



OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES

EXPORT-IMPORT BANK'S CONTENT POLICY

**Opportunities Exist to Improve
Controls and Address the Impact
of Voluntary Reporting**

December 11, 2013
OIG-AR-14-01



To: Fred Hochberg
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From: Rebecca Sharek 
Assistant Inspector General for Audits

Subject: Audit of Export-Import Bank's Content Policy
Report No. OIG-AR-14-01

Date: December 11, 2013

Attached please find the final report of our audit of the Export-Import Bank's content policy. The report contains three recommendations for corrective action. In response to a draft of the report, management concurred with the recommendations. Management's response is included as an appendix to the final report.

We consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me at (202) 565-3169 or rebecca.sharek@exim.gov.

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The Export-Import Bank of the United States (Ex-Im Bank) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank’s mission is to support jobs in the United States by facilitating the export of U.S. goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

ACRONYMS

AMD	Asset Management Division
CRC	Credit Review and Compliance Division
E&E	Engineering and Environment Division
EDA	External Delegated Authority
Ex-Im Bank or the Bank	Export-Import Bank of the United States
FTE	Full-Time Equivalent
FY	Fiscal Year
GAO	Government Accountability Office
IDA	Individual Delegated Authority
ODQ	Operations & Data Quality Division
OIG	Office of Inspector General

Executive Summary

EXPORT-IMPORT BANK'S CONTENT POLICY Opportunities Exist to Improve Controls and Address the Impact of Voluntary Reporting Audit Report OIG-AR-14-01 December 11, 2013

Why We Did This Audit

The Export-Import Bank of the United States (Ex-Im Bank or the Bank) provides competitive export financing to help U.S. businesses sell their goods and services overseas. In doing so, the Bank contributes to the employment of U.S. workers. Ex-Im Bank's content policy connects its financing activities to U.S. jobs by limiting the amount of foreign content (foreign labor, materials, and other production costs) that can benefit from Ex-Im Bank financing. The Bank relies on U.S. content as a proxy to evidence support for U.S. jobs. In fiscal year 2012, Ex-Im Bank reported supporting an estimated 255,000 U.S. jobs. Over the last 5 years, the Bank has reported supporting more than one million U.S. jobs. We initiated an audit to evaluate Ex-Im Bank's implementation of its content policy and assess the Bank's procedures for determining the U.S. and foreign content of exported goods and services supported by the Bank.

What We Recommended

To provide reasonable assurance that content requirements are met and as Ex-Im Bank considers changes to its content policy, the Bank should (1) implement procedures to verify exporter self-certifications for a representative sample of transactions each fiscal year; (2) resolve with the Board of Directors the outstanding requirement to provide annual reports based on Content Reports and foreign content review procedures; and (3) establish mechanisms to obtain specific, measurable, and reliable data to analyze the impact of any content-related procedural changes approved by the Board of Directors by the end 2013. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

What We Found

Ex-Im Bank's content requirements ensure U.S. jobs benefit from Bank programs. Moreover, exported goods and services must meet content requirements to be eligible for Ex-Im Bank financing. However, we found that only long-term transactions are subject to procedures that could identify content-related discrepancies. For all other transactions, Ex-Im Bank largely relies on exporter self-certifications and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false statements. Several Ex-Im Bank divisions have opportunities to review content-related information; however, none are responsible for implementing control activities such as verifying exporter certifications of content. Furthermore, the Government Accountability Office (GAO) reported that Ex-Im Bank lacks a sound basis for workforce planning and for determining when such additional control activities might be needed to manage operational risks.

GAO "Standards for Internal Control in the Federal Government" state that controls should provide reasonable assurance that the objectives of the agency are being achieved. Although compliance with Ex-Im Bank's content requirements is not indicative of a successful or failed business transaction, it is one of the basic requirements for doing business with the Bank. Due to the lack of verification efforts and because we identified concerns regarding exporter certifications of content, we believe Ex-Im Bank has limited assurance that content requirements are met and, therefore, that (1) the Bank finances only eligible exports, and (2) its financing activities effectively achieve the agency's mission of maintaining or increasing U.S. employment.

In addition, Ex-Im Bank revised its content policy in 2001. In exchange for allowing flexibility in content calculations, the Bank requested exporters to submit detailed Content Reports. Ex-Im Bank sought such information to allow the Bank, Congress, and the Department of Labor to analyze the impact of the policy changes, develop specific content trends, and conduct follow-up analyses. However, because Ex-Im Bank made submission of Content Reports voluntary, the Bank has not received any statistically valid data to date. Therefore, Ex-Im Bank did not collect information described as "an integral part of the ongoing process of crafting a content policy," and was unable to comply with its Board of Directors' requirements regarding the analysis and reporting of detailed content trend information. As a result of a review required by the Export-Import Bank Reauthorization Act of 2012, Ex-Im Bank is considering additional changes to its content policy.

For additional information, contact the Office of the Inspector General at (202) 565-3908 or visit www.exim.gov/oig.

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INTRODUCTION

Background

The Export-Import Bank of the United States (Ex-Im Bank or the Bank) is the nation's official export credit agency and operates under the authority of the Export-Import Bank Act of 1945, as amended. According to the Act, "the objectives and purposes of the Bank shall be to aid in financing and to facilitate exports of goods and services . . . and in doing so to contribute to the employment of United States workers." To achieve its mission and contribute to maintaining or increasing U.S. jobs, Ex-Im Bank provides U.S. exporters and their foreign customers competitive export financing in the form of direct loans, loan guarantees, working capital guarantees, and export credit insurance.

For example, in June 2013, Ex-Im Bank approved a \$20 million loan guarantee to facilitate the sale and export of used equipment by a small business in the United States to a customer in Africa. The transaction will support approximately 100 U.S. small-business jobs, according to Ex-Im Bank estimates derived from Departments of Commerce and Labor data and methodology.¹ In addition, for fiscal year (FY) 2012, Ex-Im Bank authorized 3,790 loan, guarantee, and insurance transactions totaling \$35.8 billion in export financing, which supported an estimated 255,000 American jobs at more than 3,400 U.S. companies.² Over the last 5 years, the Bank estimates that its export financing helped support more than one million U.S. jobs (see Figure 1).

Ex-Im Bank provides medium- and long-term fixed-rate **direct loans** to foreign buyers of U.S. goods and services. The Bank's medium- and long-term **loan guarantees** cover the repayment risk on a foreign buyer's debt obligations incurred in the purchase of U.S. exports. Ex-Im Bank's **working capital guarantees** provide repayment guarantees to lenders (primarily commercial banks) on secured, short-term working capital loans made to qualified exporters. Finally, the Bank issues medium- and short-term **export credit insurance** policies to U.S. exporters, thereby providing credit to foreign buyers of exporters' products.

Ex-Im Bank's Content Policy. According to Ex-Im Bank, its content policy is "the proxy to connect its activities to jobs, and the most fitting policy tool to promote U.S. employment."³ "Content" refers to the country of origin of the goods and services that make up an export contract. Ex-Im Bank-supported transactions include U.S. content (that is, U.S.-originated

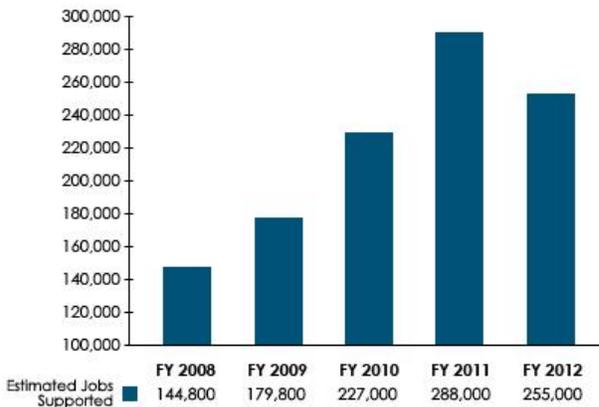
¹ To calculate the number of U.S. jobs associated with the exports it helps finance, Ex-Im Bank first determines the industry associated with each authorized transaction. Then the Bank calculates the total value of exports it supports for each industry. Ex-Im Bank implements these first two steps using its own data. Thirdly, Ex-Im Bank multiplies the export value for each industry by the Bureau of Labor Statistics ratio of jobs needed to support \$1 million in exports in that industry – a figure known as the "jobs ratio." Finally, Ex-Im Bank aggregates across all industries to produce an overall estimate of jobs supported for each year.

² Ex-Im Bank's 2012 annual report. According to the report, Ex-Im Bank authorized 3,796 transactions in FY 2012; however, we determined that 6 transactions were not funded.

³ "Export-Import Bank of the United States: Content Review 2013," May 30, 2013.

goods and services), foreign content (that is, third country originated goods and services), and local content (that is, goods and services that originate in the foreign buyer’s country). The U.S. content in Ex-Im Bank-supported exports helps ensure that U.S. jobs benefit from Ex-Im Bank financing. Because foreign and local content represent costs that do not directly benefit the U.S. economy or U.S. employment, Ex-Im Bank developed policies and

Figure 1. Estimated Jobs Supported by Ex-Im Bank Financing FY 2008 - 2012



Source: Ex-Im Bank 2012 annual report.

procedures that limit the extent to which such content is covered by its financing. Specifically, the Bank’s content policy includes criteria for identifying exports eligible for Ex-Im Bank support based on the amount of foreign labor, materials, and overhead included in the production of the exported good or service. Eligibility criteria and the amount of financing Ex-Im Bank will provide based on content depends on the terms of the financing requested and, for short-term transactions, whether the exporter is a small business. Appendix B provides Ex-Im Bank’s content policy for short-, medium-, and long-term transactions, and describes how Ex-Im Bank financing is calculated based on the content in each type of transaction.

Ex-Im Bank’s content policy is self-imposed and can be modified by the Bank’s Board of Directors. The policy establishes (1) the level of financing available depending on the content of exported goods and services and terms of the transaction, and (2) procedures for exporters to report content information to Ex-Im Bank and for the Bank to assess the reasonableness of such information. When applying for financing, exporters complete an Exporter’s Certificate to certify the amount of foreign and domestic content included in the transaction. The Certificate warns exporters of the penalties for making false statements. For medium- and long-term transactions, exporters are required to report material changes in the amount of foreign content that occur during the life of the transaction so that Ex-Im Bank can adjust the financing provided and ensure only the value of U.S. content is supported.⁴

Key Changes to Ex-Im’s Bank Content Policy. Initially, Ex-Im Bank’s content policy required 100 percent U.S. content for medium- and long-term direct loans. In 1960, after creating a short-term insurance program, the Bank established content thresholds for short-term transactions. In 1987, Ex-Im Bank responded to exporter concerns by revising

⁴ A “material change” occurs if (a) the U.S. content percentage has decreased by more than 5 percent (as compared to the U.S. content percentage reported on the initial Exporter’s Certificate) and (b) aggregate foreign content is over 20 percent (i.e., the new U.S. content percentage is less than 80 percent).

the content policy for medium- and long-term transactions. Instead of financing only 85 percent of the U.S. content of an export, the Bank agreed to provide financing equal to the lesser of (1) 85 percent of the value of all eligible goods and services in the export contract price, or (2) 100 percent of the U.S. content.

