thank you for the opportunity to testify before you today.

My name is Manny Mencia; I am the Senior Vice President of International Trade and Development for Enterprise Florida. I am responsible for directing Florida's international trade programs and strategy; and work to help small businesses in our state to start or increase their exports. I am also the past president of the State International Development Organizations, or SIDO, and I am here in that capacity today.

SIDO is the only national organization focused on supporting our Governors international trade agendas and representing the state trade agencies. SIDO works in partnership with National Governors Association and The Council of State Governments.

SIDO helps state international trade agencies better serve American exporters by sharing innovative ideas, resources, and developing policies that help more small businesses export. SIDO works closely with our federal trade partners, including the Trade Promotion Coordinating Committee, the International Trade Administration, and the U.S. Small Business Administration.

On behalf of SIDO and our state trade directors throughout the country, I want to thank you for your commitment to small business exporters. We appreciate the Committee's strong support of the State Trade Expansion Program – or STEP – and look forward to working with you on the reauthorization.

For today's hearing, I want to discuss the role and importance of international trade for small businesses in Florida, and our states overall; and then talk specifically about the STEP program and why it's important to our joint mission; and provide recommendations on how to improve the program to best assist small business exporters.

As you know, international trade plays a key role in creating and supporting good jobs in our states. According to the U.S. Department of Commerce, in 2018, exports accounted for nearly 12 percent of the U.S. gross domestic product and supported over 11.5 million jobs.

With 80 percent of the purchasing power outside of the United States, there is a tremendous opportunity to expand our economy and help more small businesses reach the global marketplace.

According to the International Round Table, 2.4 million jobs in Florida are supported by international trade. That is one out of every 5 jobs in our state. These are jobs that pay 17 percent higher than the state average wages.

We have the second largest concentration of exporters in the United States with more than 58,000 and our state is among the very top in terms of Manufacturing Export Intensity, the percentage of our production that is exported overseas.

However more than 95% of Florida exporters are small companies and is well documented that small companies need much more support from larger ones to be successful. That is where the SBA and STEP play a key role.

STEP is a key component for our shared mission to help more small businesses export. STEP provides small firms with the incentive and resource to start to export – or expand into new markets.

In addition, the STEP grant program has been an important bridge to increase the coordination and communication between state and federal trade agencies - specifically with the Small Business Administration and the International Trade Administration.

And on that note, I want to highlight our other federal partners—specifically the U.S. Department of Commerce's Commercial Service. They play an important role in identifying international buyers and investors, assisting our businesses and supporting our state programs.

In Florida, we were regular participants in the STEP grant program during the start of the program in 2011 until 2015. With the assistance of STEP, EFI was able to launch an export diversification program that helped nearly 400 small companies enter new markets and diversify their exports. These exports helped create and support thousands of good paying jobs in Florida.

However, in the recent years the administrative burden of managing the grant has become too onerous and was simply not worth the time and investment. We have not applied for the STEP grant program for the past 4 years.

In Florida, we have been fortunate to have the resources to continue to help small firms with exporting, but most states – especially smaller states – do not have that luxury. And I fear if we do not make some key changes to reduce the administrative burden, then more states will not apply and therefore jeopardize the overall mission and objective that Congress envisioned with the STEP grant.

At SIDO, we are committed to working closely with the SBA and Congress on continuing to improve the STEP program. Before I provide my recommendations on how to improve the STEP grant, I want to complement the SBA STEP team for their increased communication and partnership with our states. They have been a regular participant at our SIDO conferences and that face-to-face time has dramatically helped our relationship and overall execution of the grant.

In concluding, I want to provide a few recommendations to improve the STEP grant in the reauthorization:

1) **Reduce the administrative burden**: This includes the application, the regular and quarterly reporting requirements, and the auditing. The SBA requires an extensive amount of reporting requirements - many of which are not required by Congress - that requires a large quantity of time. This creates an unnecessary cost burden on SBA and states - especially smaller states.

   Most important, this takes away the time and resources that states can use to assist small businesses with their exports - the primary goal of the program. I have included several letters from states outlining specific administrative issues.

2) **Establish a consistent partnership and funding with all states**: The application and allocation of the grant monies has been widely inconsistent and confusing for many states. In recent years, states that were not awarded did not receive feedback on why they were not selected. Moreover, last year states were awarded an amount, and then asked to revise their grant to a lower amount. There was no clarification or justification for the how the revisions were calculated.

   Moving to a formula grant and matching component will help establish a more transparent grant process and allow states to better prepare.

3) **Increase the funding to $30 million or more**: To make the program effective for both states and businesses, we need to increase the funding to make it worth it. This is especially true if we maintain the current administrative requirements. If not, we'll see more states decide not to apply for the grant.

4) **Allow more flexibility for states to allocate and repurpose funds:** States need to have the flexibility to adjust their STEP programming to address the market needs of small businesses and pursue new opportunities based on market conditions. Currently, states must get approval from SBA on any changes in their programming. The process has been inconsistent and burdensome for many states. Increased flexibility will reduce the administrative burden and allow states to adjust their programming to fit the best market.

I want to thank the Committee again for your support and leadership on this issue. We strongly support the reauthorization and full funding of the STEP grant program and look forward to working with you.

Thank you and the Committee for the opportunity to appear before you today, and I look forward to your questions.

Senator ROMNEY. Thank you, Mr. Mencia.

Mr. Pische is Senior Vice President with First American Bank, another individual from Florida apparently, and is a member of their Senior Loan Committee. He oversees the First American Bank Small Business Administration product line as well as their lending team in South Florida.

Mr. Pische, we are happy to have you with us today.

STATEMENT OF DANIEL PISCHE, SENIOR VICE PRESIDENT, FIRST AMERICAN BANK

Mr. PISCHE. Good afternoon, Senator Cardin and Senator Romney. I appreciate the opportunity to join this committee in representation of First American Bank and also export lenders nationwide.

First American Bank is a privately held commercial bank based outside of Chicago, Illinois. We have operations in Wisconsin and South Florida, where I am based overseeing our trade finance line.

Our interests with the SBA program dates a long time back. We have had wide use of the export programs, as recognized when we were Export Lender of the Year in 2017, as well as with the President's "E" Award for Export Service in 2018. Our applications for both programs focused on our use of the SBA program, specifically the export product line.

We have seen and been able to be part of a wide variety of success stories, ranging from medical device manufacturers in Miami to food exporters in Chicago. During that time, we have seen that really exporters vary from region to region. An exporter in the Midwest could be a second-generation Mueller Report. In South Florida, that could be a first-generation distributor, primarily to Latin America, and even in some of our more rural locations, that manufacturers and exporters look different there as well.

When we think of exports and we think of exporters, the SBA programs, and most involved in international trade tend to focus on the export, not necessarily the exporter. For manufacturers in the Midwest, they might be a predominantly domestic company that is beginning to export, might only represent 20 to 30 percent of their overall sales. Whereas, in Miami, it is not uncommon to have a company that is 80-plus percent.

We have worked with a company named Demetech in Miami Lakes, a medical device Mueller Report, and they have grown through their use of the SBA programs over the last 9 years.

We had Global Link and Supplies, a paper exporter based out of Coral Gables, who eventually established a manufacturing plant in Houston that now employs over 100 individuals.

So exports, exporters vary widely, and one of the largest challenges for the program is recognizing the scope of services necessary to support that.

Looking at trade finance, the background of trade finance has to be asset-based lending, and it is not uncommon for lenders to establish minimum requirements: $1 million, $2 million is not uncommon at all. One of the challenges we are here to address regarding the SBA and its export programs has to do with lack of adoption, relative stagnation over recent years.

One of the reasons for that is that, frankly, if the program is defined with most lenders as being $1 million or $2 million to $5 million, that is a relatively narrow band.

There have been a few recommendations that myself as well as a lot of experienced export lenders under the SBA programs have made. Some of those include raising the Export Working Capital Program to $10 million.

The reason behind increasing it has to do largely with the expanded life cycle of international trade. It is not uncommon for those orders to take two to three times as long as domestic orders.

In addition, having a way of simplifying the working capital programs at large is probably the best way of reaching success in support of exporters because they do look different in different parts of the country. We do need to have a working capital program that can support the Midwestern Mueller Report as well as the South Florida distributor.

The fee structure at the SBA is a hindrance. Working capital lines are designed to be written and renewed on an annual basis. The fee structure in place right now is largely predicated on term loans. The idea of a quarter basis point fee in year one with a fee increasing to as much as 3.75 percent in year two is a very challenging component of the working capital programs, combined with a few other suggestions related to ways of improving the program.

In a lot of ways, the programs as they are right now are already robust and flexible. So it is not a matter of if we can tweak this program, we can get more use out of it, but rather what can we do to bring more lenders in, main reason for the $10 million limit; what can we do to get more engagement at the local level, education being an important part of it; and ultimately how do we define success with financing exporters?

It is not defined as using one program or another, using an SBA program, international trade versus 7(a) term loan. It is really about the use of funds, regardless of what the exporter is, who they are, what they export, finding a way of supporting the exporter, not just using the program designated as supporting it. A holistic approach is an important—and one way that we can really support exporters further.

[The prepared statement of Mr. Pische follows:]

Daniel Pische
Senior Vice President
First American Bank

United States Senate Small Business and Entrepreneurship Committee

Reauthorization of the SBA's International Trade Programs

Testimony Submitted by Daniel J. Pische
Senior Vice President – Trade Finance, First American Bank

April 10, 2019

Daniel Pische
Senior Vice President
First American Bank

Good afternoon Chairman Rubio, Ranking Member Cardin, and members of the Committee. My name is Daniel Pische and I am here on behalf of First American Bank, where I manage the Bank's Trade Finance division, as well as my colleagues at other institutions who are active under the SBA's export programs. In addition to my work as a Trade Finance lender, I have recently been appointed to the Department of Commerce's Trade Finance Advisory Council. While the suggestions outlined in my testimony are not related to the work of the Council, the goals of supporting small business exporters and improving access to Trade Finance loans are shared objectives.

First American Bank is a privately held commercial bank based outside of Chicago with operations in South Florida and Wisconsin. As a commercial bank based in the Midwest with an active Trade Finance department in South Florida, our institution has a unique perspective on the various ways businesses engage in international trade. First American maintains delegated authority under all of the SBA guaranteed lending programs, including the Export Working Capital Program (EWCP) and the Export Express loan programs. Through our use of the export programs, the SBA recognized First American Bank as Export Lender of the Year in 2017, and the Department of Commerce awarded the Bank the President's "E" Award for Export Service in 2018.

With the support of the SBA export programs, we have been a part of a number of success stories that highlight the potential of the program. With the support of the Export Working Capital Program, a South Florida medical device manufacturer grew from $3MM in revenue in 2009 to $12MM in 2018 with a workforce that now totals over 75 employees. The EWCP program also supported a paper exporter based in Coral Gables, FL, which grew its business over ten years before establishing a manufacturing plant in Houston with the help of the SBA 504 program. In Chicago, a food exporter got its start by utilizing a small amount of working capital under the Export Express program, which allowed it to grow and transition to an Asset Based loan under the EWCP program. Under all three of these examples, growing exporters obtained the working capital financing they vitally needed in order to capitalize on new opportunities and expand their businesses.

The flexibility and support provided by the SBA's export programs is unmatched; however, the programs do not see the adoption amongst financial institutions that they deserve. This lack of adoption can result in difficulty for some small business exporters to obtain the working capital they need to support their international customer base. Furthering the availability of the SBA export loan programs is one way to help alleviate this constraint for growing exporters.

As companies begin to export, they often do so by securing a few orders with cash payment made in advance. As a company begins to expand internationally, payment terms are often required at which point the need for working capital and the ability to borrow against foreign receivables becomes a central component of their export plan. Depending on the financial institution the business is working with, their international offerings may be limited which can force the company to find a new bank. While finding a financial institution with the required services is often a necessary step as exporters grow, the lending services may not be as accessible at earlier stages due to minimum borrowing requirements that might be in place.

Daniel Pische
Senior Vice President
First American Bank

The nature of exports is such that it takes a specialized infrastructure at the bank level to administer and monitor the loans effectively. This infrastructure is predominantly based on Asset Based Lending, a product not available at all banks. As a result, the challenge of furthering the adoption of the SBA's export programs will not be solved through a groundswell of community banks alone. Engaging the nation's existing Asset Based lenders will be essential to the long-term success of the program.

Due issues ranging from compliance costs to the allocation of experienced personnel, many lenders involved in Trade Finance and Asset Based Lending set minimum loan requirements of $1MM or $2MM as an entry point for those services. Given that the SBA program has a maximum loan limit of $5MM, that constraint results in a rather narrow band of loans that would be eligible at such institutions. Combined with the requirement for the lender to understand a standalone set of rules, many established and capable lenders simply avoid the programs or have withdrawn after minimal use.

In order to expand the adoption of the SBA's export programs and improve exporters' access to working capital, the following is a series of changes for consideration that have been reached amongst the active lenders under the programs:

<u>Increase the Limit on the Export Working Capital Program to $10MM:</u>
Under the existing $5MM SBA program limit, a domestic distributor could obtain an Asset Based line of credit under the CAPLine program. If you imagine this same distributor as an exporter, the same $5MM line of credit would not be equally sufficient to support the exact same amount of sales. The reason is that export sales have a much longer cycle than their domestic counterparts due to the increased transit times and extended payment terms required to compete internationally. For example, an exporter must often build in 30 days for ocean freight, in addition to normal payment terms of 30 and 60 days from receipt of the goods. When combined with payment delays, international trade cycles can easily extend beyond 90 days.

