United States General Accounting Office

GAO

Testimony

Before the Subcommittee on the Development of Rural Enterprise, Exports, and the Environment, Committee on Small Business, House of Representatives

For Release on Delivery
Expected at
1:00 p.m., EDT
Wednesday,
April 28, 1993

EXPORT PROMOTION

Improving Small Businesses' Access to Federal Programs

Statement of Allan I. Mendelowitz, Director
International Trade, Finance, and Competitiveness Issues
General Government Division

GAO/T-GGD-93-22

EXPORT PROMOTION:
IMPROVING SMALL BUSINESSES' ACCESS TO FEDERAL PROGRAMS

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES
GENERAL GOVERNMENT DIVISION

GAO's testimony addresses the need for a governmentwide export promotion strategy and discusses funding for federal export promotion programs, the delivery of export promotion services, the Export Enhancement Act of 1992, the status of federal efforts to help small businesses export, and ways in which small companies' access to these programs might be improved. The testimony focuses on the role the Small Business Administration (SBA) plays in these efforts.

The U.S. government devotes significant funds to export promotion programs. However, the programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurances that their money is being effectively used to emphasize sectors or programs with the highest potential return.

The Export Enhancement Act of 1992 (P.L. 102-429) incorporated GAO's recommendations for mandating the Trade Promotion Coordinating Committee (TPCC), an interagency group created to improve federal export promotion efforts, to (1) devise a governmentwide strategic plan to promote exports and (2) propose to the President an annual unified federal budget for export promotion that would be consistent with priorities established in the strategic plan. However, there has not been sufficient time for TPCC to implement its new mandate.

Small- and medium-sized firms face barriers to exporting, including limited access to federal export promotion programs. The Small Business Administration provides a wide range of export promotion services, including export counseling and export finance assistance, but devotes few funds and staff to export promotion. SBA's export promotion programs suffer from significant program weaknesses. SBA's export counseling is unfocused, and SBA has not widely used its principal export finance program. In addition, management responsibility for SBA's export promotion programs is split between several different offices.

In a previous report, GAO proposed a "one-stop shop" pilot program for partially integrating the delivery in the field of federal export promotion programs--including SBA's export promotion programs. The one-stop shops would be able to provide at a single location the full range of export promotion assistance. Such a program would be especially beneficial to small- and medium-sized firms.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here to testify before this Subcommittee on the federal government's export promotion programs. My testimony is based primarily on GAO reports and testimony issued in the past year. Today, I will discuss the lack of coherent funding for federal export promotion programs, the need for a governmentwide export promotion strategy, and the importance of the Export Enhancement Act of 1992. I also will discuss the status of federal efforts to help small businesses export, focusing on the role the Small Business Administration (SBA) plays in these efforts, and present ways in which small companies' access to these programs might be improved.

BACKGROUND

Programs to help companies sell products abroad are called "export promotion" programs. These programs include providing export financing assistance, offering business counseling, developing and distributing market research information, conducting training, and organizing trade missions and fairs. Most industrialized nations have export promotion programs.

Export promotion programs can help increase a country's exports in sectors of the economy in which the country is competitive. However, export promotion programs alone will not produce a substantial change in a country's balance of trade. The trade balance is determined primarily by the macroeconomic policies of a country (and its trading partners) and the underlying competitiveness of the country's industries.

Currently, the U.S. government's export promotion services are fragmented among 10 agencies. The agencies with the most significant programs are the Departments of Agriculture (USDA) and Commerce, and the U.S. Export-Import Bank (Eximbank).

U.S. EXPORT PROMOTION PROGRAMS LACK COHERENT FUNDING

One of our major concerns about federal export promotion programs is how their funding levels are determined. Although the U.S. government devotes significant funds to export promotion programs, we believe the programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurance that their money is being effectively used to emphasize sectors or programs with the highest potential returns.