Ex-Im Bank revised its medium- and long-term content policy again in January 2001. In response to exporter concerns that the Bank's procedures lacked sufficient flexibility to meet competitive pressures from foreign export credit agencies and commercial demands facing the U.S. export community, Ex-Im Bank staff proposed additional changes to the medium- and long-term content policy.⁵

Staff's proposal (included in Appendix C) had two components: (1) abandoning the item-by-item approach to calculating eligible content in favor of allowing exporters to aggregate the content of all items within a supply contract; and (2) in exchange for this flexibility, establishing reporting procedures to provide Ex-Im Bank with greater detail on the nature of foreign and domestic content supported by its medium- and long-term transactions.

Specifically, Ex-Im Bank staff proposed that, when an application for financing is made, exporters would be requested to submit a Content Report detailing the goods and services that benefit from the financing. Exporters would also be requested to confirm information provided in the Content Report no later than three months after final disbursement of approved financing. Staff recommending the changes reasoned that, although aggregating content within a supply contract would make predominantly and wholly foreign goods and services eligible for inclusion in Ex-Im Bank

"At [Ex-Im Bank], creating and supporting jobs by exporting American-made goods and services is our mission and our passion. As we close the books on another year, the 'Made in the USA' brand has never been stronger, fueled by the strength of American exporters and the work President Obama has done to grow our economy. When businesses large and small sell their products abroad, the U.S. economy grows and new opportunities are created here at home."

--Chairman's Message,
Ex-Im Bank 2012 annual report

financing packages, small changes in foreign content would also become acceptable.

Therefore, exporters would be able to operate "in the real world" and generate desired improvements in efficiency and competitiveness. In addition, with the information from the Content Reports, staff planned to analyze the impact of the policy changes and perform case-specific follow-up for future decision-making. The recommended changes required a host of modifications to Ex-Im Bank's processes and procedures.

As shown in Appendix D, Ex-Im Bank's Board of Directors approved the proposed content policy changes on January 11, 2001. However, the Board also required Bank management to (1) submit to the Board of Directors and the Bank's Advisory Committee an Annual Report on Content Trends compiled using information from the new exporter Content

⁵ In addition to directing Ex-Im Bank to maintain or increase employment of U.S. workers through export financing, Congress directs Ex-Im Bank [through 12 U.S.C. 635 Section 2(b)1(A)] to provide export financing "at rates and on terms and other conditions which are fully competitive with the Government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with [U.S.] exporters. . . ."

Reports; and (2) review the impact of the policy changes and report back on the results no later than January 1, 2003. Management did not provide the required report until October 5, 2007, as shown in Appendix E.

Mandatory Review of Content Policy. As part of Ex-Im Bank’s 2012 reauthorization, Congress required the Bank to review its domestic content policy for medium- and long-term transactions.⁶ The purpose of the review was to “examine and evaluate the effectiveness of the Bank’s policy in maintaining and creating jobs in the U.S.; and in contributing to a stronger national economy through the export of goods and services.” In conducting the review, Ex-Im Bank was directed to consider the following factors:

1. whether the content policy accurately captures the costs of U.S. production of goods and services and the effect of the policy on the maintenance and creation of U.S. jobs;
2. the ability of the Bank to provide financing competitive with that provided by foreign export credit agencies;
3. the effects of the policy on the U.S. manufacturing and service workforce;
4. any relevant recommendations from members of the Bank’s Advisory Committee; and
5. the effect that changes to the Bank’s domestic content requirements would have in providing companies an incentive to create and maintain operations in the U.S. and increase U.S. jobs.

In response, Ex-Im Bank conducted a series of meetings with stakeholders including large exporters of goods and services, manufacturers of intellectual property, small businesses, and labor organizations. The Bank also solicited input through a Federal Register notice and engaged Ex-Im Bank’s Advisory Committee. On May 30, 2013, the Bank provided Congress the results of its review, reporting that stakeholders held many opposing views and the Advisory Committee recommended a measured approach to any changes in content ratios.⁷ Specifically, the Advisory Committee recommended that any policy changes should rely on “empirical evidence,” which the Bank found difficult to obtain. However, Ex-Im Bank reported that the review process revealed opportunities to streamline policies and programs and add clarity to the content policy. In its report to Congress and at a subsequent Board meeting held on July 9, 2013, Ex-Im Bank management reported plans to consider:

1. streamlining and broadening the use of Annual Average Content Certification procedures in order to ease the amount of time required to report on content;

⁶ Section 15 of the Export-Import Bank Reauthorization Act of 2012 [Public Law 112-122, 126 Stat. 350 (2012)].

⁷ “Export-Import Bank of the United States: Content Review 2013,” May 30, 2013.

2. clarifying and codifying Ex-Im Bank’s services policy to more actively engage U.S. services exporters; and
3. utilizing existing co-financing and parallel financing structures to maximize exporters access to market niches where jobs reside.

The Board of Directors intends to vote on these possible policy changes by the end of calendar year 2013.

Prior Concerns. In prior reports, the Office of Inspector General (OIG) identified concerns regarding exporter certifications of content and Ex-Im Bank’s review and verification of reported information. Specifically, as a result of a prior audit of Ex-Im Bank’s short-term insurance program, we reported that the Trade Finance Division authorized a short-term insurance policy for scrap metal, even though the application for financing clearly stated the exported goods did not meet Ex-Im Bank’s U.S. content requirements.⁸ The insurance policy was valued at \$18 million.

In addition, the OIG’s Semiannual Report to Congress for the period ended March 31, 2012, reported a scheme to defraud Ex-Im Bank of \$496,869 based, in part, on false representations of U.S. content.⁹ According to court documents, a U.S. company purported to be an exporter of U.S. manufactured garbage collection trucks purchased with \$2.3 million in loans to Peruvian borrowers from a U.S. lending bank. Those loans were guaranteed by Ex-Im Bank. According to court records, the company owner submitted false bills of lading and other export records purporting to show that loan proceeds had been used to purchase and ship U.S. manufactured trucks. However, for one of the loans, the company owner instead wired loan proceeds directly to a Peruvian borrower who used the money to purchase garbage trucks made in Germany. Subsequently, one of the fraudulent loans defaulted and Ex-Im Bank paid a \$502,169 claim to the U.S. lending bank in accordance with the terms of the guarantee.

Objectives

Our objectives were to evaluate Ex-Im Bank’s implementation of its content policy and assess the Bank’s procedures for determining the U.S. content and eligible foreign content included in each transaction supported by the Bank. See Appendix A for details of the audit’s scope and methodology; our review of internal controls, Federal laws, regulations, policies, and guidance; and a description of prior audit coverage.

⁸ Ex-Im Bank OIG, “Audit of Export-Import Bank’s Short-Term Insurance Program,” (OIG-AR-12-05, September 28, 2012). Available at: <http://www.exim.gov/oig/upload/Official-20Final-20Report-20-20Audit-20of-20ST-20Ins-20Program-20120928-1.pdf>. Accessed on September 6, 2013.

⁹ Ex-Im Bank OIG, “Semiannual Report to Congress,” (October 1, 2011 to March 31, 2012). Available at: <http://www.exim.gov/oig/loader.cfm?csModule=security/getfile&pageid=13589>. Accessed on September 10, 2013.

Reliance on Exporter Self-Certifications Limits Ex-Im Bank's Assurance over Content

Ex-Im Bank relies on U.S. content as a proxy to evidence support for U.S. jobs. Moreover, exported goods and services must meet the content requirements to be eligible for Ex-Im Bank financing. However, we found that only long-term transactions are subject to technical reviews and engineering oversight that could identify content-related discrepancies. For all other transactions, Ex-Im Bank largely relies on exporter self-certifications of each export's foreign and domestic content, and criminal penalty warnings to deter exporters from making false statements. Several Ex-Im Bank divisions have opportunities to review content-related information; however, none are responsible for implementing control activities such as verifying exporter certifications of content. Furthermore, the Government Accountability Office (GAO) reported that Ex-Im Bank lacks a sound basis for workforce planning and for determining when such additional control activities might be needed to manage operational risks.¹⁰

GAO "Standards for Internal Control in the Federal Government" state that internal controls, including control activities such as verifications, should provide reasonable assurance that the objectives of the agency are being achieved.¹¹ Due to the lack of verification efforts and because we identified concerns regarding exporter certifications of content, we believe Ex-Im Bank has limited assurance that its content requirements are met and, therefore, that (1) the Bank finances only the sale and export of eligible goods and services, and (2) its financing activities effectively achieve the agency's mission of maintaining or increasing U.S. employment.

Oversight Procedures Apply to a Small Number of Transactions

Exported goods and services must meet established content requirements to be eligible for Ex-Im Bank financing and ensure that U.S. jobs benefit from Ex-Im Bank programs. In addition, the amount of financing Ex-Im Bank provides is based on the percentage of U.S. content included in export transactions and self-certified by exporters. Specifically, when applying for or assisting foreign buyers in applying for Ex-Im Bank financing, exporters complete an Exporter's Certificate to certify that exported goods and services meet Ex-Im Bank's content requirements.¹² Exporters also use Exporter's Certificates to calculate each

¹⁰ "Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management" (GAO-13-303, March 2013).

¹¹ "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999).

¹² Exporter's Certificate forms include Office of Management and Budget No. 3048-0043, "Form of Exporter's Certificate;" Office of Management and Budget No. 3048-0041, "Exporter's Certificate for Use with a Short Term Export Credit Insurance Policy," and the "Borrowing Base Certificate."

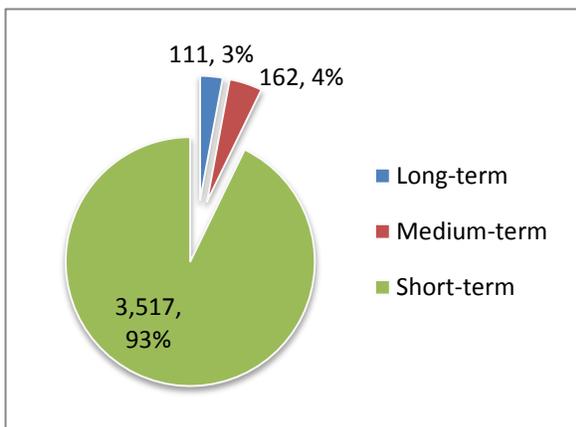
transaction’s U.S. content percentage and, therefore, the amount of financing based on the amount of the export’s supply contract or purchase order, excluded goods and services, local costs, and foreign content. Exporter’s Certificates generally contain the following statement, which warns exporters of the penalties for making false statements:

With knowledge that Ex-Im Bank will rely on the certifications and representations made in this Exporter’s Certificate, we agree we are liable for any damages suffered by Ex-Im Bank’s reliance. We understand that these certifications are subject to the penalties for fraud provided in Article 18 U.S.C. Section 1001.

In addition, for medium- and long-term transactions, the forms request that exporters report any material changes in content that occur during the course of the transaction so that Ex-Im Bank can adjust the level of financing provided and ensure only the value of U.S. content is supported.

We found that for the majority of transactions, Ex-Im Bank primarily relies on such exporter self-certifications and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false content representations. Specifically, the Bank only requires the Engineering and Environment Division (E&E) to perform technical reviews and oversight – procedures which provide some measure of assurance regarding the reasonableness of exporter certifications of content and may identify content-related discrepancies – for long-term transactions, which are approved by the Board of Directors.

Figure 2. FY 2012 Authorizations by Term



Source: OIG summary of Ex-Im Bank’s FY 2012 transaction data.

As shown in Figure 2, Ex-Im Bank authorized 111 long-term transactions in FY 2012. Therefore, only 3 percent of all transactions authorized in FY 2012 (or 111 of 3,790 transactions) were subject to E&E oversight procedures that may have provided some measure of assurance that Ex-Im Bank content requirements were met. While those 111 long-term transactions comprised 74 percent, or \$26.6 billion, of the total \$35.8 billion authorized in FY 2012, Ex-Im Bank’s content requirements are not based on transaction dollar value or associated with potential loss.

