Testimony
Before the Subcommittees on Oversight and Investigations and International Monetary Policy and Trade, Committee on Financial Services, House of Representatives

EXPORT PROMOTION

Observations on the Export-Import Bank’s Efforts to Achieve U.S. Policy Goals

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Mr. Chairmen and Members of the Subcommittees:

Thank you for the opportunity to appear today before the subcommittees to provide our perspective on the role of the U.S. Export-Import Bank (Ex-Im) in promoting exports and achieving other U.S. policy goals. As Congress considers policies to achieve more robust growth in the U.S. economy, it must consider the full range of tools available to further growth and create new jobs for U.S. workers. Some of these tools are related to promoting exports, which can have broad benefits to the U.S. economy. As the official export credit agency of the United States, Ex-Im has a key role in helping many U.S. firms achieve sales in foreign markets. In addition to establishing Ex-Im’s broad mandate of supporting U.S. employment through exports, Congress has laid out specific, targeted goals for the bank in areas such as increasing financing for environmentally beneficial exports and expanding services to small and minority-owned businesses.

Today, I will provide some broad observations regarding Ex-Im’s contribution to the export promotion goals announced in the President’s National Export Initiative. I will also describe progress Ex-Im has made in achieving the specific targets set by Congress, as well as some challenges the bank faces in meeting those targets. In my statement, I will also provide some background information concerning the ways in which exports can enhance U.S. economic output, and I would be happy to provide insights from our recent work on other key agencies’ export promotion efforts.

These observations are based on a range of work that we have conducted for Congress over recent years on Ex-Im as well as on the numerous other U.S. agencies involved in export promotion.¹ We conducted this work in

accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

The President’s National Export Initiative has put forth an ambitious goal of doubling exports in the next 5 years. Ex-Im has been identified as having a key role in the initiative, and a recent administration report identifies a number of specific actions for Ex-Im. Our work on Ex-Im’s financing with respect to small business found areas where Ex-Im needed to improve its data systems for accurate reporting as well as its tracking of efforts to increase small business financing. Regarding Ex-Im’s environmentally beneficial exports financing, we found that the bank could benefit from more consistently following strategic planning practices. Ex-Im has taken a number of steps in response to GAO recommendations, but opportunities for improvement remain. Additional attention to these issues will enable Ex-Im to develop better communication with Congress and other stakeholders regarding the balance between the small business and environmental export targets and the broader priorities in the National Export Initiative.

Background

Ex-Im’s mission is to support U.S. exports and jobs by providing export financing on terms that are competitive with the official export financing support offered by other governments. It had about 350 full-time staff positions in fiscal year 2010. Between fiscal years 2003 and 2008, Ex-Im authorized financing averaging $12.8 billion annually. In fiscal year 2009, Ex-Im had a record year, financing more than $21 billion in 2,891 authorizations. Since fiscal year 2008, Ex-Im has been “self-sustaining” for appropriations purposes, financing its operations from receipts collected from its borrowers.

Exports, and trade more broadly, contribute to the U.S. economy in a variety of ways. Trade enables the United States to achieve a higher standard of living by exporting goods and services that are produced here relatively efficiently and importing goods and services that are produced here relatively inefficiently. An indication of this is that firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically oriented firms of the same size. U.S. exports of goods grew
from $820 billion in 2004 to $1.30 trillion in 2008, and were $1.1 trillion in 2009.\(^2\)

In addition to the longer-term benefits of trade and exports, exports can serve as a countercyclical force for the U.S. economy—that is, strengthening the economy when other parts of it are relatively weaker. For a number of years, as the United States increasingly imported more than it exported, the U.S. economy was an engine of growth for other nations. In contrast, from December 2007 through June 2009—what has been officially labeled a recession period—U.S. economic growth was boosted by an improving trade balance. More recently, strong U.S. exports have been outpaced by import growth.

The President created the National Export Initiative on March 11, 2010, with an ambitious goal of doubling exports in the next 5 years to support job creation. To facilitate achieving this goal, the National Export Initiative established an Export Promotion Cabinet that includes Ex-Im as well as 15 other agencies and executive departments. On September 16, 2010, the White House released a report on the initiative that provides an overview of progress made and lays out a plan for reaching the President’s goal.