In January 1992, we reported that in fiscal year 1991,[1] federal government spending for export promotion programs totaled almost

---

[1]Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

$2.7 billion. In addition, the government approved about $12.8 billion in export loans and guarantees and extended about $8.6 billion in export credit insurance. Commerce, USDA, and Eximbank together accounted for about $2.5 billion of the spending and about $16.9 billion of the export financing assistance.

One consequence of the lack of a governmentwide strategy has been that most of the money available for export promotion has gone to USDA, even though agricultural products account for only about 10 percent of total U.S. exports. In fiscal year 1991, USDA spent about $2 billion on export promotion--about 74 percent of total spending--and issued about $5.7 billion in loans and guarantees--approximately 45 percent of total export loans and guarantees.

One USDA program alone, the Market Promotion Program (MPP), received more funds in fiscal year 1991 ($200 million) than was spent by the Commerce Department on all its export promotion programs put together in that year. From fiscal year 1986 through fiscal year 1993, over $1.25 billion has been authorized for MPP and its predecessor, the Targeted Export Assistance program. Moreover, about 40 percent of the money spent by MPP goes to promote brand-name products, some of which are produced by multinational companies with extensive experience doing business in other countries. Companies receiving MPP funds to promote their products overseas from 1989 to 1991 included Blue Diamond, which obtained $22.7 million to promote the sale of walnuts and almonds; Sunsweet Growers, which got $10.5 million to promote the sale of prunes; Gallo, which received $8.1 million to promote the sale of wine; and McDonald's, which got $1.2 million to promote the sale of poultry and eggs. The administration has requested $147.7 million for MPP for fiscal year 1994, the same amount as was authorized for fiscal year 1993.

In contrast to USDA's spending on export promotion, the Department of Commerce, the lead agency for promoting nonagricultural exports, has very limited funds. In fiscal year 1991, Commerce spent about $91 million to support exports of nonagricultural products through its U.S. and Foreign Commercial Service (US&FCS). The money was spread among US&FCS's network of 131 posts in 67 countries and 47 domestic offices. In fiscal year 1991, US&FCS was able to devote only about $4.3 million to support the work of its overseas commercial staff in Japan, one of the U.S.' most important foreign markets. USDA budgeted $63.9 million for its fiscal year 1991 MPP activities in Japan.

GOVERNMENTWIDE EXPORT PROMOTION STRATEGY IS LACKING

One of the reasons why there is no coherent funding for export promotion programs is because no single budget category exists to cover all of the government's export promotion programs. Thus, export promotion funding at an agency must compete for funding with other types of programs in the agency rather than with export promotion programs elsewhere in the government. For example, the USDA's export promotion programs compete for funding with other USDA programs, such as the Rural Electrification Administration and the Extension Service, rather than with the Commerce Department's export promotion programs.

In an effort to try to unify and streamline federal export promotion programs, the Bush administration created the Trade Promotion Coordinating Committee (TPCC) in 1990.[2] TPCC, an interagency committee chaired by the Secretary of Commerce, has established working groups to study specific export issues, held export facilitation conferences for the U.S. business community, and created a single trade information center to provide information on all federal assistance available to exporters. While TPCC has had some success in improving coordination among different agencies' export promotion programs, it has not been able to address the fundamental issue of the allocation of budgetary support for different agencies' export promotion programs.

THE EXPORT ENHANCEMENT ACT OF 1992

The Export Enhancement Act of 1992 (P.L. 102-429) incorporated our recommendations for requiring TPCC to (1) devise a governmentwide strategic plan to promote exports and (2) propose to the President an annual unified federal budget for export promotion that would be consistent with priorities established in the strategic plan. The Act also gave TPCC statutory responsibility for coordinating export promotion programs. In other words, the Export Enhancement Act provided a statutory basis for TPCC and made it permanent.

As we have previously testified,[3] we believe that successful implementation of this new authority will be the key to defining a stronger, more effective federal role in assisting U.S. exporters. Therefore, we believe that the administration needs to develop a sound strategy and policies for carrying out this responsibility.