E&E’s Role. E&E is composed of 10 engineers who specialize in areas of Ex-Im Bank’s portfolio. The division serves as the Bank’s authority on technical and environmental issues. According to Ex-Im Bank’s January 2013 Loan, Guarantee and Insurance Manual, E&E’s responsibilities include but are not limited to administering policies related to the eligibility of exports for Ex-Im Bank financing, including the content policy. In particular, E&E reviews the technical parameters and issues associated with all long-term applications

and addresses the feasibility of the transaction or underlying project. E&E's review and the technical features of each transaction are described in Engineering Evaluations.

When reviewing transactions, E&E reviews the associated acquisition list, which provides a brief description, quantity, and estimated invoice cost of the goods and services being exported. Also, once the transaction is approved by the Board of Directors, E&E administers the technical matters related to the transaction and monitors the project, including conducting possible site visits for large, complex structured and project finance transactions. With access to detailed technical information and as a result of its oversight procedures, E&E (1) can likely better judge export eligibility based on content and the reasonableness of exporter certifications of content, and (2) may identify content-related discrepancies or material changes in content that should be reported.

Processes for Medium- and Short-term Transactions Authorized through Delegated Authority. In FY 2012, senior Ex-Im Bank officers granted Individual Delegated Authority (IDA) by the Board of Directors authorized 3,157 transactions (or 83 percent of the transactions authorized for the year). Qualified commercial lenders granted External Delegated Authority (EDA) by the Board authorized another 516 transactions (or 14 percent of the transactions authorized for the year). For transactions approved by EDA, lenders have extensive know-your-customer requirements and collect required forms, including Exporter's Certificates, but are not required to validate or verify content percentages or information. In addition, although Ex-Im Bank conducts annual field examinations of each lender, including a review of lender procedures, lenders' verification or validation of reported content information is not the focus of the reviews. Finally, upon request, E&E may act in an advisory capacity for both internal and external entities that approve medium- and short-term transactions. However, consulting E&E is not required and is performed only on an ad hoc basis. Also, E&E does not keep a record of its advisory activities or recommendations related to content or link them to a particular transaction.

Other Opportunities to Review Content Exist Yet Workforce Planning May Limit Ability to Conduct Detailed Verification Procedures

During the audit, we sought to identify those Ex-Im Bank organizational components independent of the sale and authorization of Ex-Im Bank products to determine which components have opportunities to review exporter certifications of content. We determined that, in addition to E&E, the Operations & Data Quality Division (ODQ), Credit Review and Compliance Division (CRC), and Asset Management Division (AMD) have opportunities to review exporter certifications of content. However, none of these Ex-Im Bank components are responsible for verifying exporter certifications of content. Furthermore, GAO reported that Ex-Im Bank lacks a sound basis for workforce planning and for determining when additional control activities might be needed to manage operational risks.

ODQ. ODQ's Credit Administration section has a limited but important role in the review of content-related information. Specifically, ODQ employees cross-check transaction acquisition lists with invoices before disbursing funds. However, such reviews

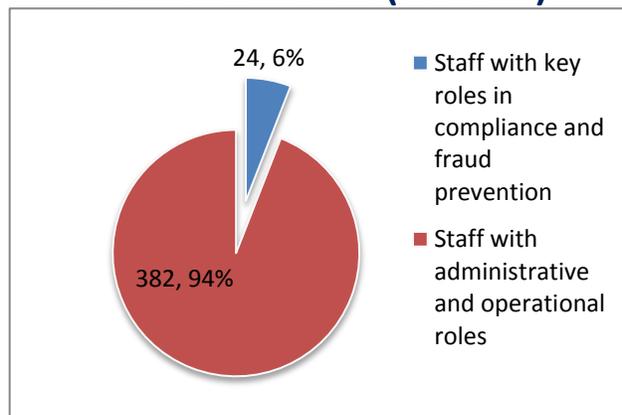
are primarily administrative in nature and focus on discrepancies between the acquisition lists and invoices, not on verifying or assessing the reasonableness of content information.

CRC. CRC’s responsibilities include reviewing Ex-Im Bank senior officers’ use of IDA to ensure such authority is being exercised appropriately. However, such reviews do not involve verification of exporter certifications of content. CRC is also responsible for program compliance reviews of medium-term transactions and is working on expanding those reviews to all Ex-Im Bank transactions. If accomplished, CRC’s enhanced role could allow the division to review Bank-wide documentation processes as well as examine the extent to which certain Ex-Im Bank requirements, such as the content policy, are being met. However, as of September 2013, no official processes or procedures have been established for the proposed changes to CRC’s role and CRC consists of only three employees.

AMD. Claims Processing, a section within AMD comprised of six employees, processes claims against Ex-Im Bank insurance products. We questioned Bank officials about whether exporter certifications of content are verified during claims processing activities, and determined that Claims Processing simply confirms that required Exporter’s Certificates were completed and included in the transaction files. No additional steps are required to verify or validate the content declared or the amount of financing authorized based on such declarations. According to Ex-Im Bank officials, the Bank received 220 claims in FY 2013. Claims Processing officials provided anecdotal evidence of a claim that was denied for the sale and export of a used tractor after a Claims employee cross-checked the vehicle identification number with the manufacturer, which was not a required step. The employee discovered the vehicle was not made in the U.S. as had been reported, which illustrates the potential for false or inaccurate exporter certifications of content and the opportunities that exist to detect such information.

Workforce Planning. As reported in Ex-Im Bank annual reports for FY 2010 through FY 2012, the Bank’s outstanding financial commitments (or exposure) grew from about \$75 billion to about \$107 billion. Over the same period, Ex-Im Bank’s annual authorizations increased from about \$24.5 billion to nearly \$35.8 billion. However, Ex-Im Bank’s workforce, as measured by full-time equivalents (FTE), only increased about 8 percent from 380 to 412 FTEs.¹³ As shown in Figure 3, although E&E, ODQ, CRC, and AMD have limited but key opportunities to ensure Ex-Im Bank’s content requirements are met, they comprised only about 6 percent of Ex-Im Bank’s total employees at the end of FY 2012.

Figure 3. Allocation of Ex-Im Bank Workforce (FY 2012)



Source: OIG analysis of Ex-Im Bank FY 2012 Human Capital data.

¹³ According to Ex-Im Bank’s Chief of Human Capital, the Bank had 412 FTEs at the end of FY 2012; however 6 positions were vacant.

In March 2013, GAO reported that Ex-Im Bank had not developed benchmarks for the level of business it can properly support with a given level of resources.¹⁴ GAO found that Ex-Im Bank’s workload challenges may continue to grow because of increases in Ex-Im Bank’s exposure and exposure limit, coupled with resource constraints in the current budgetary environment. According to GAO, Ex-Im Bank officials plan to update the agency’s 2009-2012 Human Capital Plan following a forthcoming revision to Ex-Im Bank’s strategic plan.

GAO reported that Ex-Im Bank faces potential operational risks because the growth in its business volume has strained the capacity of its workforce. Ex-Im Bank has determined that it needs more staff, but it has not formally determined the level of business it can properly manage.

Ex-Im Bank’s workforce planning process involves assessing its current workforce, anticipating future needs, analyzing gaps, and developing strategies to address those gaps. GAO concluded that, in the absence of workload benchmarks, Ex-Im Bank lacks a sound basis for workforce planning and for determining when additional control activities might be needed to manage operational risks.

Federal Standards for Internal Control Require Reasonable Assurance

GAO “Standards for Internal Control in the Federal Government” state that internal controls should provide reasonable assurance that the objectives of the agency are being achieved.^{15,16} Furthermore, such standards state that internal control activities, such as verifications, help ensure that management’s directives are carried out and should be effective and efficient in accomplishing the agency’s control objectives. However, Ex-Im Bank does not verify exporter certifications of content for all or even a representative sample of its transactions. Instead, for the majority of transactions, Ex-Im Bank primarily relies on exporter self-certifications and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false statements regarding content. In addition, as a result of the content policy review required by the Export-Import Bank Reauthorization Act of 2012, Ex-Im Bank is considering changes to its content policy. Such changes may include streamlining policies and programs and broadening the use of Annual Average Content Certification procedures in order to ease the amount of time required to report on content. However, Ex-Im Bank management did not propose additional actions to ensure compliance with the content requirements.

Although compliance with Ex-Im Bank’s content requirements is not indicative of a successful or failed business transaction, it is one of the basic requirements for doing business with the Bank. Due to the lack of verification efforts and because we identified concerns regarding exporter certifications of content, we believe Ex-Im Bank has limited assurance that its content requirements are met and, therefore, that (1) the Bank finances

¹⁴ “Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management” (GAO-13-303, March 2013).

¹⁵ “Standards for Internal Control in the Federal Government” (GAO/AIMD-00-21.3.1, November 1999).

¹⁶ As defined by GAO, internal control “. . . comprises the plans, methods, and procedures used to meet missions, goals, and objectives.”

only the sale and export of eligible goods and services, and (2) its financing activities effectively achieve the agency's mission of maintaining or increasing U.S. employment.

Recommendations, Management's Response, and Evaluation of Management's Response

To provide reasonable assurance that Ex-Im Bank's content requirements are met and as Ex-Im Bank updates its Human Capital Plan to address operational risks, the Chairman and President of Ex-Im Bank should:

1. Implement procedures to verify the accuracy of exporter self-certifications of content for a representative sample of transactions throughout each fiscal year.

Management's Response. Management concurs with the recommendation. Ex-Im Bank's Acting Chief Operating Officer reiterated that the Bank has procedures in place to identify content-related discrepancies in long-term transactions. Also, this past year the Bank further enhanced these procedures with site visits to U.S. exporters that use Bank financing. Ex-Im Bank will share the revised procedures with the OIG. The Bank will also develop procedures, in FY 2014, to verify exporter self-certifications on content for a representative sample of short- and medium-term transactions each fiscal year. The Bank's Enterprise Risk Committee will review and discuss the proposed procedures prior to implementation.

Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Management's complete response is reprinted in Appendix F.

Ex-Im Bank Did Not Collect Information Needed to Analyze the Impact of Changes to Its Content Policy

In response to exporter concerns, Ex-Im Bank revised its medium- and long-term content policy in January 2001. Specifically, the Bank allowed eligible content to be calculated based on the aggregate content of all items within a supply contract instead of using an item-by-item approach. In exchange for this flexibility, Ex-Im Bank began requesting exporters to submit Content Reports detailing the goods and services benefitting from the Bank's financing. It was envisioned that information from such reports would allow Ex-Im Bank, Congress, and the Department of Labor to analyze the impact of moving to the aggregate approach, develop macro and micro trends in foreign content, and conduct on a sample basis case-specific follow-up analyses. However, because Ex-Im Bank made submission of Content Reports voluntary and did not establish other appropriate internal controls, the Bank has not received any statistically valid data to date. Therefore, although Ex-Im Bank staff described the ability to analyze the impact of procedural changes based on content as "an integral part of the ongoing process of crafting a content policy," the Bank did not collect information needed to analyze the impact of changes to its content policy. As a result, Ex-Im Bank failed to achieve one of the key desired outcomes of the 2001 changes to its content policy, and was unable to comply with its Board of Directors' requirements regarding the analysis and reporting of detailed content trend information.

