Chapter 14

Government Export Financing Programs

Exporters prefer to be paid on or before shipment of the goods, whereas buyers want to delay payment until they have sold the merchandise. To expand export sales, many governments offer a wide choice of financing programs. Such assistance increases the exporter’s credit line needed for corporate and domestic transactions, neutralizes financing as a factor, and creates a level playing field with competitors in other countries who also benefit from similar financing programs.

Programs are usually categorized as short-term (usually under two years), intermediate-term (usually two to five years), and long-term (usually over five years) financing. Government financing could be in the form of supplier credit or buyer credit. Supplier credits are credits extended to the buyer by the exporter, that is, the exporter arranges for government financing. Such credits also include a direct extension of credit by the exporter, as well as the latter’s arrangement of financing from other private sources. Buyer’s credits are extended to the buyer by parties other than the exporter. Banks, government agencies, or other private parties (domestic or foreign) could provide buyer credits. This chapter is primarily devoted to supplier or buyer credits that are extended by government agencies.

Government financing generally includes the provision of insurance or guarantees to exporters or lending institutions, as well as the extension of official credit, interest, or subsidies to the exporter or overseas customer. Either of these financing schemes may be combined in a single transaction. Some governments provide a whole range of services, such as guarantees, insurance, credit, etc., while others provide some or all of these services insofar as they are not readily available in the market.

The OECD (Organization for Economic Cooperation and Development) has developed guidelines on export credits for its members. These are intended to provide the institutional framework for an orderly export credit market, thus preventing an export credit race in which exporting countries

compete on the basis of who provides the most favorable financing terms rather than on the basis of who provides the best-quality product at the lowest price. The guidelines provide for the following:

- A minimum of 15 percent of the contract price to be paid in cash
- Maximum repayment term of eight and a half years, with exceptions for poor countries
- Minimum interest rates for set periods of up to five, eight-and-a-half, and ten years
- Gradual abolition of subsidized interest rates and adjustment of discount rates for aid loans to better reflect market realities
- The establishment of related conditions for certain sectors, including agriculture, that are not covered by the guidelines

**EXPORT-IMPORT BANK OF THE UNITED STATES (EX-IM BANK)**

The Ex-Im Bank was created in 1934 and established under its present law in 1945, with the aim of assisting in the financing of U.S. export trade. It was originally established to finance exports to Europe after World War II. Ex-Im Bank’s role in promoting U.S. exports is likely to be more significant now than in the past few decades because (1) the U.S. economy is more internationalized and exports constitute a growing share of the GNP, and (2) there has been a substantial increase in the volume of international trade and competition for export markets is quite intense.

Ex-Im Bank is intended to supplement, but not compete with, private capital. It has historically been active in areas in which the private sector has been reluctant to provide export financing. Ex-Im Bank has three main functions: (1) provide guarantees and export credit insurance so that exporters and their bankers give credit to foreign buyers, (2) provide competitive financing to foreign buyers, and (3) negotiate with other countries to reduce the level of subsidy in export credits (Ex-Im Bank, 1997a).

Over the past few years, Ex-Im Bank has focused on a broad range of critical areas, such as provision of greater support to small businesses, export promotion to developing nations, and promoting exports of environmentally beneficial goods and services. It has also been engaged in expanding project finance capabilities as well as in reducing trade subsidies of other governments through bilateral or multilateral negotiations.

In its more than seventy years of operations, the bank has supported more than $455 billion of U.S. exports (2004). It has assisted U.S. exporters to win export sales in many countries and undertakes risks the private sector
is unwilling or unable to take. The bank also attempts to neutralize financ-
 ing provided by foreign governments to their exporters when they are in
 competition for export sales with U.S. exporters. (See International Per-
 spective 14.1 for criteria for loans and loan guarantees.) However, the bank
does require reasonable assurance of repayment for the transactions it au-
 thorizes and closely monitors credit and other risks in its portfolio.

Annual authorizations have ranged from $9.2 billion to $13.32 billion
over the past five years. The largest share of the bank portfolio involves fi-
 nancing transportation, energy, and construction, with the largest concentra-
tion in the aircraft sector (see Tables 14.1 and 14.2). The highest geographic

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**INTERNATIONAL PERSPECTIVE 14.1.**

**General Ex-Im Bank Criteria for Loans and Loan Guarantees**

**Foreign Content Policy:** To be eligible for support, items must be shipped
from the United States and the foreign content (cost of foreign components
incorporated in the item in the United States) must be less than 50 percent
of the total cost to produce the item. In the case of U.S. items supplied to a
foreign project under long-term program support, Ex-Im Bank support is
available even though the U.S. items aggregate less than 50 percent of the
total project cost (intermediate-term loans and guarantees).

**Repayment Terms:** Repayment usually begins about six months after
shipment or project completion, and payments of principal and interest
must be made semiannually. Applicable payment term for a transaction
can be determined by (1) identifying the country group (I or II) in the list
where the product is exported, (2) find the standard term that applies to
the country group and the contract price of one's transaction, and (3) re-
view the terms in chart II and shorter/longer than standard terms.

**Scope of Coverage:** Ex-Im Bank's loans, guarantees, and intermediate-
term insurance cover 85 percent contract price. The foreign buyer is re-
quired to make a 15-percent cash payment. Fees charged are based on
the risk assessment of foreign buyer or guarantor, the buyer's country, and
term of the credit.

