AMERICAN ACTION FORUM

Export-Import Bank: Obstacles and Options for Reform

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EXECUTIVE SUMMARY

The U.S. Export-Import Bank (Ex-Im) is the official export credit agency (ECA) of the United States, tasked with supporting U.S. exports and creating jobs by providing export credit and insurance where private financing is not available. Most analysts agree that, viewed in isolation, any government's support for its country's export financing is trade distorting. However, in the current global economic landscape the Export-Import Bank may be a necessity to counteract the aggressive and anti-competitive financing that foreign companies receive from their own ECAs. Thus, while the Export-Import Bank should be reformed in order to minimize adverse effects on U.S. industry and to make its processes more efficient and transparent, it remains a sensible component of a pragmatic trade policy.

Challenges at the Export-Import Bank

Skewed Financing**.** Boeing Corporation ("Boeing") aircraft receive the bulk of support given by Ex-Im. In 2010 air transportation accounted for almost half of Ex-Im's exposure, with Boeing receiving over 60 percent of Ex-Im's long-term loan guarantees. Concentrating operations so narrowly on one company may threaten its political viability.

Taxpayer Exposure**.** Ex-Im is considered self-sustaining and does not require annual appropriations. However, its mandate to provide loans too risky for the private sector makes taxpayers responsible for guaranteeing loans with a relatively high risk of default, raising the possibility of the need for taxpayer resources at some point in the future. Ex-Im's budget analysis should be reviewed critically given the inherent challenge in predicting the costs of loans and guarantees accurately.

Uncertain Employment Impact**.** Ex-Im's financing may help create jobs in specific industries. However, for the economy as a whole export financing merely redistributes jobs across the economy rather than create more overall jobs. In addition, Ex-Im's economic impact analysis process may be insufficient to guard against risks such as harm to U.S. industries that compete with subsidized foreign purchasers of U.S. exports.

Political Interference**.** Ex-Im faces a number of challenges in satisfying conflicting congressional and political mandates, such as meeting specific targets for providing financing to small businesses, minority and women-owned businesses, and producers of environmentally beneficial exports while playing a key role in achieving the President's goal of doubling exports in five years.

Management Issues. Developing adequate procedures for combating the risk of fraud and encouraging small business participation are managerial challenges for Ex-Im that it has yet to fully overcome.

Options for Export-Import Bank Reform

Elimination**.** A pure policy orientation would dictate boosting exports through free trade agreements and by reducing tax and regulatory burdens on U.S. companies, with no role for narrowly targeted financing subsidies largely benefiting a handful of corporations. In light of global trade realities and ECA competition, this strikes many analysts as infeasible.

Broaden Participation Across Industries**.** Increasing the accessibility of Ex-Im's services across a variety of different sectors and business-types would help Ex-Im avoid some of the distortions that occur when it subsidizes some sectors at the expense of others.

Prioritize and Set Achievable Goals**.** Eliminating the desire to reach goals that are not achievable at once

and instead setting clear, achievable targets would help Ex-Im to allocate resources more efficiently.

Increase Efficiency and Transparency. Ex-Im needs to modernize its antiquated IT systems and set clear guidelines for its internal processes and analysis methods to operate more efficiently.

BACKGROUND

There are about twenty government agencies involved in promoting U.S. exports; the focus of the Export-Import bank is to finance the purchase of U.S. goods by international purchasers. President Roosevelt established the bank in 1934 as part of the New Deal and in 1945 Congress made it an independent agency in the executive branch. The bank was most recently reauthorized in 2006 to operate through September 30, 2011; the 112th Congress has the option to reauthorize its authority.

Financial Products

The Export-Import Bank encourages the sale of U.S. exports through direct loans, loan guarantees, and export credit insurance provided to international buyers and U.S. exporters. Ex-Im has seen increasing demand for its services due to the tightening of private credit as a result of the financial crisis. Between 2003 and 2008, bank financing averaged $12.8 billion annually, but in 2009 Ex-Im financed over $21 billion and over $24 billion in 2010. As shown in Figure 2, loan guarantees made up over one-half of Ex-Im's Fiscal Year 2010 (FY2010) authorizations. Since FY2008 Ex-Im has been "self-sustaining," covering its operations through fees and interest payments.

