

## Chapter 2: Competitiveness Framework

### Section B: ECAs' Mission and Place In Government

#### The Role of Export Credit Agencies

The central purpose of an export credit agency (ECA) is to finance domestic exports. However, there are numerous ways for an ECA to accomplish its mission. There are two influences on how an ECA will set its strategy to meet its purpose. The first influence is the OECD Arrangement, which codifies many of the terms that apply to official export credit support, although individual ECAs have significant latitude to pursue their own strategy to support their country's exports. The second influence is the ECA's mission as defined by its sponsoring government, which also impacts an ECA's ability to adapt to changing market circumstances. Both of these factors affect how ECAs will compete with each other in promoting their respective governments' national interests.

The purpose of this section is to highlight the different objectives and strategies of the G-7 ECAs and explore how these differences affect ECAs' competitiveness. First, there will be a brief analysis of Ex-Im Bank's governmental mission and how this affects Ex-Im Bank's ability to respond to market pressures. Following the analysis of Ex-Im Bank is a general description of the roles that the G-7 ECAs play for their domestic governments.

#### Ex-Im Bank's Mission and Place in Government

Ex-Im Bank is the official U.S. government export credit agency. Ex-Im Bank's mission and governing mandates are codified in its Congressionally approved Charter (Export-Import Bank Act of 1945, as amended). Ex-Im Bank's core mission is to support U.S. exports and jobs by providing export financing that is competitive with the official export financing support offered by other governments. The public policy goal of this mandate is to enable market forces such as price, quality and service to drive the foreign buyer's purchase decision, not government intervention or temporarily exaggerated perceptions of risk. This mandate effectively directs Ex-Im Bank to fill market gaps that the private sector is not willing or able to meet, namely competitive financing (e.g., interest rates and repayment terms) and the ability to assume reasonable risks that the private sector is unable to cover at a moment in time.

To support its core mission, Congress has also legislated that Ex-Im Bank's financing be conditioned on:

- Supplementing, not competing with, private sector financing; and
- The finding of reasonable assurance of repayment.

Decisions on transactions should be based solely on commercial and financial considerations, unless the transaction:

- Fails to comply with Ex-Im Bank's Environmental Procedures and Guidelines;
- Causes an adverse economic impact on the U.S. economy; or
- Does not meet various statutory and executive branch parameters.

All of these directives aim to achieve a public policy goal and reflect the interests of Ex-Im Bank stakeholders, such as NGOs, other U.S. government agencies, labor and financial intermediaries. Hence, Ex-Im Bank is required to strike a fine balance among multiple, sometimes competing, goals and objectives. At the same time, Ex-Im Bank is expected to provide the U.S. exporting community with financing that is competitive with officially supported offers made by our foreign government counterparts – institutions that most often have fewer public policy constraints to evaluate when deciding whether to provide financing support. Given the G-7 ECAs' widely varying missions, the formula with which to compare Ex-Im Bank's competitiveness against these ECA counterparts is neither simple nor direct.

### **The Mission and Place in Government of Other G-7 ECAs**

Although the G-7 ECAs each have unique operating strategies to support their country's exports, their strategies can be generalized into one of three categories. These categories describe the governmental role that determines the differences in levels of activity, products and focus between the G-7 ECAs.

**Lender of Last Resort:** ECAs with this focus tend to encourage the active participation of the private sector and step in only when taxpayer dollars are needed to meet market gaps. Moreover, lenders of last resort assume a relatively higher level of responsibility for public policy goals as directed by their guardian authorities. Ex-Im Bank can be classified as a "lender of last resort". ECGD is the only other G-7 ECA that compares similarly to Ex-Im Bank in this role.

**Private Sector Participant:** ECAs in this category are generally profit driven. As a consequence, the risk profile and controls placed on their portfolios tends to be more restrictive (with country exposure limits), resulting in moderate risk-taking. Public policy goals tend to carry less weight for these ECAs because of their private sector orientation. The European official ECAs, most notably Coface and Hermes (but also SACE), act like private sector banks/ insurers because they are private entities that handle the medium- and long-term book of business on behalf of their respective governments. Operationally, these ECAs behave as private sector companies by taking advantage of the efficiencies associated with their private sector side.

**Banker for the Country:** This type of ECA generally plays a larger role in the implementation of national trade policy, which is reflected in a broader mission (e.g., national content on specific sales is less important) and more expansive responsibilities. A consequence of this broader governmental mission is that these ECAs frequently are more flexible on public policies. Generally, these ECAs are more adaptable regarding business practices. The Canadian and Japanese ECAs view themselves as the only "international" bank in their respective countries.