Increasing the maximum loan amount on the Export Working Capital Program to $10MM will afford exporters greater warehousing capacity under the line of credit; while providing the flexibility to offer the payment terms necessary to secure new international business. On average, an export transaction can take up to two or three times as long as a domestic transaction to complete. Understanding the elongated cycle of international trade is central to crafting a working capital program that is built to support exporters. It is for this reason that I recommend the $10MM limit exclusively for the Export Working Capital Program.

The $10MM limit also helps to address the issue raised earlier regarding lenders with minimum loan size requirements for Trade Finance and Asset Based Lending facilities. By expanding the range of loans that are supported under the EWCP, established Trade Finance and ABL lenders will have more reason to invest in the program as it would then be able to serve a greater range of relationships.

<u>Allow for Limited Availability on Domestic Accounts Receivable under EWCP:</u>
Many of our exporters in South Florida derive over 80% of their income from international sales. While this allows the majority of their business to be financed under one of the existing export loan programs, it also leaves a significant portion of their business in need of alternative financing.

Daniel Pische
Senior Vice President
First American Bank

Currently, the EWCP excludes all domestic receivables as ineligible for borrowing purposes. Allowing for 30% of the overall asset based availability to come from domestic receivables will allow for cohesive monitoring of the loan facility, while forgoing the need to structure a separate working capital loan to address domestic orders.

Realign the Fee Structure for Working Capital Loans Over 12 Months:
At present, the guaranty fee structure for loans of 12 months or under is 0.25%. For any loan over 12 months, that cost increases to as much as 3.75%. This pricing model suggests that the SBA believes loans of 12 months to be less risky than those with a term exceeding one year, which is reflected in the increased guaranty fee charged for the loan.

Working capital loans are traditionally underwritten and reviewed on an annual basis. This practice is done so that the lender and borrower can adjust to the working capital needs of the coming year, not because extending a line of credit for more than 12 months makes it any more risky.

This existing SBA fee structure fundamentally misattributes the correlation between risk and guaranty fee pricing. The monitored nature of EWCP and CAPLine programs, combined with the widely adopted use of trade credit insurance are the primary reasons that those facilities have some of the lowest occurrences of loss amongst all SBA programs. Rather than assess a bimodal fee based on single point in time, currently 12 months and one day, the guaranty fee should be assessed on a per-year basis in a step fee manner.

Graduating the fee structure in order to allow for a step fee approach provides a small business the ability to pay a proportional expense on an annual basis. This reform better recognizes the true relationship between risk and guaranty pricing. Additionally, this would provide the ability to support export projects with a term exceeding 12 months. For example, companies involved in custom machine manufacturing can often have projects that well exceed 12 months as the delivery of their products are often based on the schedule that involves other suppliers and contractors. At present, these projects are hindered by the massive increase in the guaranty that would be assessed.

At First American Bank, we are cautious about having borrower pay for a full guaranty fee on a larger line of credit in order to obtain a multi-year authorization. Our primary concern is that the working capital needs of the business can change over time and that the small business may end up paying for a loan guaranty that they no longer need.

I believe reforming the fee structure for working capital loans to a step fee method would eliminate this risk and better position the program amongst borrowers and lenders alike.

Allow For the Refinance of Working Capital Loans with Newly Issued Working Capital Loans:
The Export Express and the domestically focused CAPLine program can be used to support growing exporters and those just beginning to expand internationally. Given the fee structure outlined above, many lenders attempt to issue these loans on a 12-month basis in order to manage the cost of the program. In addition to the cost, the inability for the lender to issue a new Export Express or CAPLine to pay off an existing Export Express or CAPLine severely restricts the instances in which the program can be used in an effective manner. As such, these factors contribute to the underutilization of the programs.

Daniel Pische
Senior Vice President
First American Bank

Permitting SBA working capital lines of credit to be refinanced by newly issued credit lines, as already allowed for Export Working Capital Program lines, would greatly simplify the programs and expand their usefulness. The existing restriction on one SBA loan paying off another SBA loan appears to be born out of a desire to curb borrowers and lenders from refinancing government guaranteed term loans with newly issued government guaranteed term loans. That restriction makes sense in the context of term loans but is out of place when dealing with working capital facilities as those loans are designed to be adjusted and renewed on a regular basis.

While the Export Working Capital Program is best positioned to support businesses that are predominantly involved in export sales, the Export Express and CAPLine programs are valuable tools in support of companies beginning to transact internationally.

Working Capital Authorization Reform:
The adoption of the proposals regarding the fee structure and the refinance provision would allow for reforms to the authorization process for working capital loans as well. Rather than have a borrower obtain a new authorization annually, it would be possible to allow authorizations to be issued for three years at a time, which is the current limit on the Export Working Capital Program.

By utilizing the step proposal, the small business would pay their annual guaranty fee and then be allowed to renew their loan under the authorization. At the end of the three year period, a new authorization could be obtained and that loan would then be able to pay off the existing working capital loan.

Combined, this reform has the potential to greatly reduce the administrative burden of all working capital loan programs and encourage further adoption amongst lenders.

The financing needs of exporters within the United States varies from region to region, and the working capital programs supporting those companies should reflect that. While there is certainly some overlap, the profile of an exporter in the Midwest will vary from those in South Florida. Therefor I believe the focus should be on developing a flexible suite of working capital programs that allows the SBA to support all exporters with equal support.

With so much of the SBA world driven by commissions derived from secondary market sales, SBA working capital programs should both be thought of and structured independently from the term loan guaranty programs. With no way of deriving a commission from the sale of the guaranty, the lenders involved with the working capital programs often have different motivations from those active under other SBA term loan programs.

I greatly appreciate the opportunity to outline my thoughts before this Committee. The SBA's export loan programs are exactly what the nation's exporters need in order to succeed internationally. My hope is that a series of modest revisions to the working capital programs would increase the number of active lenders and ultimately the number of exporters served by them.

Senator ROMNEY. Thank you, Mr. Pische.

I have a few questions, but given the fact that I am not really a chairman, I am going to turn to the Ranking Member and let him—oh, here you go. Oh, suddenly I am a real chairman. I am going to let the Ranking Member ask any questions he may have.

Senator CARDIN. Senator Romney, first of all, thank you very much for stepping in.

Just to explain to our witnesses, there is a vote on in the floor of the United States Senate. The first vote is still on the board. The second vote will start soon. As soon as the second vote starts, Chairman Rubio will be returning. So it is not his rudeness. It is the fact that we had two votes. I left immediately after the first vote so we could continue the hearing, not to inconvenience people.

So we thank you for your patience, and thank you, Senator Romney, for stepping in.

Mr. Gornall, first of all, thank you for being here. You put a face on what we are trying to do. What a success story, what you have been able to do on the Eastern Shore of Maryland, and getting the partnerships and continued business on international trade. You represent a real success story.

Ms. Pringle, Mr. Mencia, we want to work with the states. I am very proud of what Maryland does for small businesses in international trade, the State initiatives. We have international trade offices. You are out there all the time working on behalf of small business and trying to get them access to trade.

So my question is, how can we make the tools that are available more effective?

Mr. Mencia, you gave us some really good suggestions in regard to the STEP program.

Mr. Pische, you gave us some suggestions in regards to at least the working capital loan program. I do not know if that also applies to the international loan program. You are shaking your head. That would be yes.

And then, of course, the express program is a little bit different.

My question really to, I guess, first, anyone that wants to answer, what can we do to better inform the small business community about the availability of these loans? The numbers are really shockingly low.

I accept the fact that it may not—we have to deal with the cost factor. We heard that on 7(a) loans and 504 loans also, but people know about those loans. They do not know as much about the international trade loans that are available under the Small Business Administration. So how do we get our states to work with the SBA?

Yes, we are willing to look at trying to lower the cost. We are looking at trying to increase the cap, if that makes sense, on working capital with trade be over the $5 million limit. We are willing to look at those issues, but how can we take what you have been able to do in the community so well and outreach to the small business community to try to get them, encourage them in international trade? How can we tie in the tools we have available at the SBA so we can have more success stories like Mr. Gornall?

Mr. PISCHE. I will take that. One of the challenges with export finance is that it is more complicated than a lot of the other SBA programs.

If you think of the use of funds, working capital is certainly one of the more complicated ends of financing for small business.

As far as what the SBA can do, it is helping to promote the availability of the programs. I do not believe they are as prominently displayed as they can be.

The Export Working Capital is by far the best program the SBA has. It is flexible. It meets the needs of most exporters.

There are a couple minor improvements that can be made, but beyond that, the program does largely what we want it to do.

Having some availability for domestic receivables would help. Having small businesses call and have an order somewhere in the United States that they need to finance and having to try and explain why they cannot finance that small order on their line of credit is challenging. Having the ability of a fee structure that allows for an incremental annual fee versus the hockey stick approach that you see right now, where lenders are trying their hardest to keep a loan under 12 months versus having the loan issued for 2 years at a time or an authorization that allowed you to renew a loan annually, I think is a commonsense reform.

And then also looking at how we define export support, whether that is a 70 percent exporter or a 30 percent exporter, those are both export companies. And having a working capital suite within the SBA, including the CAPLine program, is one way of bringing that support to those younger exporters.

Many of the companies that we have engaged with the SBA on have eventually outgrown it. They have used it for a period of time, capitalized their business and moved off. That is a success story.

Senator CARDIN. Absolutely.

Mr. Gornall, I do not know whether you needed the loan programs or not. We know that you connected through the trade shows. So how did you find out about these opportunities, and is financing an issue that you knew about, or did you have all the access you needed for capital?

Mr. GORNALL. Senator Cardin, thank you for that question.

We have not needed access to capital yet, and I will frame my answer in the context of where we are in our growth path. We are just coming through, I would say, like our first phase of our export growth and having worked through one cycle of the STEP grant program.

We are a company that has just come through the first, about to enter our second, and while we have not needed access to capital, if I would make a suggestion, echoing what I see in the commercial sector, there does not appear to be what I would call an "onboarding program," a term you might hear in the commercial world, where if you engage with a large corporation as an employer or partner, there is usually some initial engagement process that leads to then a more customized approach after the fact.

We found this program really more by accident. We went for assistance with export issues regarding encryption technology, and to their credit, Ms. Pringle's team actually reached back out to us and asked us and engaged with us. And we were quite surprised to see the amount of resources that were available.

So it is not a case where we were looking for this. They actually—it was really thanks to their outreach that we discovered it, and they have been fantastic ever since.

Senator CARDIN. That was my point. I think the states already have outreach, and how do we get the SBA tools better utilized by the partnership between the Facebook and the State?

Thank you. I want to yield to the Chairman, if I might, because the second vote is going to be on soon. If there is more time, I will come back.

Senator ROMNEY. Thank you.

Ms. Pringle, it sounds like you and Mr. Gornall somehow made a connection, and that is how Mr. Gornall heard about this program that allowed him to go to the trade shows and get the substantial additional business that came to your company. Is that right? Is that how that occurred?

Mr. GORNALL. That is correct.

Senator ROMNEY. And you indicated that she reached out to you, or her office contacted you? Is that what happened? How do you determine who you are going to reach out to and offer the suite of services that you have?

Ms. PRINGLE. Sure. So we do a lot of joint outreach efforts with our Federal partners as well as local EDOs that have some international services or programs that they are offering at a local jurisdiction level.

So when we do these panels and outreach efforts throughout the State with five staff, six staff—keep in mind we cover the whole world on foreign direct investment attraction as well as export assistance—we do engage with all the companies that are attending these events that have questions, that exchange cards. So we follow up and see where we can present opportunities to them because we have to project some of these trade shows we are going to be attending under the STEP funding we receive in the course of 1 to 2 years.

So when we look at these trade shows and what would be a good fit for Maryland small businesses, we reach out to the folks that we consider might be actually benefiting from these shows and recruit them to join us to go exhibit under the Maryland pavilion.

Senator ROMNEY. I do not want to act like a quintessential conservative, but something that does come to my mind, as I listened to Mr. Mencia's suggestions, was whether or not we would be wiser to simply have the Federal Government provide to the states funding which would go perhaps on a per capita basis or number of small businesses or whatever basis you might have, but just distribute the money to the states and let you decide how you want to use these funds to help people get to trade shows as opposed to having an application process and a bureaucracy in Washington reviewing the applications, awarding applications to states, just instead simplify it dramatically by giving states some kind of a pro rata share and letting them make their own decisions.

Does that make any sense, or is it like no, it really makes more sense to have a Federal organization and bureaucracy overseeing the effort?

I will look at Mr. Mencia first. I imagine that Ms. Pringle does not want to answer that question.

Press the button there. Yeah.

Mr. MENCIA. I truly believe in the partnership concept with our Federal agencies. We work quite closely in Florida with SBA, with EXIM Bank, and with our U.S. commercial services offices, and I believe this partnership process makes us stronger.

I would concur also to comment on the previous question that there is a marketing issue. We refer a lot of clients to the SBA offices, international companies, and there is a fear factor. A lot of the clients are very concerned about the volumes of paperwork and the difficulty, and I believe if we all work together to market the programs more effectively, the programs would be much more successful.

Senator ROMNEY. Yeah.

