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EXPORT PROMOTION

Export-Import Bank Has Met Target for Small Business Financing Share

Statement of Loren Yager, Director
International Affairs and Trade





Highlights of [GAO-08-419T](#), a testimony to the 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. In 2002, Congress increased the proportion of financing Ex-Im must make available for small business to 20 percent. In 2006, Congress directed Ex-Im to make organizational changes related to small business and to better evaluate its small business efforts.

This statement discusses (1) trends in Ex-Im's small business financing since fiscal year 2000 and (2) the weaknesses GAO found in the tracking and reporting of Ex-Im's small business financing and the steps Ex-Im has taken to address them. This testimony is based primarily on GAO's March 2006 report (GAO-06-351) concerning Ex-Im's small business program. In that report, we recommended that Ex-Im (1) improve the data it maintains on its customers with regard to their small business status; (2) improve its system for estimating the value and proportion of direct small business support for those transactions where the exporter is not known at the time of authorization; (3) more accurately determine and clearly report the number of transactions that directly benefit small business; and (4) have its auditor audit Ex-Im's reporting of its direct support for small business. Ex-Im agreed with three of the four recommendations. We discuss the actions Ex-Im has taken to implement our suggestions in this statement.

To view the full product, including the scope and methodology, click on [GAO-08-419T](#). For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

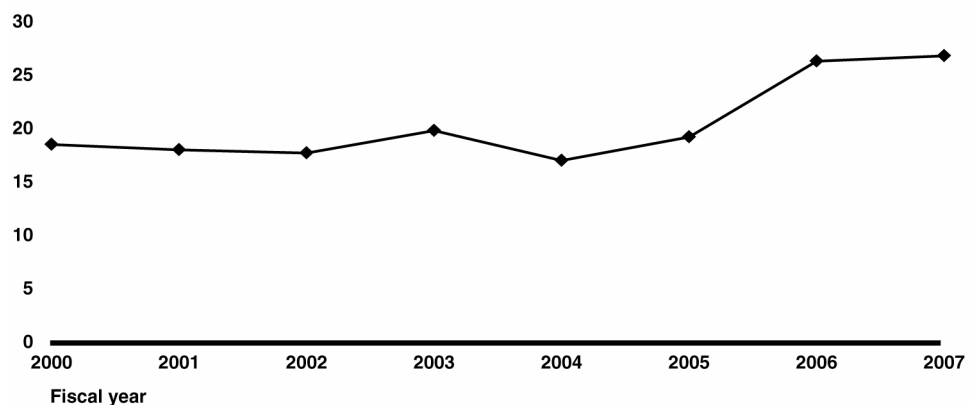
EXPORT PROMOTION

Export-Import Bank Has Met Target for Small Business Financing Share

What GAO Found

The share of Ex-Im financing directly benefiting small business has increased over recent years, surpassing the required 20 percent in 2006 and 2007. The percentage increase reflects a slow increase in Ex-Im financing for small businesses, while financing for non-small businesses was noticeably lower in 2006 and 2007 compared to 2005. Ex-Im continues to finance most small business transactions through insurance or working capital guarantees.

Ex-Im's Reported Proportion of Financing Directly Benefiting Small Business, Fiscal Years 2000-2007
Percentage



Source: GAO analysis of Ex-Im data.

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that while Ex-Im generally classified companies' small business status correctly, weaknesses limited its ability to accurately determine small business financing values. For transactions where Ex-Im can identify the exporter at the time it authorizes the transaction, we found that internal control weaknesses in Ex-Im's data systems limited its ability to accurately determine small business financing amounts and share. For transactions where Ex-Im cannot identify the exporter up-front, we found that weaknesses in its system for estimating small business financing also limited its ability to accurately measure and report on such financing. We also reported some limitations in Ex-Im's calculation of the number—as opposed to the value—of transactions benefiting small business. GAO made four recommendations. Ex-Im has taken several steps in response to those recommendations. Most notably, Ex-Im replaced its previous data systems with “Ex-Im Online,” an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing.

