

GAO

Report to the Subcommittee on Exports,
Tax Policy, and Special Problems,
Committee on Small Business, House of
Representatives

August 1992

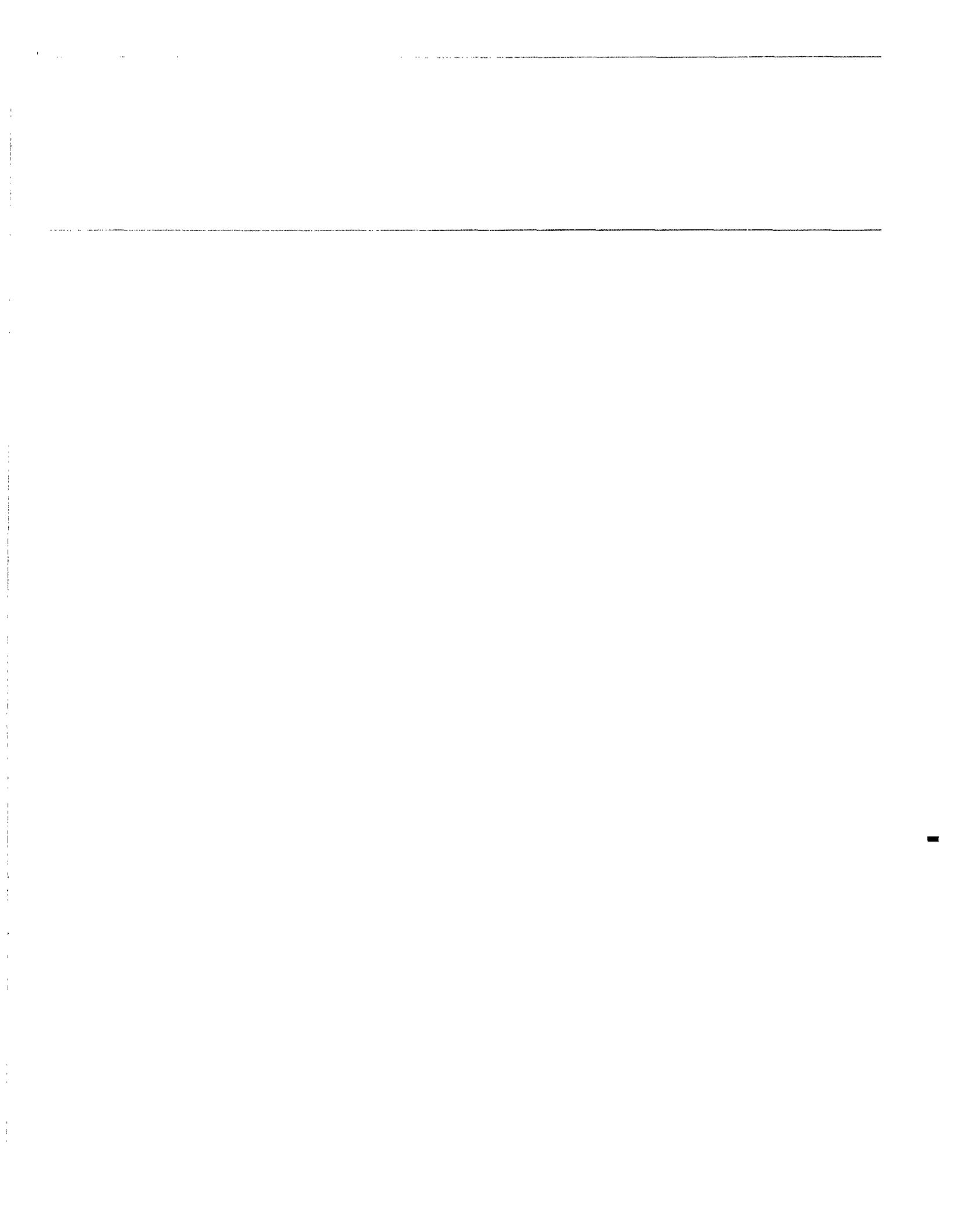
THE U.S. EXPORT-
IMPORT BANK

The Bank Provides
Direct and Indirect
Assistance to Small
Businesses



147489





General Government Division

B-247638

August 21, 1992

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

As you requested, we reviewed the U.S. Export-Import Bank's (Eximbank) compliance with the small business set-aside provision of the Export-Import Bank Act of 1945, as amended.¹ In addition, we looked at recent developments in the Eximbank's efforts to assist small businesses. We described our preliminary results to you in a March 11, 1992, letter.² Our results are based primarily on data provided to us by the Eximbank.

