

GAO

Report to the Chairman, Committee on  
Small Business, House of Representatives

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March 2006

# EXPORT-IMPORT BANK

## Changes Would Improve the Reliability of Reporting on Small Business Financing



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](http://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](mailto:YagerL@gao.gov).

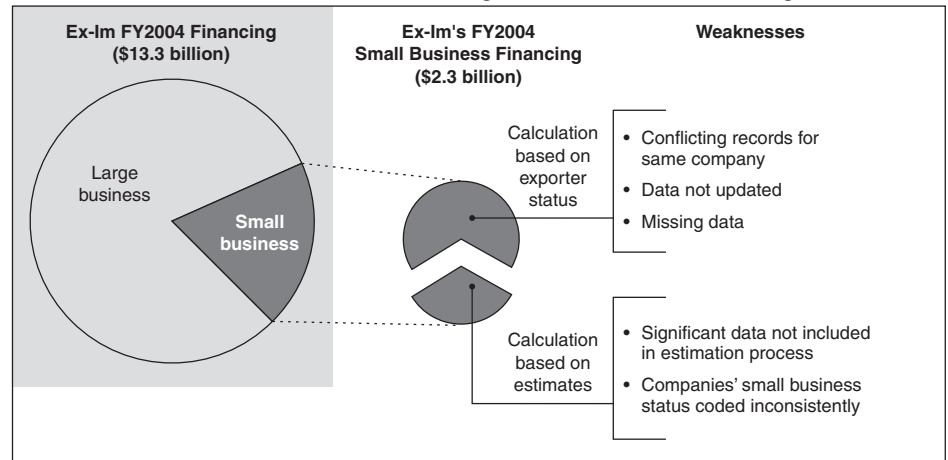
**EXPORT-IMPORT BANK**

**Changes Would Improve the Reliability of Reporting on Small Business Financing**

**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.

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## Abbreviations

CGF	Credit Guarantee Facility
D&B	Dun and Bradstreet
Ex-Im	Export-Import Bank of the United States
NAICS	North American Industry Classification System
SBA	Small Business Administration
SIC	Standard Industrial Classification

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**Contents**

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United States Government Accountability Office  
Washington, D.C. 20548

March 3, 2006

The Honorable Donald A. Manzullo  
Chairman  
Committee on Small Business  
House of Representatives

Dear Mr. Chairman:

The Export-Import Bank's (Ex-Im) level of support for small businesses has been an issue of long-standing congressional interest. Since the 1980s, Congress has required that Ex-Im, which provides loans, loan guarantees, and insurance to finance U.S. exports, make available a specified percentage of its export financing for small businesses. Over time, there has been considerable debate regarding what this percentage should be and what should be included in its calculation. 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 businesses. Although Ex-Im consistently reported providing more than 10 percent of the value of its authorized transactions to small business through 2002, it has not reported providing 20 percent in any year since then.

Following your request, and given the broad interest in promoting exports by small businesses and the upcoming reauthorization of Ex-Im's authorizing legislation, we examined legal and policy issues related to Ex-Im's small business financing. Specifically, this report (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 20 percent small business mandate. In addition, this report includes information on Ex-Im's efforts to monitor and track its small business financing (see app. II) and how Ex-Im estimates the share of its financing that indirectly supports small business (see app. III).

To analyze Ex-Im's methodology for calculating its direct support for small business and the reliability of the data used in the calculation, we reviewed Ex-Im documentation regarding the calculation, analyzed data on Ex-Im transactions from fiscal years 2004 and 2005, and interviewed knowledgeable Ex-Im staff. We also drew a random probability sample of 300 of the 2,755 companies receiving Ex-Im financing in fiscal years 2004 or

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2005 to determine whether companies' small business status was classified correctly. To describe Ex-Im's legal interpretation of its statutory small business financing mandate, we reviewed the statutory obligations under the provision and its legislative history, reviewed other relevant legal documents, and interviewed Ex-Im legal staff regarding their interpretation. For a more detailed explanation of our objectives, scope, and methodology, see appendix I. We conducted our work from June 2005 to January 2006 in accordance with generally accepted government auditing standards.

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## Results in Brief

While Ex-Im generally classified companies' small business status correctly, weaknesses in its data systems and data limit Ex-Im's ability to accurately determine its small business financing amounts and share. Ex-Im measures its small business financing share based on the level of financing that it authorizes for various types of transactions, using a combination of direct counts and estimates. For most types of transactions, Ex-Im can identify the exporter when it authorizes the transaction and calculates its small business financing based on whether the exporter qualifies as a small business under the Small Business Administration's definition. For other transactions, the exporter is not known at the time Ex-Im authorizes the transaction, so it estimates the amount of small business support for these transactions based on data regarding previous shipments under these types of transactions. We determined that Ex-Im generally classifies companies' small business status correctly. We identified weaknesses in Ex-Im's process for determining its small business support for both its calculations based on direct counts and calculations based on estimates. For transactions where the exporter is known, internal control weaknesses in Ex-Im data systems, including updating records on companies in one data system, but not another, limit Ex-Im's ability to accurately measure its small business financing. For transactions where the exporter is not known at the time Ex-Im authorizes the transaction, we identified weaknesses in Ex-Im's estimation process such as not including a large value of shipments in its calculations. Finally, Ex-Im's legislatively-mandated reporting on the number—as opposed to the value—of transactions directly benefiting small business includes transactions that do not benefit small businesses.

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.

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Given changes in law over time, Ex-Im currently interprets the statutory small business mandate as requiring it to attempt to ensure that 20 percent of the authorized value of its annual transactions directly benefits small business. Ex-Im officials justify their interpretation of the small business financing requirement based on the mandate's legislative history, the demand-driven nature of Ex-Im's operations, and the broader context of Ex-Im's authorizing legislation. Since the mandate was enacted, federal credit reform legislation in the 1990s changed how credit agencies, including Ex-Im, budget and account for the cost of their credit programs. This change coincided with the removal of the aggregate loan authority limits in annual appropriations acts on the amount of financing Ex-Im could provide each year, which affects how Ex-Im implements the small business financing requirement.

In this report, we recommend 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. We provided a draft of this report to Ex-Im. Ex-Im commented that the review helped reaffirm its methodology and identify areas where it can improve its efficiency. It generally concurred with our recommendations and identified several actions it is taking or will take that address them. Ex-Im also stated its view that it had a sound methodology for counting the number of transactions benefiting small business.

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## Background

Established in 1934, Ex-Im operates as an independent agency of the U.S. government and is the official export credit agency of the United States under the authority of the Export-Import Bank Act of 1945, as amended.<sup>1</sup> Ex-Im's mission is to assist U.S. companies to create and maintain American jobs by financing exports of goods and services and filling gaps in the availability of commercial financing for creditworthy export transactions. It also helps American exporters meet government-supported financing competition from other countries so that American exporters can compete for overseas business on the basis of price, performance, and service. Its authorizing legislation requires Ex-Im not to compete with commercial lenders.

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<sup>1</sup>12 U.S.C. 635 et seq.

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To accomplish its mission, Ex-Im offers a variety of financing instruments, including loan guarantees and direct loans for buyer financing; export credit insurance; and working capital guarantees for pre-export financing.<sup>2</sup> Under its loan guarantee program, Ex-Im agrees to guarantee loans made by other lenders to help buyers in other countries obtain financing to purchase U.S. exports.<sup>3</sup> Ex-Im also provides export credit insurance to protect U.S. exporters against nonpayment by their customers. It provides this insurance either directly to exporters, or to banks which in turn finance U.S. exporters.<sup>4</sup> In addition, Ex-Im provides working capital guarantees to U.S. companies that would like to export but need funds to produce or market their goods or services for export.

