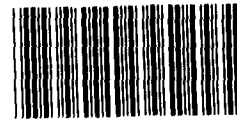


General Government Division

B-247638



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March 11, 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 are reviewing 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 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. It is also required to report on these activities.

In calculating and reporting on export financing provided to small businesses, the Eximbank includes indirect financing--Eximbank financing provided to large exporters that employ small business subcontractors. You asked us to calculate the amount of export financing the Eximbank provides directly to small businesses, excluding amounts provided to large exporters that employ small business subcontractors.

Although we have not completed our review, we described our preliminary results to members of the Subcommittee staff, who asked that we convey these initial findings to you as soon as possible. We will issue a report after we have completed all audit work. The Eximbank's fiscal year 1991 data have not yet been published but will be included in our report.

¹As cited in 12 U.S.C. 635(b)(1)(E)(v) and 635(g).

**CALCULATING COMPLIANCE WITH SET-ASIDE PROVISION WITHOUT
INDIRECT FINANCING AND UNSUBSTANTIATED ESTIMATES**

The Eximbank reported in its 1986-1990 annual reports that it exceeded its 10-percent set-aside requirement. The Eximbank's calculation of the percentage of its annual budget provided to small businesses included indirect financial assistance. In addition, the Eximbank included in its calculations unsubstantiated estimates of the amount of small business assistance it provided via bank-administered insurance policies.

When we excluded indirect financing and estimates of bank-administered insurance provided to small businesses, our calculations showed that the Eximbank would not have met the 10-percent set-aside provision in fiscal years 1986 and 1987, but would have met the requirement in fiscal years 1988-1990.

For example, the Eximbank reported in its 1987 annual report that it provided 16.5 percent of its budget authority to small businesses, but this figure included indirect financing and the estimated percentage of bank insurance policies that were used by small businesses. (See attached tables.) However, our calculations show that the Eximbank authorized 8 percent of its budget authority directly to small businesses, excluding indirect financing and insurance estimates.

THE EXIMBANK'S SMALL BUSINESS DATA HAVE NOT BEEN VERIFIED

We have tentatively identified some problems with the Eximbank's small business data. The amount of indirect financial assistance included in the Eximbank's calculation of total assistance provided 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. In most cases, Eximbank officials do not verify the exporters' estimates of "small business content."

Further, the data on the Foreign Credit Insurance Association's (FCIA)² assistance to small businesses may be incorrect. 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 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 financial assistance provided to small businesses.

As previously stated, we did not include in our calculations indirect financing or the Eximbank's estimates of the amount of bank-administered insurance policies devoted to small businesses.

The Eximbank is completing a study of the costs and benefits of the Eximbank's small business programs. Initial results of the study indicate that there are "significant data integrity and reliability issues" related to the small business set-aside provision. We will discuss the final results of the study in our report.

IS INDIRECT FINANCING TO SUBCONTRACTORS PROPERLY INCLUDED IN THE SMALL BUSINESS SET-ASIDE CALCULATION?

Eximbank attorneys we spoke to stated that the Eximbank has not formally addressed whether it meets its set-aside provision as required by the Export-Import Bank Act of 1945, as amended. Accordingly, our Office of General Counsel has asked for the Eximbank's legal opinion on whether indirect financing--Eximbank financing provided to large exporters that employ small business subcontractors--is properly included in the Eximbank's calculation and reporting of its small business set-aside. We will include the Eximbank's response to our inquiry in our report.

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²In 1961 the 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.

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Please contact me on (202) 275-4812 if you or your staff have any questions concerning this correspondence or our upcoming report. You may also contact John E. Watson, Assistant Director, on (202) 275-9893.

John E. Watson

for

**Allan I. Mendelowitz, Director
International Trade and Finance Issues**

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GAO/GGD-92-1R Eximbank Small Business Support

Table 1: Eximbank Funds Authorized Directly to Small Businesses

Dollars in millions

Program	Fiscal year									
	1986		1987		1988		1989		1990	
	Amount ^a	Percent of total ^b	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Loans	\$20.0	3	\$16.5	3	\$8.9	1	\$12.2	2	\$32.0	6
Guarantees ^c	14.4	1	8.3	1	8.5	2	19.8	2	28.2	1
Working capital guarantees	25.6	100	32.7	^d	75.5	100	51.5	94	96.5	^d
Insurance	579.6	13	942.3	15	1122.1	22	1200.2	28	1345.7	28
Total	\$639.6	11	\$999.8	12	\$1215.0	19	\$1283.7	20	\$1502.4	17

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.

^aAmounts exclude indirect financing to small business subcontractors of exporters and unsubstantiated estimates.

^bPercentage of program authorized directly to small businesses.

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

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

Source: Eximbank data and annual reports.

Table 2: Eximbank Budget Authority Authorized to Small Businesses

Dollars in millions

	Fiscal year				
	1986	1987	1988	1989	1990
Small business authorizations ^{a,b}	\$639.6	\$999.8	\$1215.0	\$1283.7	\$1502.4
Total budget authority	\$12,546	\$12,035	\$10,693	\$10,895	\$10,804
Small business as percentage of budget authority ^{a,b}	5%	8%	11%	12%	14%
Small business as percentage of budget authority as reported in Eximbank annual reports ^c	11.5%	16.5%	12.4%	15.8%	19%

^aTotal small business authorizations--loans, guarantees, working capital guarantees, and insurance--directly to small businesses.

^bExcludes indirect financing to small business subcontractors of exporters and unsubstantiated estimates.

^cIncludes indirect financing to small business subcontractors of exporters and unsubstantiated estimates.

Source: Eximbank data and annual reports.