

**EFFORTS TO ASSIST SMALL BUSINESSES
COMPETE IN INTERNATIONAL TRADE**

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January 29, 2007



MEMORANDUM

U.S. Small Business Administration
Office of Inspector General

To: Manuel A. Rosales
Associate Administrator for International Trade
Date: January 29, 2007

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Efforts to Assist Small Businesses Compete in International Markets

This report presents the results of our survey of the Small Business Administration's (SBA) international trade facilitation activities that was conducted in response to a request from three members of Congress, including the former chairman of the U.S. House of Representatives Small Business Committee. The objectives of our survey were to assess the extent to which SBA is (1) conducting information-gathering activities with U.S. small businesses to identify key international trade constraints and working with U.S. Trade Representatives to secure relief from these constraints; (2) disseminating trade promotion information and business leads; (3) facilitating business matchmaking and developing business leads; and (4) accurately presenting annual accomplishments and upcoming annual international trade plans in the National Export Strategy presented to Congress.

To accomplish our objectives, we interviewed officials from SBA's Office of International Trade (OIT) and reviewed pertinent sections of the Small Business Act, *The 2006 National Export Strategy*, OIT program performance data published in SBA's *Fiscal Year 2005 Performance and Accountability Report*, and other materials provided by OIT and maintained on its Web site. Our survey was performed from September to December 2006. You and your staff reviewed a draft of this report and agreed with its content and recommendations.

BACKGROUND

The Small Business Act (the Act) gives SBA a broad mandate to act in cooperation with the Department of Commerce and other relevant State and Federal agencies to enhance the ability of small businesses to compete in international markets. The Act stipulates that the Department of Commerce is the principal Federal agency for trade development and export promotion and that SBA and the Department of Commerce should work together to advance joint interests.

SBA, through OIT, supports small business international trade development by working in cooperation with other Federal agencies and public- and private-sector groups to encourage small business exports and assist small businesses seeking to export. OIT directs and coordinates SBA's export initiatives through its district offices, 15 U.S. Export Assistance Centers (USEAC) currently staffed with SBA representatives, and a variety of service-provider partners such as Small Business Development Centers and the Service Corp of Retired Executives. The primary service delivery functions of OIT are export finance, international trade counseling and training, and export promotion.

For Fiscal Year (FY) 2006, SBA reported that it made 3,304 international trade finance loan guarantees for approximately \$1.03 billion; counseled 3,521 small businesses on trade; trained and provided technical assistance to 5,960 small businesses on export financing and technical assistance; trained 2,853 lenders on export financing; and counseled 1,990 banks on export financing. For FY 2006, OIT received approximately \$6 million in funding for salaries and administrative expenses. OIT's export finance programs are administered under SBA's 7(a) and 504 loan programs.

RESULTS IN BRIEF

SBA has, in the general course of its work, identified key international trade constraints confronting small businesses seeking markets abroad for their products and services, but has not attempted to formally survey small businesses. SBA looks to the Department of Commerce as the Federal government's lead agency in disseminating trade promotion information, developing business leads, and facilitating business matchmaking for all sizes of U.S. businesses. Consequently, SBA has focused its modest resources on assisting small businesses mostly with export finance assistance. Finally, although SBA is a member of the Trade Committee, it plays a limited role, has a minimal share of the total budget authority as compared with other members, and does not have its annual accomplishments and upcoming trade plans sufficiently described in the Trade Committee's most recent annual strategic document, *The 2006 National Export Strategy*. This report should incorporate the Agency's progress in meeting specific international trade performance goals discussed in its annual *Performance and Accountability Report (PAR)*.

Identification and Amelioration of Key International Trade Constraints

SBA had not surveyed small businesses or conducted any other structured information-gathering activities to identify key international trade constraints that U.S. small businesses face. However, through the work of SBA representatives in the USEACs, and by serving with other Trade Promotion Coordinating Committee members on government export panels and attending various conferences, SBA has identified 15 international trade issues faced by such small businesses seeking markets abroad for their products and services. According to the Associate Administrator for International Trade, those issues are:

- Protection of intellectual property rights;
- Efficient and accessible dispute settlement procedures;
- Access to e-commerce;

- Participation in government procurement;
- Transparency;
- Technical qualifications/standards in the service sector;
- Tariffs;
- Apprehension (fear of unknown, language barriers etc.);
- Complacency (size of domestic market);
- Technical expertise;
- Opportunity cost;
- Contacts;
- Financing (access to capital);
- Competition from low wage countries; and
- Foreign export subsidies.