Background

The Eximbank is legislatively required to encourage small business participation in international commerce by offering export financing. Since 1986, the Eximbank has been required to set aside 10 percent of its aggregate loan, guarantee, and insurance budget authority to finance small business exports and to report on these activities. The Eximbank reported in its fiscal year 1991 annual report that it made available 18.4 percent of its budget authority to small businesses, exceeding its 10-percent set-aside requirement. The Eximbank also reported in its annual reports the amount of assistance made available for small businesses under each of its programs—loans, guarantees, and insurance. In calculating and reporting on export financing made available to small businesses, the Eximbank includes indirect financing—the percentage of the contract value supplied by small businesses acting as subcontractors to larger businesses that receive Eximbank financing.

Results in Brief

The Eximbank does not verify some of the small business data it uses to calculate the amount of financial assistance made available to small businesses. The amount of indirect financial assistance included in the Eximbank's calculation is based on estimates made by the large exporters receiving the assistance. Further, the Eximbank uses a rough estimate that 25 percent of its bank-administered insurance policies go to small

¹12 U.S.C. 635(b)(1)(E)(v) and 635g.

²See Eximbank Small Business Support (GAO/GGD-92-1R, Mar. 11, 1992).

businesses and includes this amount in calculating and reporting the total amount of financial assistance made available to small businesses.

When we excluded indirect financing and unverified estimates of bank-administered insurance made available to small businesses, our calculations showed that the Eximbank still made available more than 10 percent of its budget authority to small businesses in fiscal year 1991 and the previous 3 years. It made available less than 10 percent of its budget authority to small businesses in fiscal years 1986 and 1987. (See app. I.) The pertinent section of the Export-Import Bank Act, as amended,³ provides no clear guidance on whether indirect financing may properly be included in calculating the small business set-aside. However, there is strong congressional support for including only direct financing in calculating the set-aside.

The Eximbank is making greater efforts to assist small businesses. Among other things, it is establishing a new Small Business Group and changing or expanding programs to stimulate greater use by small businesses.

The Eximbank's Small Business Data Have Not Been Verified

In our review, we identified some problems with the Eximbank's small business data, including the Eximbank's methods for determining indirect financing and export credit insurance support to small businesses.

The amount of indirect financial assistance included in the Eximbank's calculation of total assistance made available to small businesses is based on estimates made by the large exporters who receive the financing. The exporters estimate the percentage of the Eximbank loan or guarantee that will indirectly assist small businesses working for the firm as subcontractors. Eximbank officials do not verify the exporters' estimates of "small business content" in most cases, but Eximbank engineers review the estimates.

Further, there are questions about the accuracy of the data on the Foreign Credit Insurance Association (FCIA)⁴ assistance to small businesses. FCIA informs Eximbank staff if a policy is for a large or small business, but Eximbank staff do not verify the data. For bank-administered policies, a bank generally does not track what portion of the policies goes to small

³12 U.S.C. 635(b)(1)(E)(v) and 635g.

⁴In 1961, Congress authorized the Eximbank's export credit insurance program to provide insurance against risks of nonpayment by foreign buyers. FCIA, a private insurance association, was formed to act as the Eximbank's agent.

businesses. Thus, the Eximbank uses FCIA's estimate that 25 percent of all bank-administered policies go to small businesses and includes this estimated amount in calculating and reporting the total amount of assistance to small businesses. There have been questions raised in some internal Eximbank analyses about the accuracy of the estimate. Some Eximbank officials believe the estimate is too high while others maintain it is too low. Although the Eximbank has not conducted any definitive test to support the 25-percent estimate, it continues to use it in calculating and reporting its assistance to small businesses.