Mr. MENCIA. But I do believe the partnership, the Federal-State partnership, is very valuable.

Senator ROMNEY. And what is it that the Federal Government provides, besides money, that is helpful to the program from your perspective?

Mr. MENCIA. Well, from the SBA perspective, there is the guidance, the business. The other services that are not export-related, I believe, are very valuable. From the commercial service perspective, we rely on them, on things like market research, trade information, which allows in turn to focus, in my case, more than 90 percent of our budget to helping a company find a client in a foreign market, which is what export promotion is about.

Senator ROMNEY. Thank you.

Mr. MENCIA. Thank you, Senator.

Senator ROMNEY. Ms. Pringle, do you have a comment on that? I do not want to put you on the spot.

Ms. PRINGLE. No. Just to add that all of our services really complement each other, whether it is the State level, the SBA, the Commerce. Not all states really have a great relationship perhaps with one or the other or both of these Federal agencies, but we really enjoy a strong partnership with USIAC in Baltimore as well as SBA.

So I think where we are lacking, where our resources are lacking, whether it is the finances of the human resources or the foreign posts that the U.S. Department of Commerce has abroad, I think when we really join the forces, it makes a huge difference than all of us trying to accomplish something separately and help build a pipeline of new companies that might be benefiting the programs as well.

Senator ROMNEY. Do you have any perspective as to why some states are not participating in this program?

Ms. PRINGLE. In the STEP program?

Senator ROMNEY. Yes, in the STEP program.

Ms. PRINGLE. I think some of it goes back to the administrative burden.

When the funding was cut, we actually skipped one year in Maryland as well because it did not make sense for us to apply for whatever the maximum was for us, a couple hundred thousand dollars. I cannot put up a full staffer spending a whole year working on administering this $200,000 grant. It just would not give us the return on investment.

So I think it is the administrative burden that really scares some of the states away, that it is just not worth their time, because we have to put our staff, full-time staff to work on this.

Senator ROMNEY. Yeah. Mr. Mencia, yes.

Mr. MENCIA. Senator, we are one of the states that has not taken STEP funds for the last 4 years or so.

Actually, what happened with us is the third year of the initial STEP program, the funding was reduced, and we felt that we needed more to be able to implement the program, which, by the way, I have always said the STEP program allowed the State of Florida to dream.

We created this series of programs, of grant programs that have been of enormous value, but what happened is with that reduced funding, I went to the Florida legislature for assistance to see if I could get further funding, and to my great surprise, the Florida legislature saw the value of the STEP program and began funding my grant programs by a million dollars a year. So we decided that it would be best to allow other states to share since we had sufficient grant funds, so that was our case.

Senator ROMNEY. Thank you. Thank you.

While the Chairman is catching back up to date with the Ranking Member as to what was said, I am just going to ask one more question of Mr. Pische, and that is with regards to financing for small businesses in doing international sales.

To what extent is this a total mystery to small businesses that do not begin to take advantage of the resources that the SBA provides for this kind of financing?

Mr. PISCHE. I think it is. The challenges of exports are not just how you sell internationally, but how do you finance it? Is your bank able to service that type of financing? That might often require you to find a new lender. That is not uncommon.

A lot of companies we experience are using some of the SBA's program on the younger end tend to be looking at both the State and the Federal level for guidance. It is a complicated process. If you think of a small business, you can open up a coffee shop, but if you wanted to figure out how to roast your beans and sell them in South America, it is a substantially different process.

Finding programs, whether they are through Department of Commerce, we have had a lot of experience with ExporTech, which is run under the Manufacturing Extension Partnership, programs that allow a business to work with somebody to develop an export plan, understand what it takes to sell and succeed internationally, both how to sell and how to get paid, which is one of the areas that EXIM Bank is quite active with their Trade Credit Insurance Program.

It is not something that can be solved with a 60-minute breakfast presentation, and it really does require a deeper diver if you want to reform your business to be able to sell internationally.

It is one thing to have customers come into your door. It is another thing for you to go out in other countries, find those buyers, where the trade show has become so important internationally, find a way to finance that order, make sure you are removing risk by getting those orders insured or having a letter of credit in place, and ultimately growing internationally. That is a vastly different challenge that small businesses face.

Senator ROMNEY. Thank you, Mr. Pische, and not out of disrespect, I am going to leave to go vote and turn the gavel back to the man who deserves it, Senator Rubio.

Chairman RUBIO [presiding]. Thank you.

We have votes, and so we have to be strategic about when we go, and I am grateful to Senator Romney for taking the gavel and running the committee.

The Ranking Member has one question, and he is going to have to——

Senator CARDIN. It is not really a question. It is really an observation.

Chairman RUBIO. Okay. And then we are going to Senator Shaheen after that.

Senator CARDIN. And I have to apologize because I am going to have to go cast the second vote.

As I told Chairman Rubio, I think this panel has been excellent. They have really helped us.

Mr. Mencia, you have explained why you have not applied for the STEP grants. We need to make it easier for you to be able to apply for the STEP grants, and especially, you have given us specific suggestions in regards to the loan programs.

And, Mr. Gornall, we very much appreciate your practical way that you were able to get the business through the STEP program itself.

Ms. Pringle, I know your program in Maryland.

I guess my plea is tell us how we can build on that partnership that you have talked about between the Federal Government and the State government so that, yes, we need to improve the tools. We are going to make the loan programs less costly and more available, but we also need to integrate it into the efforts you are making at the State level and get the information out, working with our business community, so that these tools are better understood, because I will tell you, as I said to the first panel, first witness, if we do not get the volume up, these loan programs are not going to be there because the numbers just do not justify the administrative cost over a longer period of time.

We know the need is there. You have pointed out the need is there. So we have got to make the programs more effective, and we need the partnership of our State that make that work.

I welcome your thoughts on that.

Ms. PRINGLE. If I could just comment. Thank you so much, Senator Cardin.

I think for us in Maryland, what works is we really get along, personalities, people who work together. We go to visit companies together. We are pulling USIAC representatives. We are pulling SBA representatives. When we do panels, we always have everybody representing. We know each other so well that when a company comes through the door. Whether it comes through Maryland Commerce Department, SBA, or USIAC, we know what type of assistance they need.

We talk as we are talking about a whole pool of resources available, not just our Maryland Commerce Department resources. So I think that is one step, the relationship building within each State, with the Federal Government agencies, and really strengthening that partnership. If you work as one team, I think it makes a whole lot of sense.

Chairman RUBIO. Senator Shaheen.

Senator SHAHEEN. Well, thank you, Mr. Chairman, and thank you to our witnesses for being here.

I am a big fan of the STEP grants. I actually was one of the cosponsors of that legislation, got it into the Small Business Jobs Act, so it has made a huge difference for small businesses in New Hampshire.

And I share the concern that Senator Cardin expressed that we need to encourage states to apply for these grants.

I know, Mr. Mencia, that you represent a State that has declined to compete for STEP funds, and yet you support fully funding the authorized level of $30 million. So can you talk a little bit about how you think increasing funding for STEP could help change the calculus on a State like yours that would encourage to then apply for those funds?

Mr. MENCIA. I will start by clarifying that the reason we stopped using STEP funds is we were able to secure from the Florida legislature a grants program of a million dollars every year. So we felt that it was not necessary for us to be competing with the other states for the funding.

Senator SHAHEEN. In New Hampshire, we appreciate that. More money for us.

[Laughter.]

Mr. MENCIA. But we do find great value in the program. I think for the smaller states that do not have the advantages that some of our larger states with larger programs have, STEP has been a godsend. Even for my State, the STEP program allowed us to implement dreams, to implement programs that we wanted to do, export diversification programs, a whole family of them. We were able to implement them because of STEP. So I think STEP is a great, great partnership between the states and the Federal Government and should be continued and budgeted at a high level.

Senator SHAHEEN. Thank you.

Does anybody else have thoughts about what—for states that do not have a budget or support for exports, how can we encourage those states to apply and participate in this program?

Mr. GORNALL. Senator, as one of the companies that took advantage of it, it was mentioned earlier that Ms. Pringle and her team were very proactive in reaching out to the community.

I think having someone that is specifically targeted at reaching out to those businesses. As someone who faced the initial daunting task of paperwork and the process, it is a little intimidating, particularly if you are not familiar or had not worked with Government before, so I think having someone to hand-hold those companies to get them to a point where they at least know where to start.

Someone mentioned earlier, where do you start? How do I get started? There are so many things. This webpage has so much information. I think having that human contact initially with small businesses is critical.

Senator SHAHEEN. Should we try and simplify the application process?

Ms. Pringle, do you——

Ms. PRINGLE. Yes, absolutely.

Just to echo my colleague, Manny's comment here, obviously this program is very important for us. STEP funds probably account for almost 20 percent of our State export promotion budget. So we are very, very happy to have that supplement our programs and boost our outreach efforts.

But, yes, I think if companies hear the horror stories from other states or other companies how the administrative side of it and application process can be quite scary, then yes. Especially for new exporters, they are not going to even try.

So for us to continue with that program to support this program, some of these suggestions that Mr. Mencia was saying earlier plus some of the letters that we collected from states, 12 states, that outlined very specific areas where we can improve, I think that will certainly help the usage of the grant program.

Senator SHAHEEN. Thank you.

Mr. MENCIA. If I may add?

Senator SHAHEEN. Sure.

Mr. MENCIA. Besides simplifying the application process, it is adding flexibility to allow the State to repurpose the funds.

For example, if there is a market downturn somewhere, it does not make sense to make it a very difficult process, to be able to change those funds to take advantage of opportunities in another market that may pay a much bigger return on investment.

Senator SHAHEEN. Great. Thank you. Very helpful ideas as we think about how to make the program more effective. Thank you.

Chairman RUBIO. Thank you.

I get to ask I think as many questions as I want now because there is nobody here, but we will not keep you that long. I appreciate, I know some of you had some travel problems, probably Daniel and Manny. But I appreciate you guys making the time to come here.

A lot of the things I was going to ask have been asked already, so I wanted to focus in on a couple.

But just to close the loop on that point, as an example, you are taking a trade mission to some country in South America like—I do not want to mention a specific country because it is probably not a good example, but suddenly, there is some sort of instability. The place falls apart, and you decide you want to use those funds to go to another country that has better opportunities.

Your argument is by the time you work through the repurposing process, the fiscal year may have elapsed, and it should not be that difficult. And so that sort of flexibility is the kind of thing we are looking at, and one of the things we are going to look at as a committee is how much of that flexibility already exists and they are just not using it and how much of it would require us to make some statutory changes.

The other thing I did want to focus on a little bit, because I do not think it has been asked yet—and if it has, I apologize, but it is the similarities between what the SBA offers and what some other Government entities may offer as assistance to exporters.

I would open this up to anybody. I was going to ask Mr. Mencia and Mr. Pische, but I think all of you could answer this question if you have something to add to it.

There is a 2013 GAO report, and it looked at the overlap in Government services—the SBA, Department of Commerce, EXIM—all offering various small business export-related products, some of which are, as I said, very similar to one another.

So, for example, EXIM is limited to offering only loans below $10 million for all medium and long-term transactions, which has resulted in the Bank is largely now doing a lot of transactions for small and midsized businesses.

In 2018, EXIM small business loans accounted for 66 percent of its total authorizations and 91 percent of its transactions.

So, ultimately, SBA and EXIM's export finance offerings are very similar. They are targeting the same group, and often they are viewed by some as actually competing against each other.

So, in your individual experiences, how do the SBA loans differ from the EXIM product? What makes those products different from—how is what SBA offers different from what EXIM offers?

Mr. PISCHE. When taking a look at the suite of products offered by the SBA and the EXIM Bank, there is certainly some overlap when it comes to working capital financing. The Working Capital Guarantee Program of the EXIM Bank is quite similar to the Export Working Capital Program of the SBA.

That being said, the Bank is in—and has been in its current condition for the past 4 years, which is compressing their—the loans that they are working on largely into the same space as the SBA. As we have always looked at it, the SBA was for younger companies. The EXIM Bank had the opportunity to grow and service larger companies beyond the $10 million limit that is currently. But, in addition, the EXIM Bank is probably most used by our small businesses through their Trade Credit Insurance Program, which is often the best starting point for an exporter as they build up their sales.

There is a robust secondary—or a private market for trade insurance, but it does require a certain amount of volume before it makes economic sense——

Chairman RUBIO. To do the EXIM?

Mr. PISCHE. To do private company, private insurance market.

Chairman RUBIO. Oh, I am sorry.

Mr. PISCHE. So the EXIM Bank—the insurance product, very similar to how the SBA's position, it is a stepping stone, and that without enough export volume, the economics of obtaining a trade credit insurance policy on the private market is not always there and can be a limiting factor.

The EXIM Bank's programs, including their medium term, tend to be focused more on the international component. Whereas, in terms of how we think about the SBA's programs, a lot of it has to do with what can we do to support the small business exporter.

As I mentioned to Ranking Member Cardin, our goal of the program is not to keep exporters on it. It should be a way for them to get their start and eventually move off of it, and that is frankly what we have seen.

So when comparing it to the 7(a) program or the 504 program or some of the other SBA programs, the export side specifically when it comes to working capital is never going to come as close. There is nothing that will happen that will do that because, if anything, the exporters grow so quickly, they eventually will outgrow the program or become capitalized to a point where they do not need the program, and they move off of it.