Figures 1 and 2: Authorizations

Figure 2: FY2010 Authorizations

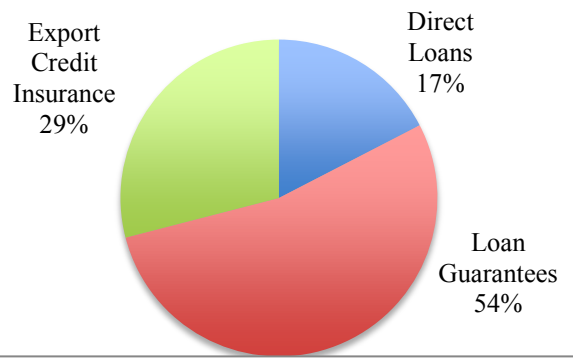
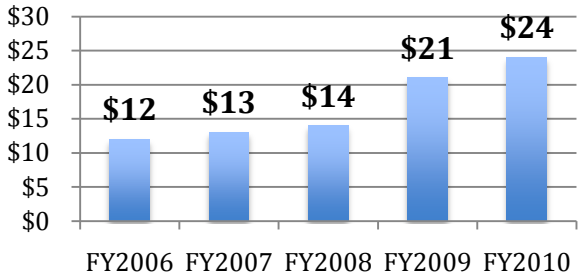


Figure 1: Annual Authorizations (Billions)



Data From Ex-Im's FY2010 Annual Report

Ex-Im finances less than 5 percent of U.S. exports. Nevertheless, it is seen as an important tool that permits U.S. companies to remain competitive in the presence of trade-distorting financing by foreign ECAs. One important way to help U.S. firms compete overseas is by offering "tied aid" loans in order to match the terms offered by competing foreign exporters receiving subsidized export financing. According to Ex-Im's 2010 Annual Report, Ex-Im had $178 million available for tied aid. Figure 3 lists the various types of financial products it makes available to customers of U.S. exporters.

Figure 3: FINANCIAL PRODUCTS

Direct Loans	
Long-Term	Repayment Term > 7 yrs
Medium-Term	Repayment Term 1-7 yrs
Tied Aid	Generally special terms including longer repayment terms and lower interest rates
Loan Guarantees	
Long-Term	Repayment Term > 7 yrs
Medium-Term	Repayment Term 1-7 yrs
Working Capital Guarantees	Guarantees on short-term working capital loans; used primarily by small businesses
Export Credit Insurance	
Short-Term	Repayment Term < 180 days
Medium-Term	Repayment Term 1-7 yrs

Data from Ex-Im's FY2010 Annual Report

Guidelines

Ex-Im operates within the guidelines set by Congress and by the United States' agreements with the Organization for Economic Cooperation and Development (OECD). OECD's "Arrangement on Export Credits" sets terms for credit and for the use of tied aid. As shown in Figure 4, Ex-Im's charter

limits its total exposure to $100 billion, and in 2010 Ex-Im had $75 billion outstanding. In addition, Congress sets an annual limit on the amount the bank can spend on its loans, guarantees, insurance programs, and administrative costs.

Figure 4: FINANCING LIMITS	
Statutory Limit set by Charter on Lending Authority (All Financial Products)	$100 Billion
Total Exposure (All Financial Products) FY2010	$75 Billion
Annual Budget Limit (Set by Congress)	
FY2010 (P.L. 111-17)	
Lending Programs and Admin. Expenses	$83.88 Million
FY2011 (President's Budget Request)	
Lending Programs and Admin. Expenses	$105.6 Million
Amount Available for Tied Aid (Sept, 2010)	$178 Million (Tied Aid funds used are subtracted from total credit resources)

Data from Ex-Im's FY2010 Annual Report and CRS Report on "Export-Import Bank: Background and Legislative Issues," February 9, 2011.

Congress imposes a host of criteria that Ex-Im must take into account before providing financing, such as requirements for reasonable assurance of repayment without competing with private capital, foreign content restrictions, transportation of exports using U.S. vessels, exclusion of military products, consideration of environmental impact, and allocation of 10 percent of financing for renewable energy and energy-efficient products and 20 percent for small businesses.

