EXIM
EXPORT-IMPORT BANK
OF THE UNITED STATES

Office of Inspector General
Export-Import Bank
of the ***United States***

Evaluation of EXIM's Small Business Strategy

November 27, 2018
OIG-EV-19-02

The Export-Import Bank of the United States (EXIM or the Bank) is the official export credit agency of the United States. EXIM is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. The Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. EXIM 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 EXIM, was statutorily created in 2002 and organized in 2007. The mission of the EXIM 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.

This evaluation was conducted in accordance with the 2012 Quality Standards for Inspection and Evaluation as defined by the Council of Inspectors General on Integrity and Efficiency. This report does not constitute a government audit and therefore, it was not conducted following the Generally Accepted Government Auditing Standards (GAGAS).

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

Office of Inspector General

To: James Burrows, Senior Vice President, Office of Small Business

From: Jennifer Fain, Acting Assistant Inspector General for Audits and Evaluations

Subject: Evaluation of EXIM's Small Business Strategy

Date: November 27, 2018

Attached please find the final report on the Evaluation of EXIM's Small Business Strategy. The report outlines five recommendations for corrective action. On November 15, 2018, EXIM provided its management response to a draft of this report agreeing with the recommendations. We consider management's corrective actions to be responsive. The recommendations will be closed upon completion and verification of the implementation of those recommendations.

We appreciate the courtesies and cooperation extended to us during the evaluation. If you have any questions or comments regarding the final report, please contact me at (202) 565-3439 or jennifer.fain@exim.gov.

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Attachment: Evaluation of EXIM's Small Business Strategy, OIG-EV-19-02, November 2018

EXECUTIVE SUMMARY

Evaluation Small Business Strategy
OIG-EV-19-02, November 2018

Why We Did This Evaluation

We completed an evaluation of EXIM's small business strategy. We initiated the review as part of our annual review plan. The primary objective of the Office of Inspector General's (OIG) evaluation was to assess the effectiveness of EXIM's small business strategy and related policies and procedures.

What We Recommend

We made five recommendations for the Bank to address data accuracy, the calculation of the small business component for individual transactions, and the administration of the small business strategy:

1. For the transaction (b) (4), correct the reporting error identified in ERS.
2. Ensure the credit files contain information to support the small business status and component for transactions.
3. Develop and implement a process for timely reconciliation and updates of the Participant Hub/Master Data Management database for short-term exporter-held multi-buyer insurance policies.
4. As part of the forthcoming reauthorization, seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.
5. Identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

What We Found

EXIM's mandate to aid small businesses was first established by Congress as part of the 1975 reauthorization of the Bank. In November 1983, Congress required a percentage of EXIM's authority to be made available for financing small business exports beginning with six percent for fiscal year (FY) 1984, as part of the Supplemental Appropriations Act, 1984. The percentage progressively increased over the years to the current 25 percent made effective in FY 2016 pursuant to the Bank's 2015 reauthorization. EXIM is required to set aside 25 percent of its aggregate loan, guarantee and insurance authority to finance small business exports each fiscal year. Consequently, as the Bank's aggregate authorized financing increases, so too does the difficulty of meeting the small business mandate. Currently, EXIM's lack of a quorum of directors on its board has precluded approval of deals over $10 million; thus, EXIM's current aggregate authorized financing is unusually low.

We completed an evaluation of EXIM's small business strategy. EXIM generally met the percentage mandate set by Congress for small business direct financing for the period of review. To assess EXIM's compliance with the small business mandate and related policies and procedures, we reviewed a judgmental sample of 36 transactions with a total authorized amount of $7,627.0 million and a total small business authorized amount of $418.0 million as of September 30, 2017.

Whereas the Bank was generally compliant, for five of the 36 transactions reviewed we found inconsistencies in the documentation reviewed and approved by the Bank and the information reported in the EXIM Reporting System. In addition, improvements are needed in the Bank's Participant HUB/Master Data Management database. Lastly, the Bank faces a number of challenges that make managing the achievement of the percentage mandate difficult. We made five recommendations for improvement.