**Interest Rates and Shipping:** Interest rates and maximum maturity
terms are subject to OECD guidelines. The lender sets the rate in guaran-
tee programs while loans are often negotiated at fixed rates. Ex-Im Bank-
supported sales of more than $10 million in loans or loan guarantee must
be shipped in a vessel of U.S registry unless a waiver has been obtained
by the foreign buyer from the U.S. Maritime Administration. This applies in
the case of long-term financing programs.
## TABLE 14.1. Ex-Im Bank Authorizations, (Million U.S. Dollars) and Top Beneficiaries by Country, 2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Exposure</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>6.49</td>
<td>10.62</td>
</tr>
<tr>
<td>China</td>
<td>4.11</td>
<td>6.72</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.96</td>
<td>4.84</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.78</td>
<td>4.55</td>
</tr>
<tr>
<td>Korea</td>
<td>2.68</td>
<td>4.38</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.62</td>
<td>4.28</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1.88</td>
<td>3.08</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1.72</td>
<td>2.82</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1.47</td>
<td>2.40</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.45</td>
<td>2.37</td>
</tr>
<tr>
<td><strong>Subtotal, long-term</strong></td>
<td>7,339.20</td>
<td>6,596.85</td>
</tr>
<tr>
<td><strong>Medium-term</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>0</td>
<td>5.18</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>0</td>
<td>5.18</td>
</tr>
<tr>
<td><strong>Guarantees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>540.60</td>
<td>678.95</td>
</tr>
<tr>
<td>Venezuela</td>
<td>911.50</td>
<td>675.25</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1,452.10</td>
<td>1,359.38</td>
</tr>
<tr>
<td><strong>Subtotal, medium-term</strong></td>
<td>1,452.10</td>
<td>1,359.38</td>
</tr>
<tr>
<td><strong>Short-Term</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>880.40</td>
<td>675.25</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>3,649.30</td>
<td>1,994.70</td>
</tr>
<tr>
<td><strong>Subtotal, short-term</strong></td>
<td>4,529.70</td>
<td>2,670.02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13321</td>
<td>10626.25</td>
</tr>
</tbody>
</table>

**Source:** Ex-Im Bank Annual Report, 2004.

### Authorizations 2000-2003 (average); Exposure in billion U.S. dollars.

## TABLE 14.2. Ex-Im Bank’s Geographic and Industry Exposure, 2004 (Million U.S. Dollars)

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>Total (%)</th>
<th>Industry</th>
<th>2004</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>17,967.50</td>
<td>29.40</td>
<td>Air transportation</td>
<td>23475.00</td>
<td>38.40</td>
</tr>
<tr>
<td>Latin America</td>
<td>15,570.30</td>
<td>25.50</td>
<td>Power projects</td>
<td>6577.70</td>
<td>10.80</td>
</tr>
<tr>
<td>Europe/Canada</td>
<td>10,840.70</td>
<td>17.70</td>
<td>Oil and gas</td>
<td>6415.50</td>
<td>10.50</td>
</tr>
<tr>
<td>Africa/Middle East</td>
<td>9,222.30</td>
<td>15.10</td>
<td>Manufacturing</td>
<td>4309.10</td>
<td>7.00</td>
</tr>
<tr>
<td>All others</td>
<td>7,547.40</td>
<td>12.30</td>
<td>Others</td>
<td>20370.90</td>
<td>33.30</td>
</tr>
</tbody>
</table>

**Source:** Ex-Im Bank Annual Report, 2004.
exposure is in Asia, with over 29 percent of the total. Ex-Im Bank also has enhanced financing available for certain categories of exports: environmentally beneficial goods and services, medical equipment, and transportation security equipment. The bank provides assistance to U.S. exporters of goods and/or services insofar as the exports include a minimum of 50 percent U.S. (local) content and are not military related. Its financing decision is determined, inter alia, upon an assessment of the borrower’s capability to repay the loan. There are four major export financing programs provided by Ex-Im Bank (U.S. Department of Commerce, 1990; Reynolds, 2003):

- Working capital loan guarantees for U.S. exporters
- Credit insurance
- Guarantees of commercial loans to foreign buyers
- Direct loans to foreign purchasers.

U.S. government support for the Bank has been the subject of criticism from various groups:

- The environmental community contends that the Bank provides loans and loan guarantees for projects that harm the environment. These groups raise concerns about the harmful effects of Ex-Im Bank-assisted oil drilling and pipeline project in Chad and Cameroon, coal-fired power plant in Indonesia, and the loan guarantees for the sale of nuclear fuel to the Czech Republic.
- It is often stated that the bank’s assistance is largely provided to a small number of large U.S. firms such as Boeing, Bechtel, GE, and Halliburton, as well as countries that do not need financial support in the form of loans, loan guarantees, or insurance. In view of the fact that Ex-Im Bank supports about 1 percent of U.S. exports, critics suggest that it has a marginal impact on overall U.S. exports or its trade balance.
- Some of Ex-Im Bank’s loans to foreign companies have contributed to harm domestic industries. It is alleged that the $18 million loan to the Chinese Iron and Steel industry, for example, adversely affected the competitiveness of local industries (www.exim.gov).

**Working Capital Guarantee Program**

The availability of adequate working capital is critical for the maintenance and expansion of a viable export-import business. Banks are often reluctant to make financing available because the businesses either have
reached the borrowing limits set by their banks or do not have the necessary collateral. The working capital guarantee program is intended to encourage commercial lenders to make loans for various exports-related activities (see Figure 14.1). Such loans may be used for the purchase of raw materials and finished products for export, to pay for overhead, as well as to cover standby letters of credit, such as bid bonds, performance bonds, or payment guarantees (Ex-Im Bank, 1997b,c).