Challenges

Competing with foreign ECAs has become increasingly difficult. In 2008, China supported $59.6 billion in medium and long-term official export credits, more than the G-7 countries combined and a level that would be a violation of the OECD Arrangement, if China were a member.[1] Even countries that have agreed to abide by the OECD Arrangement have found ways around it. For example, OECD members can engage in subsidized trade financing through ostensibly private financial institutions that are not subject to the agreement, or use the "escape clause" to proceed with an objectionable tied aid offer as long as it is in a country's "national interest."[2] Futher impediments to the Arrangement's effectiveness include its lack of enforcement and data verification mechanisms. In light of activities of foreign ECAs, Ex-Im may be important for leveling the international trade playing field.

The Administration intends for the Export-Import bank to play an integral role in its National Export Initiative, an effort launched in March 2010 with the goal of doubling U.S. exports in five years. While Ex-Im must still operate within guidelines set by the OECD and Congress, the Export Promotion Cabinet's Plan for achieving this goal includes strengthening the role of the bank by making more credit available, expanding lending to more Small and Medium Enterprises (SMEs) and focusing on strategic markets and industries.[3]

CHALLENGES AT THE EXPORT-IMPORT BANK

There is widespread recognition of the desirability of reforms of the Export-Import Bank. Its economic impact is uncertain and it faces a number of implementation challenges. In particular, its financial support may be overly skewed toward one company and it is unclear what its actual cost is to the taxpayer or whether it actually contributes to a net increase in jobs. In addition, it is limited by conflicting congressional mandates and faces managerial issues that threaten its efficacy.

Skewed Financing

Ex-Im's 2010 Annual Report highlights that "Ex-Im Bank's operations are driven by one fundamental goal: to support U.S. jobs by facilitating the export of U.S. goods and services to international markets."[4] The "goods and services" it supports, however, consist largely of aircraft provided by Boeing. Air transportation accounted for almost half of Ex-Im's total exposure in 2010, as shown in Figure 5. Boeing

[1] CRS. "Export-Import Bank: Background and Legislative Issues," February 9, 2011 http://assets.opencrs.com/rpts/98-568_20110209.pdf.

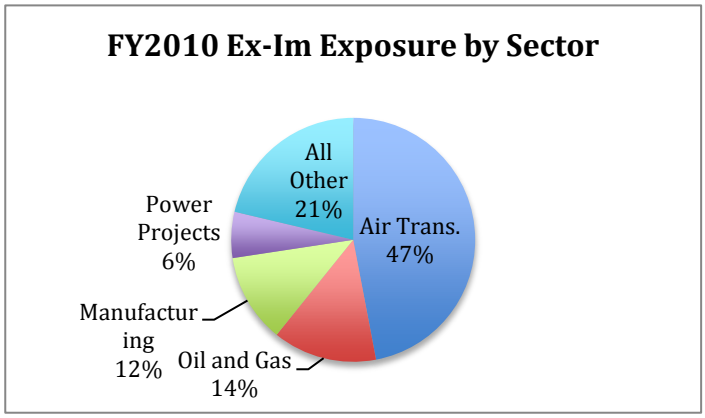
[2] http://assets.opencrs.com/rpts/98-568_20110209.pdf

[3] "Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years," September 2010. http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf

[4] Ex-Im Bank, 2010 Annual Report (p. 33). http://www.exim.gov/about/reports/ar/2010/exim_2010annualreport_full.pdf

customers received over 60 percent of Ex-Im's long-term loan guarantees in 2010, and received a similar percentage in 2009 and 2008. In 2010 Ex-Im financed about one-third of all of Boeing's deliveries.[5] The Export-Import bank has often been called "Boeing's Bank."[6]

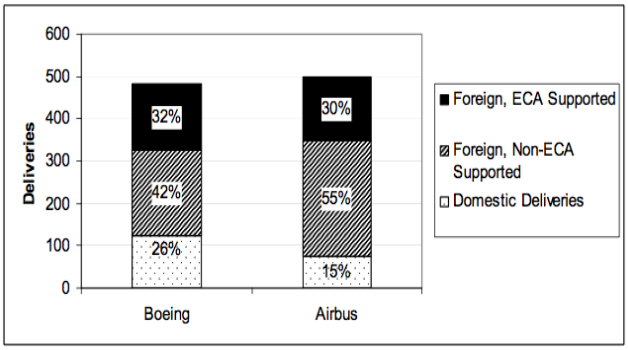
Figure 5:



Data from Ex-Im's FY2010 Annual Report

Boeing responds by pointing out that that aerospace exports support over 770,000 U.S. jobs, more than any other U.S. manufacturing industry.[7] Moreover, key competitors such as Airbus (three European ECAs), China, Russia, Brazil, and Canada (one ECA each) are developing their own commercial airplane industries.[8] As shown in Figure 6, ECAs supporting Airbus financed 30 percent of Airbus' deliveries, while Ex-Im financed a comparable 32 percent of Boeing deliveries.