So it is not a loan—similar to a term loan of 20—a mortgage or a 25-year mortgage that can be done under 7(a) now, where a loan is outstanding, a lot of them will use it and eventually move off of it. And it is not a loan program that can be packaged and sold. The fact is that the lenders who are active under the international trade programs and those focused on working capital vary in many ways from the lenders who are focused on originating loans and——

Chairman RUBIO. Just to summarize, I guess to sort of paraphrase what you are saying, the SBA loans are sort of startup fuel for a company that is getting into this field, so they can get into the export market, grow, and not need loans. The EXIM are designed to finance particular foreign deals.

Mr. PISCHE. It is a component of it or at least provide the working capital to support it. Under a fully authorized bank, you would be looking at larger transactions.

Chairman RUBIO. Do you know—does anyone know why the EXIM loans have foreign content restrictions, but the SBA loans do not?

Mr. PISCHE. I am not sure if there is a particular reason. The SBA requires those loans to be exported from the United States. It just does not have the content restriction, which can be cumbersome, frankly.

Chairman RUBIO. Does anybody else have anything to add on those products?

Mr. MENCIA. I was going to say while I was delayed in Miami, Mr. Chairman, I actually referred one of my client companies to the SBA for working capital, a loan that he was looking for.

I really like the working capital loans of SBA. I really also support and work with EXIM Bank on the guarantees of export transactions because many banks—you know, for small companies, many banks will not touch bankable transactions unless they have the guarantee from EXIM or from another source.

Chairman RUBIO. Can I ask, beyond the STEP program, what other Government programs—it could be outside of SBA—has Enterprise Florida participated in for purposes of expanding export?

Mr. MENCIA. We are the largest buyer of Gold Keys in the world, in the United States. That is a matchmaking program of the U.S. Department of Commerce. We do multiple trade missions around the world.

Right now we are planning on implementing missions to Morocco, Vietnam, Israel, and Colombia, and about 75 percent of the companies that are participating will be using the Gold Key programs to find clients. We specialize on helping small Florida companies to do export diversification because small companies tend to do business in one, two, maybe three markets at the most. So helping them diversify is the best thing you can do to help them create more jobs.

Chairman RUBIO. This is for the whole panel. If I am a small business and I have gained a contract, whether it is for services or the export of goods in some market somewhere, what embassy support do you get, if you have—if you run into issues, beyond the consular services that we provided to personnel? Is it Commerce that takes the lead?

Let us say that I, through an SBA program, go in and do a deal in Haiti, and then a year into it, I begin to run into friction of some kind. Who do I turn to? Even though it may have been set up through the STEP or it may have been financed through SBA, who on the ground at the Haitian Embassy would handle—and I will use that because that is the last foreign trip I took. Who handles that for me? Is it through the Commerce presence?

Mr. MENCIA. It would be—I go first to the U.S. Department of Commerce. They have an advocacy center that helps companies that are being singled out unfairly. For trade disputes, that staff on the ground at the U.S. Embassy's commercial section is very valuable, and by the way, that is a serious issue which the deployment overseas has been decreasing dramatically through the years.

So, in many countries, we no longer have that level of support, Mr. Chairman.

Chairman RUBIO. Anyone else had an experience with—or is it pretty much the same?

Ms. PRINGLE. Same, pretty much the same here, through the U.S. Department of Commerce, foreign posts, when they offer the advocacy services. We are trying to resolve some of the issues the company might face, whether it is customs or tariffs or bigger problems.

Chairman RUBIO. So let us say I do a trade mission. I am a small company. I jump on a trade mission to Vietnam. I see an opportunity. I come back and begin to explore it. What is the interaction between the trade mission?

As part of that mission, who makes me aware of the potential SBA resources that are available for me to—if I have to have some capital investment to actually service the client? Let us say I have a deal that is going to require me to produce double what I produce now. Even though the mission is a Commerce mission, is there enough integration that someone from that—on that mission or in Commerce would refer me to the appropriate product at the SBA level to allow us to finance that?

Ms. PRINGLE. Hopefully, yeah.

Mr. MENCIA. Yeah.

Ms. PRINGLE. If we are organizing a trade mission on the State level, then, of course, we will refer the client back to where the appropriate service is offered, whether it is the financing, the capital, or actually finding new markets or doing due diligence through U.S. Department of Commerce.

If it is U.S. Department of Commerce through their, let us say, Trade Winds Program, that is a very effective program, companies abroad to meet with some of the foreign posts and understanding doing business in those countries in hopes—I am hopeful that they would, yes, do the same referrals to SBA programs as well as to State programs.

So the referral process seems to be quite effective at least in——

Chairman RUBIO. I only ask because I know one of the things that—you can be very successful in business and not be sophisticated in international trade, and it is a big risk for someone who has never done this before to access a market, unless there is someone earlier on that helps guide them through it.

And one of the things I would imagine people run into, you know, after they come back from the mission is how do I now access the appropriate program to allow me access to the capital that I need in order to service this new client that I have.

So you were about to say something, Mr. Pische.

Mr. PISCHE. We have had great success working with the U.S. Export Assistance Centers, which will often have representatives from both SBA and EXIM Bank.

We work closely with members of the international trade programs at both. When we are referred into a small business, I will tell both sides, it is my job to figure out what program suits them best as opposed to trying to have them compete.

Some of the programs, like I said earlier, are competitive, but I found that having that contact with the USIAC early on will often allow them to get any questions about either program answered by somebody who is knowledgeable and then ultimately referred over to lenders for ultimate financing.

Chairman RUBIO. I guess my last question, again, for all of you—and I do not know, Mr. Gornall, if you have been asked this question or not. I am just going to read here so I get the numbers right. An estimated 30.2 million small businesses in the United States and less than 1 percent are export.

Now, I recognize that not every business is exportable, right? A dry cleaner. You cannot export that service, as an example. But I think there are more companies that could and actually realized it.

As a small business who is actively involved in exporting, what would you say are the challenges and the barriers that you face, but writ large the industry faces in expansion, not just to export, but to the right markets, the places—I mean, just identify where would be the right place for me to try to expand to. What are the challenges that a company faces? Because it seems to me like it would be quite intimidating for someone who has only serviced a local market for a long time.

Mr. GORNALL. Thank you, Senator.

It absolutely is a challenge, and because we represent other small businesses—these are all technology firms, many of whom are started by academics, who not only are new to international, in some cases they are actually new to running a business as well. So it is doubly so. You have a business experience gap. You have export knowledge gap, and there is also cultural gaps.

I think we would be remiss to ignore that last point because you are not just dealing with regulatory issues. There are actual cultural gaps as well.

And where we have seen some effectiveness working with Ms. Pringle's team is—and this goes back to your previous question in terms of identifying resources, either in the United States or in-country—they actually began to introduce us to the right resources that they anticipated that we would need.

In our case, we had already identified where a number of our potential markets were based on the markets that we serve, the particular vertical markets that we serve, but I think the outreach programs that we have seen in Maryland, where it is what I would consider a low-risk investment for a business owner, where you have an opportunity to network with other exporters prior to making that decision was very helpful for us. A 2-hour drive is much less of a risk than flying to a foreign country.

Because Maryland hosts events like this and invites other small businesses, that has been a great opportunity to lower the barrier to considering export.

Chairman RUBIO. I told you that was my last question. I have just one more. It is not in the script. No one wrote it. So I hope it is topical, but it is interesting to me.

It seems that the expansion of online commerce is a potential significant barrier remover for a lot of small businesses. In essence, where 25 years ago, you would have to have potentially a physical presence in a country, you can now expand your product into markets across the World Wide Web and allow the commerce to exist in that way.

Is that happening? Do you think that—obviously, you still need to be able to know how to target and advertise or reach the right people and market to the right people, but is it your sense that small businesses are fully utilizing the potential to do that, particularly in countries that have rapid deployment of online access to potential customers? And is that something outside of the loan programs that we should be thinking about expanding or providing more training for small businesses on how they can use online platforms to reach customers halfway around the world without potentially even taking a trade mission?

Mr. MENCIA. Mr. Chairman, I would say that——

Chairman RUBIO. Is the microphone on?

Mr. MENCIA. Sorry.

Chairman RUBIO. There you go.

Mr. MENCIA. I would say internet commerce is a great leveler of the playing field for the small businesses around the world. I think any additional support Government could lend would be very valuable.

I think one of the challenges, of course, is that small companies usually lack the resources to localize their websites. In other words, they have a website in English. They are using it in the Middle East or in China. Not everyone is going to be able to take advantage of it.

A program that we are using, utilizing our grants, the grants that began with the STEP program, is we have a Web localization program now where we provide partial funding for companies to translate their websites when they are successfully penetrating new markets, and that, for a small business, is a great asset.

Chairman RUBIO. What about in Maryland? Do you see that opportunity?

Ms. PRINGLE. Yes, absolutely. More and more companies are looking to engage in the e-commerce field, but also, as you mentioned earlier, it presents new challenges not only to our export services and the canceling and the topics and be up to speed with what is happening, but the regulatory environment still plays a key role also. Manny mentioned how do you position your products to be appealing to the foreign countries—or the markets, targeted markets, through their Web-based services, but also protecting your IP, if there is any IP involved, obviously, if you are selling your products through an e-commerce platform.

But, yes, we do see a lot of interest from companies to engage in e-commerce.

Chairman RUBIO. My mother-in-law is a freight forwarder. Her primary customers were in Venezuela, which obviously now is a disaster. It was years ago, obviously, and it has only declined since then, and she has expanded to other markets to try to adjust.

But because of that, what was always stunning to me is this is—I do not know if this dynamic exists anywhere else, but it does in South Florida. We have, for example, Dolphin Mall that has a hotel on the premises in Dade, because literally people from Latin America will fly and stay at the hotel for 3 days to shop for consumer goods. And I am shocked that we have not reached a point where instead of flying all the way down here and staying at a hotel and filling up the suitcases and flying back with the stuff that they purchased, more of that is not happening in e-commerce, but I imagine it would eventually migrate in that direction.

I think the same is true for producers of unique products, whether it is in South Florida, Maryland, or anywhere in the country. That eventually, as the buying power of the consumer, anywhere in the world, continues to grow, their desire for certain products that are found locally should grow with it, I would imagine, and the ability to connect the producer on our end to the consumer over there with minimum barriers is one of the unique attributes of this new economy that is different from 25 years ago, across the board.

You used to have to have a lot of advertising and a big storefront to be a business. Today there are people working out of their home on eBay or whatever it is they are selling, their crafts.

So I just think it is a unique place for us to continue to explore because there are both in the services realm, but particularly in the goods, a real opportunity to help companies grow in that field without having to set up some of the local presence that is an impediment to a lot of them.

Well, I appreciate all of you for coming today, for traveling here, for being a part of this. It is useful to us. We are trying to reauthorize SBA, which is a unique opportunity to go through it and modernize it, so that its programs reflect the 21st century economy, the unique challenges and opportunities that are before us, and your testimony today is very important. So we are really grateful to you for coming and for being a part of it and for giving us your time and your insight on the programs that are offered by the SBA's Office of International Trade.

The hearing record is going to remain open for 2 weeks. What you said here today will be a part of our record. We will be able to refer back to it as we move forward on our work, and it will be available to our colleagues as well.

There may be some follow-up statements or questions for the record. They would be submitted by Wednesday, April 24th, at 5:00 p.m. It is possible that you may get some questions. We would ask that if you can, you would answer them so we can include it as part of our record.

So I am really grateful to all of you for being here. Thank you very much.

And with that, this hearing is adjourned.

[Whereupon, at 4:25 p.m., the Committee was adjourned.]

APPENDIX MATERIAL SUBMITTED

Senate Committee on Small Business and Entrepreneurship Hearing
April 10, 2019
SBA Office of International Trade
Follow-Up Questions for the Record

Questions for Mr. David Glaccum:

Questions from: Chairman Rubio

QUESTION 1:
What is currently required in the STEP grant application? Please label if each requirement is a statutorily requirement, an OMB requirement, or an SBA requirement. If the requirement is determined in statute or by OMB, please include directory language. If the requirement is an SBA requirement, please include an explanation for why SBA requires that information.

SBA RESPONSE:
As referenced in my hearing, we are actively reviewing the STEP application requirements to determine what information is necessary to make a proper grant determination. The current STEP grant application requires up to 28 unique elements, listed below. I have included brief descriptions of each element. This information was pulled directly from our STEP Funding Opportunity Announcement (FOA) that is posted to Grants.gov and used to invite proposals for funding from eligible state entities (FOA No. OIT-STEP-2019-01).

We have recently gone through the STEP grant application requirements step-by-step and have identified six of the 28 currently requested application elements the Office of International Trade (OIT) can, under my authority, either completely remove or consolidate with other items to cut down on duplication. I have identified these items below. In addition to the six items under OIT control, in coordination with the SBA Office of Grants Management and the SBA Office of General Counsel, we have identified the statutory, regulatory, or SBA-policy behind the other 22 elements, and the directory / explanatory information. We will continue to review these items to identify ways we can either reduce the level of information required in each or to further consolidate items so we are not asking for the same information in multiple forms. Any future changes will be for the FY20 grants cycle. The agency would publicize any changes as far ahead of the next grant cycle as possible so that states can prepare accordingly.