After it receives an application for financing from a U.S. exporter, bank, or foreign buyer, Ex-Im determines whether the applicant meets certain eligibility requirements. After Ex-Im approves or “authorizes” the transaction, it issues the loan, loan guarantee, or insurance policy. The amount actually exported or shipped as a result of the transaction may differ from the authorized value of the transaction. For example, for bank-held insurance policies, the total value of the policies authorized during the year often exceeds the amount shipped under these policies.

Figure 1 shows Ex-Im’s reported fiscal year 2004 financing, by type of transaction. Ex-Im reported authorizing more than \$13 billion in loans, guarantees, and export insurance in fiscal year 2004. Of this amount, Ex-Im reported that more than \$2.2 billion, about 17 percent, directly supported U.S. small businesses.

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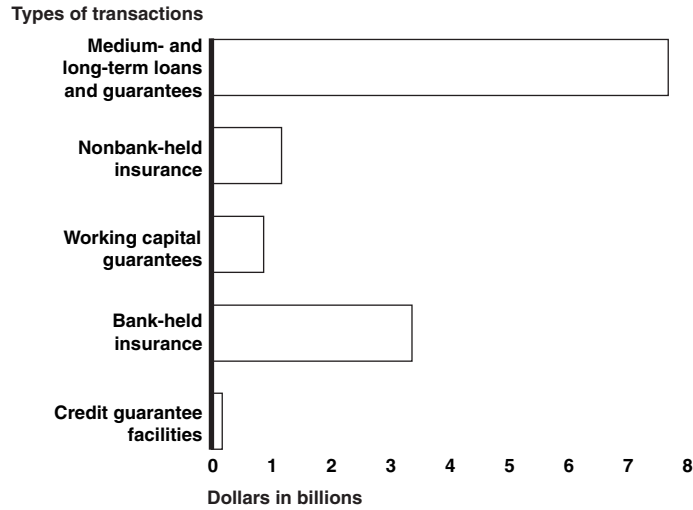
<sup>2</sup>Ex-Im also provides a small number of direct loans, which are primarily used to offer concessionary financing to U.S. exporters to match concessionary financing by other countries’ export credit agencies. For additional information regarding Ex-Im products, see Ex-Im’s official Web site at <http://www.exim.gov>.

<sup>3</sup>One specific type of loan guarantee is a credit guarantee facility. Credit guarantee facilities are lines of credit between a bank or corporation in the United States and a foreign bank (or occasionally a large foreign buyer). Ex-Im Bank guarantees the repayment of the foreign bank’s obligations. The foreign bank then makes credit available to the end user of the U.S. exports and takes the repayment risk of that local company.

<sup>4</sup>For the bank-held insurance policies, Ex-Im authorizes the policy for the bank, which does not know at the time it applies for the financing which exporters will eventually use the export credit insurance.



**Figure 1: Ex-Im's Reported Fiscal Year 2004 Financing, by Type of Transaction**



Source: Ex-Im data.

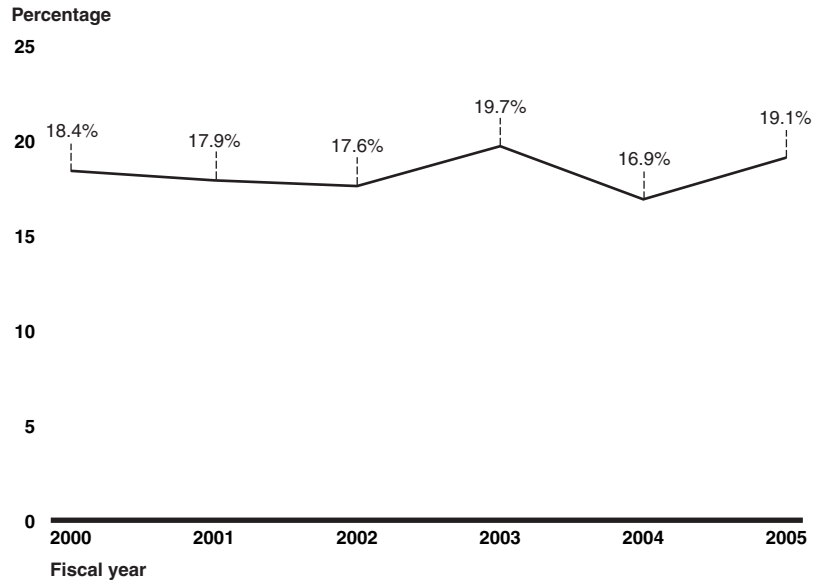
Congress has demonstrated its interest in Ex-Im's supporting small business by, among other things, requiring that Ex-Im make available a specified portion of its financing for small business. In 1983, Congress required Ex-Im to make available for fiscal year 1986 and thereafter not less than 10 percent of its aggregate loan, guarantee, and insurance authority for financing exports by small businesses.<sup>5</sup> In 2002, Congress increased the percentage, requiring that Ex-Im "shall make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns. . . which shall be not less than 20 percent of such authority for each fiscal year."<sup>6</sup> Figure 2 shows the proportion of its total financing that Ex-Im has reported directly benefits small business. Ex-Im is also required to report annually (1) the number of its transactions that directly benefit small business and (2) an estimate of the number of small businesses Ex-Im indirectly supports as suppliers to companies receiving Ex-Im financing.<sup>7</sup>

<sup>5</sup>Pub. L. No. 98-181. The law provided for this percentage to increase from 6 percent in fiscal year 1984 to 10 percent in 1986 and thereafter.

<sup>6</sup>Pub. L. No. 107-189.

<sup>7</sup>12 U.S.C. 635g.

**Figure 2: Ex-Im's Reported Proportion of Financing Directly Benefiting Small Business**



Source: Ex-Im Annual Reports (2000-2004) and Ex-Im Financial Highlights (2005).

Ex-Im uses the Small Business Administration (SBA) methodology to determine whether a company qualifies as a small business. SBA uses “size standards” to identify the largest a company can be and still qualify as a small business. SBA’s size standards vary by industry, as defined by the North American Industry Classification System (NAICS),<sup>8</sup> which replaced the Standard Industrial Classification (SIC) system, and are typically expressed in either millions of dollars or number of employees, reflecting average annual receipts or average employment of a firm.

To apply the size standards, Ex-Im obtains company information through its application process. Ex-Im also subscribes to Dun and Bradstreet (D&B), a commercial information vendor, which provides information about companies, including sales and employment data and SIC codes. Ex-Im uses the SIC codes provided by D&B to obtain the corresponding NAICS codes through the SBA Web site.

<sup>8</sup>NAICS was developed jointly by the United States, Canada, and Mexico to provide comparability in statistics about business activity across North America.

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The Federal Credit Reform Act of 1990 affects how Ex-Im budgets for and reports on its various credit programs. It requires that Ex-Im (and other government credit agencies) obtain budget authority to cover the cost to the government of new or modified loans and loan guarantees. Prior to credit reform, Congress annually provided budget authority for the face value of authorized loans and the value of defaulted guarantees. Credit reform requires agencies to estimate the cost to the government, over the life of the credit, of the financing they provide. Broadly speaking, this cost represents net losses to the government on a present value basis. By focusing on the cost to the government, credit reform allows policy makers to compare the costs of credit programs with each other and with noncredit programs in making budget decisions.