Figure 6: Percentage of Total Large Commercial Aircraft Deliveries Financed by ECAs, 2009[9]



Source: Boeing Corporation, Airbus data based on limited information from www.airbus.com and press reports.

Another issue is how best to measure the concentration of Ex-Im actvitity. As noted in a recent Congressional Research Service report, Ex-Im supporters note a large exporters like Boeing will require more dollars of support per transaction than will a small exporter. This makes "total authorizations" a misleading metric for characterizing Ex-Im's financing targets.[10] An alternative would be to focus on the number of transactions, rather than their dollar value. About 20 percent of Ex-Im's total authorizations went to small businesses in 2010, per Congressional mandate, but these authorizations represented 88 percent of total transactions. While this meets it numerical targets, the Office of Inspector General contends that Ex-Im still faces challenges in attracting the participation of small businesses, including a lack of measurable targets and time frames to achieve its own small business performance standards.[11]

A concern is that Ex-Im's efforts in the air transportation sector have put other U.S. industries at a competitive disadvantage. For example, providing financing for foreign airlines to buy Boeing

[5] Testimony of Scott Scherer, Boeing Capital Corporation, before the House Financial Services Committee (p. 3). http://financialservices.house.gov/media/pdf/031011scherer.pdf
[6] CRS. "Export-Import Bank: Background and Legislative Issues," February 9, 2011 (p. 13). http://assets.opencrs.com/rpts/98-568_20110209.pdf.
[7] Testimony of Scott Scherer, Boeing Capital Corporation, before the House Financial Services Committee (p. 3) http://financialservices.house.gov/media/pdf/031011scherer.pdf
[8] http://financialservices.house.gov/media/pdf/031011scherer.pdf

[9] Chart from: Export-Import Bank of the United States. "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States for the Period January 1, 2009 through December 31, 2009," June, 2010. http://www.exim.gov/about/reports/compet/documents/2009_competitiveness_report.pdf
[10] CRS. "Export-Import Bank: Background and Legislative Issues," February 9, 2011 (p. 14). http://assets.opencrs.com/rpts/98-568_20110209.pdf.
[11] Testimony of Osvaldo Luis Gratacós, Acting Inspector General, before the House Committee on Financial Services, September 29, 2010. http://financialservices.house.gov/Media/file/hearings/111/Gratacos092910.pdf

planes can put U.S. airlines that operate abroad at a disadvantage and possibly make them face higher costs than their competitors. In 2009 Emirates Airline received financing help from Ex-Im to buy Boeing planes and gained a loan-to-value ratio of 50 percent, along with a below-market interest rate, better than the deal that Delta received that same year in its purchase of Boeing planes.[12]

Ultimately, the extensive support of Boeing is best viewed as a political issue. If Boeing's support is the best means available to Ex-Im to increase U.S. exports and export-related jobs, it carries with it the appearance that one company has unfair leverage over the ECA process. In order to avoid this appearance, it is up to Ex-Im to clarify its motives for its extensive financial support of Boeing exports.

Taxpayer Exposure

According to its executives, Ex-Im has returned over $4.5 billion to the Treasury since 1992 and is self-sustaining for appropriations purposes.[13] However, this does not mean that Ex-Im has no cost to the taxpayer. While Ex-Im's charter requires reasonable assurance of repayment for all credit authorizations, it also mandates that Ex-Im act where private funds are not available. As a result, Ex-Im loans are risky almost by definition. Much of its financing targets companies in low and middle-income countries where it is particularly hard to estimate potential default rates. Ultimately the taxpayer is responsible for guaranteeing these loans and bears the economic burden of these potential costs.

