United States General Accounting Office

GAO

Testimony

Before the Subcommittee on International Development, Finance, Trade and Monetary Policy, Committee on Banking, Finance and Urban Affairs, House of Representatives

For Release on Delivery
Expected at
10:00 a.m. EDT
Wednesday,
May 6, 1992

THE U.S. EXPORT-IMPORT BANK

The Bank Plays an Important Role in Promoting Exports

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GAO/T-GGD-92-36

OE4576 / 146558

GAO Form 160 (12/91)
OPR:OIMC/PCC

THE U.S. EXPORT-IMPORT BANK: THE BANK PLAYS AN IMPORTANT ROLE IN PROMOTING EXPORTS

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GAO's testimony addresses federal export promotion efforts in general and the Eximbank's programs in particular as they relate to the 1992 renewal of the U.S. Export-Import Bank's (Eximbank) charter.

The Eximbank is one of ten federal government agencies that offers programs to assist exporters. In fiscal year 1991 federal government outlays for export promotion programs totaled almost $2.7 billion. In addition, the government approved about $21.4 billion in export loans and guarantees and export credit insurance, with the Eximbank approving 52% of that total. However, funding for federal export promotion programs is not made on the basis of an explicit governmentwide strategy or set of priorities.

In our January 1992 report on export promotion, we suggested that Congress require the executive branch to formulate a governmentwide export promotion strategy. 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 emphasis given them under such a plan. The Eximbank is a significant component of export promotion and should be integrated into a governmentwide export promotion strategy.

The Eximbank has a limited network for delivering its services, and with fewer banks participating in its programs, the Eximbank is increasing its reliance on other federal, state, and local agencies to deliver its services. The Eximbank also works with other agencies to coordinate and integrate its programs and policies. However, overlaps and gaps may exist between Eximbank's and other agencies' programs.

Congress authorized the Eximbank to create a "war chest" to counter competitors' use of tied aid (foreign assistance that is linked to the purchase of exports from the country extending the assistance) and mixed credits (a combination of foreign aid and commercial loans). However, war chest funds have not been used extensively. While the Eximbank maintains that a recent agreement among members of the Organization for Economic Cooperation and Development will reduce competitors' use of tied aid and mixed credits, some exporters and others are skeptical.

Changes resulting from the Federal Credit Reform Act of 1990 should aid Congress and the administration in monitoring the costs of Eximbank programs and comparing the costs with the benefits gained by expanding U.S. export markets.

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to testify before this Subcommittee as you consider the 1992 renewal of the U.S. Export-Import Bank's (Eximbank) charter. My testimony is based on our past work and our ongoing review of the Eximbank. Today, I will discuss federal export promotion efforts in general and the Eximbank's programs in particular.

FEDERAL EXPORT PROMOTION EFFORTS

Exports play a much greater role in our economy today than when the Eximbank was last rechartered in 1986. The legacy of the 1980s is the internationalization of the U.S. economy. As a result of this internationalization, imports began to take ever-larger market shares in more and more products. Whether a U.S. firm chooses to sell its products in other countries or only in the United States, its products must be competitive by world-class standards in order to be successful.

U.S. competitiveness is an issue that should concern all Americans. The effects of competitiveness reach beyond the success of individual businesses to the most fundamental of concerns--the economic well-being of a country's citizens. 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. With the growing focus on competitiveness and exports, it is appropriate to examine U.S. efforts to promote its exports.

Ten federal government agencies currently offer programs to assist exporters. The agencies with the most extensive programs are the Departments of Agriculture and Commerce, and the Eximbank.

Export promotion programs can play a useful role in increasing the exports of goods and services in particular sectors in which the United States is competitive. However, these programs cannot, by themselves, produce a substantial change in the U.S. trade balance because the trade balance is largely determined by the underlying competitiveness of U.S. industry and by the macroeconomic policies of the United States and its trading partners. However, export promotion programs can be effective in the following situations:

- when U.S. firms lack export awareness because markets have failed to give the right information to producers who otherwise would export;

- when U.S. businesses are aware of export opportunities but need additional technical assistance to consummate export sales;

- when U.S. firms need representational assistance from the U.S. government in opening doors overseas; and

-- when U.S. businesses need competitive financing, loan guarantees, or insurance to close an export deal.