Voluntary Reporting Resulted in Limited Information for Decision Makers

As a result of the 2001 changes to Ex-Im Bank's medium- and long-term content policy, Bank staff and the Board of Directors established the need to obtain exporters' detailed content information in the form of Content Reports. Ex-Im Bank staff and the Board of Directors expected that such information would be used to produce an Annual Report on Content Trends, which the Board directed Bank management to provide to the Board and the Bank's Advisory Committee each year.¹⁷ In addition, it was envisioned that information from exporter Content Reports would be integral in analyzing the impact of the changes to the content policy by showing:

1. the incidence of sensitive impacts (e.g., how many wholly foreign items did Ex-Im Bank support as a result of moving to the aggregate approach to content?);
2. the origin of the foreign content that Ex-Im Bank supports (e.g., how much from low-wage sources such as China versus high-quality places like Germany); and

¹⁷ As shown in Appendix C, Ex-Im Bank staff proposed the 2001 changes to the content policy and, in exchange, created the need for exporter Content Reports. As shown in Appendix D, Ex-Im Bank's Board of Directors approved the proposed policy changes on January 11, 2001. However, the Board also required Bank management to (1) submit to the Board of Directors and the Bank's Advisory Committee an Annual Report on Content Trends, compiled using information from the new exporter Content Reports; and (2) review the impact of the policy changes and report back on the results no later than January 1, 2003. As shown in Appendix E, management did not provide the required report until October 5, 2007.

3. the macro and micro trends of foreign content support (e.g., what is the average percent of foreign content and what items does the U.S. foreign source most often?).

However, because Ex-Im Bank made submission voluntary, exporters only submitted Content Reports for about 13 percent of the over 2,100 medium- and long-term transactions (excluding aircraft transactions) authorized between 2002 and 2006. As shown in Figure 4, the highest response rate of completed Content Reports received between 2002 and 2006 was 19 percent (88 Content Reports received for 466 transactions authorized in 2005) and the lowest was 11 percent (40 Content Reports received for 374 transactions authorized in 2006). As a result, Ex-Im Bank’s Policy & Planning Group – responsible for generating the Annual Report on Content Trends – concluded in 2007, “The very low content report submission rate means that there is no ‘statistical’ validity to any of [the Group’s] findings . . . Ex-Im Bank could have had a very rich database if the response rate had been higher” (see Appendix E). The Group no longer tracks Content Reports as very few have been received since 2006.

“While there are no penalties envisioned at this time for failure to [submit Content Reports], Ex-Im Bank is requesting exporters to provide information.”

--Ex-Im Bank Staff “Proposal to Modify the Procedures of the Foreign Content Policy”
January 5, 2001

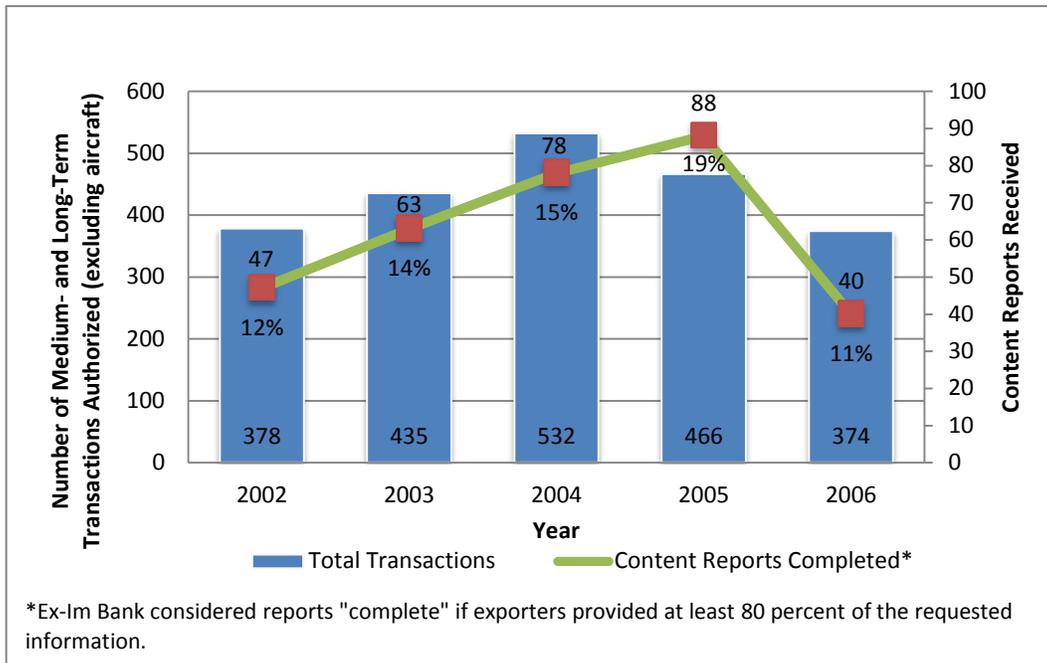
Reliance on voluntary reporting and what staff themselves described as “very ‘trusting’ procedures” as part of the plan to implement the 2001 content policy changes did not allow Ex-Im Bank or its stakeholders to make definitive conclusions about the overall impact of the policy changes.¹⁸ Furthermore, present day decision makers do not have access to what could have been a robust historical record of over 10 years of content-related data to inform current and future decisions about the content policy and help assess potential impacts on achieving Ex-Im Bank’s jobs mandate.

After completing the review of its content policy required by the 2012 Export-Import Bank Reauthorization Act of 2012, Ex-Im Bank reported, “Ex-Im Bank’s Advisory Committee recommended that the Bank take a measured approach to any change in the content ratio, and that any changes should rely on empirical evidence. Gathering empirical evidence on the impact of Ex-Im Bank’s content policy on employment proved to be the biggest challenge of the content review process.”¹⁹

¹⁸ Page 4 of the “Proposal to Modify the Procedures of the Foreign Content Policy,” January 5, 2001, provided in Appendix C.

¹⁹ “Export-Import Bank of the United States: Content Review 2013,” May 30, 2013.

**Figure 4. Results of Voluntary Reporting
Exporter Content Reports Received (2002 – 2006)**



Source: OIG summary of data from the “Review of Ex-Im Bank’s MLT Content Policy Since 2001,” dated October 5, 2007, and included in Appendix E.

While content information is provided in Ex-Im Bank’s Annual Competitiveness Report to Congress, the data does not allow for the type of analyses envisioned as a result of exporter Content Reports.²⁰ Specifically, the Annual Competitiveness Report only provides the export values and percentages of foreign content for each medium- and long-term transaction, as reported on the Exporter’s Certificates. Such data supports high-level trend analyses, such as determining whether foreign content overall or by project type is increasing or decreasing. But it does not provide details on (1) the specific types and amount of wholly foreign items supported by Ex-Im Bank, (2) the “causes” for exporters using predominantly foreign products or services, or (3) the country of origin for Ex-Im Bank-supported foreign content. Ex-Im Bank deemed such information necessary to analyze the impact of the 2001 policy changes and conduct, on a sample basis, case-specific follow-up evaluations, which never occurred because the information was not received.

Changes to Content Policy Lacked Appropriate Internal Control

GAO “Standards for Internal Control in the Federal Government” state that effective internal controls help in managing change to cope with shifting environments and evolving

²⁰ The most recent Annual Competitiveness Report to Congress is entitled, “Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2012 through December 31, 2012,” June 2013.

demands and priorities.²¹ In addition, management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals. Finally, program managers need operating information to determine whether the agency is achieving its compliance requirements.

In 2001, Ex-Im Bank significantly changed the key policy and requirements that directly relate to and support the fulfillment of the agency’s mission to maintain or increase U.S. jobs. By making reporting of detailed content information voluntary and placing a high reliance on the analysis of that information to assess the success of the policy change, Ex-Im Bank did not incorporate strong internal controls in its policy creation and implementation efforts. As a result, Ex-Im Bank failed to achieve one of the key desired outcomes of the 2001 changes to its content policy, and was unable to comply with its Board of Directors’ requirements regarding the analysis and reporting of detailed content trend information.

As a result of the content policy review required by the Export-Import Bank Reauthorization Act of 2012, Ex-Im Bank is considering additional changes to its content policy. Specifically, the Bank reported that the review process revealed opportunities to streamline policies and programs and add clarity to the content policy. In its report to Congress and at a subsequent Board meeting held on July 9, 2013, Ex-Im Bank management reported plans to consider specific actions to streamline and broaden the use of Annual Average Content Certification procedures in order to “ease the amount of time required to report on content;” clarify and codify Ex-Im Bank’s services policy; and utilize existing co-financing and parallel financing structures to maximize exporters access to market niches where jobs reside. The Board of Directors intends to vote on these possible policy changes by the end of calendar year 2013.

Recommendations, Management’s Response, and Evaluation of Management’s Response

As Ex-Im Bank considers additional changes to its medium- and long-term content policy, including changes intended to ease the amount of time required to report on content, the Chairman and President of Ex-Im Bank should:

2. Resolve with the Board of Directors the outstanding requirement to provide to the Board and Ex-Im Bank’s Advisory Committee an Annual Report on Content Trends based on Content Reports and foreign content review procedures envisioned in 2001 but never implemented.

Management’s Response. Management concurs with the recommendation. In FY 2014, Ex-Im Bank staff will meet with the Chairman and President along with the Board to discuss the 2001 reporting requirements as issued by the Board

²¹ “Standards for Internal Control in the Federal Government” (GAO/AIMD-00-21.3.1, November 1999).

and determine what measures should be taken to address the inability to produce the required Annual Report on Content Trends in light of the lack of any statistically valid submissions of the voluntarily requested Content Report.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

3. Using GAO’s “Standards for Internal Control in the Federal Government” as a guide, establish mechanisms to obtain specific, measurable, and reliable data in order to analyze the impact of any content-related procedural changes proposed to the Board of Directors by the end 2013.

Management’s Response. Management concurs with the recommendation. Bank management is continuing its consideration of: (i) streamlining and broadening use of Annual Average Content certification procedures in order to ease the amount of time required to report on content, (ii) clarifying and codifying Ex-Im Bank’s services policy to more actively engage U.S. services exporters, and (iii) utilizing existing co-financing and parallel financing structures to maximize exporters access to market niches where jobs reside. Bank staff will use GAO’s “Standards for Internal Control in the Federal Government” to determine what mechanisms could be implemented to obtain specific, measurable, and reliable content data to analyze the impact of any procedural changes which are adopted by the Board of Directors in FY 2014.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Management’s complete response is reprinted in Appendix F.

Scope and Methodology

We performed this audit from November 2012 through November 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit findings. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objectives were to evaluate Ex-Im Bank's implementation of its content policy and assess Ex-Im Bank's procedures for determining the U.S. content and eligible foreign content included in each transaction supported by the Bank. To address our objectives, we obtained and reviewed information necessary to understand the purpose of Ex-Im Bank's content policy, key changes to the policy, and current procedures for implementing the policy. We reviewed applicable laws and Ex-Im Bank policies and procedures; Ex-Im Bank's annual competitiveness reports; and applicable reports of external entities, such as GAO. Additionally, we reviewed information maintained on Ex-Im Bank's intranet, minutes of Board of Directors' meetings in which key decisions related to the content policy were made, and various Ex-Im Bank Advisory Committee memoranda related to the content policy. We also interviewed responsible officials from Ex-Im Bank's Small Business Group, Policy & Planning Group, Export Finance Group, Credit Management Group, and Office of the Chief Financial Officer, and evaluated:

- Ex-Im Bank's response to a Congressionally mandated review of its content policy;²²
- various documents and processes used to obtain and assess exporter representations of content for each type of Ex-Im Bank product;
- Ex-Im Bank's procedures for processing applications for Bank financing, including obtaining Exporter's Certificates and other representations of content;
- prior OIG semiannual reports and information provided by the OIG Office of Investigations regarding instances of content-related fraud; and
- information received from the Office of General Counsel regarding content-related prosecutions and convictions.