1. Cover Letter (Maximum 1 page)
    a. Description: A letter containing basic information about the non-Federal entity and a summary of each non-Federal entity's key proposed activities.
    b. Required by: SBA/OIT
    c. Directory Language / explanation: To acquire a baseline understanding of the applicant and application.
2. Proposed Plan: Performance Measures & Outcomes
    a. Description: The Proposed Plan serves as the data blueprint to measure the extent to which the STEP grant recipient achieves program activities and the results (outcomes) of those measures.

   b. Required by: Statute, Regulation, and SBA/OIT
   c. Directory Language / explanation: Pub. L. No. 110-417 § 872 (2008); 15 U.S.C. § 649(l)(4); 31 U.S.C. §§ 1115-1116, 1120, and 1121; 2 C.F.R. §§ 200.210(d), 200.301, and 200.502. We are in the process of reviewing the level of detail we collect as we move towards tracking program results in the aggregate and away from individual and specific activities.
3. Technical Proposal template (Maximum 10 pages)
   a. Description: Document providing information on the organizational competency of the non-Federal entity, the project design with performance measures and outcomes, financial assistance plan, and data collection elements showcasing the applicant's ability to quantitatively measure progress on their goals.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 110-417 § 872 (2008); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.204, 200.301, 200.502, and Part 200 App. I(E).
4. Standard Form (SF) 424, Application for Federal Assistance
   a. Description: Standardized form that requires basic information about your organization.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 2 C.F.R. § 200.206
5. SF 424A, Budget Information (Non-Construction Programs)
   a. Description: Standardized form requiring an estimate of the Applicant's total cost of executing STEP activities described in the technical proposal.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.206 and 200.301
6. Attachments A-10 through A-12 (Budget Detail Worksheets)
   a. Description: Identification of all personnel who will be funded by Federal and Non-Federal amounts or who will support the STEP project without project funding.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.301 and 200.403-.405
7. Budget Narrative
   a. Description: A detailed explanation of the components of each budget cost category listed on the SF-424A
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.301 and 200.403-.405
8. Match Certification
   a. Description: A letter that reflects the Applicant's funding match components.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: 15 U.S.C. § 649(l)(6); 2 C.F.R. Part 200 App. I(C)(2)
9. Commitment letter(s)

a. Description: Letter(s) from sources which the non-Federal entity intends to obtain in-kind matching funds (if applicable).
b. Required by: Statute and regulation
c. Directory Language / explanation: 15 U.S.C. § 649(l)(6); 2 C.F.R. Part 200 App. I(C)(2)

10. SBA Form 1623 Certification Regarding Debarment, Suspension and Other Responsibility Matters
    a. Description: Form certifying that the applicant is not presently debarred or suspended from the covered activity.
    b. Required by: Statute and regulation
    c. Directory Language / explanation: Pub. L. No. 110-417 § 872 (2008); 2 C.F.R. §§ 180.130, 180. 320, 180.335, 180.430, and 200.205.
11. SF-LLL, Disclosure of Lobbying Activities
    a. Description: Standardized form requesting disclosure of any lobbying activities.
    b. Required by: Statute and regulation
    c. Directory Language / explanation: 31 U.S.C. 1352; 4 C.F.R. § 200.450; 13 C.F.R. §§ 146.100, 146.110, 146.600, and Part 146 App. B.
12. SF-3881 ACH Vendor/Miscellaneous Payment Enrollment Form
    a. Description: Standardized form used for Automated Clearing House (ACH) payments with an addendum record that contains payment-related information processed through the Vendor Express Program.
    b. Required by: Statute and regulation.
    c. Directory Language / explanation: 31 U.S.C. 3322; 31 C.F.R. 210
13. Chief Financial Officer (CFO) Certification letter
    a. Description: Letter verifying that the Applicant has an established organizational infrastructure with an internal financial management system that meets OMB cost principles.
    b. Required by: Regulation.
    c. Directory Language / explanation: 2 C.F.R. 200.302
14. Governor's Designation Letter
    a. Description: Letter designating the Applicant as the State's sole applicant and lead entity for conducting the State's trade activities.
    b. Required by: Statute.
    c. Directory Language / explanation: 15 U.S.C. § 649(l)(3)(C)(i)
15. Consultation Letter
    a. Description: A letter documenting consultation with the applicable trade agencies of the Federal Government on the proposed activities and contract services the non-Federal entity proposes to carry out using a STEP award to reduce duplication with existing Federal services.
    b. Required by: Statute.
    c. Directory Language / explanation: 15 U.S.C. 649 (l)(3)(D)(ii)
16. Organizational chart(s)
    a. Description: Identifies the Non-Federal entities organizational structure in relationship to who will be involved in executing the STEP project (including, STEP Project Director and all key and other personnel) listed on the A-10.
    b. Required by: SBA/OIT

   c. Directory Language / explanation: We will be removing this requirement. It is duplicative of other information and unnecessary for the determination of a grant award.
17. List of Applicant facilities and locations
   a. Description: List of Applicant facilities and locations used to manage the proposed STEP project and conduct proposed STEP activities.
   b. Required by: SBA/OIT
   c. Directory Language / explanation: We will be removing this requirement. It is unnecessary for the determination of a grant award.
18. List members of Board of Directors (if applicable)
   a. Description: A list of members of the Board of Directors of a non-Federal entity.
   b. Required by: SBA/OIT
   c. Directory Language / explanation: We will be removing this requirement. It is unnecessary for the determination of a grant award.
19. Résumés and Position Descriptions
   a. Description: Résumés and position descriptions for ALL key personnel (including vacant positions) supporting the STEP project.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: 15 U.S.C. § 649(l)(4); 2 C.F.R. § 200.308(c)(2)
20. List of Contractual and Consulting Agreements
   a. Description: List of all extant or anticipated contractual and consulting agreements that directly support the Applicant's proposed activities.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.317-.324 and 200.402-.405
21. List of Contracts
   a. Description: List of contracts that the non-Federal entity proposes to charge against the project as a direct cost or to meet matching funds requirement that will be outside the indirect cost rate agreement (e.g., a facilities lease).
   b. Required by: Statute and regulation
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1) (2006); 15 U.S.C. § 649(l)(4); 2 C.F.R. §§ 200.317-.324 and 200.402-.405. We are reviewing the possibility of consolidating this element with element #20. Both lists are required by law, but we may be able to cut out some duplication by combining the two elements into one required list.
22. IRS Tax identification documentation
   a. Description: Form documenting the non-Federal entities IRS tax ID number.
   b. Required by: Statute
   c. Directory Language / explanation: Pub. L. No. 109-282 § 2(b)(1)(E) (2006). Although a required element, we will be removing this as an individual and separate element as applicant are already required to provide their IRS tax ID number on their SF 3881 (element #12) and therefore this is duplicative.
23. Cost Policy Statement
   a. Description: Description of the non-Federal entities general accounting policies and a description of their cost allocation methodology (how each type of proposed cost is allocated: direct, indirect, or match).

   b. Required by: Regulation
   c. Directory Language / explanation: We will combine this requirement with the CFO Certification Letter (element #13); 2 C.F.R. §§ 200.415-.417

24. A-133 Audit Report
   a. Description: Report on the non-Federal entity's most recently audited financial statement.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: 31 U.S.C. § 7501 et seq.; 2 C.F.R. Part 200, Subpart F and App. XI.
25. Indirect Cost Rate Agreement (ICRA) or Extension Letter (if applicable)
   a. Description: For non-Federal entities that include indirect costs, a current, executed Indirect Cost Rate Agreement from the cognizant Federal agency or a letter from the non-Federal entities cognizant Federal agency approving an extension of a previous indirect cost rate for a period of time that covers the period of performance for the award.
   b. Required by: Regulation
   c. Directory Language / explanation: 2 C.F.R. §§ 200.414-.415
26. Drug-free Workplace Agreement
   a. Description: Certification that the non-Federal entity will provide a drug-free workplace by adhering to certain conditions.
   b. Required by: Statute and regulation
   c. Directory Language / explanation: 41 U.S.C. § 701 et seq.; 2 C.F.R. §§ 182.200 and 182.400; 13 C.F.R. § 147.400.
27. Data Collection Instrument
   a. Description: Copy of the non-Federal entity's data collection instrument (DCI) used to collect data from STEP Clients on the results of STEP activities.
   b. Required by: SBA/OIT
   c. Directory Language / explanation: We will be removing this requirement. It is duplicative of information requested in the technical proposal (element #3).
28. STEP Client Application
   a. Description: Copy of the non-Federal entity's application form used by small businesses applying to become STEP Clients.
   b. Required by: SBA/OIT
   c. Directory Language / explanation: We will be removing this requirement. It is unnecessary for the determination of a grant award. We will still need to collect this element once a grant award is issued to ensure proper programmatic language and branding is being used, but it is not needed in the application.

QUESTION 2:
What is the required process for a state to reprogram STEP funds? Please describe in detail the process of reprogramming if the amount is both above and below 10 percent of the grant total.

SBA RESPONSE:
2 C.F.R. 200.308 (Revision of budget and program plans) governs the process for a grant recipient to report and/or request approval for budget and program plan revisions. In accordance

with that regulation, the "Notice of Award" (NoA) that is issued to a STEP grant recipient contains the following language on transferring project funds:

"**Adherence to the Approved Budget:** You must expend the Project Funds in accordance with Your approved budget. However, You do have the discretion to transfer Project Funds between individual cost categories provided the cumulative result of all such transfers in a given budget period does not exceed 10 percent of Your total approved budget. Before making any transfers that would cumulatively result in Your exceeding this 10 percent cap, You must obtain approval from SBA. Failure to adhere to the approved budget or obtain the necessary prior approval will result in denial of payment by SBA."

In accordance with the NoA, the Office of International Trade (OIT) STEP team provides the following guidance to every STEP grantee at the start of each new awarding performance period. The actual guidance that goes out is submitted as an attachment to this document.

<u>Budget changes 10% and below</u>:

- **Description:** STEP Awardees may make budget changes within the approved cost categories not to exceed 10% of the total award amount (includes in-kind & match) without prior SBA approval.
- **Require Prior Action:** Notify your STEP Program Manager in writing. Send an email with an explanation of change and provide a copy of your revised budget.

<u>Budget or cost category changes above 10%</u>:

- **Description:** Any changes in excess of 10% of the total grant amount, or outside of an approved cost category, must be requested by the recipient and approved by SBA prior to incurring costs.
- **Required Prior Approval Action:** If changes are in excess of 10%, or involve another cost category that was not in the approved budget, the STEP Awardee must email the following documents directly to his/her STEP Program Manager for review and consideration of the budget amendment: 1) written request/justification; 2) revised SF 424A; 3) revised A-10 through A12 budget; and 4) a written budget narrative for all costs listed on the A-10/A-12 forms.
- **SBA Response:** The STEP Program Manager will review/analyze information, and the approve or deny the request. Additional information or corrections may be requested. A complete and accurate submission will be submitted to the SBA Grants Officer for further processing. The Grants Officer will send an email notification (c/c STEP Program Manager) when action has been approved, or notification to the Program Manager if further documentation is required for approval.

QUESTION 3:

Currently, what criteria are used to determine the value of a state's STEP grant? Is that information clearly provided to states?

SBA RESPONSE:
STEP grant applications are evaluated in accordance with five criteria using a two-tier system. Tier one consists of an evaluation, by an independent peer review panel, of four criteria totaling 80 points: 1) Organizational Competency (15 points); 2) Project Design: Performance Measures, Outcomes and Collaboration (40 points); 3) Financial Assistance Plan (15 points); and 4) Data Collection and Measurement of Outcomes (10 points). Tier two consists of an evaluation by Office of International Trade staff of one criterion: Financial Management and Past Performance (20 Points).

Yes, this information is clearly provided, with a description of each criteria, in the STEP Funding Opportunity Announcement (FOA) that is posted on Grants.gov and used to invite proposals for funding from eligible state entities (FOA No. OIT-STEP-2019-01).

QUESTION 4:
Why do you believe the number of export loans has not increased over time, specifically given the health of today's economy?

SBA RESPONSE:
This is a multifaceted issue, which includes challenges like changing market conditions and the need to keep an array of modernized products available from the SBA. SBA's export loan products need to be better modernized to keep pace with the financing needs of small business exporters. Some export loan regulations should be updated (Export Working Capital Program). We need to recognize that the export programs are unique and make the appropriate changes, listening to the feedback of the lending community. Updating our products will result in increased use, and this is something that the respective agency program offices are discussing.

Regardless of whether the loan products are updated, export loan numbers will not see a major increase unless the program targets markets with opportunities for growth. SBA is working with field staff to execute effectively and efficiently in these areas.

Finally, we need to do a better job working with our interagency colleagues so that they are also highlighting our lending programs to small businesses and lenders.

QUESTION 5:
SBA, unlike the Export-Import Bank, does not include a U.S. content requirement for their export loan programs. Given the lack of a content requirement in SBA's loan programs, how does the agency ensure that their export loans are supporting American jobs and business growth?

SBA RESPONSE:
SBA guaranteed loans can only be made to small businesses domiciled in the United States. Additionally, SBA loan programs require that, to the extent practicable, the borrower purchase only American-made equipment and products with the proceeds of the loan. This ensures they are supporting American jobs and business growth.

QUESTION 6:
Why does SBA not include a content requirement for their export loan products?