In May 1990, the Eximbank established an internal small business task force to evaluate small business issues. In a recent study, the small business task force identified some problems with the Eximbank's small business data. In its attempts to compare the costs and benefits of the Eximbank's small business programs, the task force found that it could not quantify the costs and benefits due to problems with the small business data, particularly questions about the reliability of the FCIA data. In its report on the results of the study, the task force suggested that the Eximbank's executive committee evaluate the quality of the small business data so that the Eximbank could better assess the effectiveness of its small business programs.

The Eximbank's Calculation of Its Small Business Set-Aside Includes Indirect Financing

The Eximbank reported in its 1986 through 1991 annual reports that it exceeded its 10-percent set-aside requirement. The Eximbank's calculation of the percentage of its annual budget made available to small businesses included indirect financial assistance. In addition, the Eximbank included in its calculations rough estimates of the amount of small business assistance it provided via bank-administered insurance policies.

In your request, you asked about the impact of indirect financing on the Eximbank's set-aside calculation. When we excluded from the calculation indirect financing and estimates of bank-administered insurance provided to small businesses, we found that the Eximbank

- made available more than 10 percent of its budget authority to small businesses in fiscal years 1988 through 1991, but
- made available less than 10 percent of its budget authority to small businesses in fiscal years 1986 and 1987.

You also requested that we determine the amount of financial assistance that the Eximbank made available (commitments) directly to small

businesses under each of its programs. For fiscal years 1986 through 1991, the majority of Eximbank commitments directly to small businesses was in the form of insurance. (See app. II.)

We asked for the Eximbank's legal opinion on whether indirect financing is properly included in the Eximbank's calculation and reporting of its small business set-aside. The Eximbank's Office of the General Counsel responded that, in its opinion, including both direct and indirect financing in calculating the Eximbank's small business set-aside is consistent with the statutory language of the Export-Import Bank Act of 1945, as amended. The letter stated that including both direct and indirect financing

"most accurately reflects the percentage of aggregate budget authority made available to finance small business exports, as opposed to basing that percentage solely on the contract value of transactions where a small business entity is in direct privity with the buyer or end user of the goods."

Appendix III contains a copy of the Eximbank's Office of the General Counsel letter.

The letter further stated that

"The statutory language itself provides little guidance regarding the method for calculating the small business set-aside, and the legislative history contains only general statements indicating that one goal of the 1983 amendments was to ensure that a specific percentage of Eximbank's loan, guarantee and insurance authority 'be reserved for the exports of small business.'"

We agree that the statute does not provide clear guidance for calculating the set-aside. However, the legislative history does contain statements by supporters of a small business set-aside⁵ indicating concerns that the Eximbank had been reluctant to deal directly with the small business community and that almost all of the Eximbank's assistance had gone to large corporations. One supporter stated, "We all know that a lot of small businesses do benefit indirectly from the Bank by virtue of being subcontractors on major jobs. But this amendment will allow small businesses who have the right products to go directly to the Bank."⁶ There

⁵The statements made in support of a small business set-aside were made in support of an amendment to S. 869, a bill introduced on March 21, 1983, to reauthorize the Eximbank. The language of the small business set-aside provision incorporated into Public Law 98-181, the 1983 act that introduced the set-aside provision, is virtually identical to that of the amendment to S. 869, one of several predecessors of Public Law 98-181.

⁶Senator John Heinz, Congressional Record, September 23, 1983.

continues to be congressional support for including only direct financing in calculating the small business set-aside.

According to the Eximbank's Office of the General Counsel, beginning this year data will be available to Congress and the users of Eximbank programs that show the breakout of both direct and indirect assistance made available by the Eximbank to small businesses. However, these two figures—direct and indirect financing—will continue to be added together to calculate the Eximbank's compliance with its small business set-aside requirement.