Madam Chairwoman, Ranking Member, and Members of the Committee:

I am pleased to be here today to discuss the Export-Import Bank of the United States' (Ex-Im) small business program. I appreciate the opportunity to provide some insights from GAO's work on this issue. As you know, since the early 1980s when Congress first directed Ex-Im to make available a specified percentage of its export financing for small businesses, there has been considerable interest in Ex-Im's support for small business. Initially, Congress directed Ex-Im to make 10 percent of its financing authority available to small businesses, but increased the requirement to 20 percent in the 2002 reauthorization of the bank's charter. While Congress did not change the percent required in the 2006 reauthorization of Ex-Im, it did direct the bank to make organizational changes related to its small business financing, and to better evaluate its small business efforts.

As requested, today, I will discuss (1) trends in Ex-Im's small business financing since fiscal year 2000 and (2) the weaknesses GAO found in the tracking and reporting of Ex-Im's small business financing and steps Ex-Im has taken to address them.

My remarks are based primarily on a report that GAO published in 2006,¹ done at the request of this committee, and analysis we conducted to update selected information and follow up on our recommendations. For the 2006 report, we analyzed data on Ex-Im transactions, examined Ex-Im documentation regarding its small business calculations, and interviewed knowledgeable staff.² The work for this statement was conducted in accordance with generally accepted government auditing standards.

I would also note that GAO has work underway that should be of particular interest to this committee. Ex-Im's 2006 reauthorization legislation requires Ex-Im to develop—and GAO to assess—performance standards related to its small business program, including financing for businesses owned by disadvantaged individuals and women. GAO is

¹GAO, *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing*, [GAO-06-351](#) (Washington, D.C.: March 3, 2006)

²That report also described Ex-Im's interpretation of its obligations under the 20 percent small business mandate.

specifically addressing the following questions: (1) What performance standards has Ex-Im developed? (2) How well do they meet established criteria such as tracking progress and providing managers needed information to make decisions regarding assistance under the mandate? and (3) What steps has Ex-Im taken to implement these standards? We look forward to working with the officials at Ex-Im to complete this work, and to reporting our findings to Congress later this year.

Summary

The share of Ex-Im financing directly benefiting small business has increased over recent years, surpassing the required 20 percent in 2006 and 2007. The percentage increase reflects a slow increase in Ex-Im financing for small businesses. Financing for non-small businesses was noticeably lower in 2006 and 2007 compared to 2005. Ex-Im continues to finance most small business transactions through insurance or working capital guarantees.

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that, while Ex-Im generally classified companies' small business status correctly, weaknesses in its data and data systems limited Ex-Im's ability to accurately determine small business financing amounts and share. Ex-Im calculates its small business financing amounts by recording the financing value when the exporter can be identified at the time of authorization and by estimating the financing value when the exporter cannot be identified at authorization. For transactions where the exporter can be identified at authorization, we found that internal control weaknesses in Ex-Im's data systems affected the reliability of Ex-Im's reported small business financing value. For transactions where the exporter cannot be identified at authorization, we found that weaknesses in Ex-Im's system for estimating small business financing also limited Ex-Im's ability to accurately measure and report on the amount of small business financing. We also reported some limitations in Ex-Im's calculation of the number—as opposed to the value—of transactions benefiting small business. GAO made four recommendations. Ex-Im has taken several steps in response to those recommendations. Most notably, Ex-Im replaced its previous data systems with "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing.

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. 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.³ 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.⁴ When reauthorizing the bank's charter in 2006, Congress again established new requirements for Ex-Im, including a small business division with an office of financing for socially and economically disadvantaged small business concerns and small business concerns owned by women, designating small business specialists in all divisions, creating a small business committee to advise the bank president, and defining standards to measure the bank's success in financing small business. Ex-Im has taken steps to meet these requirements.

Ex-Im uses the Small Business Administration methodology to determine whether a company qualifies as a small business.⁵ To apply this methodology, Ex-Im obtains company information through its application process. Ex-Im also subscribes to Dun and Bradstreet, a commercial information vendor, which provides information about companies, including Standard Industrial Classification (SIC) codes. Ex-Im uses the SIC codes provided by Dun and Bradstreet to determine a company's small business standing by obtaining the corresponding North American Industry Classification System (NAICS) code through the Small Business Administration website.

³Pub. 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.

⁴Pub. L. No. 107-189.

⁵The Small Business Administration uses "size standards" to identify the largest a company can be and still qualify as a small business. Small Business Administration's size standards vary by industry, as defined by the North American Industry Classification System, which replaced the Standard Industrial Classification system, and are typically expressed in either millions of dollars or number of employees, reflecting average annual receipts or average employment of a firm.