Ex-Im attempts to account for the risk of default in its budget submissions, which are dramatically sensitive to the assumptions made about future default rates. The Federal Credit Reform Act of 1990 requires Ex-Im to determine its budget based on the present value of potential losses, or its "subsidy costs." Prior to 2006, OMB provided Ex-Im with expected loss rates, which largely determine estimated subsidy costs; when OMB changed its model for estimating loss rates in 2003, Ex-Im's budget requirements for subsidy costs dropped by almost half.[14] GAO later found that the new model led to an underestimation of loss rates.[15]

Ex-Im currently uses historical default and recovery rates to calculate program costs, but these rates may not be accurate in predicting default rates in the future. It is worth examining Ex-Im's default predictions critically, given the difficulty in calculating rates of loss in a chaotic economic climate and for foreign countries in which Ex-Im has limited credit history.

Uncertain Employment Impact

If the presence of foreign ECAs results in fewer U.S. exports than what would occur in an open international marketplace, then Ex-Im's attempts to boost U.S. exports and export-related jobs may offset this distortion. However, measuring the overall economic and employment impact of Ex-Im's activities is far from straightforward. In an economic environment in which myriad forces are in play it can be difficult to isolate the effects of Ex-Im alone.

Job Creation or Reallocation?

According to Fred Hochberg, President and Chairman of Ex-Im, 230,000 U.S. jobs were created or sustained in 2010 due to Ex-Im financing.[16] However, this estimate likely overstates Ex-Im's impact for a number of reasons.

Over the long term, when the economy is functioning at full employment, activities that implicitly subsidize certain jobs—such as the sort done by Ex-Im—do not result in the creation of any new jobs. Instead, the reduction in costs increases demand, profits and employment in the sector receiving subsidies while reducing demand, prices, and employment in the other sectors by a roughly equivalent amount. If the economy is suffering from widespread

[12] Ted Reed. "Why US Airlines Pay More to Finance Jets." September 13, 2010. *The Street.* http://www.thestreet.com/story/10857852/1/why-us-airlines-pay-more-to-finance-jets.html
[13] See, for example, Testimony of Fred Hochberg before the House Committee on Financial Services, September 29, 2010 (p. 1). http://www.exim.gov/about/leadership/House20100929.pdf
[14] GAO. "Export-Import Bank: OMB's Method for Estimating Bank's Loss Rates Involves Challenges and Lacks Transparency," September, 2004 (p. 4). http://www.gao.gov/new.items/d04531.pdf
[15] http://www.gao.gov/new.items/d04531.pdf
[16] Testimony of Fred Hochberg before the House Committee on Financial Services, September 29, 2010 (p. 2). http://www.exim.gov/about/leadership/House20100929.pdf

unemployment – as the U.S. economy is at the moment – the effects may not offset, but any net gain will be transitory at best.

Since it is easier to quantify the jobs created at companies that directly benefit from financing than it is to identify the jobs that may suffer in both the short and long-run, the neutral effect on overall employment is usually far from apparent. And as alluded to earlier, financing the foreign sales of U.S. goods may directly help foreign companies at the expense of U.S. competitors in another industry. Of course, it may be any administration's policy objective to advantage one sector over others; if so, this should be an explicit part of the Ex-Im charter.

In this regard, there are important shortcomings in Ex-Im's economic analyses. Congress has raised concerns over the years that Ex-Im's financing of foreign companies to purchase U.S. exports harms competing U.S. companies. Ex-Im's economic impact assessment process is designed to ensure that the bank's projects do not adversely affect U.S. industry. However, understanding economic impact is inherently difficult given the uncertainty in predicting future market trends and the various sectors and products affected by its activities.

In addition to these broader challenges, in 2007 GAO identified a number of other limitations in Ex-Im's analysis process:[17] First, Ex-Im's screening process for deciding which projects merit a thorough analysis is not always effective; second, Ex-Im's method for calculating displaced U.S. production may understate economic costs, creating a bias towards providing financing; third, Ex-Im has no uniform criteria for determining oversupply in the market; fourth, it inconsistently applies relative measures of efficacy in making financing decisions.

