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Report to Chairwoman, Subcommittee on International Development, Finance, Trade and Monetary Policy, Committee on Banking, Finance and Urban Affairs, House of Representatives

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EXPORT FINANCE

The Role of the U.S. Export-Import Bank

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The Honorable Mary Rose Oakar
Chairwoman
Subcommittee on International Development,
Finance, Trade and Monetary Policy,
Committee on Banking, Finance and Urban Affairs
House of Representatives

Dear Madam Chairwoman:

This report responds to your request that we review the U.S. Export-Import Bank's (Eximbank) mission, function, and current activities. In particular, we reviewed (1) the delivery of Eximbank services, especially to small businesses; (2) the administration of the Eximbank's export credit insurance program; (3) credit reform and the Eximbank's country risk assessment system; (4) the use of tied aid; and (5) the Eximbank's coordination with other agencies. We also provided background information on the Eximbank.

We are sending copies of this report to the Chairman of the Eximbank. We will also send copies to the Subcommittee on International Finance and Monetary Policy, Senate Committee on Banking, Housing and Urban Affairs; the Subcommittee on Exports, Tax Policy and Special Problems, House Committee on Small Business; and the Subcommittee on Export Expansion, Senate Committee on Small Business. Copies will be made available to others upon request.

Please contact me on (202) 275-4812 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade and Finance Issues

Executive Summary

Purpose

As exports become increasingly important to the U.S. economy, the availability of export finance has become a significant issue. One of the primary ways in which the federal government gets involved in export finance is through the U.S. Export-Import Bank (Eximbank), which helps fund export transactions.

The Eximbank operates under a renewable charter, which was recently extended through September 30, 1997. At the request of the Chairwoman of the International Development, Finance, Trade and Monetary Policy Subcommittee of the House Committee on Banking, Finance and Urban Affairs, GAO reviewed the mission, function, and current activities of the Eximbank and reported on some of its findings in three separate hearings before the Subcommittee. To aid in the oversight process, the Subcommittee asked GAO to keep it informed on issues relating to the Eximbank. Accordingly, this report summarizes GAO's work in this area over the last year and a half, including (1) the delivery of Eximbank services, particularly to small businesses; (2) the administration of the Eximbank's export credit insurance program; (3) credit reform and the Eximbank's country risk assessment system; (4) the use of tied aid; and (5) the Eximbank's coordination with other agencies.

Background

The Eximbank, though wholly owned by the U.S. Treasury, is an independent U.S. government agency responsible for assisting U.S. exporters. The Eximbank's mission is to offer terms competitive with those of other governments' export financing agencies and absorb risks that are "beyond the current reach of the private sector." In fiscal year 1991, the Eximbank assisted in the export of $12.1 billion in U.S. goods and services (approximately 2 percent of U.S. exports) to about 125 foreign markets. The Eximbank offers a wide range of financing services including direct loans, loan guarantees, and export credit insurance. Although the Eximbank is located in Washington, D.C., it markets its export credit insurance through five regional offices that were operated by the Foreign Credit Insurance Association from 1962 until 1992.

Results in Brief

With increasing demands for its services and a limited delivery network of its own, the Eximbank must use other federal, state, and local agencies or financial institutions to effectively provide its services to exporters. The Eximbank has made significant efforts to improve the delivery of its services, especially to small- and medium-sized businesses, such as establishing a cooperative program with city and state export finance agencies.

Although the Foreign Credit Insurance Association (which became the FCIA Management Company in 1991) had administered the Eximbank's export credit insurance program since 1962, the Eximbank recently decided to cancel its contract with the FCIA Management Company and administer its export credit insurance program in-house. The Eximbank had several reasons for deciding to cancel the contract, including concerns about a possible "conflict of interest." In addition, the Eximbank determined that its practice of using regional offices to market only insurance is "administratively inefficient" and is considering using regional offices to market its loan and guarantee programs as well.

The Eximbank has used its risk assessment process to evaluate the creditworthiness of a country to determine the maximum amount of export financing exposure (loans, guarantees, and insurance) it will have in a given market. However, it did not estimate the cost to the government of providing these programs. The Federal Credit Reform Act of 1990 requires that the President's budget for fiscal year 1992 and thereafter include the estimated cost of all federal government credit assistance programs, including the Eximbank's programs. Under credit reform, the amount of exports the Eximbank can support with a given level of budget authority depends, in part, on the creditworthiness of the countries receiving Eximbank credits. Thus, Congress now establishes a limit to the cost of proposed transactions up front—during the budget process.

In 1986, Congress authorized the Eximbank to create a "war chest" fund as a weapon to deal with other countries that have used tied aid (foreign assistance that is linked to the purchase of exports from the country extending the assistance) to increase their exports. The Eximbank has generally used the war chest as a last resort to combat competitors' use of tied aid when international agreements fail to achieve these results. Such agreements have not been particularly effective in the past, but Eximbank officials believe that a recently signed Organization for Economic Cooperation and Development (OECD) agreement will be. Some exporters we spoke to, however, disagree with the Eximbank's practice of only using the war chest as a last resort, and believe that more aggressive use of the fund would be a stronger deterrent.

The Eximbank's programs have not been integrated into a governmentwide export promotion strategy. The Eximbank has been effective in working with other agencies to coordinate policies; however, it has not been very successful in coordinating its programs with those of other agencies. The various federal export promotion programs are fragmented and lack cohesion, and there is no governmentwide effort to coordinate and integrate existing export promotion programs. However, the Trade Promotion Coordinating Committee, established by the President in 1990 to coordinate such programs, has been directed by the Export Enhancement Act of 1992 to develop and implement a governmentwide strategic plan for federal trade promotion efforts.

Principal Findings

The Eximbank Is Making Efforts to Meet Increasing Demands for Its Services

The Eximbank is facing increasing demands to make its services available to more U.S. exporters, particularly small- and medium-sized businesses. However, the Eximbank does not have an extensive delivery network of its own. The Eximbank has no overseas offices, and its only regional offices have been those that were administered by the Foreign Credit Insurance Association to market the Eximbank's insurance program. Thus, the Eximbank has relied on other entities to help it deliver its services, including commercial banks and other federal, state, and local agencies. The Eximbank has taken steps to improve the delivery of its services to small- and medium-sized businesses. For example, in February 1992, the Eximbank formed a new Small Business Group to focus on the needs of smaller firms. The Eximbank has also expanded its marketing efforts (such as offering more training seminars for bankers and exporters) and made changes to its small business programs, including increasing risk coverage for insurance and guarantees.

The Eximbank Will Administer Its Export Credit Insurance Program In-House

Export credit insurance constituted 40 to 80 percent of Eximbank assistance to exporters during fiscal years 1986 to 1991. The Foreign Credit Insurance Association, which had administered the Eximbank's insurance program since 1962, was restructured into the FCIA Management Company in 1991 and entered into a new contractual agreement with the Eximbank. However, during the 9-month period of the contract with FCIA Management Company, the Eximbank had less oversight and control over its insurance operation and the associated costs than it did under the previous arrangement with the Foreign Credit Insurance Association. After studying the administration of its export credit insurance program, the Eximbank decided to cancel its contract with FCIA Management Company. The Eximbank's decision to cancel the contract was apparently based on several factors, including concerns about potential conflicts of interest and whether administering the insurance program was an intrinsically governmental function that should be conducted by the Eximbank. According to Eximbank officials, the Defense Contract Audit Agency will conduct a final audit of the contract between the Eximbank and FCIA Management Company.

As a result of its study of its export credit insurance program, the Eximbank also decided that using regional offices to market only the Eximbank's insurance program was not "administratively efficient." The Eximbank is taking over the regional offices as part of its agreement to cancel its contract (and relationship) with FCIA Management Company. The Eximbank is now considering using the regional offices to market all of its programs—loans, guarantees, and insurance.

Credit Reform Reveals the Cost of Eximbank Transactions

The Eximbank has used its risk assessment process to evaluate the creditworthiness of a country, and thus determine the amount of export financing (loans, guarantees, and insurance) it would provide to the country. However, the Eximbank did not determine the cost to the government of providing the various types of export financing. The Federal Credit Reform Act of 1990 requires that the President's budget for fiscal year 1992 and thereafter include the estimated cost of all federal credit assistance programs, including the Eximbank's direct loans, guarantees, and insurance. The act, in effect, increases the ability of Congress to limit the cost of the Eximbank's financing activities.

Under credit reform, the estimated cost to the Eximbank and the creditworthiness of the countries benefitting from Eximbank credits determine the amount of exports the Eximbank can support. For example, $1 billion in budget authority for the Eximbank may only support $2 billion in export loans, guarantees, and insurance for a very risky country. In comparison, the same $1 billion could support $10 billion in exports to a significantly less risky country. Credit reform allows Congress to determine the cost that will be involved in Eximbank credit programs as part of the budget process. This knowledge is particularly important now, since Eximbank is opening its programs in several high-risk emerging markets, including markets in the former Soviet Union and Eastern Europe.

Eximbank Relies on International Agreements, Negotiations to Reduce Tied Aid

U.S. (and Eximbank) policy has generally been to discourage the use of tied aid by the United States or its competitors. In 1986, Congress authorized the Eximbank to create a "war chest" fund as a means of dealing with other countries that have repeatedly used tied aid. However, the war chest has been used very little in the 6 years it has been in existence, and was not used at all in fiscal year 1989. In fact, 1991 was the only year in which the Eximbank used nearly all of its war chest authority. The Eximbank has relied on international agreements and negotiations to attempt to reduce competitors' use of tied aid, but these agreements and negotiations have not been particularly effective in the past. Eximbank officials believe that a recently signed OECD agreement will reduce tied aid use by competitors; however, some exporters and others are skeptical. They do not have much faith in international negotiations and agreements and believe that more aggressive use of the war chest to overmatch or outbid competitors using tied aid would be more effective.

Eximbank Programs Are Not Integrated Into a Governmentwide Strategy

One of the Eximbank's goals is to work effectively with other government agencies to better promote U.S. exports. The Eximbank has worked well with other agencies to coordinate policies, but it has not been as effective in coordinating its programs with those of other agencies. For example, although the Eximbank and the Small Business Administration established a joint effort in which Small Business Administration field staff would promote Eximbank programs and be trained by Eximbank staff, few actual transactions have occurred as a result of the joint effort.

GAO believes that the various federal export promotion programs are fragmented and lack cohesion and that there is no governmentwide effort to coordinate and integrate existing export promotion programs. Although the Eximbank is the primary federal agency that provides export financing, it has not been integrated into an overall federal export promotion effort. However, the establishment of the Trade Promotion Coordinating Committee, formalized under the Export Enhancement Act of 1992, is a step towards coordinating and integrating federal export promotion programs. The act also requires the Committee to develop and implement a governmentwide strategic plan for federal export promotion efforts.

Recommendations

GAO is not making recommendations in this report.

Agency Comments

GAO discussed the information in this report with Eximbank officials. The officials generally agreed with the information as presented. Suggested technical changes were incorporated in the report where appropriate.

Contents

Abbreviations

AID	Agency for International Development
DCAA	Defense Contract Audit Agency
Eximbank	The U.S. Export-Import Bank
FCIA	Federal Credit Insurance Association
GAO	General Accounting Office
GDP	gross domestic product
GNP	gross national product
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
OMB	Office of Management and Budget
OPIC	Overseas Private Investment Corporation
PEMEX	Petroleos Mexicanos
SBA	Small Business Administration
TPCC	Trade Promotion Coordinating Committee

Introduction

The U.S. Export-Import Bank (Eximbank) is the primary federal agency that provides financing for exports. The Eximbank states that its mission is "to facilitate export financing of U.S. goods and services by matching the effect of export credit subsidies from other governments and by absorbing reasonable credit risks that are beyond the current reach of the private sector." Although Eximbank programs support only a small portion (about 2 percent in fiscal year 1991) of total U.S. exports, Congress, exporters, bankers, state officials, and others are concerned with how well the Eximbank is serving the needs of U.S. exporters.

Since Congress renewed the Eximbank's charter in 1986, exports have been growing in importance to the U.S. economy.[1] In 1986, U.S. exports were $319.2 billion, or 7.5 percent of gross domestic product (GDP); in 1991, U.S. exports totaled $593.3 billion, or 10.5 percent of GDP. The Eximbank primarily assists in financing merchandise exports. In 1991, the merchandise trade balance was approximately negative $77 billion.

The Eximbank offers a wide range of export financing assistance, including direct loans, loan guarantees, and export insurance covering commercial and political risks.[2] In fiscal year 1991, the Eximbank assisted in the export of $12.1 billion in goods and services to about 125 countries by providing $11.4 billion in export financing—$776 million in loans and grants, $6 billion in guarantees, $67 million in working capital guarantees, and $4.6 billion in export credit insurance (see table 1.1). The Eximbank provided approximately $1.4 billion (12 percent) directly to small businesses, primarily through short-term insurance. According to the Eximbank, it does not target specific markets or industries or set credit limits by country (see chap. 4).

[1]The Eximbank operates under a renewable charter that Congress extended through September 30, 1997 (12 U.S.C. 635(f)).

[2]Commercial risks cover nonpayment for reasons other than specified political risks. Political risks include war risks, cancellation of an existing export or import license, expropriation, confiscation of (or intervention in) the buyer's business, or transfer risk (failure of the appropriate foreign government authorities to convert the foreign currency deposit into dollars).

Table 1.1: Eximbank Funding by Program, Fiscal Years 1986-1991

Dollars in millions

	Fiscal year					
Program	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Loans	$577.4	$598.9	$685.3	$718.8	$560.7	$630.8
War Chest grants[a]	0	78.1	7.6	0	53.4	145.4
Guarantees[b]	1,102.3	1,486.9	525.5	1,237.4	3,244.1	5,967.5
Working capital guarantees[c]	25.6	18.6	75.5	54.8	88.6	66.7
Insurance	4,379.9	6,444.0	5,133.6	4,344.8	4,841.1	4,553.5
Total	**$6,085.2**	**$8,626.5**	**$6,427.5**	**$6,355.8**	**$8,787.9**	**$11,363.9**

Note: The amounts of guarantees and insurance represent the amounts Eximbank committed to exporters. However, a substantial portion of the final commitments is unused at a given time depending on whether the guaranteed or insured event (i.e., the shipment of goods) has occurred.

[a]The "War Chest" is a fund used to help U.S. companies match and bid against other countries that use tied aid to finance their exports (see text).

[b]Includes medium- (1 to 7 years) and long-term (longer than 7 years) guarantees, but excludes working capital guarantees.

[c]Under the Working Capital Guarantee program, the Eximbank guarantees repayment to lenders on secured, short-term working capital loans made to qualified exporters, should the exporter default on its loan payments.

Source: Eximbank annual reports.

What Is Export Financing?

Export financing refers to any form of financing export transactions. To make sales to foreign customers, traders need export financing. Sales can be either short- or long-term transactions mostly funded through the private sector. Export financing generally includes loans, loan guarantees, and export credit insurance. It also includes pre-export, or "working capital," financing that is needed to finance pre-export production or develop foreign markets. The Eximbank provides all of these types of financing.

What Makes Export Financing Different From Domestic Financing?

Exporters may face additional risks that domestic sellers do not. Financing international sales, as compared to domestic sales, often involves making payments in other currencies, i.e., incurring foreign exchange risk. A company may encounter more difficulties with exports than with domestic sales in settling disputes when damages to shipments occur or the importer does not accept the merchandise being shipped.