²² Section 15 of the Export-Import Bank Reauthorization Act of 2012 [Public Law 112-122, 126 Stat. 350 (2012)] required the Bank to review its domestic content policy for medium- and long-term transactions and report to Congress the results of its review by May 30, 2013. Ex-Im Bank conducted the review and, on May 30, 2013, released the results entitled, "Export-Import Bank of the United States: Content Review 2013."

Review of Internal Controls

We examined Ex-Im Bank's internal controls over the implementation of its content policy using GAO's "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999). Our audit focused on the Ex-Im Bank divisions that may have an opportunity to verify exporter certifications of content. We interviewed key Ex-Im Bank personnel and examined documents used to obtain exporter certifications of content. We also assessed Ex-Im Bank's internal controls for (1) ensuring its content requirements are met and, therefore, the Bank supports only eligible exports and achieves its jobs mandate; and (2) implementing the 2001 changes to its content policy. We found internal control deficiencies as discussed in this report. Our recommendations, if implemented, should correct the weaknesses we identified.

Federal Laws, Regulations, Policies, and Guidance

We reviewed the following during the course of our work:

- Export-Import Bank Act of 1945 (12 U.S.C. 635), as amended.
- Government Performance and Results Act, Public Law 103-62 (1993) and Government Performance and Results Act Modernization Act of 2010.
- GAO, "Standards for Internal Control in the Federal Government" (GAO/AIMD-00-21.3.1, November 1999).
- "Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States, For the Period January 1, 2012 through December 31, 2012," June 2013.
- "Export-Import Bank of the United States: Content Review 2013," May 30, 2013.
- Ex-Im Bank Loan, Guarantee and Insurance Manual, January 2013.
- Operations and Data Quality Division Manual, January 2013.
- Ex-Im Bank Policy & Planning Group's review of medium- and long-term content policy since 2001, October 5, 2007.
- Ex-Im Bank Board of Directors official content policy statements from April 16, 1987, and January 11, 2001.
- Ex-Im Bank Policy & Planning Group's Foreign Content Report, November 13, 1989.
- Ex-Im Bank Policy & Planning Group's Foreign Content Review, March 19, 1987.

Prior Coverage

During the last 5 years, the Ex-Im Bank OIG and GAO issued four reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://www.exim.gov/oig/reports/audits-and-evaluations.cfm> (Ex-Im Bank OIG) and <http://www.gao.gov> (GAO).

Ex-Im Bank OIG:

- “Audit of Export-Import Bank Short Term Insurance Program” (OIG-AR-12-05, September 28, 2012).

GAO:

- “Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency” (GAO-13-446, May 2013).
- “Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management” (GAO-13-303, March 2013).
- “U.S. Export-Import Bank: Actions Needed to Promote Competitiveness and International Cooperation” (GAO-12-294, February 7, 2012).

APPENDIX B

Ex-Im Bank's Short-, Medium-, and Long-term Content Policy and Examples of Financing Calculations Based on Content

To be eligible for Ex-Im Bank support, goods and services must be shipped from the U.S. to a foreign buyer. In addition, Ex-Im Bank's content policy limits the amount of Bank financing depending on the term of the financing requested and, for short-term transactions, whether the exporter is a small business.

Short-term Content Policy. Ex-Im Bank's content policy for short-term transactions states that eligible goods and services must include more than 50 percent U.S. content. However, for short-term transactions involving small businesses, either each product itemized on an export sales invoice must be more than 50 percent domestic based on production costs (both direct and indirect) exclusive of profit, or the aggregate content of all products on the invoice must be more than 50 percent domestic. If the U.S. content of any product or aggregate U.S. content of all products on an invoice is 50 percent or less, only the U.S. content is eligible.

In contrast, Ex-Im Bank's eligibility criteria for short-term transactions involving non-small businesses states that each product itemized on an export sales invoice must be produced or manufactured in the U.S., *and* each product must have more than 50 percent U.S. content based on *direct production costs only*, exclusive of any profit.

The following example illustrates the calculation of Ex-Im Bank's short-term financing depending on whether the exporter is a small business:

Item	Made in	Labor, Materials, and Direct Overhead		Total Labor, Materials, and Direct Overhead	Indirect Costs (some examples)		Total U.S. Costs	All Costs	Sales Price (incl profit)
		U.S. Labor and Materials	Foreign Labor and Materials		U.S. Marketing	Misc Foreign			
Item 1	U.S.	\$6,000	\$5,000	\$11,000	\$3,000	\$500	\$9,000	\$14,500	\$17,400
Item 2	U.S.	\$2,000	\$8,000	\$10,000	\$1,000	\$500	\$3,000	\$11,500	\$13,800
Item 3	Mexico	\$10,000	\$3,000	\$13,000	\$6,000	\$1,000	\$16,000	\$20,000	\$24,000

Source: Ex-Im Bank short-term content policy. Available at: <http://www.exim.gov/generalbankpolicies/content/short-term-content-policy.cfm>. Accessed on September 6, 2013.

The eligibility criteria, calculation of eligibility, and the level of Ex-Im Bank support vary for non-small and small business exporters involved in this transaction as follows:

Item 1, Non-Small Business: This item is eligible for 100 percent of the sales price (\$17,400) because (i) eligible U.S. content ($\$6,000/\$11,000 = 55$ percent) is more than 50 percent; and (ii) the item was produced in the U.S.

Item 1, Small Business: This item is eligible for 100 percent of the sales price (\$17,400) because eligible U.S. content ($\$9,000/\$14,500 = 62$ percent) is more than 50 percent.

Item 2, Non-Small Business: This item is ineligible for Ex-Im Bank support because eligible U.S. content ($\$2,000/\$10,000 = 20$ percent) is less than 50 percent.

Item 2, Small Business: Only the U.S. costs (\$3,000) are eligible for Ex-Im Bank support because eligible U.S. content ($\$3,000/\$11,500 = 26$ percent) is less than 50 percent.

Item 3, Non-Small Business: Even though eligible U.S. content ($\$10,000/\$13,000 = 77$ percent) is more than 50 percent, the item is ineligible for Ex-Im Bank support because the core product was produced outside the U.S.

Item 3, Small Business: This item is eligible for 100 percent of the sales price (\$24,000) because eligible U.S. content ($\$16,000/\$20,000 = 80$ percent) is more than 50 percent.

The total amount of short-term Ex-Im Bank financing that could be provided to a non-small business exporter given the transaction described above would be \$17,400. Given the same set of facts, Ex-Im Bank could provide a small business exporter involved in this transaction a total of \$44,400 in short-term financing.

Medium- and Long-term Content Policy. For all medium- and long-term transactions, the total level of Ex-Im Bank support for an exporter's supply contract will be the lesser of:

1. 85 percent of the value of all eligible goods and services in the U.S. supply contract, or
2. 100 percent of the U.S. content in all eligible goods and services in the U.S. supply contract.²³

In addition, the content percentage is calculated based on the total price of the exported goods and services (i.e., total production costs plus profit). Ex-Im Bank support for individual disbursements or shipments is based on the aggregate U.S. and foreign content percentages represented in an up-front Exporter's Certificate, irrespective of the relative amounts of U.S. and foreign content in any specific disbursement or shipment request. Goods transshipped from another country through the U.S. (including entry through a bonded warehouse) are excluded goods and are not considered eligible foreign content. Finally, Ex-Im Bank must be notified of material changes in the amount of foreign content from the up-front certification so that future disbursements can be adjusted and only the value of the U.S. content is supported by Ex-Im Bank.

²³ Eligible goods and services in the U.S. supply contract are those (1) produced or originated entirely in the U.S., (2) containing U.S.- or foreign-originated components, and (3) produced or originated entirely in a foreign country other than the buyer's country.

The following example of a project with a \$10.3 million U.S. supply contract, of which \$8.0 million is U.S. content and \$2.3 million is foreign content, illustrates the calculation of Ex-Im Bank’s medium- and long-term financing:

Goods and Services in the U.S. Supply Contract	U.S. Content	Foreign Content	Foreign Content Shipped from the U.S.?	Is Foreign Content Eligible for Inclusion in Ex-Im Bank’s Financing Package
1. Computers	\$300,000	\$800,000	Yes	Yes
2. Transmitters	\$5,000,000	\$300,000	Yes	Yes
3. Antennas				
a. U.S. produced	\$100,000	- 0 -	N/A	N/A No, because the good was not shipped from the U.S.
b. Foreign produced	- 0 -	\$300,000	No	
4. Microwaves	\$1,000,000	\$800,000	Yes	Yes
5. Cameras	\$1,600,000	- 0 -	N/A	N/A
6. Air Freight	- 0 -	\$100,000	N/A	Yes
Total:	\$8,000,000	\$2,300,000	(of which \$300,000 is ineligible foreign content)	

Source: Ex-Im Bank medium and long-term policy. Available at: <http://www.exim.gov/generalbankpolicies/content/medium-and-long-term-content-policy.cfm>. Accessed on September 6, 2013.

Of the foreign content, \$2.0 million is eligible and the remaining \$0.3 million is ineligible because it was not shipped from the U.S. By adding the U.S. content (\$8.0 million) and the eligible foreign content (\$2.0 million), the total eligible U.S. supply contract is \$10.0 million, and Ex-Im Bank can guarantee or insure up to \$8.0 million in medium- or long-term financing for these exports (the lesser of 85 percent of the value of all eligible goods and services, or 100 percent of the U.S. content).

2001 Proposal to Modify Ex-Im Bank's Content Policy

Attachment 3

EXPORT-IMPORT BANK OF THE UNITED STATES

January 5, 2001

Memorandum

Subject: Proposal to Modify the Procedures of the Foreign Content Policy

Introduction

The purpose of this memo is to recommend changes in the foreign content procedures for medium- and long-term programs. These recommendations are in response to U.S. exporter concerns that the existing procedures lack sufficient flexibility to meet the competitive pressures from foreign ECAs and commercial demands facing the U.S. export community in the 21st century. Accordingly, the proposed changes are designed to address the concerns raised by U.S. exporters and to advance the core mission of the Bank, which is to foster U.S. exports in support of U.S. jobs.

Background

The connection between Ex-Im Bank activity and U.S. jobs is a focal point of the U.S. Labor community, as expressed in recent correspondence (see Attachment 1). Because foreign content represents costs that do not directly benefit the U.S. economy/U.S. employment, Ex-Im Bank has developed procedures and policies that limit the extent to which such costs benefit from its financing. The existing foreign content procedures have been in place since 1987 and have been effective in accommodating, without encouraging, the inclusion of foreign-sourced components in Ex-Im Bank supported goods and services. However, prevailing pressures facing the U.S. export community indicate that modifications to the foreign content procedures are appropriate (see Attachment 2).

Current Foreign Content Procedures

The current long-term foreign content procedures may be summarized as follows:

1. Items are eligible for Ex-Im Bank support provided the production cost of the item is at least 50% U.S. content;
2. Foreign content must be incorporated into the item in the United States; and
3. Items must be shipped from the U.S.