SBA RESPONSE:
SBA does not lend money directly to small businesses. Instead, it guarantees loans made through commercial banks and other lenders. Because we want to limit, to the extent possible, the regulations placed on commercial banks and other lenders using SBA products so that we ensure maximum access to capital for eligible small businesses, we do not have content requirements. But, as I wrote in my response to Question 5, we do limit lending support to small businesses domiciled in the United States and the loan programs do require that, to the extent practicable, the borrower purchase only American-made equipment and products with the proceeds of the loan, which ensures SBA backed loans are supporting American jobs and business growth.

QUESTION 7:
SBA has recently imposed a foreign content restriction in the STEP program. Why has the Agency not taken similar action on export loans?

SBA RESPONSE:
Unlike SBA loan guarantee programs, the STEP grant program provides taxpayer dollars directly to small businesses (via State international development agencies) for export trade promotion activities. Because of this direct transfer of funds, the content restrictions make more sense in the grant context. As described in my response to Question 6, on the lending side, we want to maximize eligible small businesses' access to capital. And as also mentioned, we do limit lending support to small businesses domiciled in the United States which ensures SBA backed loans are supporting American jobs and business growth.

QUESTION 8:
While SBA export loans can be offered by any 7(a) lender, currently SBA offers a Preferred Lenders Program, or PLP, for the Export Working Capital Program. While the overall 7(a) program consists of over 800 PLP lenders, the Export Working Capital Program lending program only has 17 lenders. Why do so few of the 7(a) PLP lenders operate as a preferred lender in the Export Working Capital Program?

SBA RESPONSE:
More banks are going to become PLP lenders for SBA domestic 7(a) programs because it better aligns with their domestic lending operations. However, it should be noted that lenders can make International Trade loans using their regular PLP delegated authority, and approximately 670 lenders have Export Express delegated authority. If EWCP continues to operate under the same regulatory framework as our domestic program, banks, which treat their domestic lending and international lending separately, may be less likely to become PLP-EWCP lenders. Updating our

products will hopefully result in increased use, and this is something the Office of International Trade (OIT), in coordination with the Office of Capital Access (OCA), continues to review.

QUESTION 9:
Why are more EXIM Bank delegated lenders not participating in the SBA export loan programs?

SBA RESPONSE:
More lenders are not participating in the SBA export loan programs for the same reason that more domestic 7(a) PLP lenders are not PLP-EWCP lenders – the SBA export loan programs do not align with commercial international trade finance practices.

QUESTION 10:
According to SBA, OIT offered export loan training to 9,257 individuals in fiscal year 2018. Can you provide an overview of what the export lending training entail, what curriculum is used, and how success is measured? For example, the number 9,257 trainings is an output. Does SBA track outcomes from the trainings? If so, what are they?

SBA RESPONSE:
The Office of International Trade (OIT) export lender training entails presentations on the three SBA export loan programs (e.g., uses, fees, caps) and other relevant updates to general SBA loan processes (e.g., updates to the SBA lender SOP). Unfortunately, OIT has not historically tracked the outcomes of these trainings. In January, OIT implemented a new Customer Relationship Management (CRM) system that will allow us to track both lender and business counseling and training, ensuring follow-up action and tracking outcomes of the training (e.g., the number of lenders that use the SBA export loan programs).

QUESTION 11:
Does SBA reassess the training curriculum periodically, or survey participants to better inform the curriculum's effectiveness?

SBA RESPONSE:
Yes, the Office of International Trade (OIT) reassesses our training curriculum, including through feedback from participants. For example, ahead of our most recent annual lender roundtable, we connected with some of the lender participants to see what new information would be most helpful during the SBA loan program update period of the event and modified our presentations accordingly. We are also now in the process of undertaking a wholesale review of all our OIT lender training and presentation materials to ensure they contain information most helpful to our commercial lending partners.

QUESTION 12:
What coordination exists between the Office of International Trade and the Office of Capital Access with respect to the export financing programs?

SBA RESPONSE:

Since my tenure began in February 2019, there has been great coordination between the Office of International Trade (OIT) and the Office of Capital Access (OCA) with respect to the export financing programs. For example, we worked with OCA to update the Lender Match tool to include a new question on businesses interested in exporting. We have also begun the process of working with OCA to write the next version of the lender SOP which will separate the export loan products into a new, standalone section, something lenders have been seeking for years. Additionally, we are coordinating with OCA on an Advance Notice of Proposed Rulemaking (ANPRM) that we plan to publish in the near future seeking formal public feedback on the issues associated with our export financing products, which will in turn lead to regulatory updates and/or legislative proposals resulting in a better product line. OIT relies on OCA to improve our export finance programs and in each of the instances described above, OCA has been a great partner and I expect this level of collaboration and coordination will continue between our two divisions.

QUESTION 13:

Given the stagnant loan levels within the export financing programs, do you believe that the Office of Capital Access is better equipped to administer the export loan programs than the Office of International Trade?

SBA RESPONSE:

Currently, the Office of Capital Access (OCA) does administer the export loan programs as it relates to the operational aspects and policies of the programs. The Office of International Trade's (OIT) role in the export loan programs, as defined in our authorizing statute (15 U.S.C. 649), is to facilitate access to the programs. Through our field staff of 21 Export Finance Specialists, we work with small businesses and lenders to share information, identify opportunities, and structure export finance deals.

As touched on in my answer to Question 12, OIT does not have the ability to unilaterally update policy for the export loan programs but instead must work with OCA if we want to make any changes because the export financing programs are part of the 7(a) program. Because SBA is primarily a domestic-focused agency, OCA is therefore primarily focused on the $30 billion in annual lending associated with SBA's domestic lending programs. As I referenced in previous answers, for the SBA export loan programs to be viable, they need to better align with commercial international trade finance programs. Once we recognize the difference between these two types of lending and make the appropriate changes to our programs, we will see greater use of the export loan product line.

Recent collaboration between OCA and OIT has been strong and there is a mutual understanding that the two lending programs – domestic and international – might need to be treated differently. As a result, we are looking at updating the SBA international trade finance product line in the near future.

Department of Economic and
Community Development

Connecticut
still revolutionary

March 22, 2019

Mr. Andy Karellas
Executive Director
SIDO
444 North Capitol Street NW
Suite 401
Washington, DC 20001

Andy
Dear Mr. ~~Karellas~~:

In response to your request for administrative burdens associated with the U.S. SBA State Trade Expansion Program (STEP) grant, please see below for our response to the Senate Small Business Committee:

- There is no consistency in the timing of the funding announcement's release date. Please set one, annual date to release the STEP FOA so that states can properly prepare and plan.
- Please provide states with a six week turnaround time for the grant submission. Four weeks is too short, particularly for states with small number of staff whose attention is also required on other time sensitive projects, trade shows, etc.
- Please provide one single, accurate checklist, not a "Required Application Elements" and "Checklist," as it is duplicative, sometimes incorrect and leads to unnecessary questions about which document is the "true" final checklist.
- Templates provided are incorrect, as are reports which are not formatted properly.
- Please provide a separate document that features "what's new" so that it is easy to discern programmatic differences.
- All new information should be presented during the announcement period, not tucked into a Q&A document where it is easy to miss key information.
- Please eliminate quarterly goals and the breakdown of companies by activity, by business type, by quarter, as it leads to guestimates, inaccuracies in reporting and skewed ROI figures.
- Reporting needs to be streamlined, as the quarterly reporting has become overly burdensome. The PPR alone is burdensome, again largely due to the forced quarterly/activity breakdown.

Thank you for your consideration.

Sincerely,

Laura Jaworski
STEP Project Director

IDAHO COMMERCE

Brad Little, Governor
Tom Kealey, Director

April 3, 2019

The Honorable Marco Rubio
Chairman
Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

Dear Chairman Rubio and Ranking Member Cardin;

The state of Idaho, via the Idaho Department of Commerce, is a current State Trade Expansion Program (STEP) grant recipient. Idaho has been a successful STEP awardee since the program's inception in 2011. STEP has allowed Idaho eligible small business concerns (ESBCs) to explore international markets and attend trade events they would never reach without the assistance of this beneficial program (63% during our Year 6/FY17 program were disadvantaged ESBCs). Idaho's consistent participation in the program gives us valuable perspective on areas where improvements can still be made in the procedures and administration of the program. The Idaho Department of Commerce would like to address some of the administrative burdens in hopes of an improved STEP program. Please consider the following challenges we face in administering the grant:

Financial Assistance Awards (FAAs): FAAs are a very successful part of our program. We are consistently receiving applications for three to four times above our allocated STEP budget. Unfortunately, FAAs are the most administratively burdensome part of our program. The level of detail we are required to provide is extremely onerous. Some of the details are duplicated across multiple documents. Other required details that are time consuming are, for example, the self-certification dates and names of companies and their travelers. This information is more appropriate at the audit level, not at the reimbursement request level. Ultimately, reimbursements are delayed, creating cash flow issues and timely reimbursements to ESBCs. As a result, we have reduced FAA funding despite its success.

Reporting and Performance Measures:
Discrepancies in communications: States are not receiving the same communications/information at the same time from SBA Program Managers. One example that recently came to light are the instructions to the states for filling out the Progress Performance Report (PPR) vary greatly across the SBA STEP Program Managers. These differences will ultimately affect the validity of the overall ROI and number of ESBCs served across the program by double counting some ESBCs.

Consistency in reporting requirements/documents: Mid-stream changes are not uncommon for reporting requirements and documents. Many of these documents are received with errors. The trickle-down effect of these changes is significant since they are opening states up for errors and lengthened reimbursement timelines. States have provided assistance to the SBA Program Managers by making them aware of the errors and broken functionalities in documents, even fixing them and/or creating new documents with added functionality to help alleviate some of the burden. However, the SBA STEP team has chosen not to use the corrected documents.

Unclear Performance Measures: Is the true focus of the program ROI or is it number of ESBCs assisted? Achieving both simultaneously under one program is somewhat contradictory. Generally, international trade events will have a high ROI, but only a small amount of ESBC can be assisted. Alternatively, an export training event will have little to no ROI but will assist easily three to four times the number of ESBCs. We write a balanced STEP application in efforts to achieve both goals, but we do not have a clear understanding how STEP award recipients are graded when SBA decides on award amounts.

Discrepancies on the annual report: During program Year 4/FY15, Idaho voluntarily submitted an extra PPR to reflect our final ROI, however, when the SBA released the annual report, Idaho's updated data was not reflected, equivalating to nearly $10 million of unreported ROI. We feel states should get the opportunity to work with the SBA to validate all final data and officially sign off on the values that will end up on the annual report, which Idaho's SBA STEP Program Manager so diligently did the following year. If Idaho's future awards are in-part based on PPR numbers, it is essential that SBA uses and measures Idaho on correct data. Also, this is the data that is considered when the program is up for appropriation.

2-Year Program: Idaho appreciates that the SBA listened to our request for a 2-year program, however, implementation was not well thought out as SBA is requiring states to apply yearly for a 2-year program. The overlapping of years creates even more administrative burden when requesting reimbursements, leaving states exposed for mistakes in the finances. We also feel that it will be extremely difficult for small states like Idaho, who utilize staff hours as our matching funds, to meet their match requirements during the overlapping quarters. We believe that the main reason for requesting a 2-year program was to lessen the burden on the states and SBA STEP team by only having applications due every other year and also to receive notice of awards further in advance to capture more of the Q1/Q5 trade show opportunities.

Audits: States understand the necessity of audits to ensure funding is used appropriately and efficiently. However, it has not been made clear when or why audits can be expected. Clear guidelines would help states to have appropriate expectations. In the event of an audit, it now creates the potential for a state to be working on four grants at once due to overlapping program years, creating extreme burdens.

Funding Opportunity Announcement (FOA):
Timing of announcement: Over the years, the FOA posting has happened anywhere from the beginning of February to mid-May. Planning and executing international trade activities takes a great deal of forethought and so does the planning and writing of the STEP application. A consistent application period would assist states to plan their activities accordingly. Writing a STEP proposal while also executing a trade event is very burdensome on some states. In turn, this will also alleviate the increased potential for modification requests and unused funds.

Modifications: The program announcement, including all program requirements and supplemental required documents, have been released in the past without being 100% complete. If a modification does occur during the application period, a redlined version of the FOA should be provided to the states for ease of notating the changes. It is our understanding that this is standard practice for many grant programs and would be preferred that STEP adopt this practice when the FOA is announced annually.

51% Content Clause: We submitted questions in April 2018 regarding this clause during the Q&A period of the Y7/FY18 FOA. When the Amended Policy Statement dated 9/28/18 was released, and the requirement was added to the Self-Certification, states again requested further guidance. To this date, we still don't have finalized, clear and concise guidance from the SBA on how ESBCs are to determine their eligibility under this clause. This uncertainty affects how Idaho markets STEP to our ESBCs and which trade events we write into the proposal, as some of Idaho's largest industry sectors have a multitude of companies that may not produce products compliant with this clause, i.e. outdoor recreation technology.

The Idaho Department of Commerce is eager and willing to collaborate with the SBA STEP team to continue to build the best program possible. We do have prepared solutions and would welcome the opportunity to provide input if that is desired by SBA.