Exporters may apply to the Ex-Im Bank for a preliminary commitment for a guarantee. The lender also may apply directly for a final authorization. In the case of preliminary commitment, the Ex-Im Bank will outline the general terms and conditions under which it will provide the guarantee to the exporter, and this can be used to approach various lenders to secure the most attractive loan package.

The lender must apply for the final commitment. An exporter may also apply through a lender that has been granted a guarantee by the Ex-Im Bank. Such lenders have been granted preapproved credit authority (delegated authority) to process working capital loans under established criteria without preapproval from Ex-Im Bank. For small business exporters, the Small Business Administration (SBA) can guarantee a working capital loan up to $1.1 million or up to $2.0 million under a coguaranty agreement with the Ex-Im Bank. Guarantees may be approved for a single loan or a revolving line of credit.

The major features of the working capital guarantee program are as follows:

Qualified Exports. Eligible exports must be shipped from the United States and have at least 50 percent U.S. content. If the export has less than 50 percent U.S. content, the bank will only support up to the percentage of the U.S. content. Military items as well as sales to military buyers are generally not eligible.

Guarantee Coverage and Term of the Loan. In the event of default by the exporter, Ex-Im Bank will cover 90 percent of the principal of the loan and interest, up to the date of claim for payment, insofar as the lender has met all the terms and conditions of the guarantee agreement. Guaranteed loans generally have maturities of twelve months and are renewable.
Collateral and Borrowing Capacity. Guaranteed loans are to be secured by a collateral. Acceptable collateral may include export-related inventory, export-related accounts receivable, or other assets. Inventory and accounts receivable include goods purchased or sales generated by use of the guaranteed loan. For service companies, costs such as engineering, design, or allocable overhead may be treated as collateral. In the case of letters of credit issued under the guaranteed loan, collateral is required only for 25 percent of the value of the letter of credit.

Exporters can borrow up to 75 percent of their inventory including work-in-process and up to 90 percent of their foreign account receivable thus increasing their borrowing capacity. Table 14.3 illustrates borrowing capacity with and without the working capital facility.

Qualified Exporters and Lenders. Exporters must be domiciled in the United States (regardless of domestic/foreign ownership requirements), show a successful track record of past performance, including an operating history of at least one year, and have a positive net worth. Financial statements must show sufficient strength to accommodate the requested debt.

Any public or private lender may apply under the program. Eligibility is determined on many factors, including the lender’s financial condition, knowledge of trade finance, and ability to manage asset-based loans. Lenders may be approved as priority lenders or delegated authority lenders. Approved lenders under the priority lender program submit final commitment

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Amount</th>
<th>Working Capital Without Ex-Im-Bank</th>
<th>Working Capital With Ex-Im-Bank Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export inventory Supported by an export order</td>
<td></td>
<td>Advance Rate (%)</td>
<td>Borrowing Base</td>
</tr>
<tr>
<td>Raw materials</td>
<td>300,000</td>
<td>20</td>
<td>60,000</td>
</tr>
<tr>
<td>Work in process</td>
<td>300,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Finished goods</td>
<td>600,000</td>
<td>50</td>
<td>300,000</td>
</tr>
<tr>
<td>Foreign Account Receivable (FAC)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAC</td>
<td>500,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>L/C backed account receivable</td>
<td>600,000</td>
<td>70</td>
<td>420,000</td>
</tr>
<tr>
<td>Total borrowing base</td>
<td>780,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

applications to Ex-Im Bank and receive a decision within ten business days. The lender, prior to submission to Ex-Im Bank, must approve the loan application. However, approved delegated authority lenders are allowed to approve loans and receive a guarantee from Ex-Im Bank without having to submit individual applications for approval.

Example: Integrated Medical Systems of Signal Hill, California, was able to export portable intensive care units to military and civilian buyers in Finland, Saudi Arabia, and China by taking advantage of Ex-Im Bank's $500,000 Working Capital Guarantee. In October, 2004, Ex-Im Bank and the Maritime Administration signed a memorandum of understanding to establish Ex-Im Bank guaranteed working capital loans for U.S. companies involved in shipping, logistics, and other ocean transportation services. Ex-Im Bank agreed to increase its working capital guarantee from 90 to 95 percent (and the minimum threshold for the guaranteed transactions from $10 to $20 million) for U.S. companies that ship on U.S. flag vessels.

Export Credit Insurance Program (ECIP)

The purpose of the ECIP is to promote U.S. sales abroad by protecting exporters against loss in the event of default by a foreign buyer or debt arising from commercial or political risks. The policy also enables exporters to obtain financing more easily because, with prior Ex-Im Bank approval, the proceeds of the policy can be readily assigned to a financial institution as collateral. Ex-Im Bank offers a wide range of policies to accommodate many different insurance needs of exporters and financial institutions (Wells and Dulat, 1996). For example, insurance policies may apply to shipments to one buyer or many buyers, cover short-term (180 days or less) or intermediate-term (generally one to five years) credit, and provide comprehensive coverage for commercial as well as specific or all political risks. There are also policies specifically geared to small businesses that are beginning to export their goods or services (small business policy). Some export credit insurance program (ECIP) highlights include the following:

- **U.S. contents requirements**: To be eligible for support, the products sold must be produced in the United States. For short-term and intermediate-term sales, at least 50 percent of the value of the product must be of U.S. origin (excluding price markup). In the case of service exports, services must be performed by U.S.-based personnel or U.S. personnel temporarily assigned in the host country.

- **Restrictions on sales**: ECIP may not be provided for exports destined for military applications (with some exceptions) or to communist nations unless it is determined by the president to be in the U.S. national interest.
Insurance policies under ECIP: (1) export policies (short-term): single-buyer/multi-buyer policy, small business policy; (2) lender policies (short-term): letter of credit policy, financial institution buyer/supplier credit policy; (3) policies for exporters and lenders: documentary and nondocumentary policy.