Recent Developments in Eximbank Efforts to Assist Small Businesses

The Eximbank has increased its efforts to provide greater assistance to small businesses. In February 1992, the Eximbank announced the formation of the Small Business Group to centralize, coordinate, and integrate its small business activities. The Small Business Group is headed by a senior vice president and incorporates the Marketing and United States Division⁷ of the Eximbank into one group.

To speed its processing of small business applications for assistance, the Vice President of the U.S. Division and the Senior Vice President for Small Business may now approve requests (up to \$2.5 million) for most guarantees. Formerly, these applications had to be approved by the board of directors or a loan committee.

The Eximbank has made several changes to its programs for small businesses. Specifically, the Eximbank has increased its risk coverage for its guarantee and insurance programs to make the programs more attractive to bankers and others administering the guarantees or insurance. For example, Eximbank's working capital guarantee program (a program to provide pre-export financing primarily to small businesses) will now cover 100 percent of the guaranteed loan's principal and interest amounts, an increase from 90 percent of the principal and a limited amount of the interest. The Eximbank has also expanded its city/state program to include a total of 22 locations, an increase of 9 locations since July 1991. The city/state program offers export counseling and financial assistance to small- and medium-sized companies through state and local

⁷The majority of the Eximbank's marketing efforts have been targeted at smaller companies. The United States Division is responsible for the working capital guarantee program, which was set up for small businesses.

agencies. The city/state program provides the Eximbank with an extended network to reach and assist exporters.⁸

Conclusions

The Eximbank made available more than 10 percent of its budget authority to small businesses in fiscal years 1988 through 1991, even when indirect financing and insurance estimates were excluded from the calculations. The Eximbank would have made available less than 10 percent of its budget authority to small businesses in fiscal years 1986 and 1987 if indirect financing and insurance estimates were excluded. The Export-Import Bank Act of 1945, as amended, provides no clear guidance as to whether indirect financing may properly be included in calculating the set-aside, but there is strong congressional support for including only direct financing in calculating the small business set-aside.

We identified some problems with the Eximbank's small business data, as did Eximbank's small business task force. The data problems are a concern because the quality of the data affects the reliability of the compliance assessment.

Although the Eximbank is making significant efforts to increase its aid to small businesses, it is too soon, in most cases, to assess the results of these efforts. However, 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.

Matter for Congressional Consideration

If Congress intends that only direct assistance to small businesses be included in calculating the Eximbank's compliance with the set-aside requirement, it should consider amending the Export-Import Bank Act to provide the Eximbank with more specific guidance on this matter.

Recommendations

We recommend that the Chairman of the Eximbank

- review the accuracy and reliability of its small business data, including the collection and verification of data and the estimates used, and
- report separately on direct and indirect assistance to small businesses in its annual reports (unless or until the legislation is made more explicit).

⁸For a more detailed discussion of this program, see *The U.S. Export-Import Bank: The Bank Plays an Important Role in Promoting Exports* (GAO/T-GGD-92-36, May 6, 1992).

Agency Comments

We met with the Eximbank's Chief Financial Officer, vice presidents of Engineering and Policy and Planning, Deputy Vice President of Information Management, and Senior Vice President of the Small Business Division after they reviewed a draft of this report. The Eximbank officials generally concurred with our conclusions and agreed with our recommendations. Some of these officials said they believed that the quality of small business data is better than this report suggests. However, they acknowledged that the Eximbank does not verify estimates of small business participation in its programs. Further, data problems we identified during our review are consistent with problems identified by the Eximbank's small business task force. We incorporated other suggested technical changes in the report where appropriate.

Objectives, Scope, and Methodology

The objectives of this review were to (1) examine the quality of the Eximbank's small business data, (2) calculate the amount of export financing the Eximbank made available directly to small businesses, and (3) review whether indirect financing to subcontractors is properly included in the small business set-aside calculation. We also looked at recent developments in the Eximbank's efforts to assist small businesses.