And perhaps most importantly, GAO highlighted the opacity of Ex-Im's economic impact analysis process, which is unclear to lenders, industry officials, and government officials, and largely undocumented. Exporters and lenders have frequently described Ex-Im's economic analysis process as overly cumbersome. Ex-Im's 2009 "Report on Export Credit Competition" notes that its economic analysis adds another layer of review and acts to discourage applicants from approaching the bank for support.[18] The decrease in competitiveness results both from Ex-Im's analysis process and from the fact that it has an economic impact test, unique among ECAs. That the economic impact analysis process is so burdensome is a testament to the complexity of actually determining the economic impact of export financing.

Political Interference

The Export-Import Bank's basic goal is to support American jobs through exports. Nevertheless, Congress has not been able to resist dictating what kinds of jobs and exports to support while also prescribing myriad other goals, all of which could potentially conflict with the Bank's ostensible focus on creating jobs. Achieving goals to support environmentally beneficial exports and the exports of minority and women-owned businesses have been particularly challenging for the bank due to lack of data, lack of definition, and general lack of feasibility.

Congress has increasingly emphasized the importance of financing environmentally beneficial exports in its directives to the Bank. In 1989 Congress directed Ex-Im to provide at least 5 percent of its financing for renewable energy projects; in 2008 Congress directed Ex-Im to provide at least 10 percent of its annual financing for renewable energy and environmentally beneficial exports. In 2009 and 2010, Congress further specified that the 10 percent goal should be targeted to exports of renewable energy technologies and energy efficient end-use technologies.

Ex-Im has struggled to meet the newer mandates. Out of Ex-Im's total financing in the period from 2003 to 2010, financing for "environmentally beneficial" projects accounted for 1.3 percent and financing for renewable energy projects accounted for 0.23

[17] GAO. "Export Import Bank: Improvements Needed in Assessment of Economic Impact," September, 2007. http://www.gao.gov/new.items/d071071.pdf

[18] Export-Import Bank of the United States. "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States for the Period January 1, 2009 through December 31, 2009," June, 2010 (p. 76). http://www.exim.gov/about/reports/compet/documents/2009_competitiveness_report.pdf

percent. The 10 percent goal overlooks the realities of the renewable energy industry in the U.S.; as Fred Hochberg, President and Chairman of Ex-Im, put it, "Ex-Im could support virtually all renewable exports and still not reach the 10 percent goal."[19] In addition, Ex-Im does not have a well-developed definition of "environmentally beneficial" exports, especially "energy efficient end-use technologies," according to GAO.[20] In short, Ex-Im struggles to comply with unachievable requirements that it has not yet been able to fully define and which conflict with its ostensible *raison d'etre.*

Besides dictating environmental requirements, in 2006 Congress directed Ex-Im to create a small business division with an office of financing for socially and economically disadvantaged and women-owned small businesses, yet two years later GAO found that Ex-Im still had no way of measuring its success in these efforts.[21]

Myriad other Congressional mandates also help make the Export-Import bank less effective compared to foreign ECAs. For example, Ex-Im has high domestic content requirements that exceed those of all other ECAs, cargo preference requirements that mandate export transport on U.S. ships that are vastly more expensive than the alternative, various Congressional notification requirements, and a ban on financing military exports for.[22]

Management Issues

Satisfying a variety of different mandates has presented significant managerial challenges for Ex-Im, especially with respect to mitigating fraud risk and achieving targets for small business participation.

Fraud. Ex-Im has faced a number of fraud cases, due both to the risk inherent in being a government lender and a lack of adequate risk evaluation procedures. The OIG identifies Ex-Im's loan guarantee program and export credit insurance programs as "particularly susceptible to fraud schemes."[23] It elaborates that criminals tend to exploit these programs by submitting false financial statements or false documentation concerning exports. Ex-Im's Medium Term Loan Program has been a primary target for fraud schemes. The acting Inspector General, Osvaldo Luis Gratacós, testified in front of Congress that there were two significant fraud cases related to the program that cost Ex-IM $200 million.[24]

While every bank faces the risk of fraud, a variety of factors make this risk even more acute for the Export-Import Bank, such as Ex-Im's mission to provide credit too risky for the private sector in over 160 countries with varying business and legal systems; its public disclosure of underwriting standards, which can guide the misrepresentation of financial statements; the disincentive for private sector participants to conduct thorough due diligence given the government's guarantee; and the bank's own limited resources to conduct thorough due diligence and pursue defrauders.[25]

Ex-Im procedures have been inadequate to mitigate its increased risk of fraud in a number of cases. In his testimony before the House Committee on Financial Services in September, 2010, Acting IG Gratacós noted that an "improper implementation of due diligence and underwriting practices, inadequate monitoring tools, and lack of compliance functions" contributed to Ex-Im's losses in the Medium-Term Loan Program.