Of the eligible costs, Ex-Im Bank foreign content policy is to support the lesser of 85% of the contract price or 100% of the U.S. content.

Ex-Im Bank applies the same general foreign content criteria to medium-term financing as

it does to long-term financing. However, because medium-term transactions generally consist of individual product sales (as opposed to large products, consisting of multiple items), Ex-Im Bank permits a limited aggregation – that is, individual suppliers items may aggregate goods and services within a single request for disbursement (rather than applying the criteria to each item of supply). This approach yields a degree of administrative efficiency, without compromising the intent of the foreign content policy.

Foreign Content Proposal

The foreign content proposal has two components: (1) abandon the item-by-item approach in favor of an aggregate approach to calculating eligible foreign content; and (2) in exchange for this flexibility, Ex-Im Bank will establish reporting procedures that provide detail on the extent and nature of all content supported through Ex-Im Bank medium and long-term programs. While there are no penalties envisioned at this time for failure to report, Ex-Im Bank is requesting exporters to provide information.

The proposal envisions that **the basic policy parameters will remain the same – that is, Ex-Im Bank will continue to support the lesser of 100% of the U.S. content or 85% of the contract value, and all content in Ex-Im Bank’s financing package must be shipped from the U.S.** However, flexibility has been introduced in the implementation procedures which recognizes the fact that during disbursement period (which for some projects may be over multiple years), the relative amount of U.S. and foreign content could change from what was originally envisioned.

Moreover, as an integral part of the ongoing process of crafting a content policy, staff will analyze the impact of the procedural changes based on the content information submitted by the exporters. In addition, staff will – on a sample basis – conduct case-specific follow-up analyses; with the sample largely depending on the extent and nature of information that is reported by the U.S. exporters in the Content Report (see Attachment 3).

Recommendation

Staff recommends that procedural changes to the foreign content policy be made which will: (1) allow aggregation of foreign content within a supply contract; and (2) create a mechanism for generating greater detail on the extent and nature of foreign content included in the Ex-Im Bank financing package. The specific procedures to be used to implement these revisions are detailed in the Appendix entitled Decision Check List on Foreign Content.

Content Committee Members: Kit Arendt, Jonathan Bagg, Tracey Braun, John Conant, John Connor, Miguel Cornejo, Hala El-Mohandes, Wayne Gardella, Susan Houser, Karl Kendall, Clara Ohr, Helene Walsh, Leon White, Wendy Wright

Attachments

Appendix

Decision Check List on Foreign Content

Implementation of the proposed changes to the foreign content procedures requires a host of modifications to Ex-Im Bank processes and procedures. The following memo outlines an approach Ex-Im Bank could consider to implement the changes. Each of the individual points identified below requires Ex-Im Bank Board approval.

1. Abolish some of the historical core principles

- Eliminate the concept of an “item”. [Note: The elimination of the item means that the “incorporation” concept also disappears.]
- Eliminate the requirement that the production value of goods and services be at least 50% U.S. content. [Note: As a result, predominantly, and wholly, foreign goods and services would be eligible to be included in Ex-Im Bank’s financing package].

2. Foreign Content “Principles”

The **intent** of the procedural changes to the foreign content policy is, on the one hand, to be very clear and precise on the fact that Ex-Im continues to firmly **expect** (as evidenced by authorization procedures) all transactions to live within the parameters of the foreign content policy. On the other hand, the procedural changes will provide sufficient **flexibility** in the operating procedures so that small changes in foreign content can occur and be supported by Ex-Im Bank under the original terms of the authorization. Therefore, exporters will be able to operate in the real world in a way which actually generates the desired improvements in exporter efficiency and competitiveness.

Hence, at the time of authorization:

- The foreign content eligible for inclusion in a transaction coming before the Bank for final authorization cannot exceed 15% of the export value without a reduction in Ex-Im cover (this provision maintains the policy principle that Ex-Im loans/guarantees support only US content).
- To be eligible for inclusion in an Ex-Im financing package, **all** content must continue to be shipped from the US.
- There will be no exceptions to the above parameters at the time of authorization.

However, **during and through the disbursement period**, implementation procedures for some parts of the above parameters will introduce more flexibility than exists under current

procedures. Because of current sensitivities at the political level with respect to shipping on U.S. bottoms, the existing requirement to ship both U.S. and foreign content from the United States will remain in tact and Ex-Im Bank will enforce this requirement by reviewing the shipping documents. But Ex-Im will not require (or condition disbursements on) a precise (and expensive) monitoring of the 15% cap on the end of the day foreign content levels. Rather, relying on the established historical practice in which exporters overestimate likely foreign content at time of authorization, Ex-Im will allow some reasonable leeway for what is expected to be those *rare and unusual* cases where – for unforeseen reasons – the final/aggregated foreign content may pierce the 15% level. Specifically:

- If, at any time during the disbursement period, the exporter becomes aware that the actual foreign content – in the aggregate, at the end of the day – will be greater than 5% than originally reported and result in an aggregate foreign content that is above 20% of the supply contract, the exporter is required to submit a revised Exporter’s Certificate (see #4 below) before submitting any additional invoices for payment. In that situation, Ex-Im will recalculate the disbursement ratio to ensure that the Bank does not actually cover more than 100% of the US content. [Note: Ex-Im will provide guidance to the exporters on how to calculate future disbursement requests based on the amounts disbursed and the US/foreign content values of the remaining disbursements (See Attachment 3 – True Up Memo).]
- If, at the end of the disbursement period, the actual aggregate/end of the day foreign content exceeds 15% (or above, if authorized at such), Ex-Im only requests a revised Content Report (See #5 below).

Accordingly, the proposed implementation procedures mean that *it is technically possible* for the actual foreign content level to exceed 15% (up to 20% under the first procedure; unlimited under the second). However, **any** piercing of the 15% level is not only expected to be rare, but also to be for unusual/exceptional reasons. **Each and every** piercing of the 15% level will be followed up by Ex-Im staff to fully identify the causes and considerations (and consequences). The findings and implications of all such follow-ups will be included in the proposed reporting process (See # 7 below). Obviously, the number and pattern of any piercings could generate a need for change in the proposed very “trusting” procedures.

3. Use the Supply Contract as the basis for aggregation

- Allow all goods and services within an individual Supply Contract to be aggregated.
- Do not allow aggregation across Supply Contracts due to impossible administrative burden on Ex-Im Bank. However, if exporters wish to aggregate across multiple Supply Contracts for an individual transaction, they may do so provided the exporter presents an acceptable structure to Ex-Im Bank that does not create any incremental administrative burden on Ex-Im Bank (for example, an entity could act as a “consolidator” and would assume all

reporting responsibilities).

4. Create a one-time, up-front Exporter's Certificate (to replace existing Supplier's Certificates/Exporter's Certificate)

- Create one certificate for all medium- and long-term programs (Insurance, Loans and Guarantees). This certificate will be called the Exporter's Certificate (see Attachment 4).
- Require that the Exporter's Certificate be submitted prior to the first disbursement/shipment.
- Because the exporter (and specific exports) may not be known up-front for transactions processed through Credit Guarantee Facilities (CGFs), there will likely be multiple Exporter's Certificates for CGFs.
- The aggregate foreign and U.S. content ratios indicated on the Exporter's Certificate will be the basis for disbursement amounts. That is, if the reported aggregate U.S. content is 80%, all disbursements will be for 80% of the invoice values, regardless of the relative amounts of U.S. and foreign content in any single request for disbursement. (This process means that a wholly foreign product could be the only product in the first disbursement, and Ex-Im Bank would advance 80% of the invoice. However, at the end of the day, the aggregate U.S. content in the total of all disbursement will be no less than the level of Ex-Im Bank support – in this case 80%).

[Note: The new form of Exporter's Certificate requires the exporter to use best efforts to assess the value or costs of goods and/or services provided under the Supply Contract in order to ascertain the U.S. Content Percentage. This standard recognizes that precision in determining the cost of any particular item is administratively, or in fact, impossible to determine in many cases due to (i) cost allocation assumptions implicit in differing inventory accounting systems (e.g. LIFO vs. FIFO); (ii) uncertainty regarding the availability and costs of components and the identity of specific sub-suppliers at the time the Supply Contract is entered into; and (iii) other factors. Some industries and exporters have developed a methodology for determining the U.S. Content Percentage which reflects a reasoned and good faith estimate of the U.S. Content Percentage (and the corresponding "foreign content percentage") based on the "average", "historical" or "typical" item exported. Ex-Im Bank's historical practice has been to accept the industry's or exporter's methodology unless there is reason to believe that it is unreasonable or without basis. Staff recommends the continuation of this practice.]

5. Create content reporting mechanisms

- Request applicants to submit a Content Report, detailing the goods and services that benefit from its financing package.

- For medium-term transactions, the Content Report will be submitted with the application for financing; for long-term transactions the Content Report will be submitted with the Exporter's Certificate (generally just before the first disbursement).
- If there are measurable changes (i.e., 1% or more of the supply contract) in foreign content during the disbursement period, a revised Content Report should be submitted at the end of the disbursement period. If there are no measurable changes, exporters should confirm there were no changes no later than three months after the Final Disbursement Date/Availability period.
- No later than three months after the final disbursement, exporters are requested to confirm the information provided in the Content Report.
- At the end of each calendar year, each entity (e.g., exporter or consolidator) submitting a Content Report during the year will be sent a form requesting that the entity review all Content Reports submitted and – for those goods/services reported in the Content Report that contain 50% or more foreign content – identify the “causes” for using that predominantly foreign product or service (see Attachment 6).

[Note: Certain industries and exporters use rebates, discounts, allowances and credits (“Credit Memos”) to reduce the initial or stated contract price under Supply Contracts. Ex-Im Bank’s historical practice has been to accept the allocation of these Credit Memos between Foreign Content and U.S. Content made by the industry or exporter unless there is reason to believe that it is unreasonable or without basis. Staff recommends the continuation of this practice in the reporting forms.]

6. Revise the final commitment/Insurance applications requesting financing

- Use the U.S. and foreign content amounts submitted on the application for authorization purposes.
- For medium-term transactions, applicants are requested to submit with the application the Content Report, which details the nature of the goods and services that will benefit from Ex-Im Bank financing (the content amounts on the application and the Content Report should match since they are submitted simultaneously for medium-term transactions).
- For long-term transactions, the content ratios submitted on the application will be used for authorization purposes (unless further refinements are submitted subsequent to the application, e.g., the acquisition list may have more refined aggregate U.S. and foreign content amounts).

7. Establish foreign content review procedures

- Establish an Annual Report on Content Trends to the Advisory Committee.
 - The focus of the Annual Report on Content Trends will be the aggregate results/implications of all case specific Content/Cause Reports received during the calendar year and findings of significant trends in foreign content based on a follow-up evaluation of specific cases (scope to be determined).
 - The Policy Group is responsible for generating the Annual Report on Content Trends. The case-specific Content Reports and the annual Cause Reports will be submitted to the Engineering and Environment Division, which will collaborate with Policy and Planning to conduct the follow-up evaluations.
8. Effective date of procedural changes
- The effective date of the procedural changes is the date of the Board approval.
 - Cases approved, but not yet documented, are eligible for these new procedures.

Board of Directors' Approval of 2001 Proposal to Modify Ex-Im Bank's Content Policy



EXPORT-IMPORT BANK
OF THE UNITED STATES

MINUTES OF

MEETING OF THE BOARD OF DIRECTORS

9:30 A.M., THURSDAY

JANUARY 11, 2001

PRESENT:

- (X) James A. Harmon, Chairman & President
- (X) Jackie M. Clegg, Vice Chairman & First Vice President
- (X) Dan H. Renberg, Director
- (X) D. Vanessa Weaver, Director

The Chairman presided.

