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Testimony

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EXPORT PROMOTION

Status of SBA Programs

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our preliminary observations on the export promotion activities of the U.S. Small Business Administration (SBA). These observations are based on the work we are currently conducting on governmentwide export promotion activities for Representative Doug Barnard, Chairman of the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Government Operations Committee; and Representative Frank Horton, Ranking Minority Member of the House Government Operations Committee.

Among the issues we identified are the following:

- SBA export promotion programs lack a strategic focus, and it is not clear how highly export promotion ranks among the Agency's priorities.
- SBA may be overstating the extent to which its finance programs help U.S. companies export.
- SBA has not widely utilized its principal export finance program, the Export Revolving Line of Credit (ERLC).

## BACKGROUND

The Department of Commerce is the lead agency for export promotion in the federal government. However, 10 other federal agencies, including SBA, also spend money on programs intended to help U.S. businesses export. The Omnibus Trade and Competitiveness Act of 1988 reaffirmed Commerce's lead role in this area but also gave SBA additional export promotion responsibilities.

Overall, the amount of resources SBA spends on export promotion is small relative to the total amount of money SBA spends to assist small businesses and relative to the amount the federal government as a whole spends on export promotion. Our current estimate is that in fiscal year 1991 SBA spent about \$3.7 million on its export promotion programs out of a total budget of \$486 million and issued about \$123 million in loans and export credit guarantees to exporters, out of about \$4.3 billion in loans and credit guarantees to small businesses. We estimate that the other 10 agencies spent approximately \$2.6 billion for export promotion and issued about \$16 billion in export loans, export credit guarantees, and insurance.

While SBA spends relatively few resources on export promotion, the scope of SBA programs is quite broad. SBA's export assistance includes counseling, training, guaranteeing financing and making loans, hosting regional and national export conferences, and

subsidizing small business participation in Commerce-sponsored trade missions.

SBA delivers this assistance through a large network, consisting primarily of 10 regional and 68 district offices and about 700 Small Business Development Center locations. Centers receive program funding from both federal and nonfederal sources and operate on the basis of annual cooperative agreements with SBA. Under the Small Business Development Center program, about 57 centers and about 650 subcenters operating in 50 states deliver a wide variety of services to small businesses, including export assistance. SBA has designated about 20 of these centers as international trade centers. International trade centers specialize in giving counseling and training in exporting. SBA also provides some export assistance through its Service Corps of Retired Executives, Small Business Institute, and Export Legal Assistance Network programs.

#### SBA EXPORT PROGRAMS LACK FOCUS AND A CLEAR PRIORITY

It appears that SBA has not explicitly identified the target group of exporters it hopes to help. We will address this issue in more detail in our final report. We are in the process of surveying the Small Business Development Centers' international trade centers to determine the extent to which they are targeting their services.

Effective export promotion programs have to be focused in a number of ways. To be effective, an agency involved in export promotion should identify the unmet needs of its client population, the activities that are appropriate for the government to undertake, the activities that will return the greatest benefit to the taxpayers, and the activities that the agency can best provide.

The Department of Commerce recently completed a strategic review that focused on these goals. It learned that an export assistance strategy based on a firm's experience level is more useful than a strategy focused on an exporting company's size. Commerce determined that the "infrequent exporter" was the best candidate to benefit from its programs. An "infrequent exporter" is a company that has some export experience but still needs assistance to increase the size of its export market or to expand into new ones. Consequently, Commerce is attempting to restructure its programs to better meet the needs of the infrequent exporter. Programs that do not help this type of client are being eliminated or deemphasized. In contrast, SBA's export programs have not been focused to maximize their effectiveness. SBA is still trying to be all things to all exporters.

Our concern over SBA's lack of focus is reinforced by the findings of a 1990 SBA study. The SBA study was based upon information collected from small businesses and SBA and other federal agency officials by all of the SBA's 10 regional and 68 district offices.