Shipping costs and the length of time involved to ship products additionally raise a company's risks. Other exporting risks may include cancellation of an import license or confiscation of the shipment because import regulations were inadvertently overlooked. War, strikes, and insurrection are also risks that a company can encounter when exporting.

The Eximbank's programs offer ways to offset some of these risks. Specifically, the Eximbank can offer longer-term financing in riskier markets than the private sector is willing to make available. The Eximbank can also provide additional short-term financing when commercial financing is unavailable.

Eximbank's History

The Eximbank's creation in 1934 was spurred by the economic conditions of the 1930s, when exports were viewed as a stimulus to economic activity and employment.[3] A primary aim of the Eximbank was to foster trade between the United States and the Soviet Union. During the post-World War II era, the Eximbank helped U.S. companies participate in the reconstruction of Europe and Asia.

Over the years, the private sector, Congress, and the executive branch have debated the Eximbank's role in a free market economy, where the private sector handles the majority of export financing. For example, in 1953, the President virtually liquidated the Eximbank in an effort to reduce government spending and to ease a turf battle with the World Bank. But Congress intervened to keep the Eximbank open. According to its supporters, the Eximbank has historically filled gaps created when the private sector is reluctant to engage in export financing.

Today, the Eximbank faces many of the same challenges and opportunities that it encountered when it was first created. For example, the United States is renewing trade relations with the former Soviet Union and Eastern Europe. In addition, increasing exports is important for sustaining U.S. economic growth.

Significant differences also exist between today's conditions and those when the Eximbank was first established. The U.S. economy is much more internationalized, and exports form a larger share of the gross national product (GNP) than in the 1930s. Exports constituted about 4 percent of GNP in 1933; in 1991 they were 10.4 percent of GNP. And while the world

[3]Although the Eximbank was created to facilitate the financing of both U.S. exports and imports, it has been used almost exclusively to finance U.S. exports.

trading and financial systems are more interdependent now, international competition is more intense.

Eximbank's Legislative Mandates

In implementing its programs, the Eximbank must comply with several statutory requirements that at times place conflicting demands on the Eximbank and its resources. Specifically, the Eximbank is required

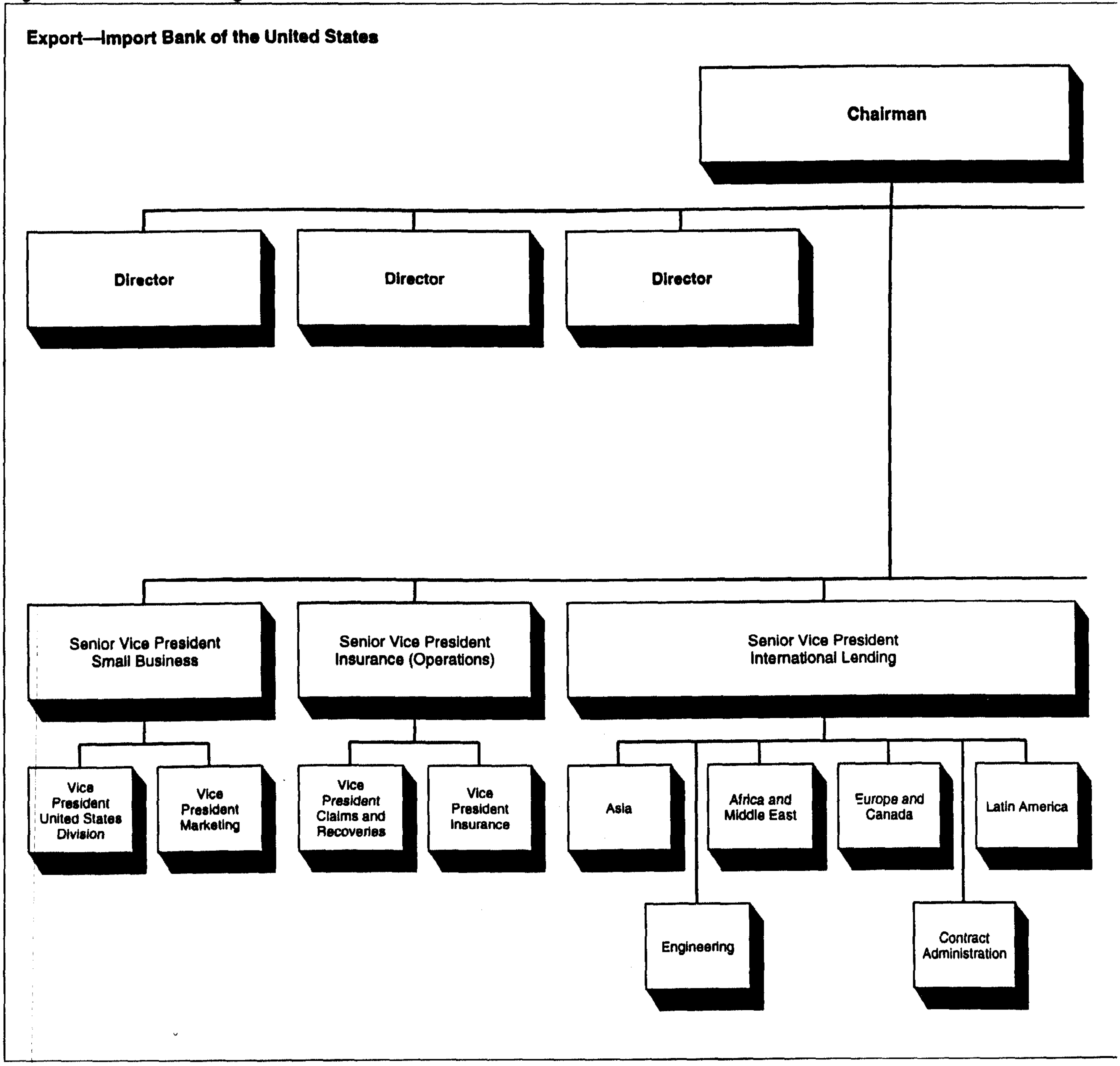
- to compete with other countries' export credit agencies,
- not to compete with private sector financing,
- to provide credit assistance in circumstances in which there is a reasonable assurance that a country will repay its loans, and
- to aid small businesses.

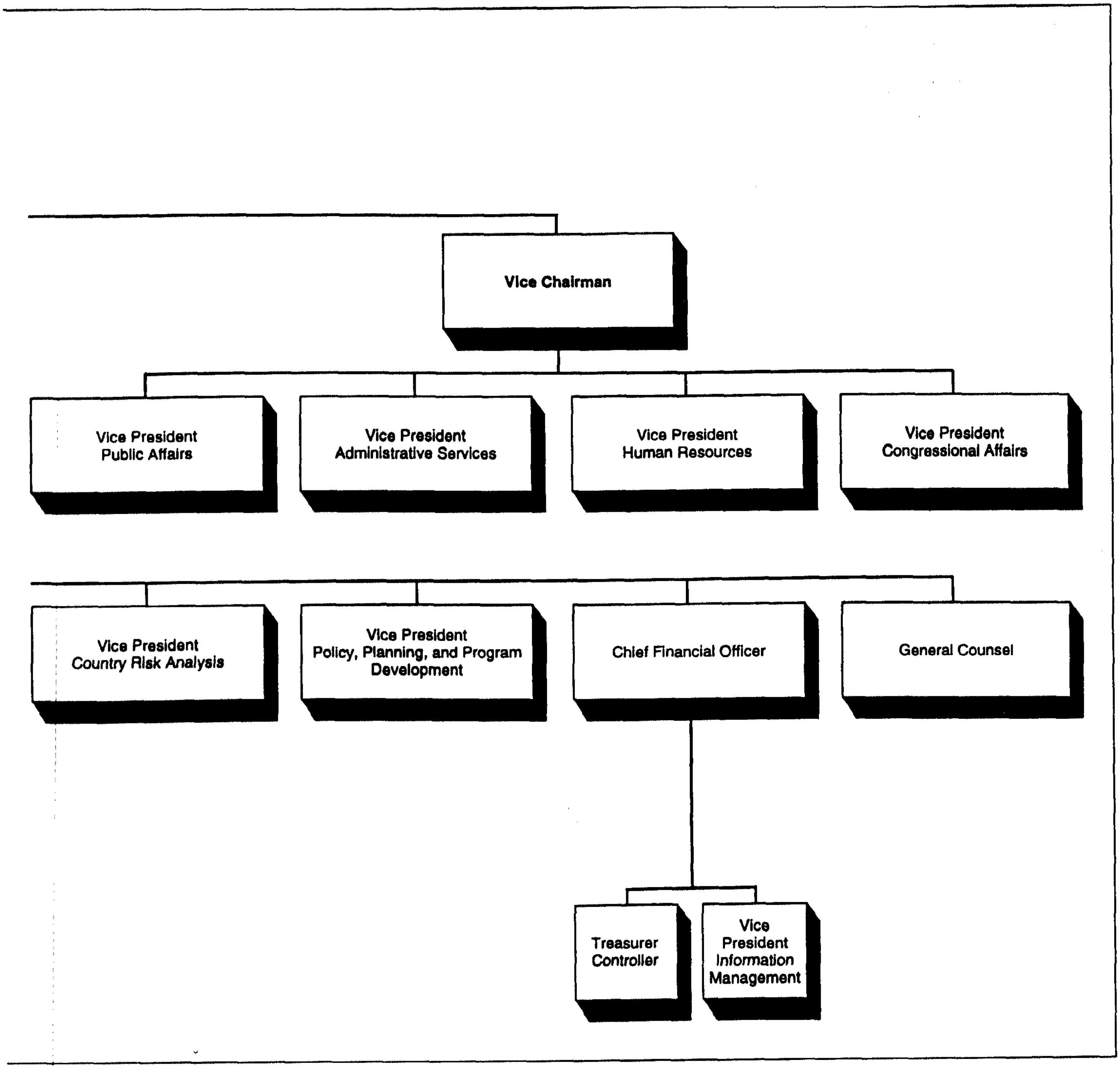
Eximbank's Organizational Structure

The Eximbank is located in Washington, D.C., and employs about 350 staff. It also has a one-person regional office in Los Angeles, California, but no overseas offices.

The Eximbank's activities and policies are overseen by its board of directors. The board is responsible for approving support for individual transactions, designating Eximbank officers, and prescribing their duties. The Eximbank's board of directors is made up of five full-time members appointed for 4-year terms by the President of the United States with the advice and consent of the U.S. Senate. In addition, the Secretary of Commerce and the U.S. Trade Representative serve as ex-officio, nonvoting members. Figure 1.1 illustrates the Eximbank's organizational structure.

Figure 1.1: Eximbank's Organizational Structure





Source: Eximbank.

The Eximbank's Export Finance Group includes all operating divisions that administer the Eximbank's loan, guarantee, and insurance programs. The Eximbank's four geographic area divisions —Africa and the Middle East, Asia, Europe and Canada, and Latin America—administer the Eximbank's medium- and long-term lending and guarantee activities. The United States Division administers the Working Capital Guarantee program, and the Insurance Division is responsible for the Eximbank's export credit insurance program. Loan officers process requests for assistance, do financial analysis, and maintain contact with other countries that belong the Organization for Economic Cooperation and Development (OECD).[4] The Engineering Division evaluates the technical feasibility of proposed projects and monitors the implementation of projects. In addition, the Eximbank recently formed a new Small Business Group, which is responsible for helping small businesses and coordinating the Eximbank's small business programs.

Eximbank's Programs and Services

The Eximbank offers a wide range of financing services, including

- direct and intermediary loans to foreign buyers of U.S. exports, helping U.S. exporters match officially supported foreign credit competition;
- guarantees to commercial lenders, providing repayment protection for loans to foreign buyers of U.S. exports;
- working capital guarantees, encouraging commercial lenders to make loans to small companies that have exporting potential but need funds to produce or market goods or services to export; and
- export credit insurance, protecting exporters against the failure of foreign buyers to pay their credit obligations.

Export Loans

Eximbank loans offers fixed interest rate financing for U.S. exports that is competitive with other countries' exports credit agencies. The Eximbank extends direct loans to foreign buyers and intermediary loans to fund responsible parties that extend loans to foreign buyers. According to the Eximbank, its direct loans carry the lending rates permitted under the export credit arrangement among members of OECD. Repayment terms for capital goods are based on customary guidelines in international trade and include maximum repayment terms of up to 10 years.

[4]OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the economically developed free market democracies of North America, Western Europe, and the Pacific.

Export Guarantees

The Eximbank's guarantees provide repayment protection for private sector loans to creditworthy buyers of U.S. exports. The Eximbank also guarantees payments on cross-border or international leases. The Eximbank's guarantee is available for fixed or floating interest rate loans in dollars or other convertible foreign currencies. The Eximbank's guarantees are offered alone or in combination with an intermediary loan, usually for medium-term transactions. Most guarantees provide comprehensive coverage of both political and commercial risks. In addition, a guarantee covering only political risk is available for private buyers.

Export Credit Insurance

Exporters and commercial lenders may reduce their risks by purchasing export credit insurance from the Eximbank. Several types of policies are available to cover political and commercial risks of nonrepayment on short-term (up to 180 days) and medium-term (181 days to 5 years) export receivables. Premium rates and coverage vary with the type of policy selected.

Other Programs

Besides the programs noted above, the Eximbank has initiated new programs to help U.S. exporters. These programs include "bundling" of smaller transactions,[5] a joint program with the Agency for International Development, and working agreements with financial institutions of the government of Japan[6] and the Export Development Corporation of Canada. The Eximbank also offers lease guarantees to U.S. and foreign lessors of U.S. manufactured equipment and related services; and the engineering multiplier program, which offers fixed rate loans and guarantees to foreign buyers of project-related feasibility studies and preconstruction engineering services.

The Eximbank also has a "war chest" fund to deal with other countries that have repeatedly used concessional financing[7] to increase their exports. We discuss this issue further in chapter 5.

[5]Bundling combines several smaller Eximbank-guaranteed loans into one larger debt instrument that is easier to sell in the secondary market.

[6]These institutions include the Export-Import Bank of Japan, the Japan Development Bank, and the Export-Import Insurance Division of Japan's Ministry of International Trade and Industry.

[7]Concessional financing is defined in the glossary.

Eximbank's Financial Condition

The Eximbank has operated at a loss for the past 9 years. In fiscal year 1991, the Eximbank's operations resulted in a net loss of $924 million. The Eximbank had accumulated a net capital deficiency of $6.2 billion at the end of fiscal year 1991. These losses were the result of (1) estimated losses on loan and claim receivables, (2) declining interest income as result of nonperforming loans, and (3) a large negative interest rate spread between loans the Eximbank made during the late 1970s and 1980s and the Eximbank's cost of capital during the same period. In January 1990, the Eximbank announced that, for the first time, it was establishing and reporting in its fiscal year 1989 financial statements an allowance for loan losses.[8]

Despite its losses, the Eximbank could continue to operate because it had unlimited borrowing authority with the Federal Financing Bank. The Federal Financing Bank is part of the Treasury and obtain its fund from regular Treasury issues. Beginning in fiscal year 1992, the Federal Credit Reform Act of 1990 provides for recognizing the costs of the Eximbank's direct loans, loan guarantees and insurance in the President's budget. It also provides for funding these costs with an appropriation of budget authority and establishes a permanent indefinite appropriation to fund the cost of prior years' losses. Consequently, the Eximbank's losses will now be financed directly by the Treasury. As prefiscal year 1992 loans and guarantees are closed out, losses incurred on these transactions will be recovered through appropriations. Thus, the Eximbank's capital deficiency will gradually diminish, and recapitalization will not be required. For new loans, guarantees, and insurance, the estimated cost will be recognized and funded before the Eximbank enters into the transaction.[9] Credit reform is discussed in further in chapter 4.