SBA has also worked in a subordinate role in trade negotiations with the Office of the U.S. Trade Representative (USTR) to reduce constraints faced by small businesses. For example, a former SBA employee was detailed to the USTR for 3 years to work on small business issues. The SBA employee created a small business component within the office of the USTR and participated in negotiations to create the Central America Free Trade Agreement and the Africa Growth and Opportunity Act. Collectively, these efforts helped ameliorate certain international trade constraints faced by small businesses, but the results are difficult to measure. The employee, however, left the Agency in September 2006, and SBA has not replaced him.

According to the Associate Administrator for International Trade, if the detailed employee were to be replaced, the incumbent would need to have strong negotiating skills, be well-versed in small business issues relating to trade and investment, and be able to represent the small business exporter community in free trade agreements. Furthermore, to most effectively meet the Small Business Act mandate of ensuring that the interests of small businesses are adequately represented in bilateral and multilateral trade negotiations, the Associate Administrator for International Trade said that it is necessary for SBA and the USTR to work together, as there is little that SBA can accomplish in this area by itself.

Dissemination of Trade Promotion Information and Development of Business Leads

SBA currently has representatives co-located with Department of Commerce employees in 15 USEACs nationwide, mostly in larger cities. SBA considers its USEAC representatives, who are international finance specialists, to be the program office's field staff, performing most trade promotion activities for SBA by working with banks and small business exporters or potential exporters. Although it is a coordinated effort and there is some overlap in their responsibilities, the SBA representatives typically handle the "finance side" by working with the banking community and helping small businesses obtain financing for their export operations. Department of Commerce USEAC representatives typically handle the "marketing side," using the Department of Commerce's Customer Relations Group and approximately 160 foreign commercial service officers to identify leads or otherwise assist in removing certain restraints to exporting.

The Department of Commerce is the lead Federal agency for both trade promotion and business lead information for all sizes of U.S. businesses. SBA is mostly responsible for providing technical assistance to small businesses and helping them obtain financing for their export operations. According to program officials, financing is SBA's area of expertise and seems a natural division of responsibility between SBA and Department of Commerce representatives in the USEACs.

SBA published two guides to promote trade for small businesses: *Breaking into the Trade Game: A Small Business Guide to Exporting*, a how-to guide for small businesses considering international markets for their products or services, and *Bankable Deals: A Question & Answer Guide to Trade Finance for U.S. Small Business*, which provides information on export finance and answers some of the questions most frequently asked by existing or new-to-export small businesses. SBA officials told us they used to have other brochures and printed materials promoting small business international trade that were distributed at USEACs, SBA district offices, and Small Business Development Centers. Recently, however, SBA has been taking greater advantage of Web-based resources, with links through OIT's Web site to USEACs, *Trade Mission Online* (a searchable database of exporters), SBA's various international trade loan programs, such as Export Express and the Export Working Capital Program, and other Web resources.

Finally, SBA engages in other trade promotion activities and provides assistance to small businesses by hosting seminars with state agencies, video-conferencing with government officials in other countries, and participating on panels hosted by various agencies. It has also developed an export trade assistance training program (commonly referred to as E-TAP), and conducted 30 such programs in FY 2006 with 561 small businesses.

Facilitation of Business Matchmaking

According to the Associate Administrator for International Trade and a USEAC representative with whom we spoke, the Department of Commerce is the lead agency with respect to matchmaking activities. SBA does not actively engage in international business matchmaking, although it sometimes assists foreign trade missions that come to the United States looking for trading partners. For example, if a group of importers from Romania is interested in buying products from small businesses in Boston, SBA might facilitate introductions with officials from its Massachusetts District Office who, in turn, would make introductions for the Romanian businesspersons with Boston area exporters. However, SBA does not maintain data on such matchmaking activities. The Associate Administrator for International Trade told us he would like OIT to have an electronic matchmaking service through OIT's Web site, which would match exporters with importers, but creating such a portal is expensive and currently SBA does not have the financial resources needed to develop this portal. The Associate Administrator for International Trade said that he has considered entering into a cosponsorship agreement with a private-sector partner to develop a matchmaking system. He also said his office would want to cooperate with the Department of Commerce so as not to duplicate their Web-based matchmaking efforts.