Ex-Im's financial statements are audited annually by an independent accounting firm, which does not examine Ex-Im's reporting on the calculation of its small business financing share. The auditor reviews the financial information involved in the year's transactions but does not review whether the figure reported for the small business financing share is accurate. Ex-Im has received unqualified or "clean" opinions on its financial statements for the past several years.

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## **Ex-Im Generally Classifies Companies' Small Business Status Correctly, but Weaknesses Limit Its Ability to Accurately Measure Small Business Financing**

While Ex-Im generally classifies companies' small business status correctly, weaknesses in its data systems and data limit Ex-Im's ability to accurately determine its small business financing amounts and share. Ex-Im bases its estimate of the small business share of its financing on authorized values for various types of transactions. Ex-Im's methodology for calculating its small business financing is based on directly counting the value of small business financing for transactions where the exporter can be identified and estimating the small business value of transactions where the exporter cannot be identified at the time Ex-Im authorizes the transaction. While we found that Ex-Im generally classifies companies' small business status correctly, we identified several weaknesses in Ex-Im's process for calculating its small business support. For transactions where the exporter can be identified, internal control weaknesses in Ex-Im's data systems affect the reliability of Ex-Im's analysis of the value of its small business financing. For transactions where the exporter cannot be identified at the time Ex-Im authorizes the transaction, weaknesses in Ex-Im's system for estimating small business financing also limit Ex-Im's ability to accurately measure and report on the amount of small business financing. In addition, in its required reporting on the number—as opposed to the value—of

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transactions benefiting small business, Ex-Im includes transactions which do not directly benefit small business.

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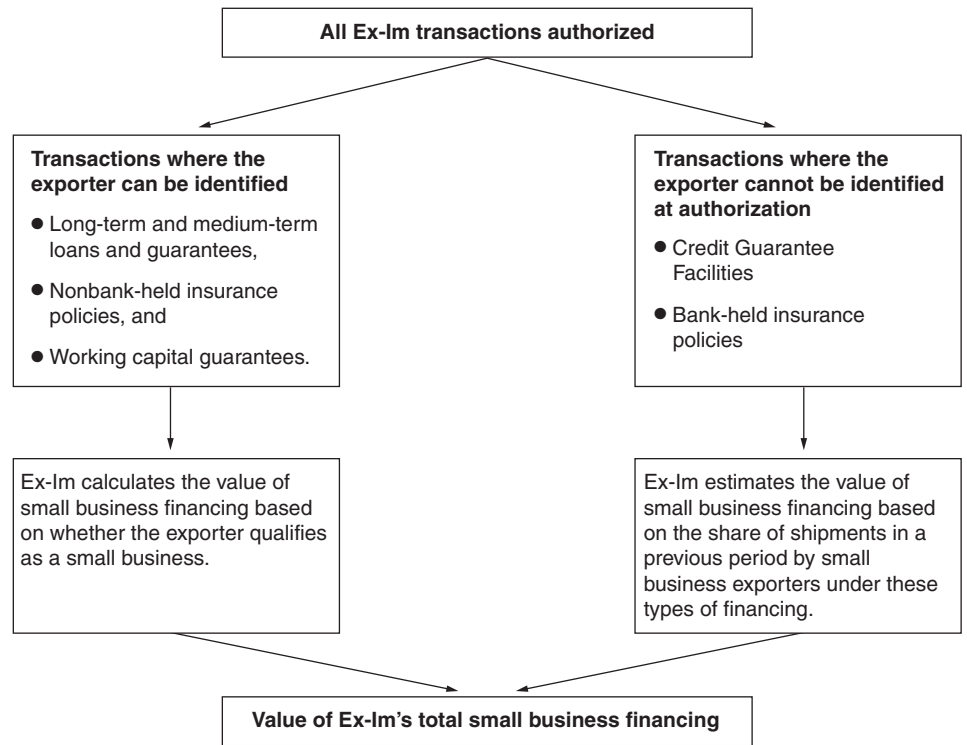
### Ex-Im's Overall Calculation of Small Business Financing Is Based on the Authorized Value of Transactions; Specific Calculations Vary by Type of Transaction

Ex-Im calculates the small business share of its total financing during a year by dividing the value of authorized transactions directly benefiting small businesses by the total value of all transactions authorized. For some types of transactions, the amount of money authorized may be significantly different from the amount of financing that the exporters actually utilize. For most transactions, Ex-Im can identify the exporter at the time the transaction is authorized and, in those cases, it bases its calculation on whether the exporter qualifies as a small business under the SBA definition. About one-quarter of the time, such as in cases where Ex-Im provides an insurance policy to a bank, which in turn finances exports, Ex-Im cannot, when it approves the transaction, identify the company that will be the exporter. In these cases, Ex-Im estimates the share of the financing benefiting small business based on data regarding previous shipments under those types of transactions.

To determine the value of the small business share of its financing authorized during a year, Ex-Im adds the value of small business financing for the types of transactions where the exporter can be identified at the time of authorization and the estimated small business value of the types of transactions where the exporter cannot be identified at that time. To determine the portion of financing directly supporting small business, Ex-Im divides this total by the total dollar value of all transactions authorized. According to Ex-Im officials, they have used this general methodology for calculating the small business portion since the late 1980s. (See fig. 3.)

For transactions where the exporter can be identified, Ex-Im bases its calculation on actual data on the value of the transaction and the participants. For most of these transactions, Ex-Im generally counts 100 percent of the value of the transaction as benefiting small business if the exporter is a small business. For medium- and long-term loans and guarantees, only the amounts associated with small business suppliers to small business exporters are counted as directly supporting small business. Ex-Im officials noted that by not including the value of a transaction associated with a nonsmall business supplier, the small business share is reduced. They said this indicates Ex-Im's desire to not overrepresent its direct support of small business. When the exporter is not a small business, none of the value of the transaction is counted as directly supporting small business.

**Figure 3: Ex-Im's Methodology for Calculating Its Direct Support of Small Business**



Source: GAO analysis of Ex-Im documents.

For transactions where the exporter is not known at the time Ex-Im authorizes the transaction, Ex-Im estimates the small business share based on data on the size of companies making shipments under these types of transactions for a previous period.<sup>9</sup> To make these estimates, Ex-Im analyzes data on exports under each type of transaction and determines whether each exporter is small, nonsmall, or unknown. For each type of transaction, Ex-Im estimates the percentage of the value of shipments by small businesses. Ex-Im divides the value of shipments made by small business exporters by the sum of the shipments by small and nonsmall business exporters. (Shipments by companies of unknown size are excluded from the calculation.) Ex-Im applies this percentage to the value

<sup>9</sup>For bank-held insurance policies, Ex-Im analyzes data on shipments during a 6-month period. For credit guarantee facilities, Ex-Im analyzes data on shipments from the previous year.

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of the entire year's authorized transactions of this type, resulting in its estimate of the value of direct support for small business from that transaction type.