Sincerely,

Jennifer Verdon, International Manager

IOWA ECONOMIC DEVELOPMENT AUTHORITY
200 East Grand Avenue | Des Moines, Iowa 50309 USA | Phone: 515.348.6200
iowaeconomicdevelopment.com

IOWA

March 27, 2019

The Honorable Marco Rubio
Chairman
Committee on Small Business &
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Ranking Member
Committee on Small Business &
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, DC 20515

Dear Chairman Rubio and Ranking Member Cardin,

The Iowa Economic Development Authority, the state agency tasked with assisting and supporting Iowa small businesses in the global marketplace, writes to first express gratitude for the State Trade Expansion Program (STEP) at the U.S. Small Business Administration. Iowa has been fortunate to receive a STEP grant each of the funding years, ranging from $109,012 to $370,258, with a most recent ROI of 16:2.

STEP has allowed our state to not only leverage state dollars to strengthen the existing state-developed grant program, but to expand support offering a more robust range of assistance to Iowa small businesses. The challenge is the existing state program parameters, and the STEP parameters, do not co-exist effortlessly. Program management becomes divided by two distinct (but similar) guidelines.

Secondly, this letter will outline seemingly unnecessary administrative challenges with STEP from a state perspective and ask the Committee's support to identify solutions and make future improvements.

- Announcement & Application:
  - Inconsistent timing of Funding Opportunity announcement release
  - Funding Opportunity inaccuracies
  - Application period too short

    Example: 2018

Funding Announcement	April 2
Corrected Funding Announcement	April 18
SBA Q & A Answers	April 27
Application Deadline	May 16

  - Questions not fully addressed at the time of award or in reasonable timeframe

    Example: 2018

    1. One of Iowa's questions went unanswered until February 27, 2019, preventing fund allocation to a specific activity for the first half of year
    2. To-date, States still do not have a concise definition of 51% US content (6 months into the award)

Chairman Rubio and Ranking Member Cardin
Page 2
March 27, 2019

- Administrative Changes by SBA
  Example 2018:
  SBA requested we rework our application and documentation at an amount 1/3 lower than initially requested (requested $300,00, changed to $200,000) with no justification as to why our request was selected to be decreased.
- Funding Announcement indicates a scoring system. However, a final score is not provided, nor is feedback, to States. There is no process for States to improve their application the following year.
- Request data which is not supported – SBA requires States not only indicate the number of small businesses we plan to assist by activity AND by quarter, but also the number of New to Export (NTE) or Market Expansion (ME) by activity AND by quarter. It is impossible for anyone to predict such information; therefore, data provides no value.

- Award & Program Management:
  - We are unable to plan any activities the first quarter and have begun to limit second quarter activities:
    - Late award notice
      Example 2018:

Notice of Award	September 21
Start of Award	September 29

    - Incorrect or unclear Information
      Example 2018:
      On September 21, Notice of Award had several incorrect stipulations to be corrected. An amended Notice of Award was received November 14, 2019.
    - Quarterly report from previous ongoing award is due simultaneously
    - STEP has different requirements, measurements and guidelines than State programs, requiring States to abide by two different management criteria for programs
  - Too few expenses eligible under STEP
    - States can develop programs but the eligible expenses under STEP are very limited. Having a narrow list of eligible expenses/activities limits programs and the support to small businesses.
      Example 2018:
      1. Translation is specific to a brochure or web site. However, small businesses have translation needs of product manuals/data sheets, labels, etc. which may be needed to sell products in the market, which are not eligible.
      2. Compliance Testing is eligible but not consultant fees to assist them in identifying what they would need to enter a market (one of which MAY be compliance testing).

- Challenging communication with SBA
  - Confusion and inconsistencies about how and what states can use STEP funds towards
  - Need clear list of activities with the types of expenses eligible communicated consistently
  - A high percentage of communication from SBA is through a phone call, which does not provide documentation. This creates challenges in tracking SBA's changes especially at time of auditing and has resulted in State's audit including recommendations that contradict what was verbally directed by SBA.

While the grant is valuable to our State and eligible companies, 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: The Honorable Joni Ernst, Member, Committee on Small Business & Entrepreneurship
Stephanie Groen, Director, State-Federal Relations, State of Iowa
Andy Karellas, Executive Director, SIDO

Department of Commerce
Business and Community Development
22201 W. Innovation Drive
Olathe, KS 66061-1304

Kansas
Department of Commerce

Phone: (913) 307-7378
Fax: (913) 307-7389 TTY: 711
KansasCommerce.gov

David C. Toland, Acting Secretary

Laura Kelly, Governor

March 26, 2019

Mr. Andy Karellas
Executive Director
State International Directors Organization
444 North Capital Street NW
Suite 401
Washington, DC 20001

Dear Mr. Karellas:

The State Trade Expansion Program (STEP) is critical to Kansas' export efforts. As many states face budget constraints, STEP provided the much-needed financial assistance to eligible companies. Without STEP, these small businesses would not be able to start exporting or expand into additional markets.

Since 2015, the SBA STEP team has made many improvements to the program. To further refine the program, administrative processes and procedures can be simplified:

- Simplify the application packet: In addition to a STEP application, several supporting documents need to be submitted during each application cycle; for example, a written budget narrative, SF424A, and A9-A12 Budget Detail Worksheet. These forms all carry the same budget information, just in different formats;
- Simplify the quarterly report requirements: In addition to a written budget narrative, SF-270, A9-A12 Budget Detail Worksheet, and SF-425 need to be submitted with each quarterly report. Again, these forms all carry the same budget information, just in different formats;
- Require an application every two years: STEP was changed into a two-year program since FY17; however, states are still required to apply for funding allocation every year. Such design creates a one-year overlap. For example, the second half of the FY17 program and the first half of the FY18 program run concurrently. Furthermore, states are required to submit an FY19 application during the overlap period. Essentially, states are handling three programs at the same time.

Other than the above recommendations, sharing other states' best practices will be very beneficial to all awardees.

We highly appreciate the thoroughness and diligence provided by the SBA STEP team and the State International Directors Organization, and we are looking forward to further collaboration.

Sincerely,

Chang Lu
Kansas STEP Program Director

COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE OF HOUSING & ECONOMIC DEVELOPMENT (EOHED)
OFFICE OF INTERNATIONAL TRADE AND INVESTMENT (MOITI)
136 BLACKSTONE STREET, 5TH FLOOR
BOSTON, MA 02109
TELEPHONE: 617-973-8650
FAX: 617-973-8554
www.mass.gov/moiti

CHARLES D. BAKER
GOVERNOR

KARYN POLITO
LIEUTENANT GOVERNOR

MICHAEL KENNEALY
SECRETARY

NAM PHAM
ASSISTANT SECRETARY

MARK SULLIVAN
EXECUTIVE DIRECTOR

April 1, 2019

Senate Small Business Committee
428A Russell Senate Office Building
Washington, DC 20515

State Trade Expansion Program (STEP)

Dear Chairman Rubio, Ranking Member Cardin and Committee Members:

In support of the State International Development Organization's ("SIDO") appearance before the U.S. Senate's Committee on Small Business & Entrepreneurship at the April 10, 2019 hearing on the State Trade Expansion Program ("STEP"), the Massachusetts Office of International Trade & Investment ("MOITI") would like to provide an overview of implementing STEP within the Commonwealth.

Massachusetts ("MA") has participated in the STEP since the program's inception. During my tenure as the MA STEP Program Director over 200 MA small business have been awarded STEP stipends enabling them to pursue global export opportunities. Many of these businesses are new to exporting and have used the stipends for reimbursement of a wide variety of STEP authorized expenditures. The results have been outstanding with companies collectively reporting Return-On-Investments ("ROI") exceeding $15 million dollars.

Although MA is a grateful participant in the program, we share the concerns of SIDO and other states with the embedded administrative burden that the program requires of its participants. Examples include:

- The annual STEP Request for Proposal ("RFP") is in excess of over thirty documents. Many of which are repetitive to previous years. The RFP includes an Attachment A, which requires an extremely detailed quarter-by-quarter estimate of the activities to be performed by small businesses. With STEP now a 2-year program, that's eight quarters of estimates.

- Once awarded, the state is then required to provide a detailed quarter-by-quarter analysis of the variance between what was proposed and what small business clients have actually done. This is for eight quarters for each award, meaning that the states will be completing two such reports per quarter, assuming multiple awards.

- STEP Awardees are small businesses. Many of them don't have the resources to understand and perform the detailed administrative documentation required under the STEP Program.

MA is grateful to the Small Business Administration ("SBA") for its leadership of STEP. The guidance of the SBA STEP Team has always been timely and it is evident they work extremely hard in their support to their state clients. They too share the burden of the STEP Program's administrative requirements. It is MA's hope that the committee's hearing could result in streamlining the STEP Program's administrative burden to both the SBA and to the states.

Thank you for the opportunity to provide our comments to the committee.

Sincerely,

Mark F. Sullivan

Mark F. Sullivan
Executive Director
Massachusetts Office of International Trade & Investment (MOITI)
136 Blackstone Street, 5th Floor
Boston, MA 02109 USA
Office: 617-973-8543
Mobile: 617-352-2170
mark.f.sullivan@mass.gov

MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION

April 1, 2019

The Honorable Marco Rubio
Committee on Small Business &
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Committee on Small Business & Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

Dear Chairman Rubio and Ranking Member Cardin,

I'm writing to respectfully request that you consider streamlining the administrative requirements for grant recipients of the Small Business Administration (SBA) State Trade Expansion Program (STEP).

Since SBA first launched STEP in 2011, the Michigan Strategic Fund (MSF) was awarded over $7.4 million in federal STEP awards, making it a critical component of the state's strategy to support Michigan's small business exporters. With additional MSF state-funded support, the program has awarded over 2,879 financial assistance awards to eligible small business concerns (ESBCs). Over the last eight years, the Michigan program has facilitated over $2.6 billion in export sales through federally and non-federally funded export development programs.

Given the high volume of financial assistance awards MSF processes annually, we are hypersensitive to the volume of reporting requirements imposed by SBA. The primary concern is that the same information is required in multiple reports. The Written Budget Narrative, Client Report and Performance Progress Report (PPR) all require information about STEP funded activity, the export market, the ESBC, and level (new-to-export versus market expansion). There are multiple measures which are required on one or more reports including NAICS, industry, STEP frequency, jobs created and retained, diversity demographics, reported sales, projected sales, ROI, export activity dates, detailed financial breakdowns, and the award amount. In addition, the detailed expenditures worksheet collects nearly identical information already collected in the written budget narrative.

Ideally, information would be gathered on one reporting document that could serve multiple purposes and audiences. Equally as critical as the data collected is the development of a functional reporting tool that is intuitive and user-friendly. By streamlining reporting, SBA can accurately capture information and provide meaningful detailed reports.

Over the last three years, Michigan's program has achieved a federal return on investment of 202, 162 and 282 respectively. Our success generating export sales and economic growth would only be amplified if we spent more time fostering export opportunities and less time on SBA's inefficient reporting requirements.

Best Regards,

Natalie Chmiko

Natalie Chmiko
Director, International Trade & STEP Program Director
Michigan Economic Development Corporation
(517) 242-4452
chmikon@michigan.org

STATE OF MISSISSIPPI
PHIL BRYANT, GOVERNOR
MISSISSIPPI DEVELOPMENT AUTHORITY
GLENN MCCULLOUGH, JR.
EXECUTIVE DIRECTOR

March 29, 2019

The Honorable Marco Rubio
Chairman, Committee on Small Business &
Entrepreneurship United States Senate
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Rubio,

The Mississippi Development Authority's International Trade Office with the State of Mississippi is currently a State Trade Expansion Program (STEP) grant recipient. This STEP grant is administered and funded, in part, by the U.S. Small Business Administration. Our office administers this grant by applying for the grant funds, facilitating our Mississippi client companies' application process, participation, and reimbursement for eligible activities.

One of the most valuable benefits of the STEP grant is that these funds allow us to provide financial assistance to Mississippi small to medium size business company clients. As a result of these funds, our clients are able to participate in our international trade activities and travel to international markets to meet with and develop key relationships with prospective buyers/partners. If it were not for this type of financial assistance, funds would not be available to help defray the associated costs.

We are very appreciative of the STEP grant funds and are looking forward to being a continued recipient. With this being said, we would like to share opportunities for improvement that would help us and decrease some challenges that we face in administrating this grant. Please consider the following suggested improvements:

1. Overall simplification or elimination of Budget Narrative as STEP fund expenditures are **already accounted** for on the **SF270, SF425 and PPR forms**. The Budget Narrative has become too detailed and tedious. Further detailing each expenditure for every activity in every quarter for 2 STEP Grants creates an excessive administrative burden to a surplus of paperwork.
2. Simplification of the PPR as it has had more and more columns added to it throughout the years. There are a few columns that can be eliminated for simplification and user-friendliness. The PPR is a useful document that meaningfully summarizes each quarter's activities, however, it would be beneficial to create a simpler document.

POST OFFICE BOX 849 • JACKSON, MISSISSIPPI 39205-0849
TELEPHONE (601) 359-3449 • FAX (601) 359-2832 • www.mississippi.org

3. **The amount of time and paperwork that the PPR and Budget Narrative documents take to complete has become excessive, sometimes taking days or weeks to complete. Additional time to make revisions is also occupied on these documents AFTER they have been submitted each quarter. This valuable time could be used toward successfully identifying new ESBCs and building new relationships with potential clients.**

Thank you for your attention to our concerns regarding the STEP grant. Should you have any questions or need additional information, I am available to discuss.