Ex-Im offers a variety of financing instruments, including loan guarantees,⁶ export credit insurance, and working capital guarantees.⁷ Ex-Im provides its insurance either directly to exporters (non-bank-held insurance) or to banks which in turn finance U.S. exporters (bank-held insurance). 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.

Trends in Ex-Im's Small Business Financing

Between fiscal years 2002 and 2007, Ex-Im increased the percentage of its financing for small businesses and continued to finance most small business transactions through insurance or working capital guarantees.

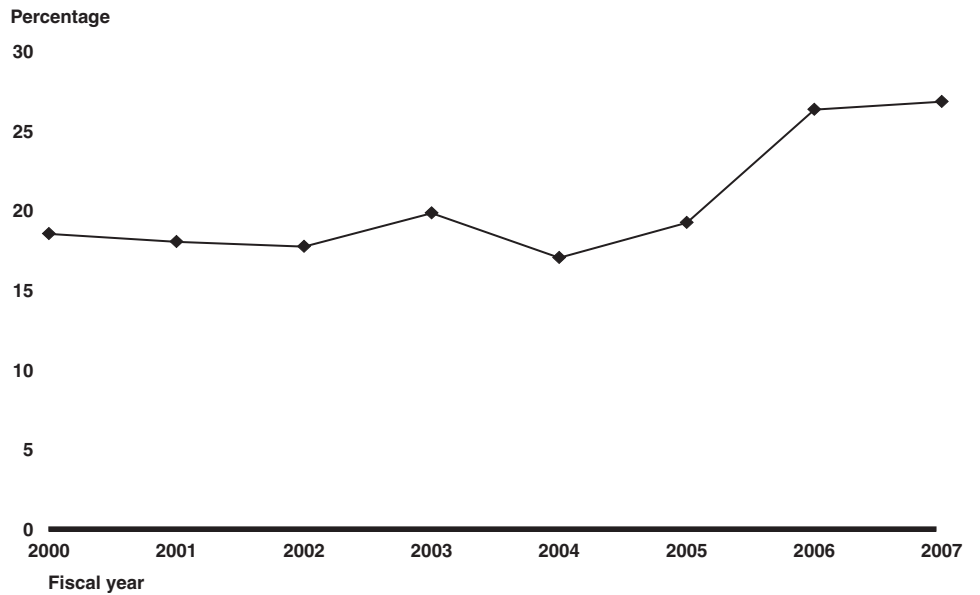
Ex-Im Small Business Financing Share Has Recently Exceeded 20 Percent

Ex-Im met the Congressional requirement to make available not less than 20 percent of its financing authority for small businesses in 2006 and 2007. In fiscal year 2006, Ex-Im's small business financing was 26.2 percent of its total financing and in fiscal year 2007 it increased to 26.7 percent. In fiscal years 2002 through 2005, Ex-Im did not reach the goal, with its small business financing share ranging from 16.9 percent to 19.7 percent. (See fig. 1.)

⁶One type of loan guarantee is a credit guarantee facility, a line of credit between a bank or corporation in the United States and a foreign bank (or occasionally a large foreign buyer). Ex-Im 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 the local company.

⁷Ex-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.

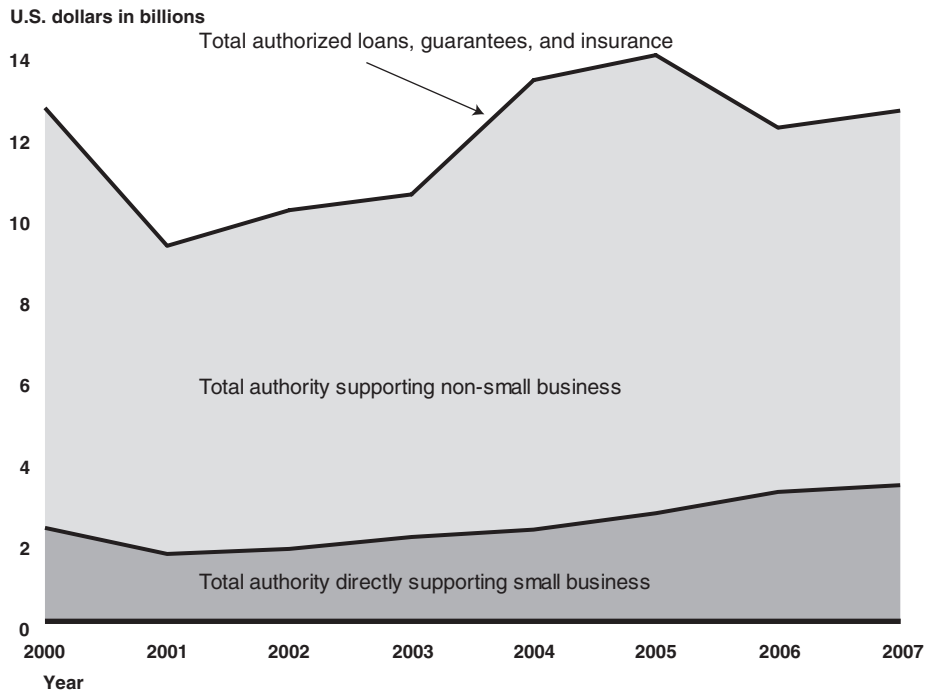
Figure 1: Ex-Im's Reported Proportion of Financing Directly Benefiting Small Business, Fiscal Years 2000-2007