Participants in the study suggested, among other things, that SBA needs to be more active in the "identification" and "targeting" of potential exporters as well as in providing basic "how-to-export" assistance to small business. Participants also mentioned the need for government export assistance programs to more clearly differentiate between the needs of experienced and inexperienced exporters.

SBA is an agency with a domestic orientation and many competing priorities. These important concerns include veterans affairs; women's, rural, and minority business development; and disaster assistance. SBA says that export promotion is a top priority; however, less than 1 percent of its fiscal year 1991 expenditures were devoted to export promotion. Furthermore, SBA's financial assistance to exporters has historically represented less than 1 percent of the Agency's overall financial assistance to small businesses even though reported program activity jumped sharply in fiscal year 1991. SBA has so many priorities that it is unclear how it has ranked its priority for export promotion.

#### EXPORT FINANCING PROGRAMS ARE LITTLE UTILIZED

Between fiscal years 1983 and 1991, SBA approved about \$22 billion of loans and credit guarantees to small businesses, of which about \$304 million were loans and credit guarantees to exporters. Of the \$304 million, about \$123 million (40 percent) was provided in

fiscal year 1991. However, of the \$304 million, only about \$71 million can be classified unequivocally as assistance for exporting. This \$71 million was granted under a SBA program created to directly support exports.

The balance of funds that SBA categorizes as "export-related financing" is not necessarily related to exports. It represents all SBA loans and guarantees extended to small businesses who report that they are exporters. There is nothing about such credit assistance that requires companies that borrow this money to use it for export purposes. Nevertheless, SBA classifies these types of loans and guarantees as export related even though it has no assurance that the credit assistance is actually being used to help small businesses export. The volume of financing reported as having been extended to exporters jumped sharply in fiscal year 1991 to \$123 million for the fiscal year. This \$123 million is more than half of the \$181 million in loans and guarantees issued during the previous 8 years. This sharp increase coincided with an SBA directive to its loan officers in the field to be sure to check the exporter box on loan documents in cases in which the the credit assistance is extended "for any purpose to firms presently engaged in exporting or to firms using any part of loan proceeds for developing and establishing export markets."

## ERLC PROGRAM IS NOT WIDELY UTILIZED

SBA's principal export finance program is the Export Revolving Line of Credit program. Under ERLC, SBA guarantees repayment of loans made by financial institutions to small businesses for export-related purposes. These purposes include financing working capital needed to manufacture products for export, to purchase goods or services for export, to develop foreign markets, or to finance foreign accounts receivables. The maximum amount of an ERLC guarantee is \$750,000. These funds may not be used to pay existing obligations or to purchase fixed assets.

In fiscal year 1991, SBA made about \$26 million in guarantees under ERLC, compared with about \$45 million for the previous eight years of the program's existence. The fiscal year 1991 guarantees were provided to 70 borrowers. SBA officials acknowledge that the ERLC program has been little utilized. Based on a review of SBA documents and interviews with SBA officials, we believe several reasons account for ERLC's low utilization.

- Many SBA loan officers are not experienced in international finance and have received insufficient training to properly use ERLC.
  
- SBA has not adequately marketed the program to bankers and the small business community.

-- The small average size of an ERLC guarantee (\$289,000) and the small profits associated with financing smaller transactions have discouraged financial institutions from actively using the program.

Recognizing these and other weaknesses in the ERLC program, SBA recently attempted to restructure it, making program changes such as extending the maximum term of the loans from 18 months to 3 years. The jump in program volume in fiscal year 1991 reflects these efforts.

In addition, SBA designed a pilot program to be tested at four sites. This pilot, although different at each site, would consist of four key elements: increased training of SBA staff, improved marketing efforts, streamlining of application procedures, and greater cooperation with state export finance agencies. However, the status of the pilot is now uncertain because implementation is on hold pending further review by the new SBA Administrator.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to try to respond to any questions the Subcommittee may have.

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