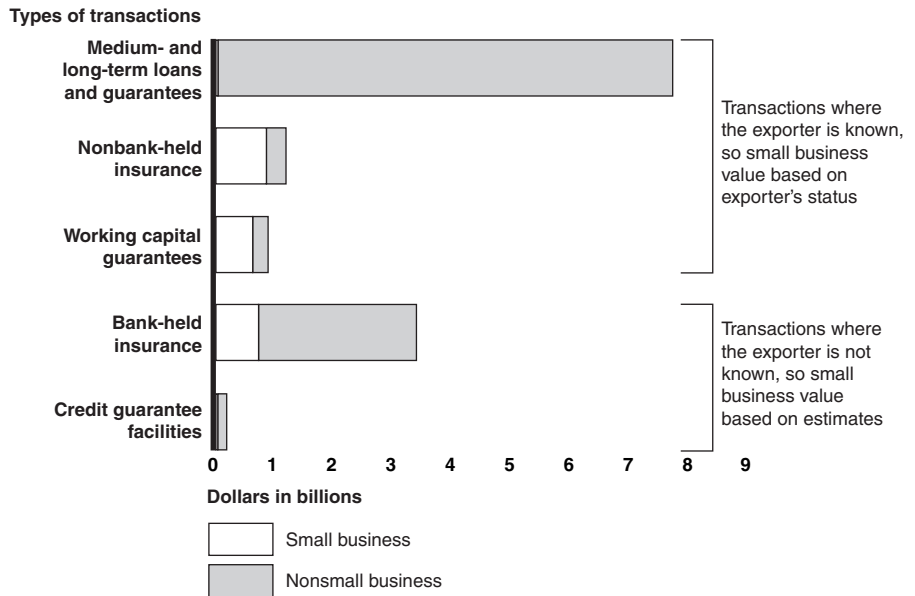
In some cases, these estimates of the small business share of authorized transactions can differ significantly from the small business amounts actually shipped under the authorizations. For example, in 2005 Ex-Im authorized a \$10 million short-term insurance policy under which no shipments have been reported. In contrast, in 2005 Ex-Im also authorized a \$50 million short-term insurance policy where shipments under the policy exceeded \$87 million for a 6-month period (or \$174 million on an annualized basis). A 2004 authorization for Iraq provides another example. In February 2004 Ex-Im issued a \$250 million short-term bank-held insurance policy involving Iraq. Using the methodology described above, Ex-Im estimated that 21 percent of the value of bank-held insurance, overall, would directly benefit small business, and thus credited approximately \$53 million of this authorization for Iraq to its accounting of small business financing.<sup>10</sup> According to Ex-Im officials, companies have just begun making shipments under this policy.

Figure 4 shows Ex-Im's reported small business share of each type of transaction for fiscal year 2004.

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<sup>10</sup>Our review of Ex-Im's shipment data for the first 6 months of 2004 and 2005 identified one company that exported products using Ex-Im financing through the bank that received this financing. That company made four shipments totaling approximately \$20 million during these two 6-month periods, and is classified in Ex-Im's records as a non-small business. We did not identify any shipments by small businesses under this policy.

**Figure 4: Ex-Im's Reported Amount of Fiscal Year 2004 Transactions Directly Benefiting Small Business**



Source: GAO analysis of Ex-Im data.

## Ex-Im Generally Classifies Companies' Small Business Status Correctly

Ex-Im's classification of companies' small business status is generally correct, based on our review of independent data and Ex-Im's paper transaction files. Based on our review of Ex-Im's electronic databases and D&B data on companies' sales and employment, we estimate that, 83 percent of the time, Ex-Im's small business designation<sup>11</sup> matches the designation based on D&B data. Based on a review of Ex-Im's official paper transaction files in instances where Ex-Im's small business designation differed from the designation indicated by D&B, we determined that Ex-Im's designation was justified in most instances, although we observed a significant number of errors related to loans and guarantees.

<sup>11</sup>The term "small business designation" refers to the decision regarding whether or not a company qualifies as a small business.

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Comparison of Ex-Im's Small  
Business Designation with  
Designation Based on D&B Data

Based on our review of a statistical sample of 300 companies, we estimate that for those companies for which we were able to obtain credible matching data from D&B, 83 percent<sup>12</sup> of the time Ex-Im's small business designation in its electronic database matched the designation indicated by D&B company data.<sup>13</sup> We estimate that there is credible D&B matching data for 90 percent of the companies in the Ex-Im database.<sup>14</sup> Our analysis shows that, where Ex-Im's small business designation differed from the designation indicated by D&B data, Ex-Im almost always identified a company that appears to qualify as a small business as a nonsmall business. Ex-Im officials stated that these results reflect their practice of being conservative in identifying companies as small businesses. Because the value of individual transactions can vary significantly, these results do not necessarily mean that Ex-Im undercounted the value of its small business financing.

The frequency of differences in companies' small business designation in Ex-Im's data and our analysis of D&B data varied based on the type of transaction examined. For companies involved in nonbank-held insurance and working capital transactions, we estimate that 10 and 11 percent, respectively, of Ex-Im's small business designations in its electronic data systems differ from the small business designation resulting from applying the SBA methodology to D&B data.<sup>15</sup> For medium- and long-term loans and guarantees, which account for about half of the value of total transactions but only about 2 percent of the value of small business transactions, we estimate that 50 percent of Ex-Im's small business designations differ from

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<sup>12</sup>We are 95 percent confident that the percentage of cases where Ex-Im's small business designation differs from the designation that would result from applying the SBA methodology to D&B data ranges from 13 and 22 percent. This estimate and the estimates for specific transaction types below apply only to the portion of companies for which we were able to obtain D&B data. For more on our sampling methodology, see appendix 1.

<sup>13</sup>We also reviewed 1,831 cases where Ex-Im's electronic data system had enough information to apply the SBA definition, and we found that Ex-Im's small business designation was not supported by Ex-Im's data on sales and employees in 191 instances, or just over 10 percent of the time. In the majority (157) of these cases, the SBA methodology would have classified the companies as small businesses, but Ex-Im had designated the companies as nonsmall businesses.

<sup>14</sup>We are 95 percent confident that the percentage of companies in the Ex-Im database for which there is credible matching D&B data ranges from 86 percent to 93 percent.

<sup>15</sup>The 95 percent confidence interval for these estimates ranges from 5 to 18 and 5 to 19 percent, respectively.



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the small business designation resulting from applying the SBA methodology to D&B data.<sup>16</sup>

### Ex-Im's Basis for Categorizing Some Companies Differently Than Designation Based on D&B Data

According to our review of Ex-Im's official paper records, Ex-Im's small business designations are generally justified when they differ from designations based on D&B data. We reviewed Ex-Im's paper records for 90 percent of the companies where we observed differences between Ex-Im's small business designation in its electronic database and the designation based on D&B data. We determined that Ex-Im's designation was justified in the majority of instances. However, we found a large number of errors regarding companies involved in loans and guarantees. With respect to insurance or working capital transactions, we determined that, for 18 of the 19 companies involved in these transactions, documentation in Ex-Im's paper files supported its small business designation in the paper and electronic files.<sup>17</sup> In some of these instances, we determined that Ex-Im's designation was correct because the company receiving Ex-Im financing was the subsidiary of a larger company that did not qualify as a small business, thus disqualifying the subsidiary from being considered a small business. In other instances, other information in the paper transaction files supported Ex-Im's designation of the company's small business status. For about half of the companies involved in loans and guarantees, however, Ex-Im's small business designation in the paper file differed from the designation in the electronic database. In these cases, Ex-Im's paper files and our analysis identified the companies as small businesses, but Ex-Im's electronic files used to calculate its small business financing identified them as nonsmall businesses. Thus, none of these errors caused Ex-Im to inappropriately take "credit" for small business financing.

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### Weaknesses Exist in Ex-Im's Process for Calculating Its Small Business Financing

We identified weaknesses in Ex-Im's process for calculating its small business financing, ranging from internal control weaknesses that may affect only a few transactions a year to more significant weaknesses in Ex-Im's system for estimating about one-third of its small business support. For transactions where the exporter is known, we found weaknesses related to internal controls in Ex-Im's data systems. For transactions where the exporter is not known at the time Ex-Im authorizes the transaction, we

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<sup>16</sup>The 95 percent confidence interval surrounding this estimate ranges from 40 to 60 percent.