Other policies: Other policies include leasing policy and foreign dealer policy.

Exporter Policies (Short-Term)

Single-Buyer versus Multibuyer Policy

Single-buyer policies insure short-term, intermediate-term, or combined (i.e., short and medium)-term sales to one buyer (www.exim.gov). The multibuyer policy, however, is intended to provide coverage for short-term export sales to many different buyers. Besides repayment terms, which typically range up to 180 days, the short-term single-buyer and short-term multiple-buyer policies have many similarities (see also Figure 14.2):

1. In both cases, eligible exports usually include consumables, agricultural commodities, raw materials, consumer durables, spare parts, and services. Products must have at least 51 percent U.S. content, including labor but excluding product markup.
2. Eligible exporters are U.S. firms or foreign companies doing business in the United States and foreign corporations controlled by U.S. companies. Buyers must be creditworthy and located in an acceptable country. Only exporters may apply for both types of policies. Coverage does not include confirmed letters of credit, cash in advance, and certain military-related items.
3. The risks covered include commercial and specified political risks. Commercial risks generally include buyers’ insolvency or failure to pay when an obligation is due. Political risks include losses caused by war, revolution, cancellation of an export-import license, or inability to transfer money.
In the case of multibuyer policy, the exporter may choose between two options for coverage of the principal amount of the sale. First, split coverage offsets 100 percent for political losses, combined with 90 percent for commercial losses. Second, equalized coverage counters 95 percent of political and commercial losses. Under either option, commercial loss coverage is increased to 98 percent for approved, bulk agricultural exports and 100 percent for sovereign obligors, that is, entities which offer the full faith and credit of the importing country’s government. The single buyer policy covers 90 percent of political and commercial losses. In both cases, the exporter may request preshipment coverage to lock-in coverage conditions for a specified period of time.

**Policies for Small Business Exporters**

Ex-Im Bank offers a short-term insurance policy (small business insurance policy) that is intended to meet the credit requirements of small, less experienced exporters. The coverage is available for companies with average annual export credit sales of less than $5 million for the two years prior to application and which meet the eligibility requirements for small business. It is quite similar to single- and multibuyer policies in terms of eligible products (U.S. content), credit terms, and scope of coverage (excludes letters of credit and so on), and also provides special incentives for exporters of environmentally related goods and services. Political losses are covered at 100 percent while commercial losses are covered at 95 percent. It has no first loss deductible (www.exim.gov).

**Lender Policies (Short-Term)**

*Bank Letter of Credit Policy*

The bank letter of credit policy is intended to encourage banks to support U.S. exports by protecting them against loss on irrevocable letter of credit issued by foreign banks for the purchase of U.S. goods. This policy covers a confirming bank’s losses resulting from the failure of a foreign financial institution (the issuing bank) to honor its letter of credit to the insured bank. The policy can only be used with irrevocable letters of credit and for eligible exports. The policy covers against commercial and political risks. Equalized coverage for commercial and political risks or political only coverage is available.
The Financial Institution Buyer Credit Policy

The financial institution buyer credit policy protects financial institutions against losses on short-term direct credit loans or reimbursement loans to foreign entities for importing U.S. goods and services. The direct buyer credit loan is a loan extended to a foreign entity by a financial institution for the importation of U.S. goods and services; while the reimbursement loan is the financial institution’s reimbursement of a buyer’s payments to U.S. suppliers. The policy covers against commercial and political risks.

The Financial Institution Supplier Credit Policy

This policy is intended to protect lenders financing the export receivables of small businesses on a nonrecourse basis. Policyholders may be given the authority to approve exporters that participate under the policy as well as to approve many of the buyers that exporters elect to finance. Eligible exporters are small businesses with annual export credit sales of less than $5 million (U.S.) for the prior two years (excluding cash-in-advance and confirmed L/C sales).

Policy for Exporters and Lenders (Intermediate-Term)

The intermediate term export credit insurance enables exporters and financial institutions to insure their foreign receivables against political and commercial losses. The policy provides a maximum cover of $10 million (U.S.) with payment terms ranging from one to five years. It supports the sale of U.S. capital equipment, installation, and a complement of spare parts. It can be used for single sales or repetitive transactions.

Other Policies

Financing and Operating Leases

Financing and operating leases are two separate lease policies that are intended to insure both the stream of lease payments and the fair market value of the leased products. The policy covers against political and commercial risks or against political risks only. The major difference between financing and operating lease is that in the case of the former, little residual value remains in the leased product and ownership is transferred to the lessee at the end of the lease, and in the case of an operating lease, a residual value remains at the end of the lease and the lessor repossesses, sells, or
otherwise disposes of the product as it sees fit. The title to the leased product, which can be either new or used equipment, must be maintained by the lessor who takes out the insurance policy.

**The Foreign Dealer Policy**

The foreign dealer policy is designed to provide competitive support for financing U.S. capital goods exports through foreign dealerships. It is useful to small and medium-sized U.S. exporters that need to arrange financing for their overseas dealers. It combines short-term financing of inventory with the option to roll over that financing for a longer term. This policy is presently available to financial institutions.

**Guarantees**

Ex-Im Bank guarantees provide repayment protection for private-sector loans to creditworthy buyers of U.S. exports (see Figure 14.2). The program covers 100 percent of the commercial and political risks (85 percent of U.S. contract amount). The foreign buyer is required to make at least a 15 percent cash payment. Exports supported under this program are capital equipment, services, and projects, and the loan guarantees are offered for intermediate- and long-term sales. Guarantees of $20 million or less do not require shipment on U.S.–registered vessels. The credit may be for any amount. The guarantee is unconditional and transferable (Reynolds, 2003).