We obtained and reviewed Eximbank budget documents and small business data. Using Eximbank data, we determined the amount of financial assistance made available (commitments) directly to small businesses, excluding indirect financing and unverified estimates of small business assistance provided through bank-administered insurance policies. To assess the Eximbank's compliance with the set-aside provision, we then calculated the amount of commitments directly to small businesses as a percentage of total budget authority. (See app. I.) As you requested, we also calculated the amount of commitments directly to small businesses as a percentage of total commitments, broken out by program. (See app. II.) We did not corroborate Eximbank small business data with the records of the banks and exporters involved in the transactions.

Further, we analyzed the set-aside provision in the Export-Import Bank Act of 1945, as amended, and obtained the Eximbank's Office of the General Counsel's legal interpretation of the provision.

We also interviewed Eximbank officials and examined information on the Eximbank's efforts to assist small businesses.

We did our review between August 1991 and June 1992 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Chair of the Subcommittee on Export Expansion, Senate Committee on Small Business; the Chairwoman of the Subcommittee on International Development, Finance, Trade and Monetary Policy, House Committee on Banking, Finance and Urban Affairs; the Chairman of the Subcommittee on International Finance and Monetary Policy, Senate Committee on Banking, Housing and Urban Affairs; and other interested parties. Copies will also be made available to others on request.

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



Allan I. Mendelowitz, Director
International Trade and Finance Issues

Comparison of GAO's and the Eximbank's Calculations of the Percentage of Eximbank Budget Authority Committed to Small Businesses, 1986 to 1991

Small business as percentage of budget authority	Fiscal year					
	1986	1987	1988	1989	1990	1991
Reported in the Eximbank's annual reports ^a	11.5%	16.5%	12.4%	15.8%	19%	18.4%
GAO's calculations ^{b,c}	5%	8%	11%	12%	14%	13%

^aIncludes indirect financing to small business subcontractors of exporters and insurance estimates.

^bTotal small business commitments—loans, guarantees, working capital guarantees, and insurance—directly to small businesses.

^cExcludes indirect financing to small business subcontractors of exporters and insurance estimates.

Source: Eximbank data and annual reports.

GAO Calculations of Eximbank Commitments Directly to Small Businesses by Program, 1986 to 1991

Dollars in millions

Program	1986		1987	
	Amount	Percent of total	Amount	Percent of total
Insurance	\$579.6	13	\$942.3	15
Loans	20.0	3	16.5	3
Guarantees ^a	14.4	1	8.3	1
Working capital guarantees	25.6	100	32.7	b
Total Guarantees	40.0	4	41.0	3
Total^c	\$639.6	11	\$999.8	12

**Appendix II
 GAO Calculations of Eximbank
 Commitments Directly to Small Businesses
 by Program, 1986 to 1991**

Fiscal year							
1988		1989		1990		1991	
Amount	Percent of total						
\$1122.1	22	\$1200.2	28	\$1345.7	28	\$1342.9	29
8.9	1	12.2	2	32.0	6	18.2	2
8.5	2	19.8	2	28.2	1	46.3	1
75.5	100	51.5	94	96.5	^b	58.6	88
84.0	14	71.3	6	124.7	4	104.9	2
\$1215.0	19	\$1283.7	20	\$1502.4	17	\$1466.0	13

Note 1: The amounts of guarantees and insurance represent the amounts Eximbank committed to exporters. However, a substantial portion of the final commitments are unused at a given time depending on whether the guaranteed or insured event (i.e., the shipment of goods) has occurred.

Note 2: Amounts exclude indirect financing to small business subcontractors of exporters and insurance estimates.

Note 3: Percentage of program committed directly to small businesses.

^aIncludes medium- and long-term guarantees but excludes working capital guarantees.

^bPercentages not calculated because Eximbank officials have not reconciled certain discrepancies in working capital guarantee data.

^cTotal aggregate amounts committed for programs directly to small businesses. Percent of total is calculated as the percentage of aggregate program commitments, not as a percent of budget authority (see app. 1).

Source: Eximbank data and annual reports.

