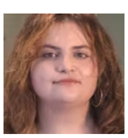
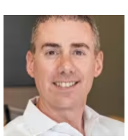
REPORT Published April 16, 2024 • *10 minute read*

How to Triple the Number of Minority Exporters



Rachel Evans
Policy Advisor
@ThirdWayEcon

Imani Augustus
Director of the Alliance for Entrepreneurial Equity
@__ImaniMA



Gabe Horwitz
Senior Vice President for the Economic Program
@HorwitzGabe

More than half of all minority-owned firms in the United States found it challenging to reach new customers and grow their sales in 2023.[1] At the same time, three-quarters of the world's purchasing power and 95% of consumers on the globe live outside of the United States. [2] If policymakers want to help minority-owned businesses thrive, we need to be doing far more to help them tap into export markets.

Expanding into global markets allows businesses across vast industry sectors to diversify their customer base and, ultimately, can be a significant source of revenue. However, too many small businesses and entrepreneurs struggle to export, especially businesses owned by women and people of color. In this report, we explore the current lack of minority exporters and lay out a series of policies to dramatically increase their ranks.

The Problem

Currently, far too few women and people of color are involved in international trade. We recently explored the Census Bureau's Annual Business Survey to put numbers behind the disparity in exporters, and the numbers were stark. Namely: [3]

- **Only 16% of US exporting firms are owned by people of color**. Of the 160,697 employer firms who exported to foreign markets, eight-in-ten were white-owned businesses. Only 15,903 were Asian-owned, 9,176 were Hispanic-owned, 1,139 were Black-owned, and 473 were American Indian and Alaska Native (AIAN)-owned.

- **Men own five times the number of exporting firms compared to women**. There were 106,834 exclusively male-owned exporting firms compared to only 21,626 women-owned exporters. Further, just 1.7% of women-owned employer firms export.

- **The Black exporting community shrunk by more than a third**. From 2019 to 2020, Black-owned employer firms that export declined by 34%. Hispanic-owned exporters also saw a decline of 5.6%.

All these trends point to the same result: too many disadvantaged entrepreneurs and business owners are missing out on the economic benefits that come with billions of potential global customers. In 2022, exporting firms brought in $25.5 billion in revenue compared to $18.5 billion earned by non-exporting firms. [4] The expansion of women and people of color into international markets not only enhances their individual economic success but also reduces gender and racial economic inequality on a macro level.

The Solution

The United States should make a commitment to triple the number of minority exporters. To do so, we need to ensure that disadvantaged exporters have access to robust technical assistance as they navigate foreign and often complicated markets. These entrepreneurs will also need additional capital to successfully expand their overseas operations. And, finally, much can be done to streamline the red tape on trade to make it less time consuming and less expensive for exporters to reach global customers. Below, we lay out how to do each of those:

1. Enhance Exporting Expertise

Whether a business is completely new to global markets or an accidental exporter who recently found a foreign customer, navigating foreign markets, regulations, and logistics can be extremely complicated. Businessowners must sort through language and currency issues, safety and labeling regulations, and shipping and supply chain bottlenecks. To triple the number of minority exporters, policymakers need to significantly expand the technical assistance available to businessowners looking to tap into foreign markets. Here’s how:

- **Increase the number of export assistance counselors and training for minority banks.** The Small Business Jobs Act of 2010 mandates that five individuals or 10% of the staff from each of the lead Small Business Development Centers (SBDCs) be qualified as international trade counselors. [5] Today's SBDC network is comprised of 62 lead centers, with nearly 1,000 outreach centers located nationwide. [6] Congress should assess compliance with this standard and ensure centers are meeting existing requirements. [7] Congress should also increase funding for the US Small Business Administration (SBA) in order to focus on export training and trade counseling activities for Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs), for whom underserved businesses make up a larger proportion of their customers than large banks.

- **Create an Export Accelerator Grant Program**. In addition to federal technical assistance programs, there are numerous local efforts that are training local entrepreneurs such as universities, chambers of commerce, nonprofit entrepreneurship centers, and more. In 2023, as part of the National Export Strategy, SBA awarded two prizes to business incubators and accelerators focused on exporters in high growth and R&D industries. Congress should expand this effort by creating an export accelerator grant program. The program would help local organizations expand their current export training efforts as well as reach more disadvantaged entrepreneurs. Targeted accelerator programs could focus on regulatory compliance, international business management, market analysis, negotiation, production and shipping logistics, and other relevant skills. Ideally, this program will be targeted to small business owners who are in the beginning stage of their export journey.