Source: GAO analysis of Ex-Im data.

The percent of Ex-Im financing directly benefiting small business depends on the value of small business financing compared to the value of non-small business financing. (See fig. 2.) While the small business financing value slowly increased between fiscal years 2001 and 2007, the value for non-small business financing was noticeably lower in 2006 and 2007, compared to 2005.

Figure 2: Comparison of Ex-Im Small Business and Non-Small Business Financing, Fiscal Years 2000-2007

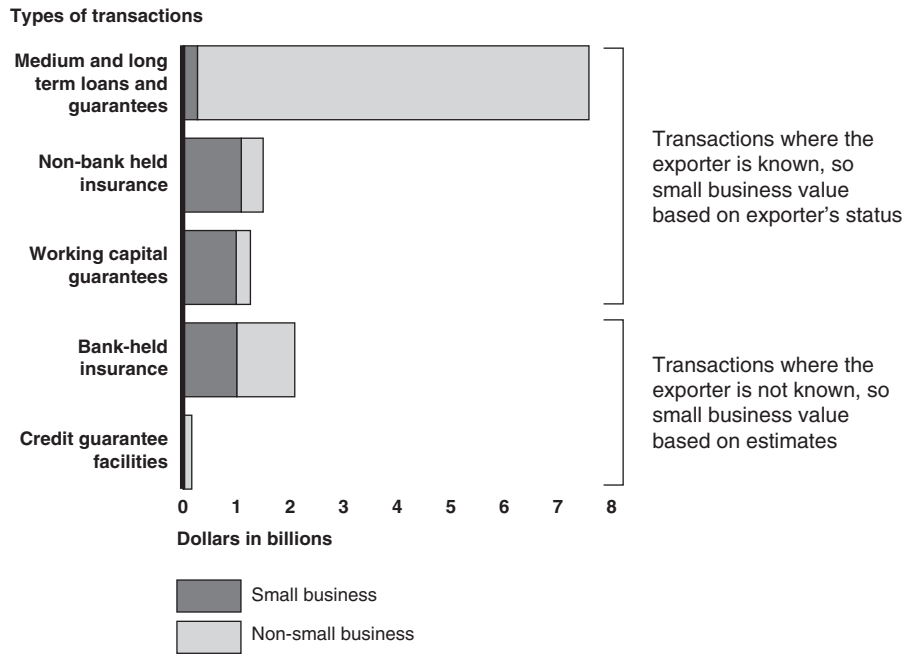


Source: GAO analysis of Ex-Im Bank data.

Ex-Im Finances Most of Its Small Business Transactions through Insurance or Working Capital Guarantees

Ex-Im has primarily used three types of tools to finance small business transactions: non-bank-held insurance, working capital guarantees, and bank-held insurance (see fig. 3). In 2007, each tool was used to finance about 30 percent of the \$3.4 billion Ex-Im made available for small business transactions. The remaining 8 percent of small business financing was through medium- and long-term loans and guarantees. This pattern contrasts with non-small business financing, where the largest share is through medium- and long-term loans and guarantees.

Figure 3: Ex-Im's Reported Amount of Fiscal Year 2007 Transactions by Finance Instrument.



Source: GAO analysis of Ex-Im Bank data.

Ex-Im's use of bank-held insurance has posed some challenges for accurately calculating the small business financing share, in part because Ex-Im does not know who the exporter will be prior to authorizing the bank-held insurance transaction and therefore cannot make a small-business designation at that time. For bank-held insurance and credit guarantee facilities, Ex-Im estimates the share of the financing benefiting small business based on data regarding previous shipments under those types of transactions.⁸ These estimates of the small business share of authorized transactions can differ significantly from the small business

⁸ To make these estimates, Ex-Im analyzes data on exports under each type of transaction and determines whether each exporter is small, non-small, or unknown by estimating the percentage of the value of shipments. Ex-Im divides the value of shipments made by small business exporters by the sum of the shipments by small and non-small business exporters. (Shipments by companies of unknown size are excluded from the calculation.) Ex-Im applies this percentage to the value 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.

amounts actually shipped under the authorizations. For example, in 2005 Ex-Im authorized a \$10 million short-term insurance policy under which no shipments had been reported prior to our March 2006 report. 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).

Weaknesses Limited Ex-Im's Ability to Measure Small Business Financing; Ex-Im Has Implemented Improvements

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that, while Ex-Im generally classified companies' small business status correctly, weaknesses in its data and data systems limited its ability to accurately determine its small business financing amounts and share. In implementing "Ex-Im Online" and certain internal control measures, Ex-Im has improved its ability to accurately measure small business financing.

Ex-Im Generally Classified Companies' Small Business Status Correctly

Based on our review of independent data and Ex-Im's paper transaction files, GAO reported in 2006 that Ex-Im's classification of companies' small business status was generally correct. From our review of Ex-Im's electronic databases and Dun and Bradstreet data on companies' sales and employment, we estimated that, 83 percent of the time, Ex-Im's small business designation⁹ matched the designation based on Dun and Bradstreet data. Based on a review of Ex-Im's official paper transaction files in instances where Ex-Im and Dun and Bradstreet's designations differed, we determined that Ex-Im's designation was justified in most instances.¹⁰

⁹The term "small business designation" refers to the decision regarding whether or not a company qualifies as a small business.

¹⁰Our analysis showed that, where Ex-Im's small business designation differed from the designation indicated by Dunn and Bradstreet data, Ex-Im almost always identified a company that appears to qualify as a small business as a non-small business.

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

In our 2006 report, we identified weaknesses in Ex-Im's process for calculating its small business financing and made some corresponding recommendations for improvement. The weaknesses ranged 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.

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

We reported two internal control weaknesses in Ex-Im data systems¹¹ used to calculate and report on Ex-Im's small business financing; by implementing its interactive database, Ex-Im Online, the bank has largely addressed those weaknesses.

First, we found that Ex-Im's electronic data systems used to calculate its small business support did 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 needed to identify and locate paper transaction files. 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.

Second, we found that Ex-Im's data systems sometimes contained conflicting information for the same company. Ex-Im maintained 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 did not update the company's record in the other database. As a result, the two databases could, and in some cases did, have conflicting information about the same company.

GAO recommended that Ex-Im improve the completeness, accuracy, and consistency of its transaction data. Since the issuance of the GAO report, Ex-Im Bank has implemented a number of controls to enhance and reinforce the bank's methodology for capturing relevant information for reporting small business statistics. Most notably, Ex-Im replaced its previous data systems with Ex-Im Online, an interactive, web-based process that allows exporters, brokers, and financial institutions to

¹¹At the time of our analysis, three databases were relevant to Ex-Im's small business financing calculation. Two databases stored information on companies involved in the transactions, and a third integrated information from these databases and performs the actual calculation.

transact with Ex-Im electronically. According to Ex-Im, more than seventy-five percent of all applications are now submitted online, omitting the need to transfer information from paper copies to the bank's electronic files. Ex-Im officials stated that Ex-Im Online also includes a direct feed from Dun and Bradstreet, which provides current demographic information about a company so that Ex-Im can make an accurate assessment of the company's small business status. In addition to initiating Ex-Im Online, Ex-Im changed its internal procedures to require documented dual signoff on the small business determination for each transaction.¹²

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

We reported two weaknesses in Ex-Im's system for estimating small business financing when 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. First, we found that Ex-Im's estimates might not accurately reflect the amount of small business financing under bank-held insurance policies because of large differences between the amount of financing authorized and the amount of financing used to actually ship goods. 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, it 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, the method resulted in estimates of small business shares for the authorized value of these types of transactions based on a very small share (about 8 percent) of the total authorized value.

Also, we found that Ex-Im classified the small business status of a significant portion of the companies making shipments as "unknown" and excluded them from its calculation of the estimate of its small business support. Of the \$280 million of shipments under bank-held insurance for 2004, for example, an Ex-Im official classified about \$128 million (or

¹²In specific instances for short-term insurance transactions, only one signature is required because signing authority has been delegated to staff based on certain policy parameters.

nearly half) as shipments by companies whose small business status was “unknown” and excluded these shipments from its calculation of total shipments.

GAO recommended that Ex-Im improve its 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. According to Ex-Im, its implementation of Ex-Im Online improves these estimates because borrowers can now enter their shipment reports directly into Ex-Im Online. According to Ex-Im, two-thirds are being entered in this manner. Ex-Im officials stated that such automated submission of shipment information has significantly reduced the amount of shipments by exporters whose small business status is unknown. They stated that only 3 percent of the fiscal year 2007 shipments under bank-held insurance were by exporters whose small business status was unknown. They also stated that, for credit guarantee facilities, no shipments were recorded by exporters whose small business status was unknown.

GAO also recommended that Ex-Im engage an external auditor to audit its annual, legislatively mandated report on its direct support for small business. Ex-Im engaged Mayer Hoffman McCann P.C., its internal auditor, to perform the audit. With respect to credit guarantee facilities, bank-held policies, and non-bank-held insurance (i.e., single buyer/multi-buyer) policies, the auditors found that Ex-Im’s process to obtain and calculate eligible small business counts operates in accordance with its policy and approved methodology. However, the auditors found exceptions to stated policy during their review of the working capital guarantee and non-credit guarantee facilities programs. For example, in the working capital guarantee program, the auditors noted a number of exceptions related to the completion of data fields that would have “flagged” these accounts as small business. The auditors stated that they believed that Ex-Im management was taking action to strengthen supervisory edit controls over these processes.

Ex-Im’s Reporting on the Number of Transactions Directly Benefiting Small Business

Ex-Im is statutorily required to report on the number of its authorized transactions that directly benefit small business; in our 2006 report we found that Ex-Im’s method of determining this number included some transactions that did not directly benefit small business. 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 crediting all 698 bank-held insurance policies as directly benefiting small business.¹³ We reported that while many of these transactions directly benefit small business, they may 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 during 2004.

GAO recommended that Ex-Im more accurately determine and clearly report the number of transactions that directly benefit small business; however Ex-Im officials disagreed with this recommendation and have not changed their methodology. Ex-Im officials stated that they reviewed their process and believe that it is appropriate. A senior official also noted that since the methodology has been used for a number of years, the bank can confidently report trends. The bank also believes that their methodology provides a conservative estimate.

Conclusions

Since GAO's last report on small business financing in March 2006, Ex-Im has made a number of changes. It also surpassed the target of allocating 20 percent of its financing to small business for both 2006 and 2007. While this is partly due to a drop in the overall level of financing provided to other customers by the bank, Ex-Im has shown increases in the level of business with small firms over several years. In addition, Ex-Im has made changes in its data systems which allow Congress to have a greater level of confidence in its reporting on small business and other matters, and it has instituted new internal controls to further increase accuracy in categorizing firms' small business status. Managing its resources going forward to respond to ongoing Congressional interest in the composition of Ex-Im's financing will, undoubtedly, entail new challenges for the bank. We look forward to working with Ex-Im further on issues related to evaluation of its small business financing efforts, including those directed at businesses owned by disadvantaged individuals and minorities, as mandated by the Congress with the strong support of this Committee.

¹³Similarly, in 2007, Ex-Im reported that that 2,390 (or 86 percent) of its authorized transactions directly supported small businesses, including five credit guarantee facilities and 374 bank-held insurance policies.

Madam Chairwoman, this concludes my prepared remarks. I would be pleased to respond to any questions you or other members of the committee may have at this time.

Contacts and Acknowledgments

Should you have any questions about this testimony, please contact Loren Yager at (202) 512-4347 or YagerL@gao.gov. Celia Thomas, Miriam A. Carroll and Jason Bair also made major contributions to this testimony.

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