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

TABLE OF CONTENTS

EXECUTIVE SUMMARY i
TABLE OF CONTENTS ii
LIST OF FIGURES AND TABLES iii
ABBREVIATIONS AND GLOSSARY iv
INTRODUCTION 5
SCOPE AND METHODOLOGY 5
BACKGROUND 5
RESULTS IN BRIEF 9
CONCLUSION 16
APPENDIXES 17
Appendix A: Management Response and OIG Evaluation 17
Appendix B: Transactions Reviewed 22
Appendix C: Small Business Transactions with Exceptions – Narratives 24
Appendix D: References 26
ACKNOWLEDGEMENTS 28

LIST OF FIGURES AND TABLES

Table 1: EXIM Authorizations - Total Number and Amount 9
Table 2: New-to-EXIM by Fiscal Year 13
Table 3: Summary of Management's Comments on the Recommendations 21
Table 4: Selected Transactions Reviewed 22
Table 5: Total Amount Authorized for Entire Deal 23

ABBREVIATIONS AND GLOSSARY

Term	Description
Bank or EXIM	Export-Import Bank of the United States
Board	The Board of Directors, EXIM, is responsible for approving all medium and long-term transactions of more than $10 million or exceeding seven years repayment.
Board Memo	A memorandum submitted to the EXIM Board as part of the process for approving a transaction for Bank support.
Buyer	The entity that contracts with the exporter for the purchase of U.S. goods and/or services.
Broker	EXIM-registered broker who sells and services the Bank's export credit insurance products.
Credit Memo	A memorandum submitted to EXIM management with appropriate lending authority as part of the process for approving a transaction for Bank support.
Decision Memo	Decision memo is used interchangeably to describe the Board Memo or the Credit Memo.
E&E	Engineering and Environment Division, EXIM
ERS	EXIM Bank Reporting System
Exporter	An individual or entity that sells goods or services to a purchaser in another country.
Lender	The entity that makes credit available to the foreign bank or buyer.
MDM	EXIM's Participant Hub/Master Data Management database
n.d.	The abbreviation for "no date" is used to identify a source where the copyright or publication date is not available. The abbreviation is followed by lower case letters (e.g., n.d.a.) to cite articles by the same author where "no date" is provided.
OIG	Office of Inspector General, EXIM
OSB	Office of Small Business, EXIM
REPP	Regional Export Promotion Program, EXIM
REFC	Regional Export Finance Center, EXIM
SBA	Small Business Administration

INTRODUCTION

We completed an evaluation of the Export-Import Bank of the United States' (EXIM or the Bank) small business strategy. The objective of the Office of Inspector General's (OIG) evaluation was to assess the Bank's small business strategy and related policies and procedures. We initiated the review as part of our annual work plan.

SCOPE AND METHODOLOGY

To achieve our objective, we employed a combination of qualitative and quantitative techniques, as well as document reviews. We judgmentally selected 36 transactions for review, with a total authorized amount of $7,627.0 million and a total small business authorized amount of $418.0 million as of September 30, 2017, to test for compliance with the Bank's policies and procedures. The 36 transactions were authorized by EXIM during fiscal years 2012 to 2017 (see Appendix B). In conducting the evaluation, we reviewed applicable policies and procedures, financial and trade documents, and related internal Bank reports and correspondence. We interviewed management and staff from the Office of Small Business (OSB), Engineering and Environment Division (E&E), Working Capital Group, Trade Finance and Insurance Division, Office of Strategy and Performance, lenders, and EXIM-registered brokers. We also reviewed various management studies in the area of strategy implementation. See Appendix D for the list of references of information cited in the footnotes of this report. The evaluation was conducted in Washington, DC, with site visits at EXIM's Regional Export Finance Centers (REFCs) located in Miami, FL (Eastern Region), Chicago, IL (Central Region), and Irvine, CA (Western Region).

We conducted this evaluation from October 2017 to October 2018 in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).[1] We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

BACKGROUND

Established in 1934 through Executive Order, and subsequently made an independent agency of the United States (U.S.) through congressional charter in 1945, EXIM is a wholly-owned government corporation whose fundamental mission is to aid in the financing and to facilitate the export of U.S. goods and services, and to contribute to the employment of U.S. workers. EXIM's charter, through its enabling legislation, establishes the Bank's operations and programs and is reauthorized on a periodic basis. With the passage of the Export-Import Bank Reform and Reauthorization Act of 2015 (the 2015 Reauthorization Act), the authorization of the Bank's charter was extended through September 30, 2019.[2] Since July 20, 2015, the absence of a quorum on the Board of Directors (Board) has

[1] *See* CIGIE, 2012.

[2] *See* Export-Import Bank Reform and Reauthorization Act of 2015.

precluded EXIM staff from presenting medium and long-term transactions over $10 million for Board approval.