The Export-Import Bank's Response to Our Inquiry About the Set-Aside Provision



EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, DC 20571

OFFICE OF THE
GENERAL COUNSEL

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April 3, 1992

Rachel DeMarcus, Esq.
Assistant General Counsel
Office of the General Counsel
United States General Accounting Office
Washington, D.C. 20548

RE: Implementation of small-business set-aside requirement;
section 2(b)(1)(E)(v) of the Export-Import Bank Act of
1945, as amended; 12 U.S.C. 635(b)(1)(E)(v).

Dear Ms. Demarcus:

You have requested the opinion of Eximbank regarding implementation of the small-business set-aside provision contained in section 2(b)(1)(E)(v) of the Export-Import Bank Act of 1945, as amended (the "Act").

Since enactment of the Export-Import Bank Act Amendments of 1983, Eximbank has calculated the small-business set-aside in a manner consistent with both the language of and legislative intent behind those provisions. Section 2(b)(1)(E)(v) of the Act states that:

"...the Bank shall make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports by small business concerns (as defined under section 632 of Title 15), which shall be not less than--

(III) 10 per centum of such authority for fiscal year 1986 and thereafter."

The statutory language itself provides little guidance regarding the method for calculating the small-business set-aside, and the legislative history contains only general statements indicating that one goal of the 1983 amendments was to ensure that a specific percentage of Eximbank's loan, guarantee and insurance authority "be reserved for the exports of small business". (See, p. 19, H.Rep.No. 98-175, Committee on Banking, Finance and Urban Affairs, May 16, 1983).

**Appendix III
The Export-Import Bank's Response to Our
Inquiry About the Set-Aside Provision**

Accordingly, for the purposes of section 2(b)(1)(E)(v) of the Act, Eximbank's consistent administrative practice has been to calculate the amount of aggregate budget authority made available to finance small-business exports for all types of Eximbank-supported transactions. Eximbank has concluded that this figure most accurately reflects the percentage of aggregate budget authority made available to finance small-business exports, as opposed to basing that percentage solely on the contract value of transactions where a small-business entity is in direct privity with the buyer or end user of the goods. Essentially, the small-business entity makes a sale whether or not it deals directly with the purchaser or end user.

As part of Eximbank's ongoing effort to provide comprehensive information on the extent of small-business participation in Eximbank programs, we have recently undertaken an effort to quantify separately the so-called 'direct' small-business participation in our programs. I wish to emphasize that this should in no way be viewed as a change in the Bank's longstanding interpretation of section 2(b)(1)(E)(v). Rather, it is prompted by the Bank's reaffirmation of its support for small-business and desire to target its resources more effectively.

'Direct' participation will consist of those transactions where a small-business entity functions as the exporter-of-record in direct privity with the foreign buyer or end user, and not simply as a subcontractor or subsupplier of items being sold to a foreign purchaser as part of a larger sales contract. All items which are to be supplied to the small-business exporter by larger business entities pursuant to a subcontract will then be subtracted from the total value of the purchase contract. The remaining amount would then be deemed as the 'direct' participation of the small-business entity. Beginning this year, data will be available to Congress and the users of Eximbank programs which reflects both the percentage of 'direct' participation of small-business in Eximbank direct credit, guarantee and insurance programs as well as 'indirect' participation, which is the percentage of the contract value supplied by small-businesses acting as subsuppliers or subcontractors to larger business entities. These two figures will be added together to comprise the percentage set-aside for small-business for the purposes of section 2(b)(1)(E)(v) of the Act.

Finally, Eximbank has consistently interpreted section 2(b)(1)(E)(v) as requiring the Bank to set aside 10 percent of our aggregate budget authority for loans, guarantees and insurance to finance exports by small-business concerns. Eximbank has concluded, therefore, that this legislation requires us to set aside for commitment an amount equal to 10 percent of aggregate budget authority to finance small-business exports in any given fiscal year, regardless of the actual amount of budget authority utilized by the Bank at the end of that fiscal year.

Appendix III
The Export-Import Bank's Response to Our
Inquiry About the Set-Aside Provision

Please contact me if you should have any further questions regarding Eximbank's interpretation and implementation of this legislation.