Presentation of SBA Annual Accomplishments and Plans in the National Export Strategy

SBA is one of 19 agencies that form the Trade Promotion Coordinating Committee (Trade Committee), an interagency group chaired by the Secretary of Commerce that seeks to provide a unified framework to coordinate the export promotion and financing programs of the U.S. government. The National Export Strategy is published annually by the Trade Committee and is meant to be a comprehensive, strategic plan for implementing such programs.

Although SBA is one of five core agencies on the Trade Committee, for FY 2006 it only accounted for approximately .4 percent (\$6 million out of \$1.5 billion) of the Federal Government's trade promotion budget authority for FY 2006. (The Department of Agriculture, at \$769 million, and the Department of Commerce, at \$335 million, accounted for the majority of the program budget authority in FY 2006.) Consequently, SBA is not figured prominently in *The 2006 National Export Strategy*, being mentioned on only 6 pages in the 70+ page report. This report also does not present all of SBA's annual accomplishments or mention upcoming annual international trade plans. Rather, it describes some of SBA's recent international trade initiatives and outlines the resources SBA provides through its Web site and various partners, such as private lending institutions, Small Business Development Centers and the Service Corp of Retired Executives. By describing the past year's accomplishments, *The 2006 National Export Strategy* is backward-looking and not a forward-looking strategic document, unlike OIT's "Business Plan" for FY 2007.

We reviewed OIT's FY 2007 Business Plan, which contains eight objectives for the agency to accomplish for the fiscal year. Two such objectives, for example, are to provide international trade training and trade finance support to small businesses, and to build and maintain effective inter-agency, international, and private-public working relationships. The OIT Business Plan also contains several "focus initiatives" for 2007, such as advancing U.S. concerns about intellectual property rights infringement and working with Chilean counterparts and the American Chamber of Commerce in Chile to create a program for small business procurement. However, none of these OIT Business Plan objectives or focus initiatives is integrated into the National Export Strategy.

Furthermore, the National Export Strategy could be a more definitive strategic document if it incorporated SBA's and other agencies' progress in meeting specific international trade performance goals discussed in annual *Performance and Accountability Reports* (PAR). For example, SBA reported in its *Fiscal Year 2005 Performance and Accountability Report* its progress in meeting goals it established for the value and number of international trade loans it approved and funded, the number of small businesses it assisted with international trade, the number of lenders the Agency trained, the value of export sales financing, and the number of attendees trained and clients counseled in international trade technical assistance. However, *The 2006 National Export Strategy* does not report progress against such goals or indicate how SBA's performance on its international trade promotion activities integrates with the activities of other Trade Committee agencies in promulgating a coherent government-wide strategy.

RECOMMENDATIONS

To strengthen SBA's trade facilitation activities and enhance inter-departmental coordination, we recommend that SBA's Associate Administrator for International Trade:

1. Work with the USTR to fill, on a permanent basis, a vacant SBA position assigned to USTR to ensure that small business trade constraints continue to be communicated to USTR negotiators in an effort to secure needed relief in new multilateral and bilateral trade agreements.
2. Work with other Trade Committee member agencies to ensure greater integration with the National Export Strategy of performance measures for international trade activities as reported by those agencies in their respective *Performance and Accountability Reports*.
3. Develop a plan to create an electronic matchmaking portal through OIT's Web site, which would match U.S. small businesses seeking export markets with importing concerns abroad.

SBA COMMENTS AND OIG RESPONSE

OIT suggested minor edits to the draft report, and agreed with the report's recommendations.

For Recommendation 1, OIT noted that filling the position at USTR would require a determination by the Office of Human Capital Management as to whether such action would require a new hire or a directed reassignment for a current SBA employee. OIT further noted that determining these issues can be accomplished by February 10, 2007.

For Recommendation 2, OIT noted that officials recently attended a meeting at the Department of Commerce to address issues related to the National Export Strategy. At the meeting it was decided that the Department of Commerce would let TPCC member agencies know by February 16, 2007 of directives and changes in focus for the 2007 National Export Strategy.

For Recommendation 3, OIT noted that it has initiated relationship-building with private sector and other government and non-government associations to explore the potential for international business matchmaking. Also, OIT noted that it has received indications of interest to network various databases from roughly 33 countries, and will continue moving forward with this initiative in 2007.

We believe OIT's responses adequately address the recommendations.

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We appreciate the courtesies and cooperation of OIT representatives during this audit. If you have any questions concerning this report, please call me at (202) 205- [Exemption 2] or Jeff Brindle, Director, at (202) 205- [Exemption 2].

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