The Bank's core financing programs include direct loans and guarantees to foreign buyers, export credit insurance for exporters and foreign buyers, and working capital finance to U.S. small business exporters. The charter requires "reasonable assurance of repayment" for all Bank transactions, which are backed by the full faith and credit of the U.S. Government.[3]

The Small Business Strategy

Small Business Mandate

EXIM's small business strategy developed in part because of a congressional mandate dating back to 1975 to assist small businesses. Congress requires the Bank to "make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns (as defined under section 3 of the Small Business Act) which shall be not less than 25 percent of such authority for each fiscal year."[4] Congress has raised the percent requirements gradually through the years from six percent under the Supplemental Appropriations Act, 1984, to eight percent, 10 percent, and then 20 percent in fiscal year (FY) 2003.[5] Twelve years later, the 2015 Reauthorization Act raised the mandate from 20 percent to the current 25 percent.[6]

The 2015 Reauthorization Act also required that each year beginning December 4, 2016, EXIM include in its annual report to Congress a report on the Bank's programs for U.S. businesses with less than $250 million in annual sales.[7] In the 2017 Annual Report to Congress, EXIM reported that all of the Bank's programs are available to support U.S. businesses earning under $250 million annually and presented a brief description of the products.

Alongside the percentage mandate, Congress required the establishment of a Small Business Division by EXIM. The Office of Small Business (OSB) is responsible for developing and implementing a strategy to carry out the Bank's small business mandate. Congress laid out a myriad of strategy requirements within the various reauthorizations acts including the requirement to reach out to rural small businesses and to seek feedback from customers.[8] EXIM was also mandated to establish the Small Business Committee to coordinate the Bank's small business strategy with the various departments of the Bank and to develop products for small business.

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[3] *See* The Charter of the Export-Import Bank of the United States, 2016.

[4] *Ibid.*

[5] *See* the Export-Import Bank Act Amendments of 1983.

[6] *See* the Export-Import Bank Reform and Reauthorization Act of 2015.

[7] *Ibid*.

[8] GAO, 2008b.

Implementation of the Strategy

EXIM's 2018-2022 Strategic Plan incorporates the small business strategy with the goal to "quadruple the number of U.S. small and medium enterprises (SMEs)."[9] In comparison, the Bank's FY 2013-2017 Strategic Plan, sought, with respect to small business, to simplify doing business with the Bank and to build awareness of EXIM services.

The Bank's outreach efforts focus primarily on expanding the small business portfolio. EXIM's Contact Center, Regional Export Finance Centers (REFCs),[10] Regional Export Promotion Program (REPP), Minority and Women Owned Business Section (MWOB), and Delegated Authority Program are all housed under the OSB.

- The Contact Center handles all incoming calls and correspondence to EXIM.
- The REFCs are the Bank's branch offices located in three regions, with main offices located in Miami, FL (Eastern Region); Chicago, IL (Central Region); and Irvine, CA (Western Region). EXIM staff that work at the REFCs are involved in local outreach events and serve as representatives of EXIM to the Bank's partners, lenders, brokers, and customers. Some of the REFCs are co-located with staff from the Small Business Administration (SBA) and the Department of Commerce.
- The REPP is a coordinated effort of dozens of local trade centers, including world trade centers and state and city organizations, primarily focused on promoting international trade or assisting small and medium sized businesses toward that end.
- The MWOB leverages organizations across the nation that support minority and women owned business to promote exports and the use of EXIM products.
- The Delegated Authority Program is a partnership between EXIM and experienced lenders to facilitate the use of export credit financing. Under the program, EXIM approved lenders are granted the authority to underwrite and approve Bank guarantees for working capital loans.

During FY 2017, EXIM's total small business authorizations were at approximately $2,177.9 million, representing 63.5 percent of the Bank's total authorizations and 75.8 percent of the direct export value. In FY 2017, EXIM executed 2,240 transactions that directly benefited small businesses, representing 91.0 percent of the Bank's total executed transactions.

EXIM has two product offerings that primarily benefit small businesses: working capital guarantee and export credit insurance. In FY 2017, the Working Capital Guarantee Program attributed $615.9 million or 74.2 percent of its total authorizations to small businesses. EXIM's Export Credit Insurance Program's total authorizations in FY 2017 were at approximately $2,463.0 million; of which, $1,539.5 million (or 62.5 percent) supported small businesses.[11]

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[9] *See* EXIM, n.d.b.

[10] *See* EXIM.gov, n.d.