Sincere Regards,

Rosario "Rose" Boxx
International Trade Director

New Hampshire Department of
BUSINESS AND
ECONOMIC AFFAIRS

April 1, 2019

The Honorable Marco Rubio
Chairman
Committee on Small Business and
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

The Honorable Ben Cardin
Ranking Member
Committee on Small Business and
Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20515

Dear Chairman Rubio and Ranking Member Cardin;

As the program director of the New Hampshire Office of International Commerce, I write to you today to highlight some of the administrative burdens this small office, with a staff of three people, faces while implementing the State Trade Expansion Program (STEP). STEP was created to increase exports, particularly in smaller states such as New Hampshire, and it has been a great success. Thank you for this opportunity to detail some our challenges.

For the past seven years, STEP has been an essential component of our international trade program. With this funding, we have worked with businesses now realizing success in global markets, reflected in two record-breaking years of exports: $5.1 billion in 2017 and $5.3 billion in 2018.

However, our office is burdened by:

- **The 50 percent requirement of the project director's time spent on the grant is unrealistic, given the way a state lays out its STEP activities and non-STEP services to businesses.** While this was somewhat amended in Years 6 and 7, when states with overlapping grant years were allowed to spend 25 percent of the director's time for each grant year, for a total of 50 percent. This was more reasonable, but should also be applied to those states with a single grant program;

- **State funds matched at 33 percent is challenging for a small state.** In New Hampshire, we have only three staff salaries to meet the match requirement, which limits how much we can request for funding, and limits the implementation of innovative activities to benefit small business exporters;
    - We suggest for those state offices who are proactive; have close working relationships with their USEAC, and implement STEP activities together, to use USEAC time and salaries toward the state's overall match requirement. This would ease some of the match burden, since the larger team can administer the program more efficiently. Ultimately, this encourages state entities to partner with the USEAC creating a more productive partnership.

- **Inability to use travel funds to cover USEAC travel** costs. Our state has a robust partnership with the NH-USEAC, which has a significant role in implementing our STEP activities. If we could use STEP travel funds to cover that cost of USEAC members traveling to tradeshows/trade missions, we could alleviate the administrative and implementation burden on our small staff.

- **The disconnect between the content of the requirements for applications and the impact a program can bring to its exporting community**. There are questions about how the state applications are reviewed and ranked; however, discussions initiated by the states with STEP program leadership have created more confusion for the applicants. The emphasis on certain measurements takes away from the design of a program that addresses the needs of the businesses and involves an ecosystem of support.

- **Obstacles to reporting.** Although there has been some reduction in the forms needed for quarterly reporting, the frequency of reporting remains challenging because many results are not tangible in the earlier quarters. We suggest changing the reporting frequency from three to six months, giving time for more measurable results from companies who may not access these numbers in the first two quarters.

- **Consistency by grant managers.** Explanations and interpretations of rules and the application of them can differ greatly between grant managers, often leaving state directors relying on each other for clarification and the development of a best practice.

- **Increasing data requirements and changes in support levels.** While data collection is needed to assess the impact of STEP on the exporting community, there has not been clarity on some of the data points, which if followed as prescribed by the grant managers and leadership, can lead to double counting of results, skewing the impact of STEP. Also, the frequent changes in monetary caps for eligible reimbursement expenses from year to year could soon leave businesses with the impression the support is not worth the effort of accessing the grant.

- **Frequency of submitting revised forms for activity amendments.** If a state realizes a STEP activity needs to be restructured or eliminated due to lack of interest or performance, and has an alternate use of the funds, then it should be able to submit notice of the change to the grant manager one time. The experience to date has been to submit several revisions.

Since the inception of the STEP program, New Hampshire's economy has benefitted greatly and we want to see that continue. Any assistance you can provide that would ease some of the administrative burden, without sacrificing the program's integrity and mission, is greatly appreciated and enables us to continue aiding our companies in reaching global markets.

Sincerely,

Tina Kasim

CC: U.S. Senator Jeanne Shaheen
Taylor Caswell, Commissioner, Department of Business and Economic Affairs

State of New Jersey
DEPARTMENT OF STATE
BUSINESS ACTION CENTER
P.O. Box 820
Trenton, NJ 08625

PHILIP D. MURPHY
Governor

SHEILA Y. OLIVER
Lt. Governor

TAHESHA WAY
Secretary of State

March 27, 2019

The Honorable Marco Rubio
Chairman
Committee on Small Business
& Entrepreneurship
United States Senate
Washington, DC 20510

The Honorable Benjamin L. Cardin
Ranking Member
Committee on Small Business
& Entrepreneurship
United States Senate
Washington, DC 20510

Dear Chairman Rubio and Ranking Member Cardin:

I write to you today to express the State of New Jersey's strong support for the State Trade Expansion Program (STEP) at the U.S. Small Business Administration (SBA). As you are working on future funding and continued success, as the program moves forward, I ask that the committee consider a revision to the administrative burden placed on the awardees.

New Jersey has been very fortunate to receive a STEP grant every year it has applied. Further, New Jersey has received an increase in funding in all but one year. Since the beginning of the NJ-STEP in 2012, New Jersey has absorbed all administrative costs associated with the operation of the NJ-STEP program which has allowed us to award 100% of funds received from the SBA each year directly to New Jersey exporters. Our program now consistently ranks as one of the top five amounts awarded by SBA.

However, the success of our program has exponentially increased the administrative tasks of the NJ-STEP team. As an example, the multi-year quarterly reporting due SBA and multi-year quarterly data collection outreach to STEP participating exporters are producing report exhaustion for all involved with NJ-STEP. We appreciate SBA attempting to alleviate some of the reporting requirement by changing the grant cycle from one (1) year to two (2) years, but fear this may have the unintended consequence of doubling the reporting requirements as grant cycle years begin to overlap.

Again, I strongly support the STEP grant program and ask the committee to consider revisions to the administrative burden placed on the awardees. Thank you for your consideration.

Sincerely,

Eddy S. Mayen
NJ-STEP Project Director
New Jersey Department of State
Business Action Center

The Honorable Marco Rubio
Chairman, Committee on Small Business & Entrepreneurship

The Honorable Ben Cardin
Ranking Member, Committee on Small Business & Entrepreneurship

United States Senate
428A Russel Senate Office Building
Washington, D.C. 20515

April 1, 2019

Dear Chairman Rubio and Ranking Member Cardin,

As the recipient of the SBA STEP grant for the past seven years, the Chafee Center at Bryant University has been able to assist over 150 Rhode Island small businesses with their export activities. The STEP grant has played an important role in supporting Rhode Island's growing economy and we very much appreciate the support of the U.S. Small Business Administration and Congress in making the STEP grant available year after year.

Each year we recognize the efforts on behalf of the SBA to improve the efficiency and effectiveness of the grant. However, the administration of the grant and the increase in reporting requirements is burdensome and detracts from the time spent actually working with the small business community.

We would like you to consider several recommendations that could help improve the administration of the grant.

1. **Workload has doubled:** STEP has been approved as a two year grant but the funding is only approved on an annual basis. For grant recipients that have received new grants each year, they are now managing two grants at the same time, requiring two sets of quarterly reports every quarter. If the federal funding could be budgeted for a two year period to match the STEP grant period, this would greatly reduce the reporting process and would also reduce the need to be submitting a new application each and every year. If two year funding is not possible, perhaps STEP should go back to being a one year grant period.

2. **Repetitive and Difficult Reporting:** It would be very much appreciated if the reporting documents could be linked so that the same information does not have to be repeated multiple times. An on-line database could be an ideal solution to this in order to track the companies and all the data we are required to report. Additionally, several of the forms are not intuitive and overcomplicate the reporting of relevant information.

3. **Forecasting/Budgeting:** Trying to accurately forecast in advance what requests for STEP funding will be received on a quarterly basis by specific activity, number of new exporters, number of market expansion exporters, etc. is almost impossible. The quarterly reporting process measuring results

JOHN H. CHAFEE CENTER FOR INTERNATIONAL BUSINESS
Bryant University • 1150 Douglas Pike • Smithfield, RI 02917-1284 • (401) 232-6407 • Fax (401) 232-6416

against these goals is difficult to manage, update and track and does not properly reflect overall performance based on the Milestone Goals. Perhaps it would be better to report activities and results (i.e. export sales) by quarter, but measure the cumulative totals against the annual goals, rather than quarterly. Too much time is being spent explaining why only 5 companies participated in a trade mission, rather than the 6 that were budgeted for a year in advance.

4. **Approved Activities**: There is a lack of clarity on what is an approved activity, and understanding the descriptions provided for in the STEP grant have become overcomplicated and somewhat arbitrary. The guidelines, for instance, for International Marketing Materials continues to change, be redefined and limited to the point that it is almost not worth providing for the in grant.

Thank you taking these comments into consideration! We look forward to continuing to provide the benefits of the STEP grant to our local businesses and continuing to grow Rhode Island's exports!

Sincerely,

Linda Woulfe

Linda Woulfe
STEP Project Director
The Chafee Center for International Business
Bryant University
Smithfield, RI

WORLD TRADE CENTER®
UTAH

April 2, 2019

The Honorable Marco Rubio
Chairman
Committee on Small Business and Entrepreneurship
United States Senate
Washington, DC 20515

Dear Chairman Rubio,

I write to you today to express my strong support for the State Trade Expansion Program (STEP) grant program at the U.S. Small Business Administration.

For Utah, the STEP grant program has been vital in our ability to get more small businesses to start or expand their exports. We have a very strong sense of stewardship over the use of these funds and are doing everything we can to maximize the return on the investment U.S. taxpayers are making to grow American small-sized businesses.

In FY18, we assisted 45 companies with $333,000 in STEP grants to expand into new international markets, which resulted in nearly $30 million in new trade opportunities for these companies. These new exports will help create or support new jobs for the years ahead. In an ever-increasing competitive global economy, the STEP grant program ensures that our small businesses have the opportunity to expand their markets, grow their business, and create new jobs.

As you and the Committee on Small Business and Entrepreneurship explore ways to refine and improve the STEP program, I wanted to highlight a few small administrative tweaks that could help streamline the process, reducing administrative costs and increasing the funding available to companies, thereby maximizing the return on investment the STEP program generates. One administrative burden is not knowing a specific date of the application and when the grant will be awarded. This makes future planning of international activities (i.e. trade shows) more difficult. Another administrative burden is the high level of administrative tasks (i.e. project-revenue management), which in turn reduces the amount of time available to work with the small businesses. The time spent on administrative tasks should be used towards meeting with small businesses, preparing them for international activities, and providing more training in going international.

Thank you for your committee's support and for your public service.

Sincerely,

Miles Hansen
President & CEO
World Trade Center Utah

VEDP | International Trade
ExportVirginia.org

March 29, 2019

The Honorable Marco Rubio
Chairman, Committee on Small Business & Entrepreneurship
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Rubio,

The Commonwealth of Virginia, through the Virginia Economic Development Partnership (VEDP), is a current State Trade Export Program (STEP) grant recipient. VEDP recruits companies to apply for the STEP grant and administers their application, participation, and reimbursement for eligible activities. The STEP grant is administered and funded, in part, by the U.S. Small Business Administration. The significant benefit of the STEP grant in Virginia is the unique financial assistance it provides for small business exporters to travel to international markets to meet and develop essential relationships with prospective buyers or partners. This type of financial assistance is not otherwise available to small businesses in Virginia. While STEP offers this valuable financial assistance, the administrative and procedural burdens are significant and offer great opportunity for improvement.

Please consider the following challenges we face in administering the STEP Grant:

- **Reporting Requirements:** The quarterly reports for the STEP grant are overly detailed and onerous. Requests for data are duplicated across multiple documents. During an award period, SBA changes the report forms and the type of information it requires, which requires states to change their data intake. Forms should stay consistent from the onset of the STEP award and only be changed in a subsequent award period. Additionally, training on revised forms and report requirements is not provided to states. Often, SBA's report documents are corrupted or not properly configured, making reporting a challenge.
- **SBA Interaction:** When VEDP has requested information or clarification from SBA regarding grant components and match information, information is not received in a timely manner. In contrast, when SBA requires information or changes to documents for its purposes, states are expected to complete the requests as soon as possible.
- **51% Content Clause:** STEP's enforcement of a 51% domestic content clause has resulted in a reduction in recruitment because there is no framework whereby small business owners can calculate their products' content. Small businesses are required to certify that they meet this requirement, but they are often intimidated as there are no clear guidelines to clarify what they are certifying. Virginia's ability to recruit for STEP has been significantly affected because there are no guidelines provided to companies with respect to this rule.

VEDP | International Trade

- **Inconsistent and Non-transparent Processes:** The SBA does not disclose the evaluation process by which states are judged when awarding grants. To allow states to put forth their best possible grant proposals, the SBA should inform applicants of the evaluation criteria.
- **Performance Measures:** The SBS does not follow industry standards with regard to the use of appropriate performance measures. A conclusive report on performance measures for U.S. state international trade development programs was issued by the State International Development Organizations (SIDO) in August, 2018. The SBA should align performance measures of the STEP grant to these industry standards or, alternatively, to the performance measures used by the U.S. Department of Commerce as the USDOC has experience evaluating international trade outcomes.

Thank you for your attention to our concerns regarding the STEP grant and I look forward to answering any questions regarding the U.S. SBA STEP grant.

Best regards,

Paul Grossman, Jr.

Paul Grossman, Jr.
Vice President of International Trade
Virginia Economic Development Partnership