The OIG has also linked the fraud cases with conflicting directives faced by the bank: to take loans too risky for the private sector, ensure reasonable

[19] Testimony of Fred Hochberg before the House Committee on Financial Services, September 29, 2010 (p. 9). http://www.exim.gov/about/leadership/House20100929.pdf

[20] GAO. "Export-Import Bank: Reaching New Targets for Environmentally Beneficial Exports Presents Major Challenges for Bank," July, 2010. http://www.gao.gov/new.items/d10682.pdf

[21] GAO. "Export-Import Bank: Performance Standards for Small Business Assistance are in Place but Ex-Im is still in the Early Stages of Measuring their Effectiveness," July, 2008. http://www.gao.gov/new.items/d08915.pdf

[22] See, for example, testimony at the House Committee on Financial Services hearing entitled "The Role of the Export-Import Bank in U.S. Competitiveness and Job Creation" on March 10, 2011. http://financialservices.house.gov/Hearings/hearingDetails.aspx?NewsID=1792

[23] OIG. "Seimannual Report to Congress: April 1, 2010 to September 30, 2010" (p. 30). http://www.exim.gov/oig/documents/semiannualreport_congress0910.pdf

[24] Testimony of Osvaldo Luis Gratacós, Acting Inspector General, before the House Committee on Financial Services, September 29, 2010. http://financialservices.house.gov/Media/file/hearings/111/Gratacos092910.pdf

[25] OIG. Letter Re: Evaluation Report Relating to Medium Term Export Credit Program, March 30, 2009. http://www.exim.gov/oig/documents/MT_Evaluation_Letter.pdf.

assurance of repayment, and reduce administrative burdens.[26] In particular, the impetus to reduce administrative burdens lead to rolling back credit policies for managing fraud and credit risk.[27]

However, Ex-Im receives criticism both for insufficient and overly burdensome procedures. For example, the 2010 Ex-Im Advisory Committee commented that "Ex-Im's internal processing procedures continue to be a source of frustration for exporters and lenders," due in part to its "stringent underwriting procedures."[28] In short, Ex-Im is caught in a thicket of procedural challenges that it shows no ability to overcome.

Other Management Issues. Ex-Im faces a number of managerial challenges associated with its ongoing attempts to increase the participation of small businesses, such as the need to update its inefficient and ineffective IT platform, enhance its due diligence process in the face of an increasing number of applications, simplify the application process as well as Ex-Im's messaging to small businesses, define performance standards and metrics, cooperate with other agencies such as the Small Business Administration and the Department of Commerce, ensure uniform procedures for delegated authority, and cope with limited staff resources.[29] The 2010 Advisory Committee notes other problems related to Ex-Im's organizational structure, which "does not establish accountability with a single individual within operating groups."[30]

Ex-Im's managerial challenges seem to be typical of government bureaucracy; they result from the challenges of processing a large number of applications efficiently and transparently while attempting to follow a variety of congressional directives.

OPTIONS FOR EXPORT-IMPORT BANK REFORM

There is broad consensus in favor of Export-Import Bank reforms to better meet its prescribed objective of increasing sales of U.S.-made goods abroad and creating American jobs while minimizing the exposure to the U.S. taxpayer.

At one extreme, some policy analysts would argue for the complete elimination of the Export-Import Bank, reflecting the notion that ECAs are trade-distorting policies. This extreme ignores, however, the reality that abolishing the one entity that's tasked with helping U.S. exporters identify and support potential buyers would put domestic companies at a competitive disadvantage when competing for business abroad. While our Export-Import bank may be redundant in a free and unfettered global economy, that is not the actual trade environment: In the last two years alone China lent over $110 billion to developing countries to buy Chinese-made goods.