Policy, Planning & Program Development

- 1a. Proposal to Modify the Procedures of the Foreign Content Policy
Board Decision: APPROVED with changes to No. 7, as follows:
The Annual Report on Content Trends is to be submitted to the Board of Directors and then to the Advisory Committee.
A review of the impact of the revisions to the foreign content policy will be conducted no later than January 1, 2003.
- b. Local Costs Review 2000: Goals and Implications
Board Decision: APPROVED
- c. Co-Financing "Policy Principles" and Problems on the Horizon
Board Decision: APPROVED
2. Minutes of Meeting of December 19, 2000, to be approved
Board Decision: APPROVED

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

Review of the Effects of 2001 Changes to Ex-Im Bank's Content Policy

MEMORANDUM

TO: CWG
 FROM: POLICY & PLANNING
 SUBJECT: REVIEW OF EX-IM BANK'S MLT CONTENT POLICY SINCE 2001
 DATE: 10/5/07

Overview of 2001 Content Policy Changes

In 2001, the Bank modified the medium- and long-term foreign content policy such that:

1. The item-by-item approach was abandoned in favor of an aggregate approach to identifying the US and foreign content in an overall supply contract; and
2. In return for the more flexible aggregate approach to calculating foreign content, exporters were requested to submit content reports providing detail on the nature of origin al all content supported by Ex-Im Bank under medium- and long-term programs.

All other basic content requirements stayed the same. The reporting requirements were a key piece of the 2001 changes because they were the only mechanism that could be used to give staff (and ultimately Congress and Labor) a basis from which to analyze the impact of the procedural changes. Specifically, it was envisioned that the data (submitted in the form of content reports) would be used to show:

1. The incidence of sensitive impacts (e.g., how many wholly foreign items did Ex-Im Bank support as a result of moving to the aggregate approach to content?);
2. The origin of the foreign content that Ex-Im Bank supports (e.g., how much from low-wage sources such as China versus high-quality places like Germany); and
3. The macro and micro trends of foreign content support (e.g., what is the average percent of foreign content and what items does the US foreign source most often?)

Six years later, Ex-Im Bank is embarking on an examination of successes and problems of its content policy. As part of the examination, Ex-Im Bank has turned to its content report database to analyze the effects of the 2001 changes.

Following are two tables: Table 1 summarizes the level and nature of the content reports Ex-Im has received from 2002 through 2006 and Table 2 summarizes the dollar volume of support as reported by the content reports Ex-Im Bank has received over this period:

Table 1

Content Report Status*

(Excludes withdrawals, denials, and cancellations**)

2002							
Program	Transactions	CRs received	% CRs Received	CRs Complete (see note below)	% Complete	CRs Incomplete	% Incomplete
MT & LT Guarantees	236	34	14%	26	76%	8	24%
MT Guarantees (excluding CGFs***)	204	23	11%	17	74%	6	26%
LT Guarantees (excluding aircraft)	32	11	34%	9	82%	2	18%
MT Insurance (excluding MTRs****)	127	6	5%	6	100%	0	0%
Subtotal Guarantees & Insurance	363	40	11%	32	80%	8	20%
Large aircraft****	15	15	100%	15	100%	0	0%
TOTAL transactions	378	55	15%	47	85%	8	15%

2003							
Program	Transactions	CRs received	% CRs Received	CRs Complete (see note below)	% Complete	CRs Incomplete	% Incomplete
MT & LT Guarantees	209	34	16%	26	76%	8	24%
MT Guarantees (excluding CGFs***)	161	27	17%	21	78%	6	22%
LT Guarantees (excluding aircraft)	48	9	19%	6	67%	3	33%
MT Insurance (excluding MTRs****)	205	14	7%	12	86%	2	14%
Subtotal Guarantees & Insurance	414	40	10%	32	80%	8	20%
Large aircraft****	21	21	100%	21	100%	0	0%
TOTAL transactions	435	71	16%	63	89%	8	11%

2004							
Program	Transactions	CRs received	% CRs Received	CRs Complete (see note below)	% Complete	CRs Incomplete	% Incomplete
MT & LT Guarantees	221	19	9%	10	53%	9	47%
MT Guarantees (excluding CGFs***)	196	16	8%	10	63%	6	38%
LT Guarantees (excluding aircraft)	25	3	12%	0	0%	3	100%
MT Insurance (excluding MTRs****)	297	79	27%	54	68%	25	32%
Subtotal Guarantees & Insurance	518	98	19%	64	65%	34	35%
Large aircraft****	14	14	100%	14	100%	0	0%
TOTAL transactions	532	112	21%	78	70%	34	30%

2005							
Program	Transactions	CRs received	% CRs Received	CRs Complete (see note below)	% Complete	CRs Incomplete	% Incomplete
MT & LT Guarantees	233	43	18%	30	70%	13	30%
MT Guarantees (excluding CGFs***)	203	43	21%	30	70%	13	30%
LT Guarantees (excluding aircraft)	19	0	0%	0	0%	0	0%
MT Insurance (excluding MTRs****)	205	40	20%	30	75%	10	25%
Subtotal Guarantees & Insurance	438	83	19%	60	72%	23	28%
Large Aircraft****	28	28	100%	28	100%	0	0%
Total transactions	466	111	24%	88	79%	23	21%

2006							
Program	Transactions	CRs received	% CRs Received	CRs Complete (see note below)	% Complete	CRs Incomplete	% Incomplete
MT & LT Guarantees	202	17	8%	15	88%	2	12%
MT Guarantees (excluding CGFs***)	191	17	9%	15	88%	2	12%
LT Guarantees (excluding aircraft)	11	0	0%	0	0%	0	0%
MT Insurance (excluding MTRs****)	148	1	1%	1	100%	0	0%
Subtotal Guarantees & Insurance	350	18	5%	16	89%	2	11%
Large aircraft****	24	24	100%	24	100%	0	0%
Total transactions	374	42	11%	40	95%	2	5%

*Data Source - Content Reports Access database and IIS

**Withdrawals are cases withdrawn by applicant or relationship manager prior to Bank approval, denials/ denials are cases not approved by the Bank and cancellations are cases cancelled after Bank approval.

***MTRs & CGFs are excluded because the submittal dates for these transactions can be ongoing for several years.

****A yearly content report is submitted for large aircraft transactions, therefore the percentage will always equal 100%. For the purposes of this report, aircraft transactions with conversions have been treated as separate transactions.

Note 1: "Complete" means that at least 80% of the fields requested in the content report were filled out.

Note 2: For MT guarantees and insurance, content reports are due with the application. For LT guarantees, content reports are due with first shipment.

Table 2

Content Report Status (Million \$)*
(Excludes withdrawals, denials, and cancellations**)

2002

Program	Export Value	CR Export Value	% CRs received by dollar volume
MT & LT Guarantees	\$4,450,724,147	\$1,903,903,563	43%
MT Guarantees (excluding CGFs***)	\$318,144,695	\$58,438,276	18%
LT Guarantees (excluding aircraft)	\$4,132,579,452	\$1,845,465,287	45%
MT Insurance (excluding MTRs***)	\$171,325,909	\$7,913,389	5%
Subtotal Guarantees & Insurance	\$4,622,050,055	\$1,911,816,952	41%
Large aircraft****	\$3,783,802,330	\$3,783,802,330	100%
TOTAL transactions	\$8,405,852,385	\$5,695,619,282	68%

2003

Program	Export Value	CR Export Value	% CRs received by dollar volume
MT & LT Guarantees	\$5,033,583,002	\$868,478,116	17%
MT Guarantees (excluding CGFs***)	\$313,441,781	\$53,225,695	17%
LT Guarantees (excluding aircraft)	\$4,720,141,221	\$815,252,421	17%
MT Insurance (excluding MTRs***)	\$245,623,110	\$18,241,060	7%
Subtotal Guarantees & Insurance	\$5,279,206,112	\$886,719,176	17%
Large aircraft****	\$6,682,391,613	\$6,682,391,613	100%
TOTAL transactions	\$11,961,597,725	\$7,569,110,789	63%

2004

Program	Export Value	CR Export Value	% CRs received by dollar volume
MT & LT Guarantees	\$4,292,876,384	\$858,344,231	20%
MT Guarantees (excluding CGFs***)	\$947,628,313	\$37,744,231	4%
LT Guarantees (excluding aircraft)	\$3,345,248,071	\$820,600,000	25%
MT Insurance (excluding MTRs***)	\$407,931,282	\$92,613,988	23%
Subtotal Guarantees & Insurance	\$4,700,807,666	\$950,958,219	20%
Large aircraft****	\$2,493,694,508	\$2,493,694,508	100%
TOTAL transactions	\$7,194,502,174	\$3,444,652,727	48%

2005

Program	Export Value	CR Export Value	% CRs received by dollar volume
MT & LT Guarantees	\$2,563,965,818	\$88,756,412	3%
MT Guarantees (excluding CGFs***)	\$348,482,870	\$88,756,412	25%
LT Guarantees (excluding aircraft)	\$2,215,482,948	\$0	0%
MT Insurance (excluding MTRs***)	\$336,868,792	\$42,752,250	13%
Subtotal Guarantees & Insurance	\$2,900,834,610	\$131,508,662	5%
Large Aircraft****	\$4,525,999,503	\$4,525,999,503	100%
Total transactions	\$7,426,834,113	\$4,657,508,165	63%

2006

Program	Export Value	CR Export Value	% CRs received by dollar volume
MT & LT Guarantees	\$5,318,855,690	\$32,577,195	1%
MT Guarantees (excluding CGFs***)	\$363,328,871	\$32,577,195	9%
LT Guarantees (excluding aircraft)	\$4,955,526,819	\$0	0%
MT Insurance (excluding MTRs***)	\$218,919,589	\$1,000,000	0%
Subtotal Guarantees & Insurance	\$5,537,775,279	\$33,577,195	1%
Large aircraft****	\$5,588,719,263	\$5,588,719,263	100%
Total transactions	\$11,126,494,542	\$5,622,296,458	51%

*Data Source - Content Reports Access Database and IIS

**Withdrawals are cases withdrawn by applicant or relationship manager prior to Bank approval; declinations/denials are cases not approved by the Bank and cancellations are cases cancelled after Bank approval.

***MTRs & CGFs are excluded because the submittal dates for these transactions can be ongoing for several years.

****A yearly content report is submitted for large aircraft transactions therefore the percentage will always equal 100%. For the purposes of this report, aircraft transactions with conversions have been treated as separate transactions.

- Of over 2000 medium- and long-term transactions supported by Ex-Im Bank (excluding aircraft) during 2002-2006, US exporters voluntarily submitted content reports for approximately 13% of transactions. In dollar terms, the reporting percentage is roughly 17%. Moreover, after reaching 19% in 2004 and 2005, compliance seems to be near non-existent recently (5% in 2006 in terms of content reports submitted and 4% in 2006 in terms of dollar volume of transactions).
- Again, excluding aircraft transactions (which is always 100%), the long-term guarantee ratios have steadily declined from 2002 (34% by transaction number and 45% by dollar volume) to present (0). Although submissions on long-term transactions could rise as transactions become operative, all 2005 long-term authorizations (and almost all in 2006) had a first disbursement by June 2007.
- Of the non-aircraft content reports submitted, three-quarters have regularly been “thoroughly completed”, meaning that at least 80% of the fields requested on the content report were filled in.