Ex-Im has a critical role to play in one of the report’s priority areas—increasing export credit. The report identifies several actions for Ex-Im. They include, for example, launching new products designed to ensure credit is available to small and medium-sized enterprises (SME); focusing efforts on high-potential industries such as medical technology, renewable power, and transportation; increasing the number and scope of partnerships with financial intermediaries; and introducing a simplified application for credit insurance. GAO has not evaluated the report or other aspects of the National Export Initiative, but would welcome the opportunity to continue its work with the Congress on oversight of these efforts.

\(^2\)Service exports were an additional $502 billion in 2009.
GAO has reported on Ex-Im’s efforts to achieve specific targets set by Congress regarding the composition of Ex-Im’s export financing. For example, Congress has shown interest in the level of financing Ex-Im provides to small businesses, including those owned by women and minorities, and Ex-Im’s efforts to increase that financing. Congress has also given Ex-Im directives regarding the share of its financing for environmentally beneficial exports, including renewable energy.

Congressional interest in Ex-Im’s financing of environmentally beneficial exports span many years. In 1989, Congress directed that Ex-Im should seek to provide at least 5 percent of its energy sector financing for renewable energy projects and should undertake efforts to promote renewable energy. In 2008, Congress directed Ex-Im to provide not less than 10 percent of its annual financing for environmentally beneficial exports; in 2009-2010, Congress narrowed the targeted environmentally beneficial categories.\(^3\) Congress has also required Ex-Im to develop a strategy for increasing its environmental export financing, and to report on this financing and how the bank tracks it.

GAO recently reviewed Ex-Im’s environmentally beneficial export financing and its efforts to meet congressional directives in this area.\(^4\) We found, first, that Ex-Im had fallen far short of achieving the 10 percent environmentally beneficial financing targets set by Congress. However, we also found that Ex-Im’s financing for renewable energy has recently increased; the level of renewable energy financing in the first two quarters of fiscal year 2010 exceeded its renewable energy financing for all of fiscal year 2009, which in turn represented a large increase over 2008 financing.

We also reported that Ex-Im needs to further clarify its definitions and improve its reporting on environmentally beneficial exports. For Ex-Im, the term “environmentally beneficial exports” constitutes an overarching category that includes renewable energy, energy efficiency exports including energy efficient end-use technologies, and a mix of other products with beneficial effects on the environment. Ex-Im recently sought to clarify its definitions of energy efficiency exports by publicly

\(^3\)For each of fiscal years 2009 and 2010, Congress specified a 10 percent target for Ex-Im financing but changed the targeted exports to renewable energy technologies or energy efficient end-use technologies.

\(^4\)GAO-10-682.
providing examples of products it considers to be in that category, and it
began to track its financing for those exports in its internal data. However,
the examples Ex-Im released do not clearly identify which energy efficient
end-use technologies would count towards their 10 percent financing
target. Given the congressional interest in financing in this area, it is
important that Ex-Im be as clear as possible in its application of terms to
facilitate communicating financing goals to potential exporters and others
and communicating progress in meeting targets to Congress. GAO
recommended that Ex-Im develop and provide clear definitions for its
subcategories of environmentally beneficial exports and report annually
on the level of financing for each of the subcategories.

We reported that while Ex-Im has taken steps to increase financing for
environmentally beneficial exports, it could benefit from more
consistently following strategic planning practices such as involving
stakeholders and realigning resources. Ex-Im routinely shares information
with stakeholders such as other U.S. agencies and lending institutions, but
has not generally involved them in communicating goals or discussing
strategies for achieving them. Ex-Im has considered reorganizing some
staff into more focused teams to target priority industries and countries,
but this effort has not included an analysis of the resources required to
accomplish the goal of increasing certain types of environmentally
beneficial exports. On the other hand, Ex-Im has taken some steps to
assess factors that affect its financing of environmentally beneficial
exports such as conducting analysis of the renewable energy markets to
identify the best sectoral and geographic opportunities for Ex-Im
financing. In order for Ex-Im to provide valuable information for the
Congress and key stakeholders, GAO recommended that the bank
consistently implement key practices for effective strategic planning,
including clearly communicating the bank’s priorities for increasing
financing of renewable energy and energy efficient end-use technologies to
both internal and external stakeholders. Ex-Im agreed with our
recommendations and stated that it would strive to implement them
promptly.

Small Business Exports
Promoting exports by small business has been a long-time priority of
Are a U.S. Trade Priority, Congress as well as the executive branch, given these exports’ role in
and Congress Has generating growth and employment. While many small businesses export,
Required Ex-Im to Provide it is widely recognized that they face a number of challenges in exporting.
a Certain Level of Support For instance, they typically do not have overseas offices and may not have
for These Exports much knowledge regarding foreign markets. Export promotion agencies
have developed various goals with respect to their small business
assistance, and in some cases Congress has mandated specific requirements for supporting small businesses.