<sup>17</sup>For one of these 19 companies, Ex-Im's designation of the company's small business status was incorrect based on data in the paper file.

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identified weaknesses such as analyzing shipments equaling a small portion of the authorized value of transactions, excluding a large share of exports, and misclassifying companies' small business status for the purpose of estimating small business shares based on shipments in previous periods. We did not determine the cumulative effect of these weaknesses on Ex-Im's overall calculation of its small business support.

Internal Control Weaknesses Exist in Ex-Im's Data Systems Used to Calculate Ex-Im's Small Business Financing

Two internal control weaknesses exist in Ex-Im data systems used to calculate and report on Ex-Im's small business financing. Three databases are relevant to Ex-Im's small business financing calculation—two store information on companies involved in the transactions, and a third integrates information from these databases and performs the actual calculation.

First, Ex-Im's electronic data systems used to calculate its small business support do not contain complete or up-to-date information on companies' small business status. As a result, to obtain the most current information for these companies, Ex-Im officials must identify and locate their paper transaction files. As discussed above, while Ex-Im's paper files generally supported its small business designation, we found a significant number of discrepancies between Ex-Im's paper and electronic files. We found that Ex-Im's electronic data systems had no small business designation for 350 (or 66 percent) of the 531 companies we examined that had received medium- or long-term loans or guarantees. According to Ex-Im officials, if a company's small business designation is left blank, they do not credit any part of the transaction as benefiting small business. Ex-Im also does not consistently maintain the latest information in the databases. Ex-Im officials told us they had not performed a general update of the company records since September 2004.<sup>18</sup>

Second, Ex-Im's data systems sometimes contain conflicting information for the same company. Ex-Im maintains information about insurance transactions and participants in one data system and information about loans and guarantee transactions and participants in another data system. According to Ex-Im, updating information in a company's record (including its small business designation) in one database does not update the company's record in the other database. As a result, the two databases can, and in some cases do, have conflicting information about the same

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<sup>18</sup>Ex-Im officials said they are updating companies' records in advance of the conversion to a new data system.

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Weaknesses Exist in Ex-Im's System for Estimating Small Business Financing When the Exporter Is Not Immediately Knowable

company. Our analysis identified 34 companies<sup>19</sup> involved in about 180 transactions that were treated as small businesses in some transactions and as nonsmall businesses in other transactions.

We found weaknesses in Ex-Im's system for developing estimates of small business financing where the exporter is not known at the time Ex-Im authorizes the transaction, which applied to about one-third of Ex-Im's total small business financing for fiscal year 2004. These weaknesses are a function of Ex-Im's methodology, which focuses on the authorized value of transactions, and Ex-Im's implementation of its methodology.

First, Ex-Im's estimates may not accurately reflect the amount of small business financing under bank-held insurance policies because of large differences between the amounts authorized and actually shipped under these policies. For both fiscal years 2004 and 2005, the value of shipments under bank-held insurance policies was a fraction of the total authorized value of the bank-held insurance policies. For example, according to Ex-Im records, they authorized \$3.4 billion of bank-held insurance transactions for fiscal year 2004, but there were only \$280 million in shipments under bank-held insurance policies in the first 6 months of the fiscal year. Ex-Im applied its estimate of the small business share of transactions, based on these shipments, to the \$3.4 billion of bank-held insurance policies it authorized during the year, and determined that about \$720 million of the authorized value of bank-held insurance policies during the year directly benefited small business. Thus, this method results in estimates of small business shares for the authorized value of these types of transactions that are based on a very small share (about 8 percent) of the total authorized value. Ex-Im officials stated that the difference between amounts authorized and amounts actually shipped can be very large because banks sometimes want as much flexibility as possible in the amount of insurance they can provide and request that Ex-Im authorize large policies. Ex-Im officials acknowledge that, as a result, the total authorized value of bank-held insurance transactions can be significantly greater than the value of shipments under these policies.

Second, Ex-Im classifies the small business status of a significant portion of the companies making shipments as "unknown" and excludes them from its calculation of the estimate of its small business support. For the \$280

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<sup>19</sup>This is out of about 3,000 companies that received Ex-Im financing in fiscal years 2004 or 2005.

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million of shipments under bank-held insurance discussed above, an Ex-Im official reviewed the data and classified about \$128 million (or nearly half) as shipments by companies whose small business status was “unknown.” It then excluded these shipments from its calculation of total shipments.

For credit guarantee facilities, which account for about 1 percent of Ex-Im’s small business financing, Ex-Im’s system for calculating its small business share led to errors. Specifically, Ex-Im relies on an automated system, which classifies a company’s small business status as “unknown” unless it finds an exact match in Ex-Im’s company records, for identifying the small business status of companies shipping under these policies. Within the companies classified as “unknown” are some clearly large, easily recognized companies. No Ex-Im official reviews the results of these automated classifications, so these companies are not included in the calculation. Ex-Im officials stated that, since credit guarantee facilities account for such a small portion of Ex-Im’s overall small business financing, errors in its estimation of the small business share of these transactions would not materially affect Ex-Im’s reporting on its total small business financing.

Third, as is the case with calculations when the exporter is known, Ex-Im, at times, inconsistently identifies the small business status of the same company in its estimates when the exporter is not known at the time Ex-Im authorizes the transaction. For example, in comparing Ex-Im’s classification of companies’ small business status in its separate analyses of shipments under bank-held insurance and credit guarantee facilities, we found that Ex-Im inconsistently coded the small business status of a company exporting solar turbines. In one analysis, Ex-Im designated the company as a nonsmall business, but in another analysis Ex-Im designated the company’s small business status as “unknown” and excluded it from its calculation. Excluding this company increased Ex-Im’s estimate of small business support for one type of transaction for the year.

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**Ex-Im’s Reporting on the Number of Transactions Directly Benefiting Small Business Includes Transactions That Do Not Benefit Small Business**

Ex-Im is also statutorily required to report on the number of its authorized transactions that directly benefit small business; we found that Ex-Im’s reported tally includes some transactions that do not benefit small business. In recent years, Ex-Im has frequently reported that about 85 percent of its authorized transactions directly benefit small business. For instance, in fiscal year 2004, it reported that 2,572 (or 83 percent) of its authorized transactions directly supported small businesses. This count was based on counting all six credit guarantee facilities and 698 bank-held

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insurance policies as directly benefiting small business. While many of these transactions may directly benefit small business, they do not all directly benefit small business, as evidenced by the fact that Ex-Im's own estimate showed that about 20 percent of the value of bank-held insurance policies directly benefited small business.

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## Ex-Im's Interpretation of the Small Business Financing Mandate

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 the legislatively established percent of the aggregate principal amount of loans, guarantees and insurance specified by Congress for that fiscal year. Given changes in law over time, Ex-Im currently interprets the small business financing mandate as requiring Ex-Im to attempt to ensure that 20 percent of the value of its transactions is provided directly to small business. As a result of credit reform legislation and related changes in law, Ex-Im cannot precisely determine at the beginning of the year its "aggregate loan, guarantee, and insurance authority available," for the purpose of setting aside a certain percentage of that authority for small business, as originally intended under the requirement.

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## Ex-Im's Current Interpretation of the Mandate

Given the changes in law over time, Ex-Im's current interpretation of the small business financing mandate is that it must attempt to ensure that 20 percent of the value of all the transactions Ex-Im authorizes during a year directly benefits small business. Ex-Im's approach for implementing the requirement is to divide the dollar value of authorized transactions directly benefiting small business by the authorized dollar value of all transactions, as described above, and monitor this proportion throughout the year, aiming to reach 20 percent.