There is also a special coverage or guarantee (credit guarantee facility) extended by Ex-Im Bank to United States or foreign lenders on lines of credit to foreign banks or large foreign buyers. The products supported, as well as the coverage and terms, are identical with the guarantee program discussed previously. The facility can finance small transactions with minimal paperwork. When a financing institution is extending a loan of $10 million or less to a borrower with Ex-Im Bank’s guarantee, Ex-Im Bank requires only that a note be issued in favor of the financing institution, meaning that a credit agreement is not often required (see Figures 14.2 and 14.3).

![FIGURE 14.3. Credit Guarantee Facility](image-url)
Example: Ex-Im Bank recently guaranteed a $930 million commercial loan to the Qatar Liquefied Gas Co. to support the export of U.S. goods and services in order to build a natural gas project and related facilities. It also guaranteed a long-term loan extended to Albania for the purchase of U.S. air traffic automation system from Lockheed Martin.

Example: In 2001, The Ex-Im Bank of the United States provided a $32 million medium-term credit guarantee facility to support the sale of $35 million of equipment and services by various U.S. companies to Algerian buyers. Banque Exterieure d’Algerie (BEA) SPA, Algiers, the largest of Algeria’s five state-owned commercial banks, is the borrower and primary source of repayment on the transaction. Societe Generale, New York, New York, is the guaranteed lender.

Direct Loans Program

Under this program, Ex-Im Bank provides a fixed-rate loan directly to established creditworthy foreign buyers for the purchase of U.S. capital equipment, projects, and related services. The loan covers up to 85 percent of the U.S. export value. The buyer is required, however, to make a cash payment for the difference, that is, 15 percent of the value. The loan is often used by buyers when the financed portion exceeds $10 million. A loan agreement as well as shipment on U.S. registered vessels is required. The program supports intermediate and long-term sales. Transactions normally range from five to ten years, depending on the export value, the product, the importing country, and terms offered by the competition (see Figure 14.4).

Project Finance Program

This program supports exports of U.S. capital equipment and related services for projects whose repayment depends on project cash flows, as defined in the contract. It is suitable for major U.S. suppliers and sponsors that do not have adequate access to bank or government guarantees. There is no limit on the size of the transaction. Any combination of either direct loans or guarantees for commercial bank loans, with political-risk-only or

FIGURE 14.4. Direct Loan Program
comprehensive coverage, are available. The basic coverage and terms are as follows:

1. The foreign buyer makes a 15 percent cash payment. Direct loan and/or guarantee covers up to 85 percent of the U.S. contract amount.
2. Political-risk-only coverage is available during construction and for postcompletion financing.
3. Repayment terms are subject to OECD guidelines.
4. No coverage is provided for precompletion commercial risks.
5. Approvals are subject to Ex-Im Bank’s environmental procedures and guidelines.

Ex-Im Bank also offers financing to foreign purchasers of U.S. commercial aircraft, ships and so on under its direct loan, guarantee and insurance programs.

**SMALL BUSINESS ADMINISTRATION**

The Small Business Administration (SBA) also provides a few programs for U.S. exporters. To qualify for the programs, applicants must meet the definition of a small business under SBA’s size standards and other eligibility requirements (see Table 14.4 for authorization limits). The SBA Act defines an eligible small business as one that is independently owned and operated and not dominant in its field of operation. It has established size standards that define the maximum size of an eligible small business. The following represent general guidelines to determine a small business:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Maximum size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail and Service</td>
<td>$6.0 to $24.5 million in average annual receipts</td>
</tr>
<tr>
<td>Construction</td>
<td>$12.0 to $28.5 million in average annual receipts</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$0.75 to $6.0 million in average annual receipts</td>
</tr>
<tr>
<td>Wholesale</td>
<td>No more than 100 employees</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>500 to 1,500 employees</td>
</tr>
</tbody>
</table>

Some of the SBA programs that are intended to promote exports are as follows.

**Export Working Capital Program Loans (EWCP)**

The EWCP is a combined effort of the SBA and Ex-Im Bank to provide short-term working capital to U.S. exporters. To be processed by the SBA,
loan guarantee requests must be equal to or less than $1.00 million. Loan requests greater than $1 million are processed by the Ex-Im Bank. The applicant must be in business for one year (not necessarily exporting) at the time of application. The agency can guarantee up to 90 percent of loans up to $1 million. If it is combined with an SBA international trade loan, it can guarantee up to $1.25 million for working capital and fixed asset financing. The loan may be used for purchase of inventory, raw material, or for the manufacture of a product. A borrower must give SBA a first security interest equal to 100 percent of the EWCP guaranty amount. Collateral must be located in the United States (Small Business Administration, 2007).

**International Trade Loan Program**

This program assists small businesses that are already engaged or preparing to engage in international trade and those which are adversely affected by import competition. The SBA can guarantee as much as $1,250,000 in combined working capital (provided under the EWCP), and facilities and equipment loans. The guaranty by SBA for the working capital portion as well as that for fixed assets is limited to $1 million, respectively. The guarantee percentage and amount is similar to the EWCP. Collateral is required and must be located in the United States.

In both programs, the SBA provides loan guarantees only if the exporter is unable to obtain financing from private sources without its support.