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 app. I). The Eximbank provided about 52 percent of the total U.S. government support for export credit and insurance. However, 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,[1] we suggested that Congress require the executive branch to formulate a governmentwide export promotion strategy. 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 emphasis given them under such a plan. The Eximbank, which was created to facilitate the financing of U.S. exports,[2] is a significant component of export promotion and should be integrated into this governmentwide export promotion strategy.

Any effort by Congress to try to design and fund export promotion programs from a broad, governmentwide perspective will require the cooperative efforts of a large number of authorizing and appropriations committees. For example, five different appropriations subcommittees in each chamber of Congress independently appropriate funds for export promotion.

As this Subcommittee begins the process of rechartering the Eximbank, it is necessary to look at the Eximbank in the context of the changes that have occurred in the world, the increasing importance of trade, and the governmentwide export promotion efforts.

I would now like to turn to a discussion of Eximbank programs and some of the challenges that the Eximbank faces.

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

[2]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.

EXIMBANK PROGRAMS

The Eximbank offers a wide range of export financing assistance, including direct loans, loan guarantees, and export insurance covering credit and political risks. 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, $6 billion in guarantees, and $4.6 billion in export credit insurance (see app. II). Approximately $1.4 billion (12 percent) of the assistance was provided directly to small businesses, primarily in the form of short-term insurance.[3] In its programs, the Eximbank does not target specific markets or industries or set credit limits by country. The 10 countries that received the largest amounts of Eximbank funding approvals in fiscal year 1991 are listed in appendix III. 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.

The Foreign Credit Insurance Association (FCIA) is a private firm that administers the Eximbank's export credit insurance programs. FCIA was formed to act as the Eximbank's agent and began operations in 1962 as an association of 71 insurance companies. The insurance program incurred large losses in the early 1980s, and all but four FCIA member insurance firms withdrew from the association, leaving FCIA to function as a servicing agent employed by the Eximbank on a cost-reimbursable basis. The Eximbank recently entered into a new contractual agreement with FCIA: FCIA has "split its book" of policies into a "private pool" and a "government pool." The private pool policies are the better risks, which will be insured by the private sector. This new arrangement will result in increased costs to the government because it is retaining the poorer risks. However, the arrangement is in keeping with the Eximbank's goal to encourage private insurance firms to participate in insuring exports.

In the past, surplus revenues from less risky policies offset losses from riskier policies in the Eximbank's portfolio of insurance policies administered by FCIA. Under the new contract, FCIA essentially receives all the revenues from the less risky policies (the private pool), and the Eximbank absorbs the losses from the riskier policies (the government pool). Because the change did not become effective until October 1991, it is too soon to determine the actual costs to the Eximbank of the new arrangement.

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[3]The Eximbank provided $18.2 million in loans, $104.9 million in guarantees, and $1.3 billion in insurance directly to small businesses.

In addition to its traditional programs, the Eximbank has initiated new programs to assist U.S. exporters, including "bundling" of smaller transactions,[4] joint programs with the Agency for International Development and the Trade Development Program, and cooperative programs with Japan and Canada.

THE EXIMBANK'S RELATIONSHIP WITH OTHER AGENCIES

The Eximbank works with other agencies primarily in two ways: (1) utilizing other agencies to make its programs more accessible to all exporters and (2) coordinating and integrating its programs and policies with those of other agencies.

The Eximbank's Dependence on Other Agencies

The Eximbank is the primary federal agency providing export credits. Its mission is to assist in financing the export of U.S. goods and services. The Eximbank is required, among other things,

- -- 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 provide at least 10 percent of its budget authority to support small businesses.

