March 2006

EXPORT-IMPORT BANK

Changes Would Improve the Reliability of Reporting on Small Business Financing

GAO Highlights

Highlights of GAO-06-351, a report to the Chairman, Committee on Small Business, House of Representatives

Why GAO Did This Study

The Export-Import Bank (Ex-Im) provides loans, loan guarantees, and insurance to support U.S. exports. Its level of support for small business has been a long-standing issue of congressional interest. Most recently in 2002, Congress increased the proportion of financing Ex-Im must make available for small business to 20 percent.

GAO examined legal and policy issues related to Ex-Im's small business financing. Specifically, GAO (1) analyzes Ex-Im's methodology for calculating its direct support of small business and the reliability of Ex-Im's data used in the methodology and (2) describes Ex-Im's legal interpretation of its obligations under the statutory 20 percent small business mandate.

What GAO Recommends

GAO recommends that the Chairman of the Export-Import Bank take steps to improve the reliability of Ex-Im's reporting on its direct support for small business.

Ex-Im commented that the review helped reaffirm its methodology and identify areas where it can improve its efficiency. Ex-Im generally concurred with GAO's recommendations and identified several actions it is taking or will take that address them.

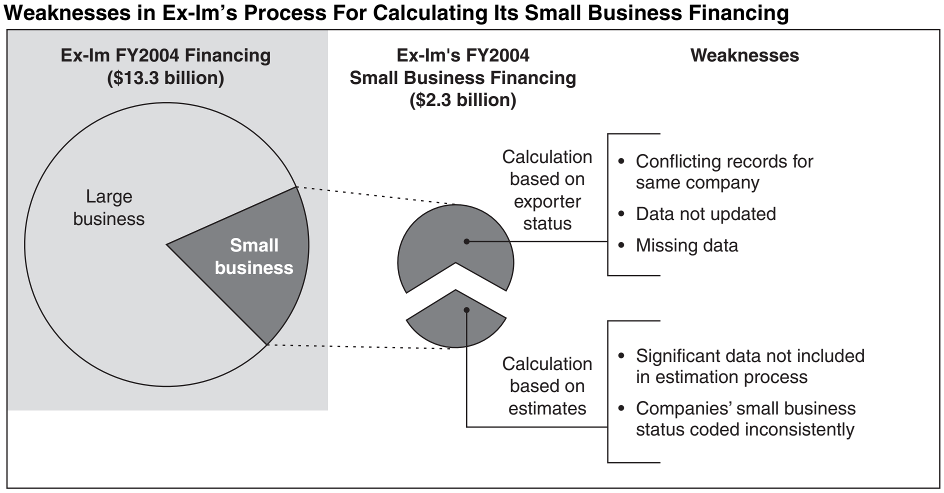
www.gao.gov/cgi-bin/getrpt?GAO-06-351.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

What GAO Found

While Ex-Im generally classifies companies' small business status correctly, weaknesses in its data systems and data limit its ability to accurately determine its small business financing. Ex-Im uses a combination of direct counts and estimates to calculate its small business financing, based on the authorized value of individual transactions. For most transactions, Ex-Im can identify the exporter and thus bases its determination of the small business financing share on whether the exporter qualifies as a small business. For other transactions, Ex-Im cannot identify the exporter at the time it authorizes the transaction and estimates the small business share based on shipment patterns in an earlier period. GAO determined that Ex-Im generally classifies companies' small business status correctly. However, GAO identified weaknesses in Ex-Im's process for calculating its small business support. For transactions where Ex-Im can identify the exporter, GAO found internal control weaknesses such as Ex-Im's data systems containing conflicting records for the same company. For transactions where Ex-Im cannot identify the exporter when it authorizes the transaction, a weakness is not including a large value of shipments in its calculations. GAO also determined that Ex-Im's reporting on the number of transactions—as opposed to the value of transactions—that directly benefit small business includes transactions that do not benefit small business.

Weaknesses in Ex-Im's Process For Calculating Its Small Business Financing



Source: GAO analysis of Ex-Im data.

Prior to the enactment of credit reform legislation, Ex-Im interpreted the mandate as requiring it to make available for financing small business exports an amount equal to 10 percent of the aggregate principal amount of loans, guarantees and insurance specified by Congress for that fiscal year. Given changes in law including federal credit reform and the removal of specific financing authority limits, Ex-Im currently interprets its statutory small business financing mandate as requiring it to attempt to ensure that 20 percent of the authorized value of its transactions during a year directly benefits small business.