Objectives, Scope, and Methodology

The Chairwoman of the House Subcommittee on International Development, Finance, Trade and Monetary Policy, Committee on Banking, Finance and Urban Affairs, requested that we review the mission, function, and current activities of the Eximbank in preparation for the Eximbank's reauthorization in 1992. In response to this request, we testified before the Subcommittee on three occasions: (1) April 11, 1991, identifying the major issues to consider for the Eximbank's reauthorization; (2) May 2, 1991, on the issue of Eximbank support for military exports; and (3) May 6, 1992, on the results of our review of the Eximbank's reauthorization and its

[8]For more financial information on the Eximbank see Related GAO Products section.

[9]The "subsidy cost" is the difference between the amount loaned or guaranteed and the present discounted value of the expected future interest and principal payments generated by the loan.

role in export promotion (see Related GAO Products). Congress has renewed the Eximbank charter through September 30, 1997.

As part of our continuing work for this Subcommittee, we also agreed to provide information about (1) the delivery of Eximbank services, particularly to small businesses; (2) the administration of the Eximbank's export credit insurance program; (3) credit reform and the Eximbank's country risk assessment system; (4) the use of tied aid; and (5) the Eximbank's coordination with other agencies.

To provide an informational overview of the Eximbank's operations, we analyzed information obtained (through documents, interviews, and financial statements, etc.) from the Eximbank and the Foreign Credit Insurance Association (FCIA), current literature, and studies related to Eximbank and export financing. We met with officials from other agencies that work with Eximbank, such as the Small Business Administration (SBA), the Overseas Private Investment Corporation (OPIC), the U.S. Trade and Development Program, and state export finance offices. We also met with various entities that are affected by the Eximbank's programs, including industry representatives, exporters, bankers, and officials from world trade centers.

To assess the Eximbank's outreach and the effectiveness of its relatively new cooperative program with cities and states, we met or conducted telephone interviews with representatives of the Eximbank's city/state program. We interviewed those participants that were active in the Eximbank program as of July 1991. We did not interview participants that joined the program after that date. We obtained information on the cities' and states' finance programs and documented the level of their participation in the Eximbank's programs. We visited locations based on the level of activity, services offered, and geographic dispersion. These locations included the state export finance offices in Los Angeles, California; Baltimore, Maryland; New York, New York; Columbus, Ohio; Austin, Texas; and Seattle, Washington.

We did our work from April 1991 to September 1992 in accordance with generally accepted government auditing standards.

We discussed the information in this report with Eximbank officials. The officials generally agreed with the information as provided. We incorporated suggested technical changes in the report where appropriate.

The Eximbank Is Making Efforts to Meet Increasing Demands for Its Services

Historically, the Eximbank has been criticized by both public and private sector officials for catering to large businesses and not providing enough assistance to small- and medium-sized companies. In 1983, Congress directed the Eximbank to expand its small business programs. Both the growing demand for export financing and the limited availability of export financing are placing additional pressures on the Eximbank's funds and staff.

The Eximbank—located in Washington, D.C.—has a limited delivery network, which makes it difficult for the Eximbank to meet the needs of smaller companies. Thus, the Eximbank works through financial institutions and federal, state, and local agencies to fulfill its small business mandate. The Eximbank is making efforts to increase its small business support by using other networks to deliver its services. However, its city/state cooperative finance program faces certain limitations as well.

The Eximbank has reorganized and expanded its small business programs. It also has attempted to compare costs and benefits of its small business programs but could not do so because of data problems. Although the Eximbank is providing better access to small- and medium-sized companies, we believe it is too soon to assess the results of these efforts.

Eximbank Required to Assist Small Business

The Eximbank's legislation requires it to (1) establish a small business financing program, (2) coordinate with other government agencies, (3) appoint small business representatives, (4) delegate authority to qualifying institutions, and (5) report on its small business activities. Specifically, the Eximbank must make 10 percent of its aggregate budget authority available to finance small business exports.[1] In fiscal year 1991, the Eximbank provided about 13 percent of its budget authority directly to finance exports by small businesses.

Growing Financing Demand, Banks' Consolidation Place Pressures on Eximbank

Despite this mandate, state finance officials, Eximbank officials, bankers, and exporters told us that it is hard to obtain export financing for small- and medium-sized companies. Recent congressional hearings have also raised concerns about the credit and export finance available to smaller businesses. External factors that affect demand for the Eximbank's programs are (1) the increasing requests for assistance and (2) the shrinking amount of funds for exports available from commercial banks that have withdrawn from export finance.

[1] 12 U.S.C. 635(b)(1)(E)(v). See also The U.S. Export-Import Bank: The Bank Provides Direct and Indirect Assistance to Small Businesses (GAO/GGD-92-105, Aug. 21, 1992.)

Growing Demand for Export Finance

The Eximbank is a member of the Trade Promotion Coordinating Committee (TPCC) and its Trade Finance Working Group. In 1990, the President created TPCC to address coordination problems stemming from the government's decentralized approach to promoting exports. The interagency committee is chaired by the Secretary of Commerce, with members from 18 executive branch agencies.[2] TPCC identified trade finance as a priority area for study.

During 1991, the Trade Finance Working Group began to pinpoint the scope of and possible solutions for some of the problems involving the availability of trade finance; it has issued a report on its findings. The working group found that the supply of trade finance "falls well short of demand," particularly pre-export financing (working capital to produce the exports) for sellers. According to the report, businesses across a wide range of sectors reported difficulties and even loss of export sales because they were unable to get the necessary financing.

In 1991, the Eximbank participated in TPCC-sponsored export promotion conferences held in 30 U.S. cities. During these conferences, members of the Trade Finance Working Group met with local bankers to discuss (1) the current extent of available private export financing, (2) the disincentives to expanding private trade financing, and (3) the weaknesses of existing government programs on trade finance.[3] These discussions concluded that commercial banks are actively engaged in trade finance but that commercial financing falls short of demand.

The participants also identified the greatest financing need as pre-export financing. They found that additional financing was needed for small companies ($5 million-$30 million annual revenues), smaller transactions ($300,000 or less), and revolving lines of credit of $1 million. Other areas the participants found lacking in sufficient export financing included the following:

- short-term financing,
- open account financing (ability to evaluate and lend against foreign accounts receivable), and

[2] The agencies on TPCC include the Departments of Agriculture, Commerce, Defense, Energy, 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; the SBA; the U.S. Information Agency; and the U.S. Trade and Development Program.

[3] National Export Initiative Bankers Meeting on Trade Finance, TPCC Working Group on Trade Finance (Washington, D.C.: 1992).

- financing for developed country markets for small firms.

Eximbank's Traditional Delivery Network Is Through Commercial Banks

The Eximbank traditionally has relied on the commercial banking system as its principal means to deliver financing to smaller companies. Yet in recent years, the Eximbank's ability to reach exporters has been restrained because commercial banks are cutting back on their international departments. Some large banks have consolidated their overseas operations and their less profitable lines of business, such as financing smaller transactions. Another obstacle to reaching exporters, according to state export finance officials and a TPCC study, is that not all U.S. bankers are aware of the Eximbank's programs.

One Eximbank goal is to expand the network of commercial banks that want to participate in its programs. In March 1992, the Eximbank included only 328 banks (out of a total of approximately 12,000 national banks in the United States) in 37 states on its bank referral list—20 fewer banks than in 1991.[4] To help bankers become more familiar with its programs, the Eximbank, in coordination with some state finance offices, has conducted training for local bankers. Since fewer commercial banks are now participating in the Eximbank's programs, the Eximbank is looking for other ways to deliver its services, primarily by cooperating with state and federal agencies.

Eximbank Lacks Adequate Delivery Network

Although the Eximbank approved $11.4 billion to finance U.S. exports in fiscal year 1991, it is not structured to manage large numbers of transactions. The Eximbank has a limited network for delivering its services to exporters across the United States. Its regional network includes

- a loan officer in Los Angeles, who promotes the Eximbank's programs but does not process specific transactions; and
- five regional offices for marketing export credit insurance.

The regional offices have only marketed the Eximbank's insurance policies. However, recent changes in the Eximbank's administration of its insurance program may affect the role of the regional offices. (See chap. 3 for more information on the Eximbank's export credit insurance program.)

[4] The "bank referral list" is a list of banks that have expressed an interest in doing business with the Eximbank.

Since the Eximbank has a limited regional network and no overseas offices, an interesting comparison can be made between the Eximbank and the networks of other export credit agencies in the countries of our major competitors.[5] For example, France offers a network of 22 domestic offices where exporters can obtain export finance assistance, and Canada's Export Credit Corporation has 8 locations throughout Canada. Japan's overseas network has staff in 16 locations, including a representative office in Washington, D.C., and New York City.

Eximbank Relies on Other Agencies for Delivery of Services

The Eximbank's outreach network for delivering its services to smaller exporters consists of other federal, state, and local agencies, besides the commercial banking system. For example, in 1984, the Eximbank and the SBA established a joint program to make export financing assistance more accessible to small businesses. Under this program, Eximbank staff are to train SBA field staff concerning Eximbank programs. SBA staff then can promote Eximbank programs to local exporters. However, this program has not been a high priority of either agency. As of October 1, 1992, only 10 actual transactions have been completed through the program.

The Eximbank's Cooperative Effort With City/State Programs

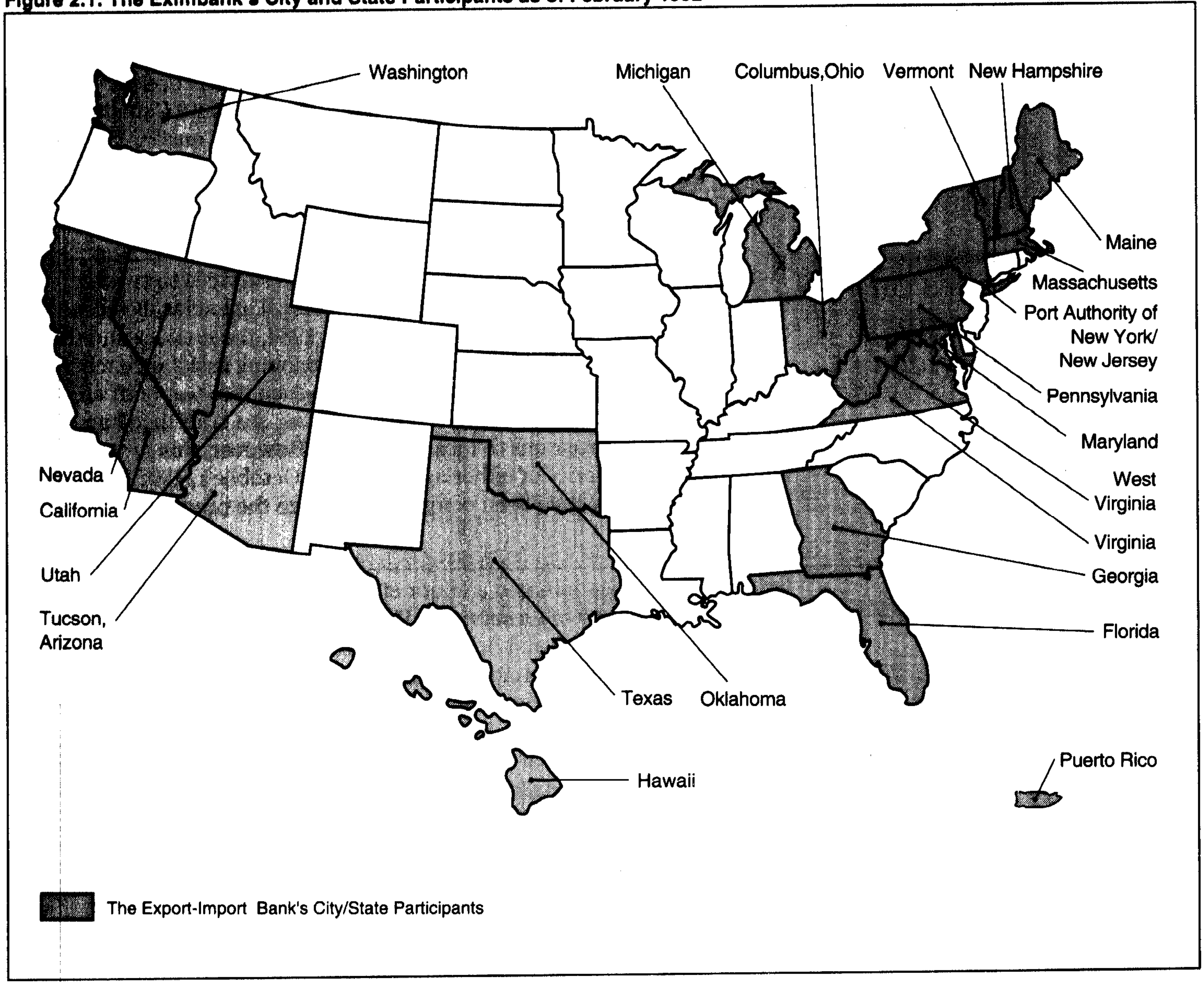
In 1987, the Eximbank initiated a major effort—the city/state program—to improve the delivery of its services. The Eximbank, in cooperation with state and city export finance and development agencies, believes it can provide better access to its programs for small- and medium-sized businesses. These agencies help exporters in their communities understand and use the Eximbank's export financing programs. By working with the Eximbank, the city and state agencies can offer export financing and provide assistance in preparing applications for Eximbank financing.

As illustrated in figure 2.1, 22 locations (9 new locations since July 1991) are now participating in the Eximbank's city/state cooperative program. In fiscal year 1991, 22 Eximbank guarantees were completed through the city/state participants.[6]

[5]See Export Promotion: A Comparison of Programs in Five Industrialized Nations (GAO/GGD-92-97, June 22, 1992).

[6]In addition, $1.3 million in exports was insured by FCIA through the city/state program.

Figure 2.1: The Eximbank's City and State Participants as of February 1992



Source: Eximbank data.

Program emphasis and activity levels vary among state and city export finance and development agencies because of differing legislative authority, amounts and types of funds and staff, and local assessments of needs and capabilities. Characteristics of the more active city and state agencies' programs include (1) state or local funding and (2) personnel with trade and finance expertise who serve as advocates for the less-experienced exporter. For example, state and city agencies provide some of the following services:

- Some programs offer complete export services, including trade promotion, market information, one-on-one counseling, and state-supported financing. One such export promotion program we reviewed was the California State World Trade Commission Export Finance Office.
- Some states have extensive networks (local economic development agencies, local chambers of commerce, world trade centers, etc.) for reaching smaller companies. Texas and Washington both have extensive networks to provide exporters with better access to services at the local level.
- State programs that completed the most Eximbank transactions offer "packaging" for export financing.[7] In 1991, Maryland, Massachusetts, Texas, and Washington state export finance offices completed the largest number of transactions through the Eximbank. Other city/state participants that package transactions for exporters include Columbus, Ohio; Michigan; Nevada; New York; Oklahoma; and Pennsylvania export finance and development offices.
- Some programs offer Eximbank umbrella insurance policies.[8] In 1991, the most active programs offering an umbrella insurance policy were the California, Maryland, and Oklahoma state export finance programs. Arkansas also offers the Eximbank's umbrella insurance policy, although it is not part of the Eximbank's city/state program. Texas and Washington offer Eximbank insurance through insurance brokers. Other city/state participants refer their clients directly to the Eximbank's regional offices that offer export credit insurance.