In Washington, a public-private sector organization, Greater Seattle Partners, has used their award from SBA’s Growth Accelerator Fund Competition to launch an export accelerator program which provides advanced export training, advising services, and access to international trade opportunities for STEM-focused small businesses. The program helps small exporters assess their financial capabilities, select target foreign markets, and address supply chain needs. The program will expand Seattle’s already thriving exporting community, which reached $8.4 billion in 2022.[8]

- **Improve government-wide export assistance for the services sector.** Trade in services—such as travel, communications, financial services, computer and informational services, and construction—has been rapidly expanding. In 2022, 62% of exporting firms reported that their international business involved trading services in addition to goods. [9] Women are more likely to lead firms in the service sector, albeit in industries that are less often traded like health care, education, and public administration. [10] However, minority-owned firms have been gaining a foothold in service industries that are prominent in exporting. For example, the number of minority businesses that are involved in finance and insurance services grew by 17% from 2017 to 2021. [11] These sectors accounted for $9.5 billion in services exports in 2023. [12] Congress can increase the participation of minority-owned firms in international trade by improving export promotion and assistance for businesses in the services sector. Specifically, Congress should direct the interagency Trade Promotion Coordinating Committee, led by the Secretary of Commerce, to focus on addressing challenges faced by exporting firms in the service sector. The Committee should develop a government-wide strategy to help firms navigate licensing, intellectual property, access digital trade resources, and other barriers to trade for service-connected businesses.

2. Boost Exporting Finance

Once a business has the technical expertise to reach foreign customers, they often need to expand business operations to meet the increase in demand. That takes capital. And yet, minority-owned businesses are more likely to be labeled a high credit risk and shut out of financing completely. [13] To triple the number of minority exporters, policymakers need to significantly expand the capital available to businessowners looking to expand export operations. Here's how:

- **Boost EXIM's lending to minority and women-owned exporting firms.** SBA and the Export-Import Bank (EXIM) offer similar financing programs for small exporters. A recent study found small businesses are more familiar with the SBA, its lending programs, and its Small Business Development Centers than they are with the Export-Import Bank and its financing programs.[14] Only 7% of surveyed firms had secured financing from EXIM Bank products, and 37% of firms have never heard of the agency.[15] In 2021, EXIM was directed to allocate 30% of its total authorized financing to small firms. In FY23, less than a quarter of EXIM's total authorizations went to small businesses.[16] This is a decline from the previous year when EXIM allocated 29.3% of their authorizations to small firms. Congress should require EXIM to enhance marketing and outreach to small exporters, especially minority- and women-owned small firms who received just $320.5 million of $8.8 billion (3.65%) of EXIM's direct loans, guarantees, and insurance last year.[17] EXIM should also explore dedicating a percentage of funding to small, disadvantaged firms.

- **Increase export loan limits for small businesses.** SBA's export loan levels have not been increased since 2010 when the Small Business Jobs Act expanded their upper limit. Congress should raise the maximum loan size for SBA's International Trade Loan and Export Working Capital Loan from their current $5 million level to $7.5 million. The increased funding could be used by businesses to support more of their export activities, including managing cash flow, purchasing inventory for export, and covering expenses relating to exporting. Currently, SBA's Export Working Capital Program (EWCP) cannot be used for these purposes but only helps finance specific export transactions. Congress should also enhance long-term capital opportunities for exporting businesses by extending the repayment period for the EWCP from three years to five years. This update will help ease the financial burden of small firms and encourage investment in long-tern projects, enhancing their ability to compete in the global market.

3. Reduce Red Tape on Trade

Even for those exporters who have expertise and expansion capital, reaching foreign markets is often hampered by red tape and bureaucracy. Customs is hard to navigate, duty rates can shift, shipments can be seized, and paperwork isn't always easy to access online. To triple the number of minority exporters, policymakers need to significantly cut back the bureaucracy holding back would-be exporters, especially those that are small. Here's how:

- **Simplify the exporting process.** There are a host of things that need to be done to ensure the export process is simpler. Rules, fees, penalties, and procedures should be clear, easily accessible, and predictable for exporters. There should be a process for time-sensitive shipments to get across borders more easily. Digital payments should be accepted everywhere. In 2023, Senator Bill Cassidy joined with Sens. Catherine Cortez Masto, Marsha Blackburn, and Maggie Hassan to seek input on how to promote effective trade facilitation, and they plan to release a legislative framework in 2024. In addition to eventual legislation, the President can issue an Executive Order reducing the red tape on trade and/or Congress can recommend a government-wide audit to identify areas to reduce bureaucratic hurdles.

- **Encourage foreign markets to streamline their processes.** The United States spends billions of dollars each year on critical foreign assistance. As part of those efforts, Congress should encourage recipient countries to streamline the procedures necessary to access their markets. For example, the US government can do far more to encourage export markets to have a single window that establishes a single point of entry and digital submission point for electronic forms and other data.

- **Streamline government coordination of current trade programs.** Past studies of government services have identified overlap between the export promotion activities of various federal agencies.[18] For example, the Minority Business Development Agency (MBDA) has four regionally based export centers that provide technical assistance to minority-owned businesses who are looking to access the global market. Similarly, the Department of Commerce operates more than 20 U.S. Export Assistance Centers (USEAC) that serve small businesses who would like further education on how to export. The SBA, U.S.

Commercial Service, and the Export-Import Bank currently co-locate their trade services at Commerce's USEACs. Congress should streamline these offerings by enhancing coordination and optimizing resources between MBDA's centers and the USEACs. To better reach women and minority firms, Congress should consider increasing annual appropriations for these centralized USEACs so they can expand their physical presence to cities with a greater number of minority small business owners, who likely are good candidates for exporting. Congress should look for other ways to streamline programs by eliminating duplicate services and bolstering support to efficient existing initiatives.