[11] *See* EXIM, 2017.

Prior Reviews of EXIM Bank's Small Business

This is the first evaluation of EXIM's small business strategy. Prior to this evaluation, the Government Accountability Office (GAO) conducted numerous audits of the Bank's efforts to meet the congressional mandates regarding its small business financing. Separately, the Office of Audits conducted an audit through contract of the reliability of data in the EXIM Bank Report System (ERS) that identified similar deficiencies as those discussed in Finding 2 of this report. The OIG audit identified similar deficiencies in regards to the recording of the small business amount. The recommendations made in the prior audits are closed.

GAO Multiple Audits

As mentioned, GAO has conducted numerous audits involving EXIM's small business mandates.[12] Some of the audits conducted were particularly relevant to this evaluation including GAO's audits on EXIM's: (1) small business financing reporting; (2) small business performance standards; (3) risk management, exposure forecasting, and workload issues; and (4) implementation of the Bank's reauthorizing statute of 2012. GAO made two recommendations about how the Bank should improve its performance metrics; four recommendations regarding how EXIM should improve its small business reporting; and one recommendation to provide Congress with additional information on the resources associated with meeting the mandated targets. All seven of the recommendations made by GAO are closed.

EXIM OIG Report (OIG-AR-15-07)

On September 28, 2015, EXIM OIG issued the report entitled *Independent Auditor's Report on the Export-Import Bank's Data Reliability*.[13] An independent accounting firm performed the audit, under a contract monitored by the OIG. The objectives of the audit were to determine if the data recorded in ERS were adequately supported by source documentation and were accurate, complete, and reliable. The audit found that "... the data recorded in ERS were generally supported by source documentation. Further, the recorded information was generally accurate and reliable and the fields were populated completely." However, the auditors identified six errors in its sample where the small business amount recorded in ERS differed from the source documentation, the engineering memorandum, for each corresponding authorization. The report included two recommendations to address errors in data accuracy and reporting in ERS. The recommendations were closed by the OIG as of September 2017.

[12] *See* GAO, 2006; GAO, 2008a; GAO, 2008b; GAO, 2010; GAO 2017.

[13] See EXIM OIG, 2015.

RESULTS IN BRIEF

We completed an evaluation of EXIM's small business strategy. The objective of the evaluation was to assess the Bank's small business strategy and related policies and procedures. EXIM generally met the percentage mandate set by Congress for small business direct financing for the period of review. To assess EXIM's compliance with the small business mandate and related policies and procedures, we reviewed a judgmental sample of 36 transactions with a total authorized amount of $7,627.0 million and a total small business authorized amount of $418.0 million as of September 30, 2017.

Whereas the Bank was generally compliant, for five of the 36 transactions reviewed, we found inconsistencies in the documentation reviewed and approved by the Bank and the information reported in ERS. In addition, the Bank's Participant Hub/Master Data Management (MDM) database can be improved. Lastly, the Bank faces a number of challenges that make managing the achievement of the percentage mandate difficult. We made five recommendations for improvement.

Finding 1: EXIM generally met the congressional mandate for small business direct financing.

EXIM's small business mandate requires a certain percentage of the Bank's aggregate loan, guarantee, and insurance authority to finance directly small business exports each fiscal year.[14] Consequently, as the amount of financing EXIM authorizes increases so too does the difficulty of meeting the small business mandate. Currently, the Bank does not have a Board quorum and EXIM can approve very few transactions over $10 million; thus, EXIM's current aggregate authorized financing is unusually low.

As illustrated in Table 1 below, EXIM nearly met or exceeded the percentage mandate set by Congress for small business during FYs 2012 to 2017. The Bank authorized transactions involving $24,282.1 million in direct financing during the six-year period and more than doubled the percentage thereof over the last two fiscal years. EXIM acknowledged that the increase was due in part to its inability to authorize transactions in excess of $10 million.

Table 1: EXIM Authorizations - Total Number and Amount

	Total Authorizations		Total Small Business				
FY	#	$ (in millions)	#	$ (in millions)	% # Authorizations	% $ Authorizations	Mandate
2012	3,796	$35,784.3	3,313	$6,122.9	87%	17.1%	20%
2013	3,842	$27,347.6	3,413	$5,223.0	89%	19.1%	20%
2014	3,746	$20,467.9	3,347	$5,050.2	89%	24.7%	20%
2015	2,630	$12,383.0	2,342	$3,030.6	89%	24.5%	20%
2016	2,899	$5,037.1	2,635	$2,677.5	91%	53.2%	25%
2017	2.461	$3,431.0	2,240	$2,177.9	91%	63.5%	25%
Total	**19,374**	**$104,450.9**	**17,290**	**$24,282.1**			

Source: EXIM Annual Reports for FYs 2012 – 2017

[14] Section 2(b)(1)(E)(v) of The Charter of the Export-Import Bank of the United States, 2016.