**SBA Export Express**

SBA Export Express is a flexible financing tool available to assist small businesses in developing and expanding export markets. Approved lenders use streamlined and expedited loan review and approval procedures. Small Business Administration provides participating lenders with a payment
guarantee up to a maximum loan amount of $250,000. The guarantee on loans of up to $150,000 is 85 percent (75 percent for loans exceeding $150,000 up to a maximum of $250,000). Proceeds can be used for financing export development activities (participation in trade shows, and so on), transaction specific financing for overseas buyers, revolving lines of credit for exports, and acquiring or expanding facilities used in the United States to produce goods or services for export, as well as financing standby letters of credit used as bid or performance bonds in foreign contracts.

**OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)**

The Overseas Private Investment Corporation (OPIC) is a wholly owned U.S. government corporation that supports American private investment in developing nations and emerging market economies. Its programs are presently available for new and expanding businesses in some 140 countries worldwide. The program has generated positive net income for every year of operation since its inception in 1971 and has accumulated reserves of over $2.6 billion. Since 1971, OPIC has supported investments worth nearly $100 billion and generated about $43 billion in U.S. exports. Although OPIC is primarily intended to promote U.S. investment abroad, it has played a significant role in expanding American exports. Projects backed by OPIC in 1996, for example, were estimated to generate $9.6 billion in U.S. exports and create or support about 30,000 jobs. A recent OPIC-supported power project in Indonesia, for example, is expected to purchase more than $1 billion in U.S. equipment and supplies and support more than 3,000 American jobs. OPIC-backed investments in these countries are also likely to depend on a constant supply of U.S. components, supplies, or raw materials. In short, OPIC helps developing nations expand their economies and become viable markets for U.S. goods and services (www.opic.gov).

The Overseas Private Investment Corporation assists American investors through four principal activities designed to promote overseas investment and reduce associated risks:

**Financing of Business Through Loans and Loan Guarantees**

The Overseas Private Investment Corporation provides intermediate- and long-term project financing through loans and loan guarantees in countries where conventional financial institutions often are reluctant or unable to provide financing. All projects considered for financing must be commercially and financially sound and managed by people with a proven track record of
success in the same or related business. The Overseas Private Investment Corporation, for example, carefully reviews whether the project will generate adequate cash flow to pay all operational costs, to service all debt, and provide owners with an adequate return on their investments. The proceeds of OPIC financing may be spent for capital goods and services in the United States, the host country, or other less-developed countries. The following are the major features of the program (www.opic.gov).

Ownership

Projects wholly owned by governments are not eligible. The Overseas Private Investment Corporation finances overseas ventures wholly owned by U.S. companies, or joint ventures in which the U.S. investor has at least 25 percent equity. As a rule, at least 51 percent of the voting shares of the overseas venture must be held by the private sector. Financing is provided in cases in which the government holds majority ownership, insofar as management remains in private hands.

OPIC Participation

The Overseas Private Investment Corporation assists in designing and coordinating the financial plan with other lenders and investors. It usually participates by providing up to 50 percent of the total cost of a new venture. The percentage is often higher in the case of an expansion of an existing business.

Financing and Loan Terms

For projects sponsored by U.S. small businesses or cooperatives, financing is provided through direct loans ranging from $2 to $10 million. Loan guarantees are often used for large-scale projects and range from $10 to $200 million. The guarantees are issued to U.S. financial institutions that are more than 50 percent owned by U.S. citizens, corporations, or partnerships. Foreign corporations that are at least 95 percent U.S. owned are also eligible. Funding sources include commercial banks, pension funds, and insurance companies. The Overseas Private Investment Corporation loans typically provide for a final maturity of five to fifteen years, following a certain grace period during which only interest is payable. For loan guarantees, OPIC charges the borrower a guarantee fee that may include an income-sharing provision (www.opic.gov).
Providing Support to Private Investments

The Overseas Private Investment Corporation provides finance to a number of privately owned and managed investment funds so that these funds extend equity capital to facilitate business formation and expansion. Some funds invest primarily in small companies, whereas others invest in larger projects. Participation in equity ownership ranges from 5 to 40 percent of the company’s portfolio. To be eligible for funding, the overseas company must have a significant business connection with the U.S. economy and a positive impact on U.S. employment, the environment, and workers’ rights. OPIC-supported investment funds presently operate in Africa, East Asia, South America, and Eastern Europe.

Insuring Investments Against a Broad Range of Political Risks

The Overseas Private Investment Corporation offers many programs to insure investments in developing nations against political risk. The following risks are covered:

1. *Currency inconvertibility:* This is the inability to convert profits, debt services, and other remittances from local currency into U.S. dollars.
2. *Expropriation:* This involves loss of investment due to expropriation, nationalization, or confiscation by the host government.
3. *Political violence:* This relates to loss of assets or income due to war, revolution, civil war, terrorism, and so forth. An investor may purchase a separate policy for loss of business, loss of assets, or both. Coverage is available for new or existing investments. Special insurance programs are available for the following sectors: financial institutions, leases, oil and gas projects, natural resource projects, contractors, and exporters.

The Overseas Private Investment Corporation insurance is available to citizens of the United States, businesses created under U.S. law with majority ownership by U.S. citizens, and foreign companies with a minimum ownership of 95 percent equity by U.S. citizens.

Engaging in Outreach Activities

This is mainly designed to inform the U.S. business community of investment opportunities abroad.

Investments by OPIC clients may take many forms, including equity investments, loans, service contracts, leases, joint ventures, franchises, and other arrangements (www.opic.gov). In the event that the project is foreign
owned, OPIC insures the portion of the project (investment) made by the U.S. investor. The Overseas Private Investment Corporation does not participate in projects subject to performance requirements that would substantially undercut U.S. trade benefits from the investment (e.g., local content, maximum import and minimum export requirements imposed by host states).