In short, the Eximbank has a very important, though constrained, role in assisting U.S. exports. Although Eximbank programs support only a small portion (less than 5 percent) of total U.S. exports, Eximbank programs are supposed to be accessible to any U.S. exporter, including small and medium-sized firms. However, the Eximbank has a limited network for delivering its services to exporters across the United States. With only 350 employees and no regional network, it is difficult for the Eximbank to effectively satisfy all its objectives. However, one way it attempts to do so is by utilizing other federal, state, and local agencies, in addition to the commercial banking system, to deliver its services.

Although the Eximbank has only one (one-person) regional office, FCIA, which administers the Eximbank's export credit insurance programs, has five regional offices. FCIA's regional offices only market the Eximbank's FCIA-administered insurance policies (the

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

government pool, not the private pool). This is important to note because insurance makes up the majority of the Eximbank's assistance to small businesses.

Traditionally, the Eximbank (primarily using guarantees and insurance) has relied on the commercial banking system as its principal means of delivering financing to smaller companies. However, in recent years, the Eximbank's ability to reach exporters has been adversely affected by the fact that commercial banks have cut back their international departments and their less profitable lines of business, such as financing smaller transactions. With fewer commercial banks participating in the Eximbank's programs, the Eximbank has tried to find other ways of delivering its services, such as utilizing state and federal agencies.

One such federal effort is a joint program that the Eximbank and the Small Business Administration (SBA) established in 1984 to make export financing assistance more accessible to small businesses. Under the program, Eximbank staff are to train SBA field staff about Eximbank programs. SBA staff are then supposed to promote the Eximbank programs to local exporters. However, this program has not been a high priority of either agency. Thus far, only nine actual transactions have taken place as a result of the program.

In 1987 the Eximbank initiated a major effort--the city/state program--to improve the delivery of its services. In its city/state program, the Eximbank works with city and state agencies in 22 locations (9 of which were added to the program since July 1991) to make Eximbank assistance more accessible to small and medium-sized businesses. In fiscal year 1991, 22 guarantees[5] were completed as a result of the city/state program. This program benefits the Eximbank because the city/state participants screen exporters, package loans, and provide exporters with information about Eximbank and other government programs. Common attributes of the more active locations include adequate state or local funding and committed personnel with trade and finance expertise who serve as advocates for the less-experienced exporter.

The majority of the Eximbank's marketing efforts are targeted at increasing 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 California and conducted training for bankers, exporters, and other agencies. In addition, the Eximbank set up an exporter telephone hotline and an on-line computerized bulletin board detailing Eximbank programs, dates of seminars, and country program

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

limitations. The Eximbank also offers exporters a credit information service on foreign buyers.

The Eximbank's Coordination With Other Agencies

In some cases, the Eximbank and agencies with similar goals have established joint programs or working groups to pool resources and/or knowledge to better serve U.S. exporters. For example, the Eximbank has worked with the Office of Management and Budget and other agencies to develop consistent measures of evaluating the risk of a country's failing to repay its loans.

However, the Eximbank and other export promotion agencies are not very effective in coordinating their efforts to identify overlapping programs and fill funding gaps. Such overlaps and gaps may exist between Eximbank programs and programs of other export promotion agencies due to the absence of a 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 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.

Moreover, there has been no systematic governmentwide or Eximbank approach to identifying 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 systematically identify where demand for additional financing exists, it is difficult to measure how well the Eximbank is accomplishing its mission of filling financing gaps. However, the Trade Promotion Coordinating Committee has recently established a working group to look at the availability of trade finance.

The various agencies involved in export promotion could greatly enhance assistance to exporters by focusing and consolidating existing programs into a "one-stop" shop. A one-stop shop would gather federal export programs at one location, providing easier access for exporters and a more effective use of existing resources.