RECOMMENDATIONS

We make no recommendations for this finding.

Finding 2: EXIM can improve the data quality and calculation of the small business component.

To assess EXIM's compliance with the small business mandate and related policies and procedures, we selected a judgmental sample of 36 transactions for review, with a total authorized amount of $7,627.0 million and a total small business authorized amount of $418.0 million as of September 30, 2017. The Bank authorized the transactions during fiscal years 2012 to 2017. For each transaction, we reviewed the customer application, decision memo, financial and legal documentation, and information contained in ERS to ascertain (i) what information was considered in the determination that an exporter was a small business; (ii) whether adequate information had been provided in support of the determination made; and (iii) whether the Bank's determination of the exporter's small business status was consistent with the Bank's policies and procedures. In addition, we reviewed the calculation of the small business component for each transaction for accuracy and consistency with Bank policies and procedures.

For five of the 36 transactions, with a total aggregate authorized small business amount of $139.0 million, we found a number of inconsistencies in the documentation reviewed and approved by Bank staff and what is being reported in ERS. In addition, the Bank's MDM database can be improved. Without improvements in the MDM database, EXIM is susceptible to potential errors in the classification of a participant as small business and inaccuracies in the reporting of the small business component for transactions. Ensuring accuracy and consistency in the calculation of EXIM's small business support in transactions increases the reliability of EXIM's reports on its achievement of the congressional small business mandate.

Small Business Size Regulations

Pursuant to Title 13 CFR [Code of Federal Regulations] Part 121, Small Business Size Regulations, the SBA size standards, which have been established for various types of economic activity or industry generally under the North American Industry Classification System, define whether a business entity is small enough to qualify for certain Government programs.[15]

Federal Guidance on Internal Controls

In accordance with GAO's *Standards for Internal Control in the Federal Government*, management is responsible for designing control activities to achieve an entity's objectives and to respond to risks in its internal control system.[16] A common control activity identified in the GAO standards is "appropriate documentation of transactions and internal control." Specifically, the standards states that, "[m]anagement clearly documents internal

[15] *See* Small Business Size Regulations, 2009; *see also, e.g.,* SBA, 2017.

[16] *See* GAO, 1999; GAO, 2014.

control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

Transaction Testing Results

For the five transactions, the deficiencies included missing documentation to support EXIM's determination of the exporter's small business classification; errors in the exporter's status as a small business; and inconsistency in what is approved in the decision memo and what ERS reports as the small business component. For example, the decision memo for a short-term insurance policy identified the exporter as ***not*** meeting EXIM's guidelines for small business consideration as the exporter's average export credit sales exceeded $7.5 million over the last three years. (emphasis added). The Bank authorized a short-term standard multi-buyer policy. However, ERS reported an authorized small business amount of (b) (4) for the transaction. See Appendix C for narratives on the five transactions with exceptions identified.

Improvements Needed in EXIM's Participant Database

Our review of documentation to support the classification of an exporter as a small business disclosed that EXIM's Participant HUB/MDM database can be improved for short-term exporter-held multi-buyer insurance policies. The Bank stores information on transaction participants in the database, which tracks the participants' small business status, annual revenues, and number of employees. Data input for MDM, however, occurs only in two instances for this insurance product: (1) when a new-to-EXIM customer submits an application in EXIM Online (EOL), and (2) every three years when the database is updated to match Dun & Bradstreet records.

For short-term exporter-held multi-buyer insurance policies, the data for existing participants is not reconciled or updated with new information submitted by existing participants. This is consequential because the small business authorized amount reported in ERS is reliant upon the small business status maintained in the MDM database. ERS obtains the small business status for participants from the database and obtains the authorized amount for transactions from EOL. ERS then computes the portion of the small business authorized amount of the transaction that should be credited to the entity that the MDM database has flagged as a small business. If a transaction is incorrectly flagged as a small business in MDM due to, for example, recent changes in the participant's small business classification, ERS will report what it had originally calculated as the small business component in the transaction. This creates the potential for an error in the classification of a participant as a small business and inaccurate reporting of EXIM's small business component for transactions.