Another option would be to retain the Ex-Im, but merge it with another similar agency (such as the Overseas Private Investment Corporation) or fold it into the Department of Commerce. This would likely exacerbate its shortcomings. In this brief we have laid out an argument that the plethora of political strictures is a root cause of Ex-Im's ineffectiveness. Merging it with an entity that does something similar—but has a starkly different goal—or putting it into an even more politicized environment would improve nothing. Instead, the focus should be on ways to improve Ex-Im's performance while keeping it a separate, independent entity.

Broaden Participation across Industries

The Export Promotion Cabinet's plan already calls to increase exports by focusing Ex-Im's efforts "in industries where there is potential to support greater levels of exports" such as in medical technology,

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[26] OIG. "Medium Term Export Credit Program- Credit and Fraud Risk Management Business Process Improvement," March 30, 2009 (p. ii). http://www.exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf

[27] http://www.exim.gov/oig/documents/MT_Program_Business_Process_Final_Audit_Report.pdf

[28] Export-Import Bank of the United States. "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States for the Period January 1, 2009 through December 31, 2009," June, 2010 (p. 1). http://www.exim.gov/about/reports/compet/documents/2009_competitiveness_report.pdf

[29] Testimony of Osvaldo Luis Gratacós, Acting Inspector General, before the House Committee on Financial Services, September 29, 2010. http://financialservices.house.gov/Media/file/hearings/111/Gratacos092910.pdf

[30] Export-Import Bank of the United States. "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States for the Period January 1, 2009 through December 31, 2009," June, 2010 (p. 1). http://www.exim.gov/about/reports/compet/documents/2009_competitiveness_report.pdf

industrial machinery, energy production, transportation, and the service sector.[31] This sensible, uncontroversial statement nevertheless reflects a major change from how the Bank currently operates. It also represents a recognition that using most of its funds to finance purchases from a single company simply may not be politically viable in the long run.

Prioritize and Set Achievable Goals

Another way to improve Ex-Im's efficacy at creating jobs would be to relax some of the myriad restrictions Congress has placed on it. For instance, while small businesses may constitute a pillar of the U.S. economy as well as a key political constituency, allocating a significant portion of Ex-Im's capital to support their exports is probably not the most cost-effective way to leverage the bank's capital. Similar considerations apply to the requirement that Ex-Im devote significant resources to supporting renewable energy investments. The foreign content restrictions and the mandate that companies receiving Ex-Im support use U.S. flagged vessels make U.S. companies less competitive when pursuing business abroad.

Increase Efficiency and Transparency

Ex-Im could clearly benefit from reform to its internal processes. For example, it should simplify its information technology systems, modernize and simplify its application process, make its economic analysis procedure more transparent and consistent, and restructure its teams in a way so as to maximize accountability and efficiency. Being audited by a private entity may bring valuable perspective into how to achieve these goals.

FINAL REFORM ISSUES

The primary problem the Export-Import Bank seeks to address is the uneven playing field U.S. exports face in the global economy, yet some U.S. and world trade policies actually contribute to this uneven playing field; for instance, China receives over $2.5 billion a year from foreign governments for development aid, while at the same time it largely closes its market to foreign products. Also, the World Bank's Global Environment Facility has funded $421 million in projects to fight climate change in China, virtually none of which U.S. businesses can compete for due to China's mercantilist policies. Simply forcing China to allow U.S. companies access to its markets as a condition of receiving such aid would make Ex-Im's job much easier.[32] None of these issues can be ameliorated by Ex-Im, but they do represent a much better place for Congress to weigh in on trade issues than in micro-managing Ex-Im's funding decisions.

A lean, productive Ex-Im would do more diverse lending, albeit likely concentrated in a relatively small number of industries dominated by larger corporations. The impositions placed on U.S. companies with customers benefiting from Ex-Im financing would be slight. It would be able to easily and simply report its activities to Congress, provide up-to-date information on where its money goes, and extensively monitor companies receiving loan guarantees. In such a world it would be able to create more jobs with less money while incurring fewer risks. It would also operate in a world with more free trade agreements and more defined rules governing trade between nations.

[31] "Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling Exports in Five Years," September 2010 (p. 42). http://www.whitehouse.gov/sites/default/files/nei_report_9-16-10_full.pdf

[32] "How Global Foreign Aid Supports China's Clean Tech Mercantilism." http://www.innovationpolicy.org/47091805