Since the 1980s, Congress has required that Ex-Im make available a certain percentage of its export financing for small business. In 2002, Congress established several new requirements for Ex-Im relating to small business, including increasing from 10 to 20 percent the proportion of Ex-Im's aggregate loan, guarantee, and insurance authority that must be made available for the direct benefit of small business. When reauthorizing the bank’s charter in 2006, Congress again established new requirements for Ex-Im. These included creating a small business division with an office of financing for socially and economically disadvantaged small business concerns and small business concerns owned by women, designating small business specialists in all divisions, creating a small business committee to advise the bank president, and defining standards to measure the bank’s success in financing small business.

For the past 4 fiscal years—2006-2009—Ex-Im has met the Congressional requirement to make available not less than 20 percent of its financing authority for small businesses. Percentages have ranged from almost 27 percent in fiscal year 2007 to about 21 percent in fiscal year 2009. The financing amount for small business was actually highest in 2009, given Ex-Im’s overall record financing that year. In fiscal years 2002-2005, Ex-Im did not reach the goal, with its small business financing share ranging from 16.9 percent to 19.7 percent.

GAO has reported on several aspects of Ex-Im’s financing for small business exports. In 2006, we identified weaknesses in Ex-Im’s data systems for tracking and reporting on its small business financing and made recommendations for improvement. Ex-Im has implemented those recommendations. For example, Ex-Im moved to an electronic, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. This contributed to more timely and accurate information on Ex-Im’s financing, and thus a greater level of confidence in Ex-Im’s reporting on its efforts relative to congressional goals.

5GAO-06-351.
More recently, we reported on the performance standards that Ex-Im established for assessing its small business financing efforts.\(^6\) We found that Ex-Im had developed performance standards in most, although not all, of the areas specified by Congress, ranging from providing excellent customer service to increasing outreach. We also found that some measures for monitoring progress against the standards lacked targets and time frames, and that Ex-Im was just beginning to compile and use the small business information it was collecting to improve operations.

GAO made several recommendations to Ex-Im for improving its performance standards for small business. Ex-Im has provided to GAO information on actions and specific steps it is taking to implement certain of these recommendations. For example, Ex-Im has identified targets for reducing the average turnaround time for processing certain types of small business transactions. GAO looks forward to continuing to work with Ex-Im in documenting that the recommendations have been implemented.

Conclusions

Mr. Chairmen, the National Export Initiative has focused the spotlight on U.S. agencies that assist U.S. exporters as a way of expanding economic growth and creating jobs in the United States. As the nation’s export credit agency, the Export-Import Bank is a key part of the initiative, and there are a number of detailed initiatives related to export credit in the report that was released on September 16, 2010. However, the goal of doubling U.S. exports in 5 years is an ambitious goal and would require not only increased activity by agencies such as Ex-Im but also increases in demand in key nations around the world.

This heightened emphasis on overall exports and increasing the level of Ex-Im financing takes place in the context of specific congressional directives regarding the composition of that financing. Our work on Ex-Im’s financing with respect to small business—including minority and women-owned businesses—and environmentally beneficial exports has demonstrated that substantial steps have been taken, and Ex-Im continues to face substantial challenges. While Ex-Im has had more success in achieving the congressional targets for small business than for environmentally beneficial exports, opportunities remain for a more strategic use of resources and for better communication with Congress and other stakeholders. More broadly, Ex-Im faces the challenge of

\(^6\)GAO-08-915.
contributing to the doubling of U.S. exports along with meeting other congressional requirements, including operating at little or no cost to the taxpayer. How any sharp increase in Ex-Im financing levels will affect specific targets we have described is not clear, and is likely to be an area requiring further discussion on how to balance these overall priorities.

Chairman Moore, Chairman Meeks, Ranking Member Biggert, and Ranking Member Miller, this concludes my prepared remarks. I appreciate the opportunity to discuss these issues with you today. I would be pleased to respond to any questions you or other members of the subcommittees may have at this time.

For further information about this testimony, please contact Loren Yager at (202) 512-4347 or by e-mail at YagerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of the statement. Individuals who made key contributions to this testimony include Celia Thomas, Shirley Brothwell, Karen Deans, Emily Suarez-Harris, Richard Krashevski, Justine Lazaro, Valerie Nowak, and Jennifer Young.
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