RECOMMENDATIONS

To improve data accuracy and the calculation of the small business component for individual transactions:

1. For the transaction (b) (4) correct the reporting error identified in ERS.
2. Ensure the credit files contain information to support the small business status

and component for transactions.

3. Develop and implement a process for timely reconciliation and updates of the Participant Hub/Master Data Management database for short-term exporter-held multi-buyer insurance policies.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

Finding 3: EXIM faces a number of challenges that may make managing the achievement of the percentage mandate difficult.

The Office of Small Business (OSB) is responsible for implementing EXIM's strategy to meet the small business mandate as part of the Bank's broader strategic plan.[17] To that end, OSB established three strategic priorities:

- Goal 1 – Ensure products meet customer needs
- Goal 2 – Identify new-to-EXIM exporters
- Goal 3 – Improve transaction processes[18]

History of the Small Business Percentage Mandate: *EXIM's mandate to aid small businesses was first established by Congress as part of the 1975 reauthorization of the Bank. In November 1983, Congress required a percentage or "set-aside" of EXIM's authority to be made available for financing small business exports beginning with six percent for FY 1984, as part of the Supplemental Appropriations Act, 1984. The percentage increased to eight percent for FY 1985, and 10 percent for FY 1986 and thereafter. Congress raised the percentage to 20 percent for FY 2003 and to the current 25 percent for FY 2016, as part of the respective reauthorizations of the Bank.*

EXIM generally met each of these three goals. In a document prepared for the administration, OSB theorized that the Bank's retention rate of small business customers coupled with consistent yearly growth in the number of new-to-EXIM small businesses is sufficient to ensure the Bank's small business portfolio expands every year. This would eventually allow EXIM to meet its 25 percent mandate. As an illustration, the document included the results of an analysis that determined on average two-thirds of new-to-EXIM customers conduct business with the Bank for approximately three years. The analysis highlighted the turnover rate of a discrete number of small firms between 2013 and 2016, which on average EXIM retained for approximately three transactions. Each transaction was just around one year in duration. OSB concluded that given the three-year customer retention period the Bank could expand its portfolio of small business customers enough to reach the 25 percent mandate routinely if it could secure an increasing number of new-to-EXIM customers each year. Table 2 shows the number of new-to-EXIM customers each year from 2012 to June 2018.

[17] *Ibid.*

[18] EXIM, n.d.a.

Table 2: New-to-EXIM by Fiscal Year						
2012	2013	2014	2015	2016	2017	As of 06/30/2018
670	614	545	395	379	401	262

Source: EXIM Bank ERS

To support its strategic priorities, OSB is engaged in a number of initiatives, such as providing training and seminars on export finance for minority and woman owned small businesses. In addition, EXIM has staff located in the three regions (i.e., Eastern, Central, and Western) whose responsibilities include aiding with and originating Bank products, managing regional relationships, and building awareness of EXIM. The regional staff is responsible for establishing cooperative agreements between EXIM and state and/or local non-profit economic development entities, known as Regional Export Promotion Program (REPP). They also provide external training on EXIM small business products to lenders, brokers, and REPP participants.

In general, EXIM's small business strategy has led to customer satisfaction. We reviewed surveys of credit insurance customers and of brokers conducted as recently as FY 2016. Credit insurance customers agreed that EXIM helped them to initiate and expand exports, "realize more export opportunities," position themselves for additional financing, and positively affect employment. Brokers were pleased with the Bank's regional staff, rating their satisfaction high with staff's responsiveness, availability, consistency of service and other aspects. Brokers were also satisfied with the range of products EXIM had to offer, the predictability of the Bank's decision-making process, and other Bank practices.

Challenges to Consistently Achieving the Mandate and Implementing the Strategy

Although EXIM has generally met the percentage mandate set by Congress, the Bank faces a number of challenges that make it difficult to manage and consistently achieve the mandate. Some of those challenges are long-standing such as changes by Congress that affect the Bank's approach on how it addresses the small business mandate. A recent challenge involves the need for improved channels of communication that directly address disagreements.

Congressional Changes. Prior to 1994, EXIM applied the percentage mandate to the aggregate principal amount (i.e., termed direct financing cap) set by Congress in annual appropriations acts for loans, guarantees, and insurance.[19] However, with the removal of the direct financing cap by Congress the Bank no longer had an amount to calculate the required percentