Insight

Revisiting Ex-Im Supports for American Small Business

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The charter of the U.S. Export-Import Bank (Ex-Im) is set to expire at the end of June unless reauthorized by Congress. AAF research has previously detailed how Ex-Im financing plays a limited but important role helping American companies, large and small, export their products in a global market distorted by the government credit activities of competitor nations. Still, bank critics have lodged a host of criticisms of the bank's operations and activities in their effort to convince policymakers to resist reauthorization and thus eliminate Ex-Im. In particular, many have tried to downplay the level of Ex-Im support for small businesses. Yet their arguments frequently ignore a more nuanced reality.

Ex-Im reauthorization should include sensible reforms to limit distortionary economic effects, add greater transparency and accountability, and protect taxpayers. But wholesale elimination of Ex-Im ignores the many reasons it is an asset to American small businesses and one facet of a pragmatic trade policy. Here are a few facts to add some needed perspective:

Ex-Im's activities reflect the structure of U.S. trade itself.

Critics have contended that Ex-Im exemplifies crony capitalism, citing the high proportion of credit activity devoted to some of America's largest exporters. However, the data do not support the notion that Ex-Im's activity is more politically driven than market oriented. The bank's overarching mission is to boost American-made exports and therein spur growth in jobs and income. In its activities, bank financing largely reflects the structure of U.S. trade itself in which the largest dollar volumes are concentrated among large firms despite the vast majority of exporters being small and medium sized companies.

For example, large companies represented only 2.3 percent of American exporters in 2013 and yet their products comprised 66.4 percent of all export value according to the U.S.

Census Bureau. In some sectors, this trend is even more pronounced; one study found that small and medium sized companies account for only 15 percent of manufacturing exports.

Similarly, the $15.4 billion in authorizations Ex-Im made last year to large companies represented 11 percent of bank transactions, but accounted for 75 percent of Ex-Im authorizations by dollar amount. While opponents of reauthorization have emphasized that only 25 percent of Ex-Im authorizations are for small businesses, that amount reflects the actual makeup of U.S. trade. Furthermore, large companies that seek Ex-Im financing often produce high-value goods such as airplanes or mining equipment, the export of which often benefits numerous small business suppliers involved in production and export.

89 percent of all Ex-Im authorizations were made to small businesses.

Source: Export-Import Bank Annual Reports, FY 2000-2014

Opponents of the Ex-Im Bank frequently cite the level of support given to large companies such as Boeing, General Electric and Caterpillar as prime examples of "cronyism" and evidence that Ex-Im confers competitive advantages on "favored firms." Yet shown in Figure 1, small business authorizations dominate bank financing when looking at the total number of authorizations. Focusing solely on dollar amount, as opponents often do, ignores the very different needs of small and large companies. Large companies often use Ex-Im for costly orders of high-value goods and services. In FY 2014, the average amount for the 399 authorizations involving large companies was $51.3 million compared to $1.5 million for 3,347 small business authorizations. This is ultimately a reflection of their differing needs, not evidence that companies of certain sizes get favored financing.

Last year, Ex-Im exceeded the small business mandate set by Congress.

Since Ex-Im's 2002 reauthorization, 20 percent of Ex-Im authorizations (by dollar amount) should support small business exports. In the past, Ex-Im often comes close but has not consistently met that target in any particular fiscal year. However, in FY 2014 small business authorizations were 25 percent of Ex-Im financing totals. Additionally, the percentage of small business authorizations also averages 21 percent over the past 10 fiscal years, meeting the mandate 6 out of 10 times with the small business percentage never falling lower than 17 percent.

Ex-Im support for small businesses over the past 10 years is at least $12.2 billion more than reported.

Source: Export-Import Bank Annual Reports, FY 2005-2014

Many small businesses are often involved in the production of high-value goods like airplanes and construction equipment by supplying parts or services necessary for the production of the finished good. Yet their contributions to a final export are not always reported by Ex-Im because they are not necessarily party to financing deals or are not disclosed due to trade secrets and other business concerns. However, Ex-Im estimates that the $12.7 billion of long-term financing authorized in FY 2014 indirectly supported at least $650 million in small business exports. Over the past 10 years, this indirect small business support has totaled $12.2 billion (see Figure 2). Ex-Im notes that this is likely the minimum level of support, but does help to illustrate how focusing solely on the volume of support for large firms is a misleading indicator of Ex-Im's impact.

Small business authorizations are still twice as high as their pre-crisis average and falling more slowly than authorizations to large companies.

During and following the financial crisis, commercial banks tightened lending and faced new regulatory burdens (i.e. Basel III treatment of trade finance and the Dodd-Frank Act). Large and small firms alike turned to Ex-Im trade financing, resulting in a jump in total authorizations from a pre-crisis average of 2,614 authorizations to a post-crisis average of 3,733, a 43 percent increase (see Table 1). Notably, the number of small business authorizations jumped 48 percent while authorization volume increased 119 percent from a pre-crisis average of $2.5 billion to $5.5 billion.

TABLE 1. BANK AUTHORIZATIONS BEFORE & AFTER THE FINANCIAL CRISIS

	PRE-CRISIS AVERAGE	***POST-CRISIS AVERAGE***	***FY 2014***
SMALL BUSINESSES (#)	2,219	3,282	3,347
SMALL BUSINESSES ($B)	2.5	5.5	5.1
LARGE COMPANIES (#)	395	451	399
LARGE COMPANIES ($B)	10.1	22.7	15.4
ALL AUTHORIZATIONS (#)	2,614	3,733	3,746
ALL AUTHORIZATIONS ($B)	12.7	28.2	20.5

SOURCE: EXPORT-IMPORT BANK ANNUAL REPORTS, FY 1997-2014; BASED ON AUTHOR'S CALCULATIONS

While it has been years since the financial crisis, Ex-Im financing remains elevated,

particularly for small businesses. Small business authorizations are still twice as high as their pre-crisis average at $5.1 billion. In FY 2014, small business authorizations fell 18 percent from their peak in FY 2012 while all other authorizations plunged 48 percent.

Since the financial crisis, approximately 1 in 5 small business authorizations are companies using Ex-Im for the first time.

Source: Export-Import Bank Annual Reports, FY 2000-2014

In the wake of the financial crisis, more and more companies turned to Ex-Im as shown in Figure 3. Since 2009, 1 in 5 Ex-Im small businesses authorizations were companies using Ex-Im for the first time. In fact, from before the financial crisis to after, the number of small businesses using Ex-Im for the first time increased by 71 percent. The Ex-Im Bank's outreach to small businesses and the expertise it offers companies new to exporting are an often-overlooked function of the bank.

The Ex-Im Bank is not meant to be the dominant player in export finance; it operates at the margins and is mandated not to impede private trade financing.

Some opponents of reauthorization have tried to show that Ex-Im support for small businesses is negligible. But Ex-Im is not at all meant to be a more dominant player than it is already. In fact, by law Ex-Im is only supposed to provide companies with export financing when private financial institutions are unwilling or unable to provide it. Large corporations often use Ex-Im as part of a financing package that includes the private sector; Ex-Im is a complement and not a substitute. Smaller firms appear more often cut off by private lenders – especially in the aftermath of the crisis – and turn to Ex-Im instead.

The market for export financing is still in flux. Small and medium-sized companies, who face their own distinct challenges and risks when looking to export abroad, have increasingly relied on Ex-Im since the financial crisis. nbsp;And importantly, networks of small businesses comprise supply chains of larger firms, which not only produce the vast majority of exported goods and services but also seek Ex-Im financing when facing fierce competition from foreign export credit agencies. The case for the reauthorization of the Export-Import Bank is based in these market realities. While sensible reforms are needed, Ex-Im's value to small businesses should not be disregarded.