Limitations and Strengths of the City/State Program

It is difficult to measure the results or the success of the city/state program. Although the Eximbank markets the city/state program as a very successful effort, some of the participants we spoke to expected more Eximbank transactions and quicker turnaround time by the Eximbank. We believe that the Eximbank's expectations also differed from the participants,

[7]Packaging refers to preparing the paperwork to submit a financial application. Some transactions require extensive financial information.

[8]The umbrella policy provides 95-percent coverage against commercial risks and is available to commercial lenders, state agencies, insurance brokers, and similar organizations to insure their clients' export receivables.

e.g., it anticipated more completed transactions and greater packaging of Eximbank transactions by participating cities and states. In neither case were expectations fully met.

A major strength of the city/state initiative is that the cities and states can provide detailed counseling and transaction assistance to exporters, not only on the Eximbank's programs, but also on other funding sources. The city and state agencies provide federal export promotion programs (not just Eximbank programs) with a direct link to exporters at the state and local level. The Eximbank benefits from the city and state participants because they screen exporters, package loans, and provide exporters with information about the Eximbank and other government programs.

Some limitations that the Eximbank faces with the city/state program are that (1) the delivery of services varies between states in terms of outreach, existing networks, funds, and expertise; (2) the city and state participants need training and experience to use the Eximbank's programs and determine how best to meet exporters' needs; and (3) the state and local agencies are subject to changing administration priorities and budget constraints.

Other Efforts to Improve Delivery of Services

The Eximbank has increased its efforts to provide greater assistance and improved access to small businesses. Both the Small Business Subcommittee of the Eximbank's Advisory Committee and the Eximbank's internal small business task force have studied small business issues and provided recommendations for changes. As a result, the Eximbank recently formed a Small Business Group, expanded its marketing efforts, and made changes to its small business programs.

Marketing

The Eximbank targets most of its marketing efforts at increasing commercial bank participation in its programs and making its programs more accessible to smaller companies. As part of these marketing efforts, the Eximbank has established a one-person office in Los Angeles and has conducted training for bankers, exporters, and other federal agencies (such as Commerce's U.S. and Foreign Commercial Service), as part of the city/state initiative. Also, exporters can use the Eximbank's exporter telephone hotline and on-line computerized bulletin board to get details about Eximbank programs, dates of seminars, and country program limitations. In addition, the Eximbank offers exporters a credit information service on foreign buyers. The Eximbank does not provide export counseling, but offers 1-, 2-, and 4-day seminars for exporters and bankers.

During these seminars, Eximbank officials present information on Eximbank programs and other export financing available through the government.

Changes in the Eximbank's Small Business Programs

In May 1990, the Eximbank established an internal small business task force to evaluate its support for small business and to respond to the increasing demand for small business financing. The task force recommended several technical changes to the Eximbank's executive committee to improve the effectiveness of its small business programs. But in its attempts to compare the costs and benefits of the Eximbank's small business programs, the task force could not quantify these factors due to problems with the small business data. The task force also could not determine the actual size of the small business exporting community.

The small business task force study did find that occasional exporters generally are unaware of the existence of U.S. government programs. More specifically, occasional exporters did not know that Eximbank programs, including the Working Capital Guarantee program, existed.[9] The task force discovered that financing was generally a secondary or tertiary obstacle but could be a "deal breaker" for the small business exporter.

In February 1992, as recommended by the Small Business Subcommittee of the Eximbank's Advisory Committee, the Eximbank formed a Small Business Group to centralize, coordinate, and integrate its small business activities. Headed by a senior vice president, the Small Business Group incorporates the Eximbank's Marketing and United States Divisions.

To speed its processing of small business transactions, the Eximbank changed its policy so that the Vice President of the United States Division and the Senior Vice President for Small Business may now approve requests (up to $2.5 million) for most working capital guarantees. Formerly, these applications had to be approved by the Eximbank's loan committee or by the board of directors. In fiscal year 1992, the Working Capital Guarantee program received 249 applications.

The Eximbank has also made several technical changes to its small business programs based on the task force study. Specifically, the Eximbank has increased its risk coverage for its guarantee and insurance programs geared to small businesses to make the programs more attractive to

[9]The Working Capital Guarantee program was developed to meet the specific demand for pre-export financing for small businesses. This program encourages commercial lenders to make loans to small companies that have exporting potential but need funds to produce or market goods or services to export. It is administered by the United States Division.

bankers and others administering the guarantees or insurance. For example, the Eximbank's Working Capital Guarantee program now covers 100 percent of the guaranteed loan's principal and interest amounts. This coverage is an increase from 90 percent of the principal and a limited amount of the interest. The Eximbank also raised the coverage and expanded the eligibility requirements under the "new-to-export" insurance policy.[10] For example, the commercial risk coverage is now 95 percent; previously it was 90 percent. Another change is that applicants may continue to use the "new-to-export" policy as long as their export sales do not exceed $2 million per year. Under the previous policy, exporters were limited to 5 years and sales up to $1 million.

Although the Eximbank has increased its efforts to provide greater assistance and improved access to smaller companies, we believe it is too soon to assess the results of these efforts. The Eximbank's Small Business Advisory Subcommittee, in its 1991 report recommendations, "assumes that the Eximbank recognizes the inherently large administrative costs and the implicit subsidy involved and is committed to continuing the small business programs." The Eximbank's small business task force study suggested that the Eximbank take further actions to evaluate the effectiveness of its efforts to assist small businesses.

Conclusions

There is a growing demand for the Eximbank's services, particularly by small- and medium-sized businesses. This demand is compounded by the fact that many commercial banks have cut back on their international departments and operations. Because the Eximbank does not have an extensive delivery network of its own to deliver all of its services, it uses other federal, state, and local agencies, as well as commercial banks, to deliver its services. One example of this usage is the Eximbank's city/state program.

To meet the increasing demand for its services to small- and medium-sized businesses, the Eximbank has made organizational and program changes. Such changes include the formation of a Small Business Group, increased marketing efforts, and increased risk coverage on loan and guarantee programs aimed at smaller businesses. However, it is too soon to evaluate the effectiveness of these changes.

[10]The "new-to-export" policy insures the novice exporter against many of the risks of nonpayment by a foreign buyer. The new exporter, entering new markets and dealing with unfamiliar customers, may be hesitant to extend the credit its buyers need. With this insurance protection, the new exporter reduces its risks of extending such credit and thus can develop and promote overseas sales.

The Eximbank Now Administers Its Own Insurance Program

The Eximbank's export credit insurance program offers credit and political risk coverage. Export credit insurance accounted for 40 to 80 percent of the Eximbank's total annual program commitments during fiscal years 1986 through 1991. Although the privately owned Foreign Credit Insurance Association had administered the Eximbank's export credit insurance program since 1962, the Eximbank recently decided to take over the administration of its insurance program.

Eximbank's Relationship With FCIA

The Eximbank's relationship with FCIA has gone through several phases. In 1961, Congress authorized the Eximbank's export credit insurance program to provide insurance against risks of nonpayment by foreign buyers. The program has broad objectives for assisting in the expansion of exports and providing a facility comparable to those available to foreign exporters in major competitor countries. Other objectives are also pursued in the program's execution, such as assisting small exporting firms, and involving the private sector in delivery of the services.

In establishing the insurance program, Congress intended that the government would fill a gap in the availability of private insurance and that private insurers would be involved to a maximum extent in delivering this service. FCIA, a private insurance association, was formed to act as the Eximbank's agent. FCIA began operations in 1962 as an association of 71 insurance companies. The association was a pooling arrangement whereby participating insurance firms assumed some of the risks on the transactions underwritten and shared in profits and losses.

The insurance program incurred large losses in the early 1980s, and all but four FCIA member insurance firms withdrew from the association. FCIA was left to function as a servicing agent employed by the Eximbank on a cost-reimbursable basis, with the Eximbank assuming all of the risks and receiving all the profits and losses from the insurance transactions.

In 1991, FCIA formed the FCIA Management Company, Inc. FCIA Management Company continued to act as the servicing agent to market and administer the Eximbank's export credit insurance program, but also began to underwrite export credit insurance polices on a private basis.[1] At that time, the Eximbank entered into a new agreement with the FCIA Management Company. The agreement was a 2-year contract for $10 million. However, some Eximbank officials and others began to have concerns about the new

[1]The majority owner of the FCIA Management Company is an insurance company that underwrites its private insurance policies. Another insurance company holds the remainder of the shares.

agreement. After evaluating the agreement and the relationship between the Eximbank and the FCIA Management Company, the Eximbank concluded that it should cancel its contract with the FCIA Management Company effective September 14, 1992, and administer its insurance program "in-house."

Eximbank's Decision to Cancel Its FCIA Management Company Contract

To determine "the most appropriate and least expensive" way to administer its insurance program once the contract with the FCIA Management Company expired in 1993, the Eximbank conducted studies and evaluations of its export credit insurance program, the method of delivery of its insurance product, the involvement of insurance brokers, and the possibility of instituting a reinsurance program. Eximbank management evaluated a range of options for administering its insurance program, including rebidding the contract, conducting the insurance operations in-house, and other options.

Several reasons led to the Eximbank's decision to administer its export credit insurance program in-house instead of continuing to use a contractor (the FCIA Management Company or any other contractor). The Eximbank's reasons, as discussed in an internal Eximbank memo from the Chairman, are summarized in the following paragraphs:

- There was a concern that there might be a conflict of interest—"real or perceived"—in the arrangement between the Eximbank and the contractor. Contractor personnel who administered the government portfolio were also making commercial decisions for their company's (FCIA Management Company) private portfolio in competition for business with other private sector insurers.
- There was a concern that the U.S. government was appearing to support or subsidize the operations of the contractor and thereby give it an unfair competitive advantage.
- It was the view of the Eximbank that the decision to commit the full faith and credit of the U.S. government is an inherently governmental function and should only be made by the government. Since the Eximbank determined that this decision is inseparable from the insurance underwriting process, it concluded that the underwriting function should not be delegated to a private contractor.
- Eximbank data suggested that the Eximbank's export credit insurance program could be carried out more efficiently and cost-effectively in-house.
- There was a consensus that marketing and sales efforts offered by the contractor's regional offices were not administratively efficient and did

not fit into the Eximbank's long-term plan for "full service outreach." The Eximbank's goal is to market all of the Eximbank's programs to small business through regional offices.

Based on the results of its studies and evaluations, the Eximbank also decided to encourage greater private sector participation in export credit insurance, by

- increasing its use of insurance brokers,
- raising broker commissions for small business transactions to stimulate greater broker interest in such transactions, and
- developing a reinsurance[2] program for private sector entities that offer export credit insurance to increase the interest in and capacity of the market in private export credit insurance.

The cancellation agreement between the Eximbank and FCIA Management Company allows for the Eximbank to take over the administration of the insurance program and the operation of the regional offices. According to Eximbank officials, most of the terms of the financial settlement resulting from the cancellation of the contract have been agreed upon by both parties, but some financial issues have not been fully resolved.

Eximbank officials also told us that there will be a final audit of the contract between the Eximbank and FCIA Management Company. The audit will be conducted by the Defense Contract Audit Agency (DCAA), which will audit the costs and contract billing and also the terms of the financial settlement resulting from the cancellation of the contract.

Since the contract has been canceled, some remaining issues are being pursued—namely, the oversight and monitoring by the Eximbank of the contract during the period of its administration by FCIA Management Company and the effective use of regional offices.

[2]Reinsurance is the sharing of risk among insurance companies. Part of the insurer's risk is assumed by other companies in return for a part of the premium fee paid by the insured.

Oversight and Monitoring of the Eximbank-FCIA Management Company Contract

During the period of the contract's administration, the Eximbank had given up many of its means of monitoring and overseeing the FCIA Management Company's administration of the Eximbank's insurance program and the associated costs. For example, although the Eximbank previously chaired and had effective control over the FCIA's board of directors, the Eximbank removed itself from the FCIA Management Company's board in October 1990 (before the contract was signed). Eximbank management believed there was some impropriety in the Eximbank's serving on the FCIA Management Company's board—or any of its committees—when the two were negotiating a contract. Thus, the Eximbank removed itself from the FCIA Management Company's audit, budget, and approval committees, although it had served on these committees in FCIA. In addition, the FCIA Management Company eliminated its internal auditor position even though its contract with the Eximbank required internal audit procedures. One of the Eximbank's primary reasons for wanting an internal auditor at the FCIA Management Company was to monitor contract costing.

The only mechanisms the Eximbank retained to monitor and control the FCIA Management Company's administration of its insurance program were participating in quarterly meetings and reading FCIA Management Company reports. According to Eximbank officials, FCIA Management Company officials met with Eximbank officials every quarter and provided them with management reports on budget, financial, underwriting, claims and recoveries, legal, marketing, and management information system functions, as required by the agreement. However, Eximbank officials explained that none of these requirements were new: The Eximbank had always employed these oversight mechanisms in its relationship with FCIA.

As previously stated, Eximbank officials have asked DCAA to conduct a final audit of the contract. The audit should address whether the Eximbank exercised proper cost controls over the contract with FCIA Management Company.

Marketing and Regional Offices

Since 1962, FCIA (and later, FCIA Management Company) used five regional offices to market the Eximbank's export credit insurance. The regional offices have never been used to market the Eximbank's other programs (loans and guarantees), even though the Eximbank was paying the full cost of operating these offices.

As we previously noted, the Eximbank concluded (after studying its export credit insurance program) that marketing and sales efforts offered by the contractor's regional offices were not administratively efficient and did not fit into the Eximbank's goal to market all of its programs to small businesses through regional offices. As part of the cancellation agreement, the Eximbank and FCIA Management Company agreed that the Eximbank would take over the regional offices (including hiring selected regional staff as Eximbank employees). The Eximbank is planning to use these regional offices to market all of its programs.

The Eximbank's reevaluation of the use of regional offices is in keeping with recently passed legislation affecting the Eximbank—the Export Enhancement Act of 1992. The act requires that, not later than 1 year after the date of its enactment, the Eximbank must submit a report to Congress on its plan to establish and operate regional offices. The statute requires that the report consider the appropriateness of cooperating with other federal agencies and state and local organizations in co-locating personnel of such agencies and organizations with personnel of the Eximbank in these regional offices.

Conclusion

The Eximbank has ended a 30-year relationship with FCIA and taken over the administration of its export credit insurance program. The Eximbank's decision to cancel its contract with FCIA Management Company was apparently based on several factors, including concerns about potential conflicts of interest and whether administering the insurance program was an intrinsically governmental function that should be conducted by the Eximbank. Eximbank studies and evaluations also concluded that the Eximbank could carry out its insurance program more efficiently and cost-effectively in-house and that using the regional offices to market only insurance was not administratively efficient. The Eximbank is required by the Export Enhancement Act of 1992 to report to Congress on its plan to establish and operate regional offices.

During the period of the agreement, the Eximbank curtailed its monitoring and control of the FCIA Management Company's administration of the insurance program. However, according to Eximbank officials, there will be a final audit of the contract between the Eximbank and FCIA Management Company, conducted by the DCAA.

Credit Reform Reveals the Cost of Eximbank Transactions

Changes in the world's economic and political situation and, consequently, in U.S. foreign and trade policy, sometimes create new markets for U.S. exporters. However, these emerging markets, such as the former Soviet Union and Eastern Europe, may pose commercial and political risks for U.S. exporters. The Eximbank assesses the riskiness of financing exports to these countries, using a country risk assessment process it has developed. On the basis of its risk assessment, the Eximbank's board determines the amount of financing it will make available to a particular country.

Although the risk assessment process aids the Eximbank in determining the maximum amount of financing exposure it will have in a market, it does not help determine the cost of providing the financing to that country. Under the Federal Credit Reform Act of 1990, the estimated costs of the Eximbank's transactions must be accounted for and funded up front in fiscal year 1992 and thereafter. However, credit reform does not make it any easier to project exporter demand for Eximbank assistance in a particular country.

Eximbank's Country Risk Assessment Process

When the Eximbank assesses potential new markets, its mission sometimes presents it with potentially conflicting roles. According to the Eximbank's mission statement, its goal is, in part, to facilitate export financing of U.S. goods and services "by absorbing reasonable credit risks that are beyond the current reach of the private sector." Although the Eximbank often provides financing for markets that the private sector is reluctant to enter (including emerging markets), these markets tend to be riskier. Since the transactions are inherently more speculative, they are less likely to be "reasonable" credit risks.

To decide if repayment is likely, the Eximbank must assess the country risk involved. The Eximbank's Country Risk Analysis Division, which has economists on staff, is responsible for completing this task. An economist in the division assesses several countries, usually in a particular region of the world. The economists issue risk assessment updates on their countries every 6 months, or as events change.

As part of the Eximbank's country risk assessment, the economists evaluate the country's (1) capability to repay (economic analysis) and (2) willingness to repay (political analysis). The division does quantitative analysis projecting out 5-10 years by evaluating the country's sources and uses of foreign exchange. The economists review the country's

- payments/arrears history,
- foreign debt service,
- capacity to adjust the balance of payments,
- macroeconomic situation and policy environment, and
- political and social constraints.

They also evaluate the availability of new financing in three categories: (1) debt financing from the multilateral financial institutions, such as the International Monetary Fund (IMF) and World Bank; (2) bilateral financing through export credit agencies; and (3) commercial financing.

Credit Reform

Before 1991, government agencies that offered international loans or guarantees used a variety of systems to estimate the risks of default on sovereign loans (loans to foreign governments). The Federal Credit Reform Act of 1990 required the Office of Management and Budget (OMB) to estimate costs on new loans and guarantees (and insurance, which is treated the same as guarantees), and on modifications to the terms of existing debt. This legislation, in effect, requires OMB and government agencies to develop consistent measures of country risk for use in developing budget estimates. Therefore, OMB formed an interagency country risk assessment group to provide more consistent and transparent country risk assessments across the government. The Eximbank has played a key role in this process.[1]

Under the Federal Credit Reform Act of 1990, the President's budget for fiscal year 1992 and after must include the total estimated cost to the Eximbank (instead of just the cash flows) of its direct loans, guarantees, and insurance. Under the act, the Eximbank may not incur either new obligations or commitments unless Congress appropriates budget authority to cover the estimated costs of these obligations or commitments in advance.

Funding for the Eximbank's programs is specifically identified in separate budgetary accounts. These accounts allow Congress and the administration to (1) monitor the costs of these programs and (2) compare these costs to the benefits gained by expanding U.S. export markets.

With credit reform, the risk assessment process becomes even more important because risk assessment will be tied into the budget process.

[1]The interagency working group is chaired by OMB with representation from the Treasury Department, the Eximbank, the State Department, the Department of Agriculture, the Department of Defense, the Overseas Private Investment Corporation, AID, the Council of Economic Advisers, and the Federal Reserve Board.

When the Eximbank makes loans for exports to "riskier" countries, such a decision will have a greater impact than formerly on the Eximbank's ability to lend. Under credit reform, the amount of exports the Eximbank can support depends on both the authorized cost and the creditworthiness of the countries involved. For example, $1 billion in authorized cost to the Eximbank may only support $2 billion in export loans and guarantees for a very risky country. In comparison, the same $1 billion could support $10 billion in exports to a significantly less risky country.

Credit reform, in effect, increases congressional involvement in the decision-making process about which countries should receive credits. Congress will know the costs involved in potential transactions up front—during the budget process. Credit reform should, ideally, be a tool to help Congress determine the costs associated with the Eximbank's different programs under varying degrees of risk. Accordingly, the Eximbank has developed cost assumptions for the budget process to show the combinations of credits (loans, guarantees, and insurance) and country risks possible within the Eximbank's budget constraints.

For any given country, the Eximbank assumes that the risk of default is the same on a loan or guarantee. However, the cost may differ because of the impact of fees and interest rate differentials. When a direct loan carries an interest rate greater than the Eximbank's cost of borrowing, the Eximbank's cost for a loan is smaller than a guarantee. The reason for this difference is that when the Eximbank makes the loan, it receives the interest payments from the borrower. As guarantor, the Eximbank assumes the risk of nonrepayment of the loan, while the bank making the loan receives the interest payments from the borrower.

According to the Eximbank's 1992 estimates, the cost differential between guarantees and loans is as follows:

- Medium-term (7 years or less) guarantees cost approximately $5.92 more per $100 of credit than direct loans.
- Long-term (over 7 years, usually not exceeding 10 years) guarantees cost approximately $8.40 more per $100 of credit than direct loans for most categories of countries. For the most creditworthy category of countries to which the Eximbank can make long-term guarantees and direct loans available, the differential is $8.92 per $100.

However, there are concerns about how credit reform is being implemented. In the Foreign Operations, Export Financing, and Related

Programs Appropriation Act, Congress has directed us to undertake a review of credit reform to assess how well the executive branch is carrying it out with respect to international credit programs. Our review is underway.

While credit reform increases congressional involvement in decisionmaking, the prescribed process does not provide all the information necessary for Congress to decide whether the Eximbank has adequate funds to fulfill its mission: The funding that the Eximbank needs is also determined by the demand for Eximbank services. However, credit reform does not make it any easier to project exporter demand for Eximbank assistance. Various factors drive demand for Eximbank financing, but these factors are complex and difficult to forecast. Such factors include

- the level of bank participation (in export finance in general and in Eximbank programs),
- the fluctuations in interest rates,
- the additional demand from emerging markets, and
- the export financing programs of countries that compete with the United States.

Factors That Affect the Eximbank's Decisions to Open in Emerging Markets

Recent changes in the former Soviet Union and Eastern Europe have opened new markets for U.S. companies, but controversy exists about the creditworthiness of some of these countries.

Status of Eximbank Programs in the Former Soviet Union

The Eximbank had not offered financing in the Soviet Union since 1974. The Soviet Union had made payments on all pre-1974 Eximbank loans on schedule. In December 1990, the President waived the Jackson-Vanik amendment restricting Eximbank financing support to the Soviet Union and previously restricted East European countries.[2] On January 10, 1991, the Eximbank announced that it would begin taking loan guarantee applications for the Soviet Union.

[2]The Jackson-Vanik amendment to the Trade Act of 1974 prohibited (unless waived by the President) the granting of "most-favored-nation" treatment to a "nonmarket economy" country if the country was engaging in certain emigration-restricting practices. Most-favored-nation treatment involves a commitment that a country will extend to another country the lowest tariff rates it applies to any third country. The amendment also prohibited such countries from participating in U.S. government credit or guarantee programs.

The Eximbank officially opened its programs to the "Russian Federation" on February 27, 1992, for sovereign risk transactions. The Eximbank has agreed to make available its short- and medium-term programs at commercial interest rates for exports to the Russian Federation. OECD classifies the former Soviet Union as a "rich" country under the OECD's country classification system.[3] Under the OECD guidelines, export credit agencies cannot make loans to rich countries except at commercial interest rates. In other words, the export credit agencies are not allowed to subsidize the interest rates on loans to rich countries.

Before processing applications for final commitments to the former Soviet Union, the Eximbank requires clearance by (1) the Rosvneshtorgbank, the Bank for Foreign Trade of the Russian Federation, (2) the Vneshekonombank, the Bank for Foreign Economic Affairs, or (3) other official entities acting on behalf of the government of the Russian Federation. If a company's export is eligible for Eximbank coverage, the Eximbank passes the application on to the Rosvneshtorgbank. The Eximbank offers a preliminary commitment, and the Rosvneshtorgbank decides which transactions are priorities and those transactions on which it is willing to guarantee repayment.

The Eximbank has received applications for such items as machinery to produce automobile glass, auto pistons, and automobile batteries; and equipment for food processing. The Eximbank has also received applications for short-term insurance for agricultural chemicals, fertilizers, and bulk agricultural commodities.

The Eximbank's Plans in the Former Soviet Union

With the recent repeal of the Stevenson-Byrd amendments—which imposed a $300-million ceiling on Eximbank credits to the Soviet Union and prohibited credits to the Soviet energy sector—the Eximbank can finance more private deals in Russia. The Eximbank has also opened its short-term insurance programs to Belarus, Kazakhstan, Uzbekistan, and Ukraine. Eximbank officials told us they are evaluating the markets of the other newly formed republics.

Status of Eximbank Programs in Eastern Europe

The Eximbank's short-term insurance programs are available to companies exporting to Bulgaria, Estonia, Latvia, Lithuania, and Romania. Short- and medium-term programs are also available for exports to Poland. All Eximbank programs (short-, medium- and long-term) are open to the Czech and Slovak Federal Republic and Hungary. The Eximbank has received

[3]The OECD's country classifications are based on GNP per capita data.

applications for a wide range of capital goods, such as food processing equipment, subway cars, and aircraft. In the Czech and Slovak Federal Republic, the Eximbank has received applications for such items as satellite earth station, telephone line, and computer equipment.

Differences in Exporting to Eastern Europe and the Former Soviet Union

A unique aspect of exporting to Eastern Europe and the former Soviet Union, as compared with exporting to other parts of the world, is that these countries do not have a western banking system. Although these governments declared their banks "commercial" banks under the new reforms, their countries' banks still carry large debts from state-owned companies. These countries will find it difficult to write off prior debts or create new banks without new capital. Unless the countries develop a viable banking system, western export credit agencies cannot guarantee transactions through the traditional intermediary guarantee programs and must find other arrangements.

According to the Eximbank and other government officials, East European and former Soviet economic data are unreliable because prices have been distorted by subsidies used in these previously closed economies. The Eximbank is primarily using trade data because the data provide "mirror statistics," i.e., statistics that are verifiable by both the exporter and the importer.

In addition, these governments are in transition, which leads to high uncertainty and makes it difficult to project their future. In evaluating applications for financing for these markets, Eximbank officials analyze financial information from the U.S. exporter, the official guarantor, and the foreign buyer. According to Eximbank officials, these countries lack certain financial information, and their financial statements are not up to par with the West. For example, the foreign buyers lack balance sheets and profit and loss statements.

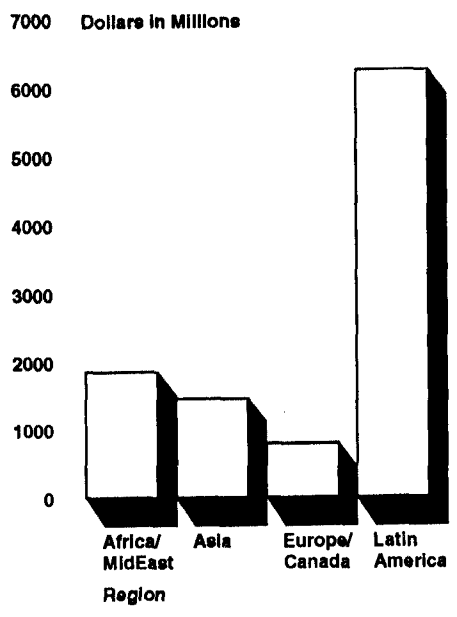
Nevertheless, many of these countries are obtaining status in the IMF. To obtain IMF status, IMF requires these countries to change their accounting practices and provide better financial data. These changes will bring the countries more in line with generally accepted accounting practices. Better financial data will make it easier to more accurately evaluate these countries' markets.

Other Markets

Eximbank support allows U.S. exporters to compete with other countries' exporters who have long received help from their governments to enter a particular market. Some of the markets in which exporters need assistance may be considered too risky by the private sector. Besides its recent support for exports to Eastern Europe and the Soviet Union, the Eximbank offers financial assistance to U.S. exporters for other markets based on the demand for export financing. The Eximbank generally does not target its financing to specific markets or industries (except for "war chest" use—see chap. 5).

In fiscal year 1991, more than half of the Eximbank's assistance went to Latin America (see fig. 4.1). Table 4.1 lists the 10 countries receiving the largest amounts of Eximbank funding in fiscal year 1991. Figure 4.2 illustrates the locations of these 10 countries. Mexico received the most support—about 31 percent of the Eximbank's assistance—including $1.3 billion approved for exports to Petroleos Mexicanos (PEMEX), the Mexican government's oil company.

Figure 4.1: Eximbank's Assistance by Region, Fiscal Year 1991



Source: The Export-Import Bank's 1991 annual report.

Table 4.1: Eximbank Export Financing to Top 10 Countries, Fiscal Year 1991

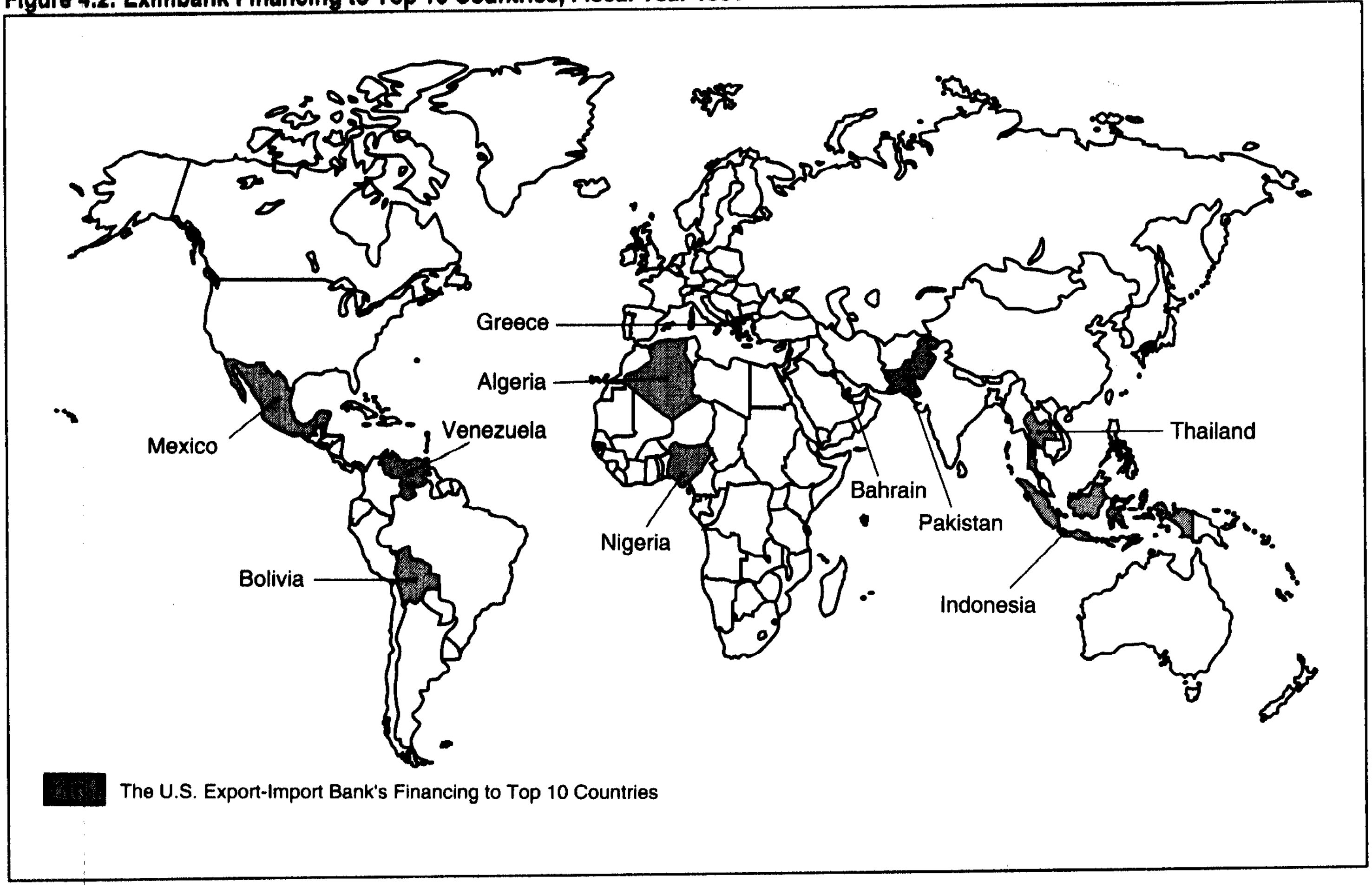
Dollars in thousands

Countries	Total amount approved[a]
Mexico	$3,506,267
Algeria	934,721
Venezuela	433,455
Indonesia	430,010
Bahrain	366,787
Bolivia	297,123
Greece	200,100
Pakistan	166,215
Thailand	153,175
Nigeria	95,089

[a]Amounts the Eximbank approved to finance exports including loans, grants, guarantees, and medium-term (181 days to 5 years) insurance. This amount does not include short-term insurance, which FCIA defines as sales on terms of up to 1 year for capital equipment, machinery, and bulk agricultural products, and up to 180 days for all other products.