---

[2]TPCC is made up of representatives from the Departments of Agriculture, Commerce, Defense, Energy, Interior, Labor, State, Transportation, and the Treasury; the Agency for International Development (AID); the Council of Economic Advisers; the Environmental Protection Agency; the Eximbank; the Office of Management and Budget; the Office of the U.S. Trade Representative; the Overseas Private Investment Corporation; SBA; the U.S. Information Agency; and the U.S. Trade and Development Agency.

[3]Export Promotion: Governmentwide Strategy Needed for Federal Programs (GAO/T-GGD-93-7, Mar. 15, 1993).

Because the Export Enhancement Act did not become effective until October 1992, and because of the change in administrations, there has not been sufficient opportunity for TPCC to implement its new mandate. However, we believe the new administration will need to give priority attention to the Export Enhancement Act of 1992: It requires the TPCC's Chairman to prepare and submit to Congress by September 30, 1993, a report describing the TPCC's strategic plan and its implementation. Therefore, TPCC has only a little over 5 months in which to complete this challenging task.

I would now like to discuss some of the federal programs available to help small- and medium-sized companies export, some of the problems these companies face in accessing these programs, and some possible actions to improve this access.

EXPORT PROMOTION AND SMALL BUSINESSES

There is evidence that a large number of smaller companies have products that are competitive in foreign markets, yet these products are not currently exported. The three primary federal agencies that small companies might approach for export assistance are SBA, US&FCS, and Eximbank. However, the delivery of federal export promotion programs in the field is fragmented, limiting small companies' access to these programs. Moreover, we found that SBA's programs suffer from significant weaknesses.

SBA's Export Promotion Programs

As we reported in September 1992,[4] SBA devotes little money to export promotion relative both to governmentwide spending on export promotion and to the SBA's own budget. As previously noted, in fiscal year 1991, the federal government spent about $2.7 billion on export promotion. In that same year, SBA spent about $3.7 million on export promotion out of a total budget of $486 million. About $1.5 million of this amount went to fund the activities of the agency's Office of International Trade, the office responsible for managing the agency's export promotion activities.

Despite this relatively small amount of money, the scope of the SBA's export promotion efforts is broad and includes counseling, training, export financing assistance, and outreach. In our study, we reported that SBA delivers its export promotion assistance through a large network, consisting primarily of 10 regional and 68 district offices and about 700 Small Business

[4]Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992).

Development Center (SBDC) locations.[5] SBDCs deliver about 70 percent of SBA's export-related counseling and training. We determined that, in 1991, 21 SBDC subcenters specialized in providing international trade assistance. These 21 subcenters received about $1.2 million of SBA funds in fiscal year 1991. SBA also provides some export assistance through its Service Corps of Retired Executives, Small Business Institute, and Export Legal Assistance Network programs.

In fiscal year 1991, SBA issued about $123 million in loans and credit guarantees to exporters out of about $4.3 billion in small business loans and credit guarantees. The SBA's principal export finance program is the Export Revolving Line of Credit (ERLC) program. Under ERLC, SBA guarantees repayment of loans made by financial institutions to small businesses for export-related purposes, such as financing working capital needed to manufacture products for export, or to purchase goods or services for export.

Weaknesses in the SBA's Programs

In our September 1992 report, we found that the SBA's export counseling and export finance programs have significant program weaknesses. Export counseling conducted by SBDCs is unfocused. Most of the 21 SBDC subcenters that specialize in providing international trade assistance do not target firms based on their level of exporting experience or capability.

Contributing to this problem is that SBA is restricted from providing guidance to the SBDCs. SBA's appropriation legislation imposes restrictions prohibiting SBA from setting any new regulations for the SBDC program.[6] We found that this restriction hinders the SBA's ability to establish such guidelines. A further problem arises as well in some cases in

---

[5]SBDCs receive funding from both federal and nonfederal sources and operate on the basis of annual cooperative agreements with SBA. Under the SBDC program, about 57 centers and about 650 subcenters, operating in 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands, deliver a wide variety of services to small businesses, including export assistance.