According to Ex-Im's officials, this approach is consistent with (1) congressional intent in establishing the small business requirement, (2) the demand-driven nature of Ex-Im's operations, and (3) the broader mandate of Ex-Im's authorizing legislation. First, Ex-Im's General Counsel stated that, in establishing the requirement, Congress generally intended to ensure that a specified percentage of Ex-Im's loan, guarantee, and insurance

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authority be available for small businesses.<sup>20</sup> At the time the requirement was created, Congress exercised control over Ex-Im's financing by establishing specific dollar limitations (in annual appropriations acts) on the value of transactions Ex-Im could approve during the year. Thus, according to Ex-Im, doing the calculation on the basis of the authorized value of transactions is reasonable based on the legislative history of the provision.

Second, Ex-Im officials stated that Ex-Im interprets and implements the small business requirement in the broader context of Ex-Im's operation as a demand-driven institution that provides financing to U.S. exporters who apply for Ex-Im financing. Because of the demand-driven nature of its business, Ex-Im has limited control over how much financing U.S. exporters apply for each year or, consequently, how much financing it provides during the year. Third, Ex-Im also implements the small business financing requirement in the broader context of Ex-Im's other legislative mandates to support U.S. exports and increase domestic employment. Moreover, Ex-Im officials stated that, under Ex-Im's approach to implementing the requirement, it has never had to turn down a small business transaction due to a lack of funds.

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## Changes in Law Have Occurred Since Original Enactment of the Requirement

Circumstances have changed since the small business financing requirement was enacted that have affected how Ex-Im implements it. Specifically, the removal of a direct congressional cap on annual Ex-Im financing and enactment of the Federal Credit Reform Act of 1990 changed how Congress exercised control over Ex-Im's financing activities.<sup>21</sup> Prior to credit reform, 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. Following the implementation of credit reform, the authority available, or the amount of financing Ex-Im can provide during a year, is determined by the amount of subsidy appropriation Ex-Im receives from Congress and the estimated

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<sup>20</sup>The legislative history of the 1983 provision creating the small business financing requirement focused on providing a specific percentage of the value of Ex-Im's transactions to small business. See H. Conf. Rep. No. 107-487, 107<sup>th</sup> Cong., 2<sup>nd</sup> Sess. (2002); H. Rep. No. 107-292, 107<sup>th</sup> Cong., 1<sup>st</sup> Sess.

<sup>21</sup>Pub. L. No. 101-508.

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subsidy cost to the government of each transaction.<sup>22</sup> Some transactions do not require a subsidy (or even make money), so the subsidy appropriation covers the expected total net losses of all transactions during the year. Thus, for the same amount of subsidy appropriation, Ex-Im could provide different amounts of total financing depending on the characteristics of the transactions it authorizes. It could authorize relatively few large, but risky transactions, or it could authorize many smaller, less risky transactions.

At the time the small business financing requirement was enacted, Congress had historically specified in annual appropriations acts the total principal amount of loans and guarantees that Ex-Im could provide. Ex-Im could then make available for financing small business exports an amount equal to the required percentage, regardless of the actual budget authority utilized by Ex-Im by the end of the year. In these circumstances, Ex-Im could easily determine how much financing it needed to make available for small business to satisfy the requirement.<sup>23</sup> However, in 1994 (and subsequent years), Congress did not specify any limitation on the total principal amount of loans, guarantees, and insurance that Ex-Im could provide during the year. As a result, Ex-Im no longer has a specific, pre-determined, amount from which it could calculate the required percentage to be made available for small business financing.

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## Conclusions

While Ex-Im generally classifies companies' small business status correctly, we identified several areas for improvement related to the processes and data it uses to determine and report on its support of small business. We observed a variety of weaknesses related to Ex-Im's calculation of its small business support, ranging from data system weaknesses that may affect only a few transactions per year to shortcomings in Ex-Im's system for estimating about one-third of its small business financing annually. While we did not determine whether these weaknesses result in Ex-Im

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<sup>22</sup>The estimated cost of a transaction is the net present value of the estimated payments by the government (e.g., loan disbursements) minus the estimated payments to the government (e.g., loan repayments and fees).

<sup>23</sup>For example, for fiscal year 1993, Congress imposed a limitation of \$15.5 billion on "gross obligations for the principal amount of direct loans, and tied-aid grants, and total loan principal, any part of which is to be guaranteed, including insurance" that Ex-Im could authorize during the fiscal year. Accordingly, Ex-Im interpreted the small business financing requirement (10 percent at the time) as requiring it to make available 10 percent of \$15.5 billion, or \$1.55 billion, for loans, guarantees, and insurance for small business.

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overstating or understating the value of its small business financing, improvements are needed to address internal control weaknesses and improve the reliability of Ex-Im's reporting on its small business financing. With more reliable data and data systems, Ex-Im could more effectively and accurately report to Congress regarding the number of its transactions that directly benefit small business and their progress toward meeting the 20 percent small business financing mandate.

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## Recommendations for Executive Action

To improve the reliability of Ex-Im Bank reporting on its direct support for small business we recommend that the Chairman of the Export-Import Bank take the following four steps:

- improve the completeness, accuracy, and consistency of the data Ex-Im maintains on its customers, especially with regard to their small business status;
- improve the system for estimating the value and proportion of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction;
- more accurately determine and clearly report the number of transactions that directly benefit small business; and
- have its external auditor audit Ex-Im's annual legislatively-mandated reporting of its direct support for small business as a part of its review of Ex-Im's compliance with laws and regulations.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Export-Import Bank of the United States. Ex-Im commented that the review helped reaffirm its methodology and identify areas where it can improve its efficiency. It generally concurred with our recommendations and identified several actions it is taking or will take that address them. Ex-Im stated that a new on-line application system that it is implementing will include updating electronic participant records and that it is strengthening its internal controls regarding small business status. Ex-Im also stated that its new on-line system will improve its information base regarding small business designations when the exporter is not known at the time of authorization. Ex-Im further stated that it is arranging for an independent audit of its direct small business reporting. With respect to its reporting on the number



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of its transactions directly supporting small business, Ex-Im stated its view that it has a sound methodology for counting transactions made available for the direct support of small business exporters. We believe greater clarity is needed in Ex-Im's reporting of this measure. Ex-Im's official comments are reprinted in appendix IV.

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We are sending copies of this report to the Chairman of the Export-Import Bank, appropriate congressional committees, and other interested parties. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or [YagerL@gao.gov](mailto:YagerL@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

Sincerely yours,

A handwritten signature in black ink that reads "Loren Yager". The signature is written in a cursive style with a large initial "L".

Loren Yager  
Director, International Affairs and Trade

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# Objectives, Scope, and Methodology

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The Chairman of the House Committee on Small Business requested that we review legal and policy issues related to the Export-Import Bank's (Ex-Im) support for small business. This report (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 requirement under the statutory 20 percent small business mandate. In addition, it includes information on Ex-Im's efforts to monitor and track its small business financing (see app. II) and how Ex-Im estimates the share of its financing that indirectly supports small business (see app. III).