Source: Compiled from Eximbank data.

Figure 4.2: Eximbank Financing to Top 10 Countries, Fiscal Year 1991



Source: Compiled from Eximbank data.

Conclusion

Although the Eximbank has used its risk assessment process for evaluating creditworthiness to determine how much financing exposure it is willing to have in a given market, it did not determine the cost to the government of providing the financing. However, credit reform requires that the President's budget (beginning in fiscal year 1992) include the estimated cost of the Eximbank's direct loans, guarantees, and insurance. And Congress must appropriate budget authority for the cost of the Eximbank's credit programs. Under credit reform, the amount of exports the Eximbank can support depends, in part, on the amount of the appropriated budget for the estimated cost and the creditworthiness of the countries involved.

However, credit reform does not help determine demand for Eximbank funding, which is a key element in determining if the Eximbank has adequate funds to fulfill its mission.

As a result of credit reform, Congress is more involved in determining the costs of the Eximbank's credit programs. Congress now provides budget authority to cover the costs involved in Eximbank loans, guarantees, and insurance before they are extended. This information is particularly important now, since the Eximbank is opening its programs in several emerging and risky markets, including markets in the former Soviet Union and Eastern Europe.

Eximbank Attempts to Reduce Competitors' Use of Tied Aid

The Eximbank is required by its legislation to establish a tied aid program. The purpose of the program is to enforce compliance with an existing international arrangement to restrict the use of tied aid and to encourage further negotiations. "Tied aid" refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. U.S. trade policy has generally been to discourage the use of tied aid by the United States or its competitors. To this end, in 1986, Congress authorized the Eximbank to create a "war chest" fund as a means of dealing with other countries when there is "reasonable proof that concessional foreign financing is being offered to a foreign competitor for a U.S. export sale." However, the Eximbank's war chest funds have not been used extensively. The Eximbank has relied on international negotiations to attempt to reduce the use of tied aid, but such negotiations have not been very effective in the past. The Eximbank's Chairman and other officials believe that a recently signed OECD agreement is a major step toward discouraging the use of tied aid. They believe that if other countries stop offering tied aid, U.S. competitiveness should improve in many sectors and markets. However, some exporters and others doubt that the OECD agreement will help.

Tied Aid Distorts International Trade

The availability of tied aid credits puts exporters from countries without equivalent access to such financing at a disadvantage in bidding on projects. When tied aid is offered, contract awards may be based on the availability of such subsidized financing instead of on the price or quality of the goods or services being exported. U.S. exporters using commercial or Eximbank financing are often at a competitive disadvantage against competitor countries' firms that have access to tied aid financing. The Eximbank estimated in a 1989 report to Congress that U.S. exporters of capital goods lose sales of between $400 million and $800 million a year as a result of competitors' tied aid practices.

Some American exporters and others favor more tied aid use by the United States. They believe that by putting more U.S. foreign aid into developmentally sound capital projects[1] and less into "cash giveaway" (purely aid) programs, U.S. businesses and workers will benefit. Such aid would be used by the recipients to buy U.S. products and create jobs in the United States. If the United States puts equipment into the infrastructure

[1]The aid programs of many OECD countries focus primarily on major infrastructure projects. Such projects tend to involve the purchase of high-value capital equipment in industrial sectors, such as telecommunications, rail transportation, power generation, earth moving, and computers. Once a country has made initial sales of infrastructure equipment, it tends to have an advantage in selling parts and services needed to maintain this equipment.

of other nations, those nations would likely come back to the United States when replacements, spare parts, and services are needed.

However, the use of tied aid has broader repercussions than the effects on the competitiveness of U.S. exports. For example, a Treasury official reported that

- tied aid can distort funds allocation in a developing country toward capital-intensive infrastructure and public sector investment;
- tied aid is generally directed toward the higher-income developing countries; and
- tied aid shifts supply from more efficient producers to less efficient producers with access to subsidized financing.

Eximbank Has Not Used Its War Chest Funds Extensively

Congress authorized the Eximbank's "war chest" fund as a strategic means to deal with other countries that have relied strongly on tied aid to enhance their exports. The strategy behind outbidding a competitor country is to prevent it from benefiting from the use of tied aid. In recent years, the war chest has targeted Asia and North Africa—regions in which a large share of tied aid was being offered by other countries—as well as infrastructure projects such as power generation and telecommunications.

In fiscal year 1991, the Eximbank committed $145.5 million in war chest grants, for the first time using nearly all of its war chest authority ($150 million for fiscal year 1991). The funds supported nine transactions involving telecommunications, power, transportation, and construction equipment exports in Indonesia, Mauritius, Pakistan, Papua New Guinea, and Thailand. (See table 5.1.)

Table 5.1: the Eximbank's War Chest Transactions, Fiscal Years 1987-1992

Dollars in millions

Country	Project	Export value	War chest grant amount
Fiscal year 1987			
Gabon	Earth satellite station	$21.2	$5.3
Gabon	Cellular phone system	8.5	2.1
Brazil	Hospital equipment	35.0	8.7
Brazil	Airport navigation equipment	52.6	13.2
India	Gas turbines	27.0	8.8
Thailand	Capital equipment	100.0	40.0
	Subtotal fiscal year 1987	$244.3	$78.1
Fiscal year 1988			
Jordan	Power equipment	$18.3	$5.5
Algeria	Telecommunications	16.0	2.1
	Subtotal fiscal year 1988	$34.3	$7.6
Fiscal year 1989	No transactions authorized		
Fiscal year 1990			
China	Shanghai Metro project	$23.2	$10.4
Uruguay	Power project	55.2	19.3
Morocco	Air traffic control	24.7	9.9
Philippines	Tied aid line	125.0	13.8[a]
	Subtotal fiscal year 1990	$228.1	$53.4
Fiscal year 1991			
Indonesia	Tied aid line	$127.7	$56.2
Thailand	Tied aid line	127.7	43.7
Pakistan	Tied aid line	135.0	[b]
Papua New Guinea	Satellite earth station	3.1	1.1
Papua New Guinea	Satellite system	13.5	4.7
Indonesia	Telecommunications equipment	60.0	17.0[c]
Mauritius	Construction equipment	5.0	1.8
Pakistan	Digital switches	45.0	15.8
Pakistan	Satellite system	15.0	5.2
	Subtotal fiscal year 1991	$532.0	145.5

(continued)

Dollars in millions

Country	Project	Export value	War chest grant amount
Fiscal year 1992			
Tunisia	Air traffic control	12.3	5.1
Total		**$1,051.0**	**$289.7**

Note: A "tied aid line" is a line of credit extended to a country to be used for several related projects.

[a]AID is providing $30 million in grants.

[b]AID is providing $46 million in grants.

[c]AID is providing $12 million in grants.

Source: Eximbank data.

Two of the transactions were funded jointly by the Eximbank and AID. The Eximbank and AID announced in May 1990 a tied aid pool of $500 million to finance developmentally sound projects in Indonesia, Pakistan, the Philippines, and Thailand. The program combined existing AID grant programs with Eximbank war chest funds and Eximbank guarantees of commercial financing.

Some exporters have benefited from the use of the Eximbank's war chest funds. One such exporter, a large, internationally active U.S. company, gained access to the Eximbank war chest for projects in Indonesia and Thailand. At the time, the company was not doing any business in these countries. But the war chest funds allowed the company to penetrate a market that it might not have otherwise entered. The company has now done over $500 million in business in this region and is continuing to work in the area without resorting to tied aid.

However, some exporters we spoke to stated that the Eximbank is very reluctant to use war chest funds and believed that the Eximbank requires excessive documentary proof of competitors' use of tied aid. In fact, the Eximbank has not exhausted the full amount of its authorized annual war chest funds in any year since the war chest's creation and did not use the war chest at all in fiscal year 1989. Only in 1991 did the Eximbank use nearly all of its war chest authority.

Officials from a large association told us that their members have had difficulty accessing the Eximbank's war chest. They said that they have written many letters to the Eximbank to inform it of the presence of tied aid in particular markets and have tried to document such cases. However, these officials said that in order to prove the existence of tied aid use and thus gain access to Eximbank war chest funds, the Eximbank requires that a copy of the actual quote from the competitor who used tied aid be produced, along with a copy of the competing quote submitted by the U.S. company. They claim that even if the U.S. firm could actually obtain a copy of the competitor's quote, it would usually be too late to do anything about it, and the competitor would already have made the deal.

New OECD Agreement Is Intended to Reduce the Use of Tied Aid

One of the U.S.' trade policy goals is to continue international efforts to reduce the use of tied aid. Such negotiations are conducted within OECD. In the past, the U.S. negotiating strategy in OECD was to negotiate for a higher grant component in tied aid, making the grant component so large that it would become prohibitively expensive to use such credits primarily as an export promotion tool. The United States believes that any such financing with a sufficiently high level of the grant component would truly be foreign aid rather than export promotion.

Although the U.S. strategy (to negotiate for a higher grant component) and the OECD negotiations over the past decade have produced stronger agreements to limit the use of tied aid, use of such credits has not been substantially reduced. Some countries have continued to employ tied aid. For example, Japan, France, and Germany still use tied aid as an integral part of their export trade policies.

The Eximbank maintains that a recent agreement among 22 of the 24 members of OECD will reduce competitors' use of tied aid. The new OECD agreement establishes guidelines to determine when use of tied aid would distort trade. The underlying rationale to support the new agreement is that tied aid should not be used to finance inherently commercially viable projects. This is the first time that OECD has adopted project-specific guidelines concerning the use of tied aid credits. The new guidelines of the agreement generally

- require that the concessionality level (the percentage of financing that is a grant or grant equivalent) be at least 50 percent for least-developed countries and at least 35 percent for other countries eligible for tied aid;

- prohibit the use of tied aid for projects in countries whose per capita income would make them ineligible for 17- or 20-year loans from the World Bank;[2]
- prohibit the use of tied aid for commercially viable projects—such aid may only be extended to projects that are either unable to generate cash flow sufficient to cover the project's operating costs or cannot be financed by the private market or official export credits; and
- do not apply the above limitation for projects in least-developed countries.[3]

Although use of tied aid is permitted in least-developed countries, under the terms of the new agreement, the Eximbank does not offer financing (because of uncreditworthiness or U.S. foreign policy reasons) in virtually all of these countries. The agreement does not apply to export credits relating to exports of military equipment and agricultural commodities.

According to a Treasury official, the new agreement also strengthens OECD notification and consultation procedures. A member country planning to use tied aid must notify OECD. Other member countries will be able to challenge the country's notification of an aid offer if they believe it does not meet the new OECD guidelines. Once challenged, the initiating country must justify the use of tied aid on developmental grounds and show how the project does not meet the "commercial viability" test.

The Chairman of the Board of the Eximbank believes that the agreement will help discourage the use of tied aid and will "significantly improve" U.S. competitiveness in sectors and markets that have traditionally received tied aid. He stated that the Eximbank will use the war chest to "police the agreement by selectively reacting against other countries' offers in cases where tied aid should not be used—particularly where consultations have not resulted in the withdrawal of a tied aid offer which has been considered inappropriate." According to the Eximbank's June 18, 1992, semiannual report to Congress on tied aid, no tied aid offers by U.S. competitors have violated the new rules since the agreement came into effect on February 15, 1992.[4] Consequently, the Eximbank has not considered any new use of the war chest.

[2]Examples of countries in this category are Mexico and the former Soviet Union.

[3]Examples of least-developed countries are Afghanistan and Bangladesh.

[4]See the Eximbank's semiannual report to Congress on tied aid credits (June 18, 1992).

Skepticism About the OECD Agreement

Some exporters and others are skeptical about whether the new OECD agreement will reduce competitors' use of tied aid. One complaint about the agreement is that it lacks sufficient monitoring and enforcement provisions. Other complaints are that the terms and language of the agreement are vague and might provide competitor countries with "loopholes" to avoid abiding by the agreement.

Further, some exporters we spoke to expressed frustration with the new OECD agreement because they have frequently been told that the Eximbank is "negotiating" to end the use of tied aid, with no obvious results. Some of these exporters have lost all hope that any of these high-level negotiations will stop the use of tied aid. They believe that U.S. businesses are being forced to compete "with their hands tied behind their backs" because of the tied aid practices of competitors and what they perceive as the lack of U.S. government help.

Some exporters we spoke to and others believe that heavy, aggressive use of the war chest is necessary to deter competitors' use of tied aid. Some of them also believe that the Eximbank should be more active in sharing with exporters information about markets in which competitors are using tied aid. They think that the Eximbank has an obligation to inform U.S. exporters when it knows of situations in which tied aid is being used. If they were so informed, exporters say they would not waste their time and money going to those countries to try to sell their products.

The Eximbank does not have any formal, systematic mechanism to consult with exporters on a regular basis to find out about their experiences with competitors' tied aid use. Also, the Eximbank does not routinely inform exporters when it knows tied aid is being used in a particular market. An Eximbank official stated that it would be difficult for the Eximbank to share such information with exporters because there is only one Eximbank staff member fully devoted to tied aid issues. However, the Eximbank has met with certain groups representing exporters (including a major association and a coalition group)—at their request—to share information on competitors' use of tied aid. Congress supports such sharing of information between the Eximbank and exporters. In fact, the Export Enhancement Act of 1992 states that the Eximbank should "request and take into consideration the views of the private sector on principal sectors and key markets" where tied aid is being offered.

Conclusion

While U.S. policy is to discourage tied aid use, there is a conflict about how best to dissuade other countries from using tied aid. The Eximbank uses international agreements and negotiations to reduce competitors' use of tied aid, while some exporters and others favor heavy use of the war chest as a deterrent. Although Congress continues to fund the war chest, the Eximbank has come close to using the full amount of the war chest in only 1 of the 6 years that the fund has been in existence.

Eximbank management believes that the new OECD agreement is a strong step toward reducing tied aid use. However, some others are skeptical and think that the agreement contains potential loopholes and may not have the monitoring and enforcement provisions necessary to enforce it.

In determining if OECD members are really abiding by the new agreement, the Eximbank has not systematically or consistently reached out to consult with exporters who have had first-hand knowledge of competitors' use of tied aid, or informed exporters when they know of such cases. However, under the Export Enhancement Act, the Eximbank is now directed to consult with the "private sector" about competitors' use of tied aid.

Eximbank Programs Do Not Form Part of a Governmentwide Export Promotion Strategy

The Eximbank works with other federal agencies to promote U.S. exports. The Eximbank has worked well with other agencies to coordinate certain policies at a strategic level (such as tied aid and risk assessment policies), but it has not been as successful in coordinating its programs at the operational level (the services it provides to exporters) with those of other agencies. The Eximbank is the primary federal agency providing export financing, but its programs have not been integrated into an overall federal export promotion effort. The various federal export promotion programs are fragmented and lack cohesion, and there is no governmentwide effort to coordinate and integrate existing export promotion programs. Establishment of the Trade Promotion Coordinating Committee is an attempt to coordinate such programs. The Export Enhancement Act of 1992 "formalizes" TPCC and states that TPCC shall develop and implement a governmentwide strategic plan for federal trade promotion efforts.

Eximbank Effectively Coordinates Policies With Other Agencies

In some cases, the Eximbank and agencies with similar goals have established joint working groups to pool resources and/or knowledge to better serve U.S. exporters in terms of developing and implementing some policies. For example, the Eximbank has worked with OMB and other agencies to develop consistent measures for evaluating the risk of a country's failing to repay its loans. (See chap. 4 for a discussion of the Eximbank's country risk assessment process.)

The Eximbank also has coordinated its polices with those of other agencies in developing and carrying out its tied aid strategy. The Eximbank helped to develop a strategy to restrict the use of tied aid that led to the new OECD agreement after more than 2 years of negotiations initiated by the United States. (See chap. 5.) Although it is uncertain if the agreement will actually reduce the use of tied aid, the Eximbank played a major role in coordinating this effort.

Eximbank Has Not Coordinated Many of Its Programs With Those of Other Agencies

The Eximbank and other export promotion agencies have not been very successful in coordinating their programs, especially in identifying overlapping programs and filling funding gaps. Such overlaps and gaps exist between Eximbank programs and programs of other export promotion agencies because there is no governmentwide export strategy.

Significant overlaps exist in financing exports. For example, in fiscal year 1991, the Department of Agriculture issued approximately 45 percent of total government export loans and loan guarantees, even though agricultural products only constituted about 10 percent of total U.S. exports. The Eximbank also provides financing for agricultural products as required by its legislation. In fiscal year 1991, the Eximbank assisted in the export of about $175.1 million in agricultural commodities, livestock, foodstuffs, and related products, and $272.9 million in agricultural equipment, chemicals, supplies, and services.

Another area of overlap in federal export credit programs is in financing for small businesses. The Eximbank and the SBA both have export financing programs for small businesses. There have been efforts to coordinate the two programs, but with little success. (See chap. 2.) Further, the coordination effort has not been a priority for either agency. However, the Export Enhancement Act of 1992 requires that the Eximbank provide complete and current information on all of its programs and financing practices to SBA and other federal agencies involved in promoting exports and marketing export financing programs, and to state and local export financing organizations.

Overall, no systematic governmentwide or Eximbank approach exists to identify gaps in financing, i.e., areas in which the United States has competitive products that are not being exported because of a lack of export financing. Because the Eximbank does not regularly ferret out where demand for additional financing exists, it is difficult to measure how well the Eximbank is accomplishing its mission of filling financing gaps. Despite efforts to coordinate programs, there has been little attempt to build a cohesive, governmentwide export promotion program.

Federal Export Promotion Programs

Most industrialized nations have programs to help companies sell products abroad. These programs, collectively referred to as "export promotion," include providing business counseling, conducting training, offering market research information, organizing trade missions and fairs, and giving export financing assistance. Export promotion programs can play an important role in increasing the exports of a country's goods and services in sectors of the economy in which it is competitive. These programs cannot, by themselves, produce a substantial change in a country's trade balance because the trade balance is largely determined by the underlying competitiveness of the country's industry and by the macroeconomic policies of the country and its trading partners.[1] However, export promotion programs can provide a country's firms with export

[1]The President's Council on Competitiveness defines an economically competitive country as one that can sell its products in world markets and raise the standard of living of its people.

awareness, competitive financing, technical assistance, and representational assistance in opening doors overseas.

Export promotion services in the United States are fragmented among 10 government agencies. The agencies with the most extensive programs are the Departments of Agriculture and Commerce, and the Eximbank. We believe that the number of government agencies and programs involved in export promotion tends to be confusing to the U.S. business community. A senior Commerce official stated that this confusion is especially pronounced for smaller firms that typically cannot afford to establish a Washington, D.C., presence to help work their way through the federal bureaucracy.

In fiscal year 1991, federal government outlays for export promotion programs totaled almost $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 (see table 6.1).

Table 6.1: Levels of U.S. Export Promotion Activities, Fiscal Year 1991

Dollars in millions

Agency	Outlays[a]	Loans and loan guarantees	Insurance
Agency for International Development	$106[b]	$0	$160
Agriculture Department	1,972[c]	5,700	0
Commerce Department	195[d]	0	0
Energy Department	3	0	0
Export-Import Bank	326[e]	6,638	4,554
Interior Department	*	0	0
National Aeronautics and Space Administration	*	0	0
Overseas Private Investment Corporation[f]	11	290	3,900
Small Business Administration[g]	4	123	0
U.S. Trade and Development Program	37	0	0
Totals[h]	**$2,655**	**$12,751**	**$8,614**

(Table notes on next page)

Legend
* Represents $100,000 or less.

[a]Includes salaries of U.S. government personnel who are devoted full-time to export promotion, but excludes those who devote only part of their time to export promotion. Part-time export facilitation personnel are found in several government agencies, including the Departments of State and Transportation. These figures also include net claims paid out under agencies' export loan, credit guarantee, and insurance programs. The figures in several cases include obligations or budget authority because some agencies were unable to provide outlays. The figures also include grants made to exporters for the purpose of enhancing their export capability, and grants to organizations to study export promotion issues.

[b]Consists of $103.4 million spent by the Commodity Import Program, $1 million spent by the Private Investment and Trade Opportunities program, $0.5 million spent by the Trade and Investment Services program, $0.5 million spent by the Market Technology Access Program, $0.3 million spent by the Private Sector Energy Development Study Fund, and $0.3 million spent by the Trade and Investment Monitoring System.

[c]Consists of $890.1 million devoted to the Export Enhancement Program, $761 million paid out in claims on finance programs, $200 million spent by the Market Promotion Program, $105.5 million spent by the Foreign Agricultural Service, $7.8 million spent by the Office of the General Sales Manager (GSM) to manage the GSM-102 and GSM-103 loan guarantee programs, and $7.3 million spent by the Agricultural Research Service.

[d]Consists of $169.8 million spent by the International Trade Administration, $15.9 million spent by the U.S. Travel and Tourism Administration, $7.6 million spent by the Economic Development Agency, $1.2 million spent by the National Institute of Standards and Technology, $0.6 million spent by the Economics and Statistics Administration on the National Trade Data Bank, and $0.1 million spent by the National Oceanic and Atmospheric Administration.

[e]Consists of $158.4 million in net claims paid out under the agency's export loan, credit guarantee, and insurance programs; $145.4 million of war chest grants; and a $21.7-million budget.

[f]The Overseas Private Investment Corporation is a self-sustaining U.S. government entity whose purpose is to promote economic growth in developing countries by encouraging U.S. private investment in those nations. OPIC activity stimulates U.S. exports as well. The finance and insurance figures for OPIC are overall agency figures, whereas the outlays are for export promotion. The outlays consist of $14.3 million budgeted for salaries and administrative support activities, $3.3 million in recoveries made on its insurance and guarantee programs, and $0.4 million for pre-investment programs.

[g]The export-related loans and loan guarantees shown for SBA are overstated. The amount SBA classifies as export-related loans and guarantees represents all SBA loans and guarantees extended to small businesses that report that they are exporters. Borrowers are not required to use the money for export purposes.

[h]Totals do not add due to rounding and do not include amounts spent by the Departments of State and Defense on export promotion and export facilitation duties. Although Department of State officials told us that commercial duties are an important function of the Department's overseas foreign service staff, especially in the more than 82 posts where the Department of Commerce has no presence, they also told us that the State Department does not have systems in place to measure the amount of staff time spent on this function. Department of Defense officials told us they could not quantify the time spent by the Department's security assistance staff in providing export facilitation assistance to U.S. exporters.

Source: GAO.

The Eximbank provided about 52 percent of the total U.S. government support for export credit and insurance. However, we believe that funding decisions for federal export promotion programs are not made on the basis of an explicit governmentwide strategy or set of priorities. Without an overall rationale, it is unclear whether export promotion resources are being channeled into areas with the greatest potential return.

In our January 1992 report on export promotion, we suggested that Congress require the executive branch to formulate a governmentwide export promotion strategy.[2] We also suggested that Congress consider requiring that the programs be integrated into the governmentwide strategic plan and funded in a manner consistent with the priorities given them under such a plan. The Eximbank, which was created to facilitate the financing of U.S. exports (and imports), is a significant contributor to export promotion and should be considered as part of any governmentwide export promotion strategy.

The Export Enhancement Act of 1992 incorporates these suggestion,s requiring TPCC to develop and implement a governmentwide strategic plan for federal trade promotion efforts. The act also requires the Eximbank to include in its annual report a description of its role in the implementation of the strategic plan prepared by TPCC.

One important consideration in this regard is how to improve the delivery of export promotion services at the regional and field level, as well as in Washington. Potential exporters have difficulty identifying available federal exporting assistance because of overlap, duplication, and gaps in the regional and field offices of a number of federal agencies. There is no "one-stop shop" that makes all federal export promotion services available in one place. If there were, an exporter could go to one location to learn about all available financing options (and other export promotion services), rather than having to access individually the various agencies that offer export financing.

Our recent letter to the Chairman of the Subcommittee on Exports, Tax Policy, and Special Problems, House Committee on Small Business, discusses how creating a network of "one-stop shop" field offices to provide export promotion assistance could improve small firms' access to government export assistance programs (see app. I). The letter also outlines a pilot program (to be overseen by TPCC) that could be used for

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

partially integrating the delivery in the field of federal export financing and other export promotion programs in order to test out the benefits of integrating all government export assistance. The Export Enhancement Act of 1992 also encourages utilization of district and foreign offices as one-stop shops for U.S. exporters.

The Trade Promotion Coordinating Committee

The U.S. government has made some efforts to improve the coordination and integration of its export promotion services. For example, in May 1990, the President formed an interagency committee, the Trade Promotion Coordinating Committee, to "unify and streamline" the government's decentralized approach to export promotion.

Eight of the 18 agencies that belong to TPCC currently fund export promotion programs, including

- the Department of Agriculture,
- the Department of Commerce,
- the Department of Energy,
- AID,
- the Eximbank,
- OPIC,
- SBA, and
- the U.S. Trade and Development Program.

The establishment of TPCC was formalized and made permanent by the Export Enhancement Act of 1992.

Chaired by the Secretary of Commerce, TPCC has established working groups for specific activities, export facilitation conferences for the U.S. business community, and a trade information center to provide information on federal assistance available to exporters. One of the working groups—the Trade Finance roup—released a report in May 1992 that identifies the structural impediments that U.S. exporters face in trying to obtain adequate financing. One of the report's conclusions is that there is a need for a comparison of U.S. and foreign export finance programs and practices. The report pointed out that only limited information (mostly in periodic OECD reports) is available on other countries' government programs, and virtually no information appears to exist on the export finance practices of other countries' banks.

Conclusion

Although the Eximbank has been effective in coordinating certain policies (such as assessing country risk and tied aid policies) with other agencies, it has not been very successful in coordinating programs at the operational level.

Overlaps and gaps exist in financing exports because there is no systematic governmentwide export strategy. Without an overall strategy, the U.S. government does not have reasonable assurances in today's tight budget environment that its export promotion funds and staff are being most effectively used to emphasize sectors, regions, and programs with the greatest potential return. The Eximbank has not been integrated into any governmentwide export promotion strategy. Also, the various agencies involved in export promotion have not attempted to organize field offices into "one-stop shops." One-stop shops could provide easier access to financing and counseling for exporters as well as a more effective use of existing funds and staff.

The U.S. government has made some efforts to coordinate and integrate its export promotion programs, such as creating TPCC. Moreover, the Export Enhancement Act of 1992 attempts to address many of the problems with the federal government's export promotion efforts. For example, the act formalizes TPCC and requires it to develop and implement a governmentwide strategic plan for federal trade promotion efforts, and encourages use of one-stop shops.

Copy of GAO Correspondence on "One-Stop Shops"

GAO

United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-250739

October 6, 1992

The Honorable Norman Sisisky
Chairman, Subcommittee on Exports,
Tax Policy, and Special Problems
Committee on Small Business
House of Representatives

This letter responds to your request that we discuss some ideas about how to make federal export financing and other federal export promotion programs more accessible to small businesses. Our analysis is based on past work we have completed for your Committee and on past and ongoing work we are doing for other congressional committees.

This letter discusses how creating a network of "one-stop shop" field offices to provide export promotion could improve small firms' access to government export assistance programs. Our past work on export promotion suggests that companies would benefit from having a single source in their community for all government export assistance. This letter also outlines a pilot program for partially integrating the delivery in the field of federal export financing and other export promotion programs in order to test out the benefits of integrating all government export assistance.

BACKGROUND

There is evidence that many small companies potentially are capable of exporting more than they currently export. Yet small companies that want to export more or begin exporting report facing a number of barriers. One of the most often cited is a lack of access to export financing. Small businesses' access to export financing has been restricted in recent years because commercial banks have cut back their international departments and their less profitable lines of business, such as financing smaller transactions. In addition, many small businesses lack the technical expertise needed to export successfully.

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To help companies overcome barriers to exporting, the United States, like many industrialized countries, has programs to help companies sell products abroad. These programs include export financing assistance programs, such as export loan, loan guarantee, and insurance programs, as well as programs that offer business counseling, training, and market research information. These programs can play a useful role in stimulating exports of U.S. products in economic sectors in which U.S. goods are competitive. In fiscal year 1991, the federal government spent about $2.7 billion on export promotion programs and approved about $21.4 billion in export loans, loan guarantees, and insurance. In addition, many state and some local governments have export promotion programs.

As we have previously reported,[1] federal export promotion programs are not funded on the basis of any explicit governmentwide strategy or set of national priorities. In fiscal year 1991, 10 federal agencies offered export promotion programs.[2] We believe the current approach is fragmented and is characterized by funding imbalances and program inefficiencies.[3]

In May 1990 the President created an interagency Trade Promotion Coordinating Committee (TPCC) to "unify and streamline" the government's decentralized approach to trade promotion. TPCC is chaired by the Secretary of Commerce and includes senior-level representatives from 18 other federal agencies. TPCC has created a trade information center with a toll-free phone number and an interagency calendar of upcoming federal government trade

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

[2]The agencies are the Agency for International Development; the Agriculture, Commerce, and Energy Departments; the U.S. Export-Import Bank; the Interior Department; the National Aeronautics and Space Administration; the Overseas Private Investment Corporation; the Small Business Administration; and the U.S. Trade and Development Program.