[6]In the SBA's appropriating legislation for fiscal years 1990 through 1992, Congress mandated that "none of the funds appropriated or made available by this act to the Small Business Administration shall be used to adopt, implement, or enforce any rule or regulation with respect to the Small Business Development Center program...nor may any of such funds be used to impose any restrictions, conditions, or limitations on such program whether by standard operating procedure, audit guidelines or otherwise, unless such restrictions, conditions, or limitations were in effect on October 1, 1987."

which SBDCs could be serving the same universe of clients as is targeted by the Commerce Department's export counseling efforts.

We also found that SBA has not widely used its ERLC program. Between fiscal years 1983 and 1990, SBA approved only 161 ERLC loan guarantees, worth about $45 million. We determined that the principal reasons for this low level of use included (1) insufficient training of SBA loan officers in the techniques of applying the program, (2) inadequate marketing of the program to bankers and the small business community, and (3) lack of interest in the program on the part of lenders due to the small average size of the loans and associated small likely profits. In fiscal year 1991, ERLC usage increased substantially. We believe this jump in program activity reflects efforts SBA made to improve the program. Nevertheless, SBA has not fully implemented a pilot program to increase ERLC usage.

Additionally, we found that responsibility for managing the SBA's export promotion programs is split between a number of different operating units and program offices. As a result, SBA lacks a single focal point for managing its export promotion programs. The SBA's Office of International Trade, although ostensibly responsible for managing the export promotion function at the agency, acts primarily as an internal advocate for export promotion. It does not directly supervise any field staff, and it has no direct authority over field offices' export promotion efforts. These efforts include the SBDCs' export counseling and the export financing assistance provided by loan officers in SBA district offices. This split diffuses responsibility for managing and delivering the SBA's export promotion assistance. Finally, we determined that SBA had not clearly identified which export assistance needs of small businesses it can best meet, nor targeted its export assistance accordingly.

We concluded that, on the whole, these program weaknesses substantially limit the SBA's current ability to provide any export promotion services other than basic outreach and referral. Because SBA officials disagreed with this assessment, however, we suggested that Congress require SBA to (1) more fully identify which export-related needs of small businesses it can best fulfill; and (2) work with the TPCC's small business working group to refocus, if necessary, its export promotion efforts. We also suggested that Congress consider requiring that any national strategic plan for export promotion clearly define what role SBA is to play. We believe the governmentwide strategic plan for export promotion that TPCC is currently developing provides an opportunity to clarify the SBA's role in this area.

DELIVERY OF EXPORT PROMOTION ASSISTANCE IS FRAGMENTED

We found that the delivery of federal export promotion programs in the field is fragmented, and we believe that small- and medium-sized businesses are being hurt by their inability to access such programs at one location.

While each of the three primary agencies that small businesses might approach for export assistance--US&FCS, Eximbank, and SBA--can offer some assistance, none have all the necessary elements to assist small businesses. US&FCS maintains the principal network of government field offices for export promotion assistance (67 offices in the United States). These offices specialize in providing export counseling, market research information, and other export promotion services. Yet the field offices have limited funds and staff to support their operations. Also, the Commerce Department has no export finance programs, and US&FCS field offices cannot approve use of other federal agencies' export finance programs.

SBA has a large field structure and substantial funds devoted to other program areas, as well as authority to give export finance guarantees. Yet the SBA's export promotion efforts suffer from significant program weaknesses. Eximbank has staff expertise in export financing and provides the largest amount of federal export financing. Yet Eximbank has a small staff and a very limited field structure for marketing and delivering its programs.[7]

Because the system is so fragmented, firms needing export promotion assistance often must contact several different federal agencies to get the assistance they need. Contacting multiple offices can leave companies confused as to what services are available, and may discourage some firms from seeking government help to export.