**PRIVATE EXPORT FUNDING CORPORATION**

The Private Export Funding Corporation (PEFCO) is a major source of capital for intermediate- and long-term fixed-rate loans for U.S. exports. It acts as a supplemental lender to traditional sources by making loans available for foreign purchasers of U.S. goods and services.

The Private Export Funding Corporation is a private corporation owned by banks and industrial and financial companies. It works closely with Ex-Im Bank. Ex-Im Bank unconditionally guarantees all PEFCO loans. The Private Export Funding Corporation often lends in conjunction with one or more commercial banks and will cover up to 85 percent of the export value. The Private Export Funding Corporation generally does not make loans of less than $1 million, and this makes it suitable for high-cost purchases, such as aircraft, industrial plants, and so on, that require large amounts of money for extended terms. The Private Export Funding Corporation has a program for small business exporters to provide short-term working capital through private lenders or directly to small business exporters as a lender of last resort (www.pefco.com).

**U.S. DEPARTMENT OF AGRICULTURE**

The U.S. Department of Agriculture (USDA) provides financial support for U.S. agricultural exports through various programs, such as the following:

- GSM-102 program provides credit guarantees for up to three years and will cover 98 percent of the export value and up to 2.8 percent points of interest on the guaranteed value.
- GSM-103 program offers credit guarantees with terms of greater than three but not more than ten years. Both guarantees cover commercial and noncommercial risks.
In addition to government programs, more than a dozen state governments have introduced export financing programs. Some of the programs implemented in California and Illinois have the following essential features: (1) state-funded loan guarantee programs, (2) preshipment and post-shipment assistance in the form of loans to lenders and loan guarantees to exporters and their banks, and (3) state agency acting as a delivery agent for Ex-Im Bank programs.

**CHAPTER SUMMARY**

**Ex-Im Bank**

Ex-Im Bank is an independent agency of the U.S. government, the purpose of which is to aid in financing and to facilitate trade between the United States and other countries. The bank, which is expected to be self-sustaining (except for the initial capital of $1 billion to start operations), makes loans and guarantees with reasonable assurance of repayment. It complements private sources of finance.

**Working Capital Guarantee Program**

This enables exporters to meet critical pre-export financing needs, such as inventory build-up or marketing. Ex-Im Bank will guarantee 90 percent of the loan provided by a qualified lender. The guarantee has a maturity of twelve months and is renewable.

**Export Credit Insurance Program**

It comprises of a wide range of policies to accommodate different insurance needs. Its major features are: U.S. content requirements and restrictions on sales destined for military use and to communist nations.

1. *Short-term single-buyer policies*: These cover a single sale or repetitive sales over a one-year period to a single buyer. They provide coverage against political and commercial risks. They support products such as consumables, raw materials, spare parts, low-cost capital goods, etc.
2. *Short-term multibuyer policies*: These cover short-term export sales to many different buyers against political and commercial risks. Product coverage is the same as for single-buyer.
3. Small business policy (graduate to short-term multibuyer when annual export credit sales exceed $3 million): This short-term policy covers small businesses with average annual export credit sales of less than $3 million. It provides coverage against political and commercial risks.

4. Small business environmental policy: This short-term policy provides coverage to small businesses that export environmental goods and services against political and commercial risks.

5. Financial institution buyer credit policy: This protects financial institutions against losses on short-term direct credit loans or reimbursement loans to foreign buyers of U.S. goods and services.

6. The bank letter of credit policy: This provides coverage against the failure of a foreign financial institution (the issuing bank) to honor its letter of credit to the insured bank.

7. Financing and operating lease policy: These two separate leases provide coverage against political and/or commercial risks—policies protect lessor against loss of a stream of lease payments and fair market value of the leased product.

**Guarantees**

The program provides repayment protection for private-sector loans to creditworthy buyers of U.S. goods and services. There is also special coverage for United States or foreign lenders on lines of credit extended to foreign banks or foreign buyers.

**Direct Loan Program**

This is an intermediate/long-term loan provided to creditworthy foreign buyers for the purchase of U.S. capital goods and services.

**Small Business Administration (SBA)**

The SBA provides certain programs for small business exporters.

**Export Working Capital**

This guarantees short-term working capital loans to U.S. small business exporters.
International Trade Loan Program

This guarantees loans to small businesses that are already engaged or plan to engage in international trade as well as those which are adversely affected by import competition.

Overseas Private Investment Corporation (OPIC)

This self-supporting agency of the U.S. government insures U.S. investors against political and commercial risks and provides financing through loans and loan guarantees.

Private Export Funding Corporation (PEFCO)

This private corporation works in conjunction with Ex-Im Bank in the financing of foreign purchases of U.S. goods and services. Loans from PEFCO are guaranteed by Ex-Im Bank.

Department of Agriculture

The USDA provides financial support for export of U.S. agricultural products through GSM-102, GSM-103, and Public Law 480.

State and Local Export Financing Programs

States provide different programs to expand exports: loans, loan guarantees. They also act as delivery agents for Ex-Im Bank programs.

REVIEW QUESTIONS

1. What is the difference between buyer and supplier credit?
2. State the OECD guidelines on export credits.
3. Describe the origins and activities of the Ex-Im Bank.
4. What are some of the criticisms of the Ex-Im Bank?
5. What is the difference between the working capital guarantee program and the direct loans program?
6. What kinds of exports are eligible under the working capital program?
7. Compare and contrast the single-buyer and multiple-buyer policy.
8. Discuss the role of OPIC in promoting U.S. exports.
9. How does PEFCO promote U.S. exports?
10. State some of the programs available to promote U.S. agricultural exports.
Primary and intermediate commodities continue to dominate the composition of exports from the Commonwealth of Independent States (CIS): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Russia, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Such exports may not need elaborate long-term financial arrangements unlike the high value-added exports from countries of Central and Eastern Europe.