Sincerely,

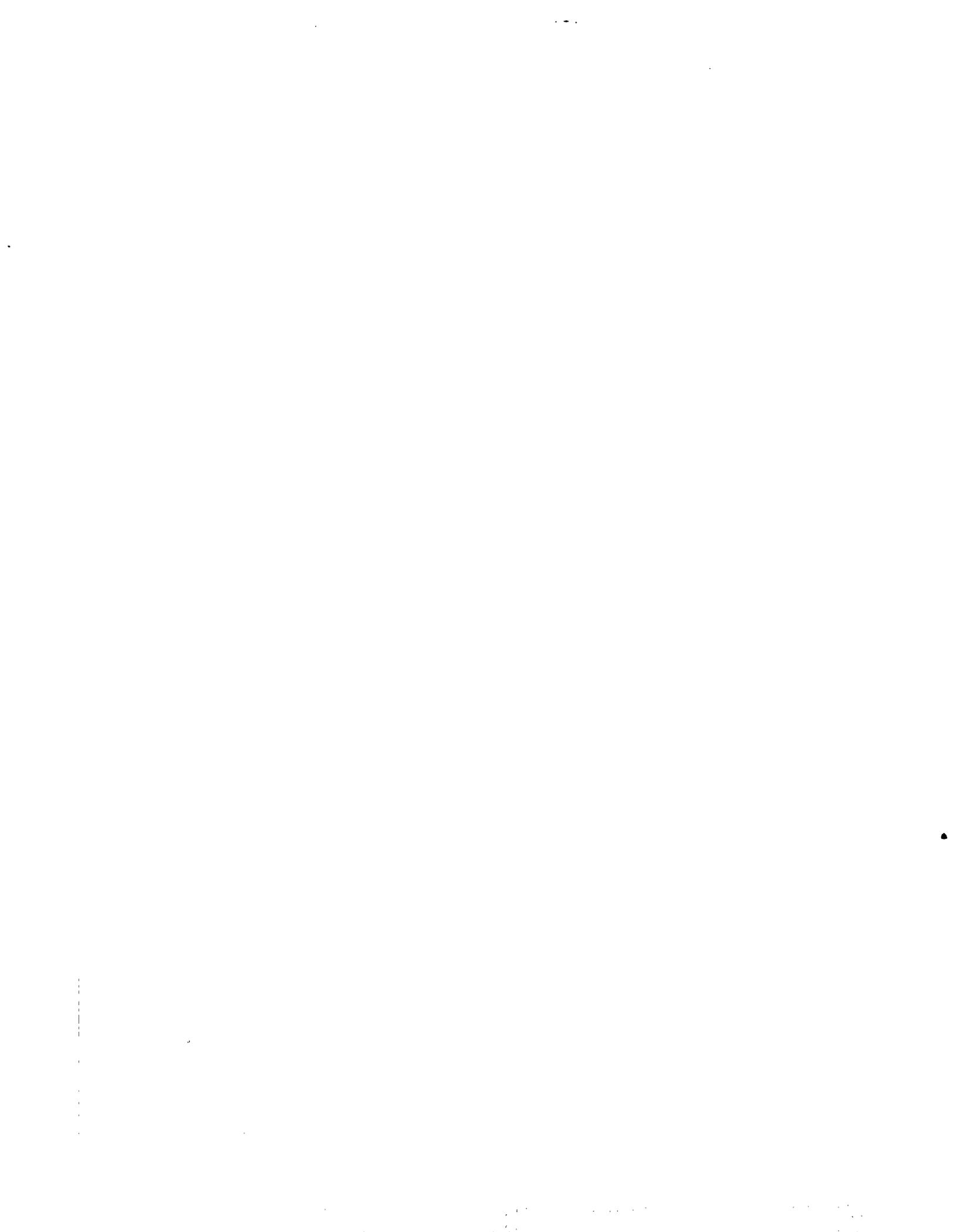
Hart Fessenden

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