One-Stop Shops for Export Promotion Assistance

In recent years, the idea of creating a field network of "one-stop shops" for all government export assistance programs has emerged as a way to integrate their delivery. In a December 1992 report,[8] we said that our past work suggests that in principle such a network would have several advantages over the current diffused arrangement.

---

[7]Eximbank has recently taken over operations of five regional offices that were formerly administered by a contractor to market the Eximbank's export credit insurance program. Eximbank plans to use the offices to market all of its programs--loans, guarantees, and insurance. For more information on Eximbank's export finance programs, see Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

[8]See appendix I of Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

A network of one-stop shops could be created by (1) co-locating federal, state, and local government field offices for export promotion under one roof; and (2) providing their staffs with the training and authority necessary to supply a full range of services to help companies consummate export sales. These services would include export counseling and training, market- and industry-specific information, and export financing assistance. Staff in each member organization would be trained to know what services the other provides and to ensure that each client receives the help he or she needs.

We believe that a network of one-stop shop field offices likely would improve companies' access to all government export promotion programs. Such a network would reduce to one the number of places companies would have to contact to receive the government export assistance they need. Also, these field offices could eliminate much of the public's confusion about what government services are available. Field office one-stop shops could more easily provide face-to-face assistance, more sustained counseling, and information based on knowledge of local business conditions. Moreover, companies might gain confidence in and thus more likely use government export promotion programs if the programs were supplied by a single, smoothly functioning local source.

Despite the potential benefits, creating a nationwide network of one-stop shop field offices faces obstacles. Executive branch agencies carefully guard their turf. Different agencies that provide export assistance can be expected to resist any major effort to integrate field operations. In addition, agency officials told us that substantial additional funds might be needed to relocate federal offices, or induce nonfederal government organizations to relocate. Money also would be needed to provide staff with the required training and support. Consequently, we believe that in today's tight budget environment more modest attempts may have to be made to improve small exporters' access to federal export financing and other export promotion programs.

A POSSIBLE PILOT PROGRAM

In our December 1992 report, we proposed a pilot program for partially integrating the delivery in the field of federal export financing and other export promotion programs. This pilot would test out the benefits of integrating all government export assistance. Such a pilot could easily integrate the delivery of current export assistance programs provided by US&FCS with those provided by SBA and Eximbank. In the pilot, a small number of loan officers from the SBA's district offices would be stationed at selected US&FCS district offices, so that the field staff of both agencies could jointly provide comprehensive export counseling and export financing assistance.

The selection of pilot sites should be left up to TPCC, SBA, and Commerce. However, based on interviews with Commerce and SBA field staff, we believe that cities that contain large numbers of small- and medium-sized export-capable firms probably should be chosen. Another consideration in picking pilot locations is that in 12 cities, US&FCS and SBA district offices are located in the same building. Including some of these sites in the pilot would minimize the costs of moving staff.

Selecting the right detailees will be crucial to the pilot's success. Having incentives that encourage well-qualified staff to participate in an interagency pilot is important. Often, employees in an agency have little incentive to volunteer to move out of sight of those who supervise and rate them, and the agency has little inducement to encourage them to go. Thus, to assure that well-qualified loan officers volunteer for this assignment, some type of incentive for attracting high-quality staff should be built into the selection procedures. Consideration should be given to awarding detailees temporary promotions or pay increases.

Adequate training also is critical to the pilot's success. Currently, few of the 600 loan officers assigned to the SBA's 68 district offices are experienced in international finance or in using the SBA's ERLC program or the Eximbank's programs. Training should be sufficient to assure that detailees have the expertise to (1) properly use the SBA's export financing programs, (2) market the Eximbank's programs, and (3) provide at least basic assistance on trade finance matters. Ideally, the detailed loan officers should have enough expertise to help companies fill out applications for Eximbank programs or applications for bank export financing.

The results of the pilot should be formally assessed by TPCC, using a uniform methodology at each pilot site. The pilot's impact might be evaluated using a variety of methods, such as tracking financing provided for export sales or surveying clients.

- - - -

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions that you or the Subcommittee may have.

(280052)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.