Findings from the Content Report Data¹

The very low content report submission rate means that there is no “statistical” validity to any of the following findings. Nevertheless, the available data indicates that Ex-Im Bank could have had a rich database if the response rate had been higher. For example:

¹ CGFs, MTRs, and transactions that were cancelled, denied, or withdrawn have been excluded from the data set.

Patterns on Wholly Foreign Items Supported by Ex-Im Bank (Table 3)

Table 3

Wholly Foreign Items Supported by Ex-Im Bank: 2001-2006

Application Date	Transaction Number	Item Description	Foreign Content Value	Number of Units	Term
3/14/00*	LI076050XX	Air Filtration System Part	\$251,904.00	Unspecified	L
2/5/02	AP077805XX	Turbine Generator Part	\$1,998,000.00	1	L
8/21/02	AP078908XX	Installation Services	\$2,248,197.00	Unspecified	L
8/26/02	AP078925XX	Amplifier Pads	\$669,357.00	Unspecified	M
9/23/02	AP078991XX	Medical Equipment	\$2,551,020.01	Unspecified	L
3/14/03	AP079444XX	Condenser	\$347,000.00	Unspecified	L
3/14/03	AP079444XX	Turbine Generator Part	\$2,905,000.00	Unspecified	L
3/20/03	AP079452XX	Turbine Generator Part	\$4,450,000.00	Unspecified	L
3/20/03	AP079452XX	Freight	\$195,000.00	Unspecified	L
3/26/03	AP078988XX	Turbine Generator Part	\$2,484,000.00	3	L
3/26/03	AP078988XX	Gear Boxes	\$714,000.00	3	L
3/26/03	AP078988XX	Turbine Generator Part	\$140,400.00	Unspecified	L
6/17/03	MSM253328	Lumber	\$11,760.00	Unspecified	M
8/29/03	AP079959XX	Cable Equipment	\$105,037.00	5355	M
9/16/03	MSM251843	Cable Equipment	\$61,613.00	3549	M
9/30/03	AP080057XX	Medical Equipment	\$21,500.00	1	M
10/28/03	AP080161XX	Filter	\$518.00	1	M
10/28/03	AP080161XX	Frame Switch Kit	\$31,451.00	5	M
9/30/04	AP081133XX	Stretcher Beds	\$350,000.00	Unspecified	M
10/29/04	MSM276170	Lumber	\$14,181.00	Unspecified	M
10/29/04	MSM276170	Furniture	\$1,726.00	Unspecified	M
11/23/04	AP081280XX	Freight	\$2,151.00	Unspecified	M
3/28/05	AP081623XX	Freight	\$24,000.00	Unspecified	M
5/2/05	AP081653XX	Insulators	\$416,905.00	Unspecified	M
5/2/05	AP081653XX	Trucks	\$187,652.00	Unspecified	M
7/26/05	AP081930XX	Flooring	\$54,878.00	Unspecified	M
7/26/05	AP081930XX	Blending System	\$100,283.00	Unspecified	M
7/26/05	AP081930XX	Edge Trim	\$108,785.00	Unspecified	M
8/5/05	AP081796XX	Inverter	\$360,000.00	2	M
Unspecified**	Unspecified	Motors	\$55,315.00	Unspecified	Unspecified
Unspecified	Unspecified	Electric Parts	\$97,500.00	Unspecified	Unspecified
Unspecified	Unspecified	Greenhouse Parts	\$17,500.00	Unspecified	Unspecified
Unspecified	Unspecified	Exhaust Fans	\$60,000.00	Unspecified	Unspecified
Unspecified	Unspecified	Heaters and Parts	\$31,500.00	Unspecified	Unspecified
Unspecified	Unspecified	Motors	\$30,000.00	Unspecified	Unspecified
Unspecified	Unspecified	Motors	\$38,600.00	Unspecified	Unspecified
Unspecified	Unspecified	Heaters and Parts	\$156,500.00	Unspecified	Unspecified
Total:			\$21,293,233.01		

*This transaction was authorized in 2001.

**"Unspecified" application dates and transaction numbers are possible because all available data was included even if it came from a content report that did not have all fields filled in.

- Roughly 14% (or 37 of 279) of non-aircraft content reports from the 2001-2006 period contained at least one wholly foreign item.
- While some individual wholly foreign components were as much as \$2-4 million, most wholly foreign items were components with values as low as \$20.

Origin of Foreign Content Supported by Ex-Im Bank (Table 4)

Table 4

Country of Origin for Ex-Im Bank-Supported Foreign Content: 2001-2006

(Thousands of \$)

1 JAPAN	\$16,108,412	17 SINGAPORE	\$419,798
2 MEXICO	\$13,797,381	18 KOREA	\$349,263
3 FRANCE	\$13,727,196	19 POLAND	\$263,092
4 CANADA	\$13,038,422	20 BELGIUM	\$262,166
5 ITALY	\$8,525,245	21 TURKEY	\$203,216
6 UK	\$7,385,002	22 INDIA	\$171,432
7 CHINA	\$5,368,313	23 SWEDEN	\$121,000
8 GERMANY	\$4,795,359	24 DENMARK	\$86,003
9 NORWAY	\$4,645,000	25 PERU	\$54,000
10 ISRAEL	\$1,775,989	26 PORTUGAL	\$47,454
11 INDONESIA	\$1,409,797	27 KAZAKHSTAN	\$10,000
12 NETHERLANDS	\$1,295,662	28 HUNGARY	\$8,492
13 AUSTRIA	\$529,316	29 BRAZIL	\$6,703
14 RUSSIA	\$510,272	30 MALAYSIA	\$5,520
15 SPAIN	\$483,897	31 CZECH	\$1,553
16 EUROPE	\$428,382	32 AUSTRALIA	\$1,140
	Shaded=Emerging Market Economy	TOTAL:	\$93,823,644

- Foreign content was sourced from 32 different countries. The top five countries in order of dollar volume of support were: Japan, Mexico, France, Canada and Italy.
- Emerging market economies made up half of the countries from which US exporters sourced goods and services (but only 25% of volume).

Trends of Foreign Content Support Based on the Content Reports Received (Table 5)

Table 5

Foreign Content Trends: 2001-2006*

Number of Transactions with Content Reports		Number of Transactions Containing Foreign Content		Percent of Total
2001	8	2001	4	50%
2002	37	2002	18	49%
2003	48	2003	28	58%
2004	77	2004	43	56%
2005	74	2005	37	50%
2006	19	2006	13	68%
Total	263	Total	143	54%

- According to the content reports submitted, approximately half of Ex-Im Bank transactions contain some amount of foreign content that is incorporated as an input to a US-produced item.

Take-Away Implications

- Ex-Im Bank support for wholly foreign items seems to be minimal and the typical wholly foreign content is a commodity-type good rather than a capital-type product.
- By dollar value, a majority of the foreign content sourced from US exporters is from OECD/developed countries rather than emerging markets (roughly \$69 million versus \$24 million, respectively).
- One limitation of the content report database used for this paper is that the data cannot be easily engineered to explain the amount of foreign content within each transaction supported by Ex-Im Bank. Although such data is forthcoming, in the meanwhile a separate database compiled for Ex-Im Bank's annual Competitiveness Reports indicates that the average amount of foreign content per transaction has been rising slightly from 11% in 2002 to 14% in 2006.

Management Comments



MICHAEL CUSHING
ACTING CHIEF OPERATING OFFICER

EXPORT-IMPORT BANK
OF THE UNITED STATES

November 26, 2013

Oswaldo Gratacós
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Inspector General Gratacós,

Thank you for providing the Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) Management with the Office of the Inspector General’s (OIG) report on “Export-Import Bank’s Content Policy: Opportunities Exist to Improve Controls and Address the Impact of Voluntary Reporting” (OIG-AR-14-01, October 25, 2013). Management continues to support the OIG’s work and audits which complement the Bank’s efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG.

This report on the Bank’s domestic content policy makes three recommendations regarding the Bank’s process for domestic content verification and collection of content data. Management appreciates and concurs with all recommendations.

Recommendation 1: To provide reasonable assurance that Ex-Im Bank’s content requirements are met and as Ex-Im Bank updates its Human Capital Plan to address operational risks, the Chairman and President of Ex-Im Bank should implement procedures to verify the accuracy of exporter self-certifications of content for a representative sample of transactions throughout each fiscal year.

Bank Management concurs with this recommendation. As the OIG Report has noted, the Bank currently has procedures in place to identify content-related discrepancies in long-term transactions. Also, this past year the Bank has further enhanced these procedures with site visits to U.S. exporters that use Bank financing. The Bank will share the revised procedures with the OIG for long term transactions. The Bank will also develop procedures, in FY 2014, to verify exporter self-certifications on content for a representative sample of short and medium term transactions each fiscal year. The Bank’s Enterprise Risk Committee (ERC) will review and discuss the proposed procedures prior to implementation.

Recommendation 2: As Ex-Im Bank considers additional changes to its medium- and long-term content policy, including changes intended to ease the amount of time required

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to report on content, the Chairman and President of Ex-Im Bank should resolve with the Board of Directors the outstanding requirement to provide to the Board and Ex-Im Bank's Advisory Committee an Annual Report on Content Trends based on Content Reports and foreign content review procedures envisioned in 2001 but never implemented.

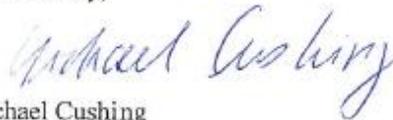
The Bank concurs with this recommendation. In FY 2014, Ex-Im Bank staff will meet with the Chairman and President along with the Board to discuss the 2001 reporting requirements as issued by the Board and determine what measures should be taken to address the inability to produce the required Annual Report on Content Trends in light of the lack of any statistically valid submissions of the voluntarily requested Content Report.

Recommendation 3: As Ex-Im Bank considers additional changes to its medium- and long-term content policy, including changes intended to ease the amount of time required to report on content, the Chairman and President of Ex-Im Bank should, using GAO's "Standards for Internal Control in the Federal Government" as a guide, establish mechanisms to obtain specific, measurable, and reliable data in order to analyze the impact of any content-related procedural changes proposed to the Board of Directors by the end of 2013.

The Bank concurs with this recommendation. Bank management is continuing its consideration of: (i) streamlining and broadening use of Annual Average Content certification procedures in order to ease the amount of time required to report on content, (ii) clarifying and codifying Ex-Im Bank's services policy to more actively engage U.S. services exporters, and (iii) utilizing existing co-financing and parallel financing structures to maximize exporters access to market niches where jobs reside. Bank staff will use GAO's "Standards for Internal Control in the Federal Government," to determine what mechanisms could be implemented to obtain specific, measurable, and reliable content data to analyze the impact of any procedural changes which are adopted by the Board of Directors in FY 2014.

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect Ex-Im funds from fraud, waste, and abuse. We look forward to continuing to work closely with the Office of the Inspector General.

Sincerely,



Michael Cushing
Acting Chief Operating Officer
Export-Import Bank of the United States

Acknowledgements

Key contributors to this report were Arturo Cornejo, Audit Project Manager; Julie Wong, Lead Auditor; and John Onyeaku, Auditor.

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Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, please contact Rebecca Sharek, Assistant Inspector General for Audits, at rebecca.sharek@exim.gov or call (202) 565-3908. Comments, suggestions, and requests can also be mailed to the attention of the Assistant Inspector General for Audits at the address listed above.





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