To analyze Ex-Im's methodology for calculating its direct support for small business and the reliability of the data used in the calculation, we interviewed knowledgeable Ex-Im staff, reviewed Ex-Im documentation regarding the calculation, and analyzed data on Ex-Im transactions and participants from fiscal years 2004 and 2005. To review the operation of Ex-Im data systems involved in the calculation of small business financing, we interviewed knowledgeable Ex-Im officials and staff from Ex-Im's external auditor (Deloitte & Touche), reviewed annual audit reports of Ex-Im's financial statements, viewed a demonstration of the data systems, and obtained detailed and summary data related to transactions from fiscal years 2004 and 2005. We performed basic electronic tests of the data's reliability, including determining whether the data fell within the expected time periods, contained the types of transactions we expected, and were generally comparable to Ex-Im's summary data from its Annual Reports. On this basis, we determined that the data were sufficiently reliable for our use in further analysis. We then identified the individual companies involved in Ex-Im transactions and analyzed data on companies' industry classifications (Standard Industrial Classification [SIC]), number of employees, and annual revenues. We also reviewed Ex-Im's electronic records for companies receiving financing in fiscal years 2004 and 2005 to identify whether there were any instances where Ex-Im's small business designation for the same company differed in the insurance and loan and guarantee databases. We identified the Small Business Administration's (SBA) "size standard" for each company based on the SIC code in Ex-Im's electronic records and applied the SBA methodology to Ex-Im's electronic company records to determine how frequently Ex-Im's decision regarding companies' small business status was supported by the data in Ex-Im's databases.

To test whether Ex-Im's classification of companies' small business status is accurate, we drew a stratified random probability sample of 300

companies from a population of 2,755 companies receiving Ex-Im financing<sup>1</sup> in fiscal years 2004 or 2005, stratified by type of transaction. We developed our list of 2,755 companies from a transaction-level data set provided to us by Ex-Im by identifying all unique company identification numbers and then checking to ensure that there was no repetition of company names across the identification numbers. We stratified the population into three types of transactions: loans and guarantees, nonbank-held insurance, and working capital guarantees. We obtained data regarding the sampled companies' industry classification, employment, and revenues from a commercial information vendor, Dun and Bradstreet (D&B), which Ex-Im also uses to update its company records.<sup>2</sup> We obtained 269 credible matches based on searches either for each company's DUNS number or name. We then applied the SBA "size standards" to the Dun and Bradstreet data for these companies to determine whether they qualify as small businesses. We then compared these results to Ex-Im's small business designation for each company. Three potential limitations could affect this analysis: (1) the D&B data may be inaccurate or outdated, (2) companies' small business status may have changed between the time Ex-Im authorized the transaction (2004 or 2005) and when we obtained the D&B data (December 2005), and (3) Ex-Im's small business designation may have been based on data not available to D&B.

With our probability sample, each member of the study population had a nonzero probability of being included and that probability could be computed for any member. Each sample company was subsequently weighted in the analysis to account statistically for all the companies in the population, including those who were not selected. Most estimates provided in this report apply only to the subset of companies for which we were able to obtain enough credible matching information in the D&B data to determine a classification into small or nonsmall.

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as

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<sup>1</sup>For this analysis, we excluded companies involved in only bank-held insurance or credit guarantee facility transactions because the amount of small business credit Ex-Im takes for these transactions does not depend on the small business status of the company that obtains the financing.

<sup>2</sup>We did not review the reliability of D&B's data.

95 percent confidence intervals (e.g., plus or minus 7 percentage points). These are intervals that would contain the actual population values for 95 percent of the samples we could have drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true values in the study population.

We also reviewed a selection of the 61 companies identified from our statistical sample for which Ex-Im's small business designation did not match the designation based on applying the SBA methodology to the D&B data. This selection included companies involved in medium- and long-term loans and guarantees, working capital transactions, and nonbank-held insurance transactions. For these companies, we reviewed Ex-Im's paper transaction files to (1) identify whether Ex-Im designated the company as a small business and (2) determine what supporting documentation existed regarding Ex-Im's designation.

To determine the reliability of Ex-Im's estimates of small business financing when the exporter is not known at the time of the transaction, we interviewed Ex-Im staff and analyzed Ex-Im's data for fiscal years 2004 and 2005. Our review of the data included verifying Ex-Im's calculation, comparing Ex-Im's classification of companies' small business status in different Ex-Im data sets, and reviewing the names of companies to identify obvious classification errors. We also compared the value of the shipments in these analyses with the value of these types of transactions as reported in Ex-Im's Annual Reports.

To describe Ex-Im's legal interpretation of its statutory small business financing mandate, we reviewed the statutory provision and its legislative history, reviewed other relevant legal documents, and interviewed Ex-Im legal staff, including the Acting General Counsel, regarding their interpretation.

To review Ex-Im's efforts to monitor and track its small business financing, we obtained Ex-Im reports and interviewed Ex-Im staff.

To examine how Ex-Im estimates the share of its financing that indirectly supports small business, we obtained documents detailing Ex-Im's estimates and interviewed Ex-Im staff regarding the methodology for developing the estimates.

We conducted our work from June 2005 to January 2006 in accordance with generally accepted government auditing standards.

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# Information on Ex-Im’s Monitoring and Tracking of Its Small Business Financing

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The Export-Import Bank (Ex-Im) monitors and tracks the proportion of its financing that directly benefits small business, and thus its progress toward meeting the small business financing requirement, using reports produced by electronic databases maintained by Ex-Im staff. One tool is a standard report generated by an electronic Ex-Im database that details the number, amount, and proportion of Ex-Im transactions that directly benefit small business. In addition, Ex-Im’s Office of the Chief Financial Officer produces a monthly financial report that compiles a variety of data, including the amount and proportion of Ex-Im’s financing that directly benefits small business.

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## Ex-Im Uses Electronic Databases to Produce Up-to-Date Data on Small Business Financing

Ex-Im uses a “canned” report produced by an Ex-Im database that pulls information from multiple other Ex-Im databases. This database integrates information, including data relating to specific transactions and information related to the companies participating in each transaction. Ex-Im officials told us this database is updated each night. The report breaks down Ex-Im’s financing for the year-to-date into five categories of transactions—medium- and long-term loans and guarantees, credit guarantee facilities, working capital, bank-held insurance, and nonblank-held insurance. For each category, the report includes summary data on the number, amount, and proportion of Ex-Im transactions that directly benefit small business for the year-to-date.<sup>1</sup>

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## Ex-Im’s Monthly Financial Reports Compare Its Small Business Financing to the Legislative Mandate

Ex-Im also monitors and tracks its small business financing in a monthly financial report produced by the Office of the Chief Financial Officer. According to the Chief Financial Officer, this report is a key management tool and contains data on a variety of issues relevant to Ex-Im management, including small business financing. Specifically with regard to small business, it includes data on the dollar value of transactions authorized that directly benefit small business and the percentage this represents of total transactions. The report indicates that the “Small Business Target” is 20 percent and measures Ex-Im’s actual performance against this “target.”

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<sup>1</sup>The database calculates the share of the value of transactions directly benefiting small business in the same manner as was discussed earlier in this report.

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# Information on How Ex-Im Estimates Its Indirect Support of Small Business

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The Export-Import Bank's (Ex-Im) authorizing legislation requires it to estimate its indirect support of small business. To meet this requirement, Ex-Im analyzes a subset of transactions and uses multiple sources of information to develop its estimate.

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## Ex-Im's Authorizing Legislation Requires It to Estimate Its Indirect Support of Small Business

Ex-Im's authorizing legislation<sup>1</sup> requires it to estimate its indirect support for small business. Specifically, it requires Ex-Im to "estimate on the basis of an annual survey or tabulation the number of entities that are suppliers of users of Ex-Im and that are small business concerns." Ex-Im then reports this information in its Annual Report. Ex-Im officials emphasized that (in contrast to the legislative requirement related to Ex-Im's direct support of small business) this requirement only necessitates Ex-Im report an estimate of its indirect support of small business rather than a precise calculation. They further noted that the requirement provides significant leeway regarding how to gather and report this information. For instance, they said that since the requirement refers to a "survey or tabulation" they infer that Congress intended for Ex-Im to rely on its customers to provide estimates to Ex-Im.

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## Ex-Im's Rationale and Methodology for Estimating Its Indirect Support of Small Business

Resource considerations were the key factor in Ex-Im's rationale for developing a methodology to estimate its indirect support of small business. Ex-Im officials said they did not want to devote a significant amount of resources to developing the information because, regardless of the amount of resources expended, it would still only be an estimate. Similarly, Ex-Im recognized that it would rely on its customers to provide information to develop the estimate and wanted to minimize the burden on the customers.

To establish a methodology, Ex-Im officials decided to examine a subset of Ex-Im transactions, based on the term (i.e., short-term, medium-term, or long-term) of the financing. Ex-Im considered analyzing the indirect support for small business from all the short-term transactions for the year. However, there are a large number (about 1,900 in fiscal year 2004) of these transactions, so analyzing them all would require a significant amount of resources. Additionally, a high percentage of short-term transactions directly benefit small business, so an analysis of these transactions would

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<sup>1</sup>12 U.S.C. 635g(d).

yield an unrealistically low amount of indirect support for small business. Ex-Im also considered analyzing medium-term transactions, but since there are a large number of such transactions (about 700 in fiscal year 2004), such an analysis would still take a significant amount of resources. Therefore, Ex-Im decided to analyze the indirect small business support resulting from its long-term transactions. Ex-Im officials told us that analyzing long-term transactions is appropriate because (1) there are a small number of such transactions each year (42 in fiscal year 2004), (2) the analysis would yield a “well-rounded” view of Ex-Im’s total support for small business when combined with its data on its direct support of small business, and (3) long-term transactions account for a significant share of the value of Ex-Im’s financing each year (\$7.3 billion, or nearly half of the value of all transactions for fiscal year 2004).

Ex-Im officials said they have been estimating Ex-Im’s indirect support of small business since the 1980s and use three sources of information to develop their estimate. These three sources of information are the following:

- *Information directly from the primary exporter:* Some of Ex-Im’s customers compile and provide data directly to Ex-Im regarding their small business suppliers. According to Ex-Im officials, this happens most frequently when the company is a large and well-established company and collects a significant amount of information from its suppliers. For instance, Boeing (a frequent Ex-Im customer) maintains a variety of data on its suppliers and subcontractors and reports this information to Ex-Im. According to Ex-Im, it based its estimate of indirect support of small business solely on information directly from the primary exporter for 19 of 42 long-term transactions for fiscal year 2004.
- *Ex-Im analysis of the exporter’s list of subcontractors or sub-suppliers:* For each long-term transaction, Ex-Im customers must submit a list of major contractors. The Ex-Im official assigned to the transaction reviews this list and, among other things, identifies which of the companies on the list is a small business by checking data on each company’s sales and employment in the Dun and Bradstreet database. According to Ex-Im, it based its estimate of indirect support of small business solely on its analysis of the exporter’s list of major contractors for 5 of 42 transactions for fiscal year 2004.

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**Appendix III**  
**Information on How Ex-Im Estimates Its**  
**Indirect Support of Small Business**

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- *Ex-Im officials' judgment:* Ex-Im officials sometimes must use their judgment to estimate the amount of indirect support for small business associated with a transaction. According to Ex-Im officials, the Ex-Im official assigned to the transaction can use his or her knowledge of the exporter (including any past history of its indirect support of small business), industry (including industry benchmarks regarding small business contracting), and the specific details of the transaction. According to Ex-Im, it based its estimate of indirect support of small business solely on an Ex-Im officials' judgment for 10 of 42 transactions for fiscal year 2004.

According to Ex-Im, for some transactions, it estimates the amount of indirect support for small business using a combination of sources of information. For example, for fiscal year 2004, Ex-Im estimated the indirect support of small business for four transactions based on a combination of information directly from the primary exporter and Ex-Im's analysis of the exporter's list of subcontractors or subsuppliers. For four other transactions in fiscal year 2004, Ex-Im estimated the indirect support for small business based on a combination of Ex-Im's analysis of the exporter's list of subcontractors or subsuppliers and an Ex-Im official's judgment.



# Comments from the Export-Import Bank



JAMES H. LAMBRIGHT  
CHAIRMAN AND PRESIDENT (ACTING)

EXPORT-IMPORT BANK  
OF THE UNITED STATES

February 22, 2006

Loren Yager  
Director, International Affairs and Trade  
U.S. Government Accountability Office  
Washington, D.C. 20548

Dear Mr. Yager:

Thank you for providing the Export-Import Bank of the United States ("Ex-Im Bank") with the opportunity to comment on GAO's February 6, 2006 draft report.

We are pleased that GAO has concluded that Ex-Im Bank "generally classifies small business status correctly." As we have conveyed to your team throughout the course of this review, Ex-Im Bank has a transparent and reliable methodology for determining our customers' small business status and reporting our direct support for small business.

Ex-Im Bank very much appreciates GAO's cooperative approach to the small business review. This has been a very positive exercise for Ex-Im Bank, both in terms of reaffirming our methodology and from the perspective of identifying areas in which Ex-Im Bank can improve the efficiency with which we determine and report our direct small business support.

The following are Ex-Im Bank's responses to GAO's recommendations:

1. "Improving the completeness, accuracy and consistency of the data Ex-Im maintains on its customers, especially with regard to their small business status."

In conjunction with the introduction of our Ex-Im Online platform, Ex-Im Bank is in the process of updating electronic participant records for FY 2006. Complete data on all exporters will be entered into the electronic participant file, including name, address, sales, number of employees, and SIC code. Ex-Im Bank is also strengthening our internal controls to require dual signoff when determining small business status of our customers.

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**Appendix IV**  
**Comments from the Export-Import Bank**

Loren Yager  
February 22, 2006  
Page Two

2. "Improving the system for estimating the value and proportion of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transactions."

Ex-Im Online will have a direct feed from Dun and Bradstreet, which will result in the Bank receiving timely updates of participant file data. This increases the base of information to support the small business authorizations for the transactions where the exporter is not known at the time of authorization. If the systemic review does not result in classification of an exporter's status, then Ex-Im Bank will manually review and input the appropriate status into the participant file. This should result in a refined ratio to be applied to the CGF and Bank-Held authorizations.

3. "Accurately determining the number of transactions that directly benefit small business."

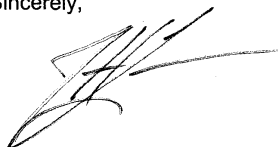
Ex-Im Bank has a sound methodology for counting transactions that are made available for the direct benefit of small business exporters. Historically, the actual number of direct small business transactions attributable to credit guarantee facilities and bank-held insurance policies has exceeded the number of authorizations.

4. "Having its external auditor audit Ex-Im Bank's annual legislatively-mandated reporting of its direct support for small business as a part of its review of Ex-Im Bank's compliance with laws and regulations."

We are arranging for an independent external audit of Ex-Im Bank's direct small business reporting starting with FY 2006.

Ex-Im Bank is prepared to work with Congress in our upcoming reauthorization to make changes that, consistent with Ex-Im Bank's broad mission and resources, position the Bank to maximize support for U.S. small business exports.

Sincerely,



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# GAO Contact and Staff Acknowledgments

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## GAO Contact

Loren Yager (202) 512-4347

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## Staff Acknowledgments

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