According to the OECD Consensus Risk Classification of 2001, country risks for export credit are subdivided into seven levels, with one signifying minimal risk and category seven indicating the highest risk. Among the transition economies, the Czech Republic, Hungary, Poland, and Slovenia were ranked at level 2, followed by Latvia and Croatia (level 4), Bulgaria and Lithuania (level 5), and Kazakhstan, Romania, and Russia (level 6). All other transition economies were categorized as very high risk countries at level 7. In many of the countries with high risk perceptions, payment terms are largely based on letters of credits and cash in advance. In Russia, for example, three out of five import shipments require advance payments. For small and medium-sized imports in these countries, the use of letters of credit, cash in advance represents a significant cost, with adverse effect on their competitiveness.

In many of these countries, the banking system is not well developed to handle foreign trade transactions. In 1999, for example, the sum of loans to the private sector was estimated at about 20 percent of GDP compared to that of over 100 percent for Eurozone countries (IMF, 2003).

Adequate trade finance facilities for small and medium-sized enterprises are limited in view of the banks’ reluctance to service small companies due to the perception of high risk associated with such financing and the costs of evaluating the creditworthiness of small clients. Trade is often hampered by the limited availability of preshipment working capital financing as well as burdensome collateral requirements. In most of these countries, banks do not provide medium- and long-term trade financing. The average length of commercial credits granted in most countries varies from three to six months. In Russia, for example, commercial loans granted for more than one year accounted for only 18 percent of total commercial loan volume in 2000 (USAID, 2000; Economic Commission for Europe, 2003). The role of leasing in capital investment and trade financing remains quite limited.

In the 1990s, most transition economies introduced export credit insurance and guarantee schemes, and established export credit agencies and
state-sponsored Export-Import banks. Besides receiving training and technical advice from the Berne Union (The International Union of Credit and Investment Insurers), many of the more developed members such as Hungary, Poland, and the Czech Republic have become full members of the Berne Union; that is, they have met the benchmarks for membership in terms of trade turnover insured per year and annual premium income. For many of the less developed countries in Central and Eastern Europe, Ex-Im Banks and export credit agencies remain undercapitalized, lack reliable credit information, and face difficulties collecting “problem” loans.

Questions

1. Do many transition economies use letters of credit as an important means of payment for international trade? Discuss.
2. Briefly discuss the role of trade financing in transition economies.

CASE 14.2. EX-IM BANK FINANCING:
SELECTED CASES

Bluefield Associates (Working Capital Guarantee and Credit Insurance): Bluefield Associates of Ontario, California, is a small business manufacturer of skin care products. It was founded in 1991 and has approximately fifty employees.

The company has an Ex-Im Bank-guaranteed working capital line of credit from East-West Bank of San Marino, California. It uses the working capital guarantee to enable its lender to lend against foreign accounts receivable and increase its working capital. East-West Bank is an Ex-Im Bank delegated authority lender that can commit Ex-Im Bank’s working capital guarantee at the time the loan is processed.

Bluefield Associates also uses Ex-Im Bank’s multibuyer export credit insurance to minimize risk and to secure protection against buyer default for either political or commercial reasons. The credit insurance facility can also be used as a financing tool to obtain working capital loans against insured foreign receivables.

The company exports its products to twelve countries in Sub-Saharan Africa and Europe. In the past few years, it has managed to substantially increase its export sales and triple the number of its foreign buyers.

Chief Industries (Medium-Term Insurance): Chief Industries, Inc., of Grand Island, Nebraska, is a diversified manufacturer of fabricated steel for grain handling, grain storage, and other industrial uses. It designs and
manufactures a complex line of buildings and grain storage systems. The company has experienced double-digit growth of its export sales over the past few years, ranging in value from $0.5 to $1.5 million (U.S.) per transaction. Growing international sales have enabled the company to expand its workforce.

Ex-Im Bank’s medium term insurance in 2004 helped chief industries to arrange commercial bank financing for their foreign buyers. It protects U.S. sales to a single foreign buyer against the risk of default due to political or commercial reasons. The policy covers transactions with a particular buyer for either single or repetitive sales.

The company obtained Ex-Im Bank’s medium-term insurance to support sales to private agricultural producers in Mexico. The insured lender was Wells Fargo Bank in El Paso, Texas. The company also benefited from Ex-Im Bank’s medium-term insurance to support a $1.1 million (U.S.) sales to a private buyer in Russia.

Input/Output, Inc. (Medium-Term Financing): Input/Output is a seismic-imaging technology company located in Stafford, Texas. It has a workforce of 800 employees worldwide (with about 500 in the United States). In 2004, the company used its Ex-Im Bank’s medium-term financing to export over $16 million (U.S.). (Ex-Im Bank’s medium-term loan guarantee).

The transaction involved a leasing structure in which Input/Output’s equipment was purchased by a Russian leasing company. It was to be leased to companies involved in oil/gas exploration in Siberia and Tartarstan. The borrower was Ural-Siberian Bank (Russia’s bank) and the guaranteed lender was American Express in New York. The financing enabled the company to export on three-year repayment terms and helps the firm compete successfully in these markets.

**Question**

1. Describe how the previously mentioned programs differ in terms of their product and risk coverage.