Conclusion

To help minority businesses thrive, we must break down barriers that prevent them from reaching new customers and new markets. That's why it's time for the United States to make a commitment to triple the number of minority exporters. A nationwide effort should include a dramatic expansion of assistance for businesses, greater opportunities for financing, and a to-scale effort to reduce the red tape on trade. There are billions of foreign customers out there—it's time to ensure minority businesses can access them.

ENDNOTES

1. Federal Reserve Banks, “2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey.” Operational challenges by race, ethnicity of owner(s). https://www.fedsmallbusiness.org/categories/employer-firms/2024-report-on-employer-firms. Accessed 13 March 2024.

2. Robert Jay Dilger, Adam G. Levin, and Anthony A. Cilluffo. “Small Business Administration Trade and Export Promotion Programs.” *Congressional Research Service*, 24 May 2022. https://sgp.fas.org/crs/misc/R43155.pdf. Accessed 18 Mar 2024.

3. All data, unless otherwise noted comes from ABS - U.S. Exporting Firms by Demographics 2022 Tables. https://www.census.gov/data/tables/2021/econ/abs/2021-abs-exporting-firms.html. Note: Census notes that businesses can be tabulated in more than one racial group. https://www.census.gov/programs-surveys/abs/technical-documentation/methodology.html

4. “ABS - U.S. Exporting Firms by Demographics: 2022 Tables (Employer Businesses).” *United States Census Bureau*, 17 Nov. 2023, www.census.gov/data/tables/2021/econ/abs/2021-abs-exporting-firms.html. Accessed 4 April 2024.

5. United States, Congress, House. United States Code. Title 15, Section 649(i)(3), US Government Publishing Office, 2011, https://www.govinfo.gov/content/pkg/USCODE-2011-title15/html/USCODE-2011-title15.htm. Accessed 5 April 2024.

6. “Cardin Introduces Legislation to Reauthorize and Improve the Small Business Development Centers Program.” *U.S. Committee on Small Business & Entrepreneurship*, 1 Dec. 2022, www.sbc.senate.gov/public/index.cfm/2022/12/cardin-introduces-legislation-to-reauthorize-and-improve-the-small-business-development-centers-program. Accessed 21 March 2024.

7. GAO last assessed compliance with this requirement in 2013 and found that less than three-quarters of the existing SBDC networks had export counselors.

"Export Promotion: Small Business Administration Needs to Improve Collaboration to Implement Its Expanded Role." *U.S. Government Accountability Office*, 1 March 2013, www.gao.gov/products/gao-13-217. Accessed 22 March 2024.

8. "Greater Seattle Partners Launches Export Accelerator Program to Increase Trade Opportunities for Small Businesses." *Greater Seattle Partners*, 21 July 2023, www.greater-seattle.com/2023/07/18/greater-seattle-partners-launches-export-accelerator-program-to-increase-trade-opportunities-for-small-businesses/. Accessed 20 March 2024.

9. "2022 Small Business Exporting Survey." *National Small Business Association*, 28 July 2022, Page 2, www.msbdc.org/pdf/Export-Survey-2022.Final.pdf. Accessed 26 March 2024.

10. Women-Led Firms in International Trade." *OCED SME and Entrepreneurship Outlook 2023*, OCED, 27 June 2023, pp. 93-119. https://doi.org/10.1787/342b8564-en.

11. "2018 Annual Business Survey (ABS) – Company Summary." *United States Census.* https://www.census.gov/data/tables/2018/econ/abs/2018-abs-company-summary.html. And "2022 Annual Business Survey (ABS) – Company Summary." *United States Census.* https://www.census.gov/data/tables/2022/econ/abs/2022-abs-company-summary.html. Accessed 4 April 2024.

12. Office of Trade & Economic Analysis, Industry & Analysis, "ITA Annual Trade Infographic." *International Trade Administration,* 7 Feb. 2024, https://www.trade.gov/data-visualization/ita-annual-trade-infographic. Accessed 22 March 2024.

13. Horwitz, Gabe, et al. "2023 Vital Signs: The Health of Minority-Owned Small Businesses." *Alliance for Entrepreneurial Equity (AEE),* 18 Jan. 2023, www.aeequity.org/product/2023-vital-signs-the-health-of-minority-owned-small-businesses.

14. "2022 Small Business Exporting Survey." *Export-Import Bank of the United States and National Small Business Association,* 28 July 2022, Page 5, www.msbdc.org/pdf/Export-Survey-2022.Final.pdf. Accessed 23 March 2024.

15. Ibid, page 18.

16. "Annual Management Report". *Export-Import Bank of the United States,* 13 Nov. 2023, Page 3, https://img.exim.gov/s3fs-public/documents/exim-fy2023-amr.pdf. Accessed 22 March 2024.

17. Ibid, page 11 and 63.

18. "2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits." *U.S. Government Accountability Office (GAO),* 9 April 2014, www.gao.gov/products/gao-13-279sp. Accessed 22 March 2024.