OTHER ISSUES FACING THE EXIMBANK

The "War Chest"

According to its legislation, the Eximbank is required to "counter" competitors' use of tied aid and mixed credits.[6] In 1986 Congress authorized the Eximbank to create a "war chest" fund as a means of overmatching or outbidding other countries that have repeatedly used tied aid and mixed credits to increase their exports. However, war chest funds have not been used extensively. (See app. II.)

The Eximbank maintains that a recent agreement among members of the Organization for Economic Cooperation and Development (OECD)[7] will reduce competitors' use of tied aid and mixed credits, but some exporters and others are skeptical. They believe that heavy use of the war chest, correctly targeted, would be more effective than the recent OECD agreement in reducing competitors' use of tied aid and mixed credits. However, these exporters told us that the Eximbank is very reluctant to use war chest funds and requires excessive documentary proof of competitors' use of tied aid and mixed credits. Further, some exporters believe that Eximbank should be more active in sharing with exporters information about markets in which competitors are using tied aid and mixed credits.

In determining if OECD members are really abiding by the new agreement, the Eximbank does not systematically or consistently reach out to consult with exporters who have first-hand knowledge of competitors' use of tied aid and mixed credits. Also, the agreement has been criticized because it lacks enforcement provisions.

Credit Reform

In accordance with the Federal Credit Reform Act of 1990, the President's budget for fiscal year 1992 and thereafter must include the total estimated cost to Eximbank (instead of the cash flows) of

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[6]Tied aid refers to foreign assistance that is linked to the purchase of exports from the country extending the assistance. Mixed credits are a combination of subsidized loans and commercial loans which, in effect, subsidize the purchase of a country's exports.

[7]The 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 the OECD have agreed to curb the use of tied aid for commercial purposes and are taking steps to reduce the use of mixed credits.

its direct loans, guarantees, and insurance. As a result, the "subsidy cost"[8] of these transactions will be taken into account and funded before the Eximbank enters into the transaction.

Under the act, the Eximbank may not incur either new obligations or new commitments until Congress provides an appropriation of budget authority to cover the estimated costs of these obligations or commitments. Funding for the Eximbank's programs will be specifically identified in separate budgetary accounts, which will allow Congress and the administration to monitor the costs of these programs and to compare these costs with the benefits gained by expanding U.S. export markets.

Under credit reform, the Eximbank's country risk assessment system becomes more important than ever. The Eximbank developed a country risk assessment methodology to evaluate the creditworthiness--the likelihood that a loan will be repaid--of foreign countries. In cases in which loans are made 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 subsidy and the creditworthiness of the countries involved. For example, $1 billion in authorized subsidy cost to Eximbank may only support $2 billion in export loans and guarantees for a very risky country, but the same $1 billion could support $10 billion in exports to a significantly less risky country.

Credit reform should, ideally, be a tool to help Congress determine the costs associated with the allocation of Eximbank resources. Accordingly, the Eximbank has developed cost assumptions for the budget process to show the combinations of credits (loans and guarantees) and country risks possible within the Eximbank's budget constraints.

However, credit reform does little to help Congress determine whether the Eximbank has adequate resources to fulfill its mission--filling the unmet demand for export financing--because it is difficult to determine the demand for Eximbank assistance. Various factors that drive demand, such as the level of bank participation, fluctuations in interest rates, additional demand by emerging markets, and competitors' export financing programs, are complex and difficult to evaluate. However, determining the adequacy of Eximbank resources--and the resources of all the federal export promotion programs--is a necessary part of formulating a governmentwide export promotion strategy.

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[8]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.

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Madam Chairwoman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions the Subcommittee may have.

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

*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 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 (ITA), $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.

EXIMBANK FUNDING BY PROGRAM AUTHORIZATIONS

Program	Fiscal year (Dollars in millions)					
	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 authorized 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.

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

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

EXIMBANK EXPORT FINANCING TO TOP 10 COUNTRIES, FISCAL YEAR 1991

Countries	Total amount approved[a] (dollars in thousands)
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 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: Eximbank data.