[3]For a more detailed discussion, see Export Promotion: Overall U.S. Strategy Needed (GAO/T-GGD-92-40, May 20, 1992); and Export Promotion: Federal Approach Is Fragmented (GAO/T-GGD-92-68, Aug. 10, 1992).

promotion events. TPCC has also sponsored a nationwide series of 30 trade conferences and has organized a number of working groups to look at specific export promotion issues. However, these efforts represent only modest successes. TPCC has not addressed the central issue of how to unify and streamline the government's fragmented export promotion structure, either in the field or in Washington, D.C.

THE CASE FOR "ONE-STOP SHOPS"

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. Pending legislation, H.R. 5739 and S. 2864, contain provisions relating to "one-stop shopping" for export promotion. H.R. 5739 directs the U.S. Export-Import Bank (Eximbank) to cooperate with other federal agencies to provide one-stop shopping for export financing assistance. S. 2864 directs the Commerce Department's United States and Foreign Commercial Service (US&FCS) to place primary emphasis on utilizing district and foreign offices as one-stop shops for information on U.S government export promotion programs. We believe that in principle such a network would have several advantages over the current diffused arrangement. (See enclosure for information on agencies involved in financing exports and recent attempts to enhance access to these programs.)

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 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 each 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--including its export financing 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. These field offices could eliminate much of the public's confusion as to 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. 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

We believe a pilot effort to integrate the delivery of federal export financing and other export promotion programs is worth trying. Such a pilot could easily integrate the delivery of current export assistance programs provided by the US&FCS with those provided by the Small Business Administration (SBA) and the Eximbank. The pilot would involve US&FCS and SBA field staff jointly providing comprehensive export counseling and export financing assistance. An evaluation of the pilot would provide information on the extent to which a network of one-stop shop field offices would improve small businesses' access to government export assistance.

In the pilot, a small number of loan officers from the SBA's district offices would be stationed at selected US&FCS district offices. Commerce and SBA probably would execute a written agreement. The agreement would be temporary in nature, with an agreed-upon expiration date.

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It would fully detail the arrangement, including staff selection criteria and training requirements, and specify how the pilot is to be funded and evaluated. TPCC should oversee the pilot.

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.

Furthermore, 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 Export Revolving Line of Credit (ERLC) program or the Eximbank's programs.[4] 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,[5] 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

[4]ERLC is the SBA's principal export financing program.

[5]The Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418) requires the Eximbank and SBA to work together to aggressively market both organizations' export financing and pre-export financing programs to small businesses.

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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.

AGENCIES' VIEWS

We discussed creating this pilot program with headquarters and field office officials in US&FCS and SBA, and with a Commerce Department official who helps coordinate TPCC activities. The Commerce officials generally supported establishing such a pilot, although they cautioned that the SBA loan officers would have to be carefully trained.

The SBA officials generally did not support the pilot. They pointed out that detailing loan officers to another government agency would deprive SBA district offices of their services at a time when volume in the SBA's credit programs are up about one-third from the last fiscal year. They also said that few SBA district offices have more than a single loan officer capable of processing ERLC applications. Consequently, placing SBA loan officers in US&FCS offices might leave some SBA district offices unable to approve ERLC transactions.

We question whether removing a small number of SBA's 600 loan officers will substantially reduce the agency's ability to provide financial assistance to small businesses. We agree that certain SBA district offices may lose some capability to provide ERLC guarantees. However, we note that US&FCS district offices explicitly target companies that are more likely to be involved in exporting and more likely in need of export financing assistance than SBA district offices' customers. Consequently, the detailees may encounter more companies that need government export financing assistance at the US&FCS offices than at their SBA offices. As a result, ERLC use may be higher under the pilot.

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Please contact me at (202) 275-4812 if you or your staff have any questions concerning this letter. The information in this letter was developed by John E. Watson, Assistant Director, and David T. Genser, Evaluator-in-Charge.

Sincerely yours,

Allan I. Mendelowitz

Allan I. Mendelowitz, Director
International Trade and Finance Issues

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ENCLOSURE ENCLOSURE

AGENCIES INVOLVED IN PROVIDING EXPORT FINANCING AND RECENT ATTEMPTS TO ENHANCE ACCESS TO PROGRAMS

The current export promotion system is restricted in its ability to aid small- and medium-sized exporters' access to federal export financing programs because of limitations in the way those programs are delivered in the field. The federal agency that provides the largest amount of federal export financing assistance--the U.S. Export-Import Bank (Eximbank)--has a very restricted ability to market its programs. Furthermore, staff in export promotion field offices run by the Commerce Department's United States and Foreign Commercial Service (US&FCS) and in Small Business Administration (SBA) district offices often either lack authority to approve use of government export financing programs or lack sufficient expertise to promote them. These inadequacies hamper the government's ability to help small- and medium-sized businesses obtain export financing.

AGENCIES' ASSISTANCE IS LIMITED

The Eximbank supplies most of the government's export financing assistance.[1] Yet the Eximbank has a limited ability to market its programs. The Eximbank has no regional office network, except for a one-person office in Los Angeles. The Foreign Credit Insurance Association (FCIA), a private firm that had administered the Eximbank's export credit insurance programs, has five regional offices. However, these offices only marketed the Eximbank's FCIA-administered insurance policies.

US&FCS maintains the principal network of government field offices in the United States that specialize in providing export promotion assistance. US&FCS operates 47 district offices in 38 states and Puerto Rico that specialize in providing export counseling, market research information, trade leads, and other export promotion services.[2] Yet

[1]For more on the Eximbank's programs, see The U.S. Export-Import Bank: The Bank Plays an Important Role in Promoting Exports (GAO/T-GGD-92-36, May 6, 1992).

[2]US&FCS also operates 20 branch offices.

these offices' ability to give companies access to federal export financing programs is limited. The Commerce Department has no export financing programs. Moreover, US&FCS district offices have no loan officers nor other staff with authority to approve use of other agencies' export loan, export credit guarantee, or export insurance programs.

In contrast, SBA has authority to provide export financing. The SBA's principal export financing 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. Yet we previously have found that the ERLC program has been little utilized.[3] One reason for this low level of use is that few SBA loan officers are experienced in international finance, and they have received insufficient training in using the ERLC program.

Under this fragmented system, companies that need both export financing and other types of export promotion assistance from the federal government often have to contact several different government offices to obtain all the help they need. Contacting multiple offices can leave companies confused as to what services are available. It also may discourage some companies from seeking government help to export. Lack of access to federal export financing programs in US&FCS field offices limits the government's ability to close any "gap" between small- and medium-sized businesses' export financing needs and the amount of export financing that banks currently can provide to these businesses.

RECENT EFFORTS TO IMPROVE PROGRAM DELIVERY

The U.S. government recently has taken several steps to increase small- and medium-sized businesses' access to its export financing programs. However, in our opinion the ability of these efforts to increase access to these

[3]See Export Promotion: Status of SBA Programs (GAO/T-NSIAD-92-3, Nov. 14, 1991), and Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77, Sept. 2, 1992).

programs is also limited in the absence of efforts to better consolidate the way in which the federal government delivers export promotion services in the field.

The Eximbank has initiatives underway. For example, in 1987 the Eximbank began a major effort--the city/state program--to offer export counseling and financial assistance to small- and medium-sized companies through state and local government agencies. Twenty-two locations were participating in the program as of August 1992, and in fiscal year 1991 22 guarantees were completed as a result of the city/state program. Also, effective September 14, 1992, the Eximbank took over the administration of its insurance programs from FCIA, including the operations of the FCIA's regional offices. The Eximbank will continue to use these offices to market its insurance programs and is considering having the offices market the Eximbank's other financing programs as well.

SBA recently has tried to increase use of its ERLC program. Its efforts include lengthening the term of the line of credit from 18 months to 3 years, and creating a new users guide for SBA staff, participating lenders, and small business exporters. In fiscal year 1991 SBA approved about $26 million in guarantees under ERLC, compared with about $45 million during the previous 8 years of the program's existence. This jump in ERLC usage likely reflects these efforts. However, SBA has only partially implemented a proposed pilot program to increase use of ERLC. The pilot emphasizes increased training of SBA field staff, improved marketing efforts, streamlining of application procedures, and cooperating further with state governments' export financing agencies.

In addition, the Eximbank and SBA have a joint program, in effect since 1984, to make export financing more available to small businesses. Under this program, Eximbank staff train SBA field staff about Eximbank programs, and SBA staff are then supposed to promote the Eximbank's programs to local exporters. However, this initiative has not been a priority of either agency, and as of August 1992 only about 10 transactions had taken place over the 8 years of the program.

ENCLOSURE ENCLOSURE

We believe that these efforts can only go so far in improving access to federal export financing programs because they do not address the exporters' access problem caused by organizational fragmentation. In our view, maximizing access to government programs ultimately may require bringing all the government suppliers of export assistance together in the field.

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Glossary

Agency for International Development	The U.S. government agency responsible for funding assistance programs in underdeveloped countries friendly to the United States.
Budget Authority	Authority provided by law to enter into obligations that will result in immediate or future outlays of government funds.
Commercial Risk	As defined by the Eximbank, commercial risks cover nonpayment for reasons other than specified political risks. Examples are deterioration in the buyer's market, fluctuations in demand, unanticipated competition, shifts in tariffs, technological change, buyer insolvency, and natural disasters.
Commodity Credit Corporation	A U.S. government-owned and -operated corporation responsible for financing major U.S. Department of Agriculture programs, including price supports, domestic and food assistance, and export sales programs. The Corporation maintains stocks of commodities obtained through various price support programs.
Concessional Financing	Financing in which the borrower is allowed payment terms that are more favorable than those obtained in the commercial market.
Country Risk	The risk that most or all economic agents (including the government) in a particular country will for some reason become unable or unwilling to fulfill international financial obligations.
Developed Country	Generally refers to a country that has achieved sustained economic growth, high per capita gross national product, and an above average standard of living. Also referred to as an "industrialized country."
Direct Loan	A disbursement of funds that is contracted to be repaid with or without interest. Three other types of transactions are also considered direct loans: (1) acquisition of defaulted private loans that the government had guaranteed and for which the government makes direct payment to the lender to honor the guarantee, (2) purchase by the government of a private loan in the secondary market, and (3) sale of agency assets on credit terms of more than 90 days.

Export Credit Insurance	Insurance coverage that permits the seller who is granting credit terms to a foreign buyer to shift most of the nonpayment risks to the insurer.
Export-Import Bank	A U.S. government institution that administers programs to assist the U.S. exporting community, including providing direct lending and issuing guarantees or insurance to minimize risk for private banks and exporters. Also known as the "Eximbank."
Export Promotion Programs	Programs designed to encourage or help U.S. companies to sell goods or services abroad. The programs consist of such activities as providing business counseling, information, and training; conducting market research services; organizing trade missions and trade fairs; and giving export financing assistance.
Export Subsidy	Direct or indirect compensation provided by a government to private commercial firms in order to promote the export of domestic products. Often called payment, differential, assistance, compensation, aid restitution, etc., to avoid negative connotations. Under Article XVI of the General Agreement on Tariffs and Trade, export subsidies are considered unfair competition, and countervailing duties are allowed on subsidized products. Indirect methods of providing export subsidies include giving government-subsidized financing for exports and export promotion, and conducting information activities, allowing tax benefits, or offering other assistance that may lead to lower-than-normal costs for exported goods.
Federal Financing Bank	The Bank is part of the Treasury and obtains its funds from regular Treasury issues.
Grandfather Clause	A provision included in a new rule that exempts from the rule a person or business already engaged in the activity coming under regulation.
Guaranteed Loan Commitment	A legal or binding agreement by the federal government to guarantee, in whole or in part, the principal and/or interest on nonfederal loans when issued.

International Bank for Reconstruction and Development	Established in 1944 to help countries reconstruct their economies after World War II. The organization assists member countries by lending to governmental agencies or by guaranteeing private loans for such projects as agricultural modernization or infrastructural development. Also known as the "World Bank."
International Monetary Fund	Established in 1946 to act as the banker of last resort for countries experiencing balance of payment difficulties and to monitor currency exchange relationships among nations.
Letter of Credit	A document issued by a buyer's bank, promising payment for the shipment when the bank receives the proper shipping documents proving that the shipment has been made according to agreed-on terms. It substitutes the bank's credit for the buyer's and essentially eliminates the seller's risk. It is used extensively in international trade.
Loan Guarantee	An agreement by which the government promises to pay, in whole or in part, the loan principal and interest to a lender or holder of a security (debt) in the event of default by the borrower.
Long-Term Loan	As defined by the Eximbank, a loan amount of greater than $10 million <u>or</u> repayment term greater than 7 years.
Medium-Term Loan	As defined by the Eximbank, a loan amount of $10 million or less and a repayment term of 1-7 years.
Organization for Economic Cooperation and Development	OECD is a forum for monitoring economic trends and coordinating economic policy among its 24 member countries, which include the economically developed free market democracies of North America, Western Europe, and the Pacific. Negotiators representing countries in OECD have agreed to curb the use of tied aid for commercial purposes and are taking steps to reduce the use of mixed credits.

Overseas Private Investment Corporation	A U.S. government entity that assists U.S. investors in making profitable investments in developing countries while encouraging projects that enhance the social and economic development of that country.
Political Risk	As defined by the Eximbank, political risks include war risks, cancellation of an existing export or import license, expropriation, confiscation of or intervention in the buyer's business, or transfer risk (failure of the appropriate foreign government authorities to convert a foreign currency deposit into dollars). Losses due to currency devaluation are not considered a political risk.
Port Authority	The entity whose duty it is to construct, manage, maintain, and improve a port. Ports may be administered by states, municipalities, statutory trusts, or private or corporate entities. Also known as harbor authority, harbor board, port trust, or port commission.
Pre-Export Financing	Funds needed to produce goods to export. Also called "working capital."
Subsidy	A direct or indirect benefit granted by a government for the production or distribution (including export) of a good.
Trade Promotion Coordinating Committee	An interagency committee created by the President in 1990 to address the problem of the government's decentralized approach to export promotion.
U.S. Flag Vessel	A merchant ship under U.S. registry.
U.S. Trade Representative	A cabinet-level official with the rank of ambassador who is the President's principal adviser on international trade policy and is charged with promoting free trade. The Representative has lead responsibility for conducting all international trade negotiations.
Working Capital	Funds invested in a company's cash, accounts receivable, and inventory, and other current assets available to the firm during the business cycle. Working capital finances the cash conversion cycle of a business—the time required to convert raw materials into finished goods, finished goods into sales, and accounts receivable into cash.

World Bank

See International Bank for Reconstruction and Development.

Related GAO Products

The U.S. Export-Import Bank: The Bank Provides Direct and Indirect Assistance to Small Businesses (GAO/GGD-92-105, Aug. 21, 1992).

Export Promotion: A Comparison of Programs in Five Industrialized Nations (GAO/GGD-92-97, June 22, 1992).

The U.S. Export-Import Bank: The Bank Plays an Important Role in Promoting Exports (GAO/T-GGD-92-36, May 6, 1992).

The U.S. Export-Import Bank: Small Business Support (GAO/GGD-92-1R, Mar. 11, 1992).

Financial Audit: Export-Import Bank's 1990 and 1989 Financial Statements (GAO/AFMD-92-6, Feb. 3, 1992).

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

The U.S. Export-Import Bank: No Evidence of Financing Restricted Chemical Exports to Iraq (GAO/NSIAD-91-284, Sept. 30, 1991).

The U.S. Export-Import Bank: Review of a Proposal to Finance Military Exports (GAO/T-NSIAD-91-16, May 2, 1991).

The U.S. Export-Import Bank: Reauthorization Issues (GAO/T-NSIAD-91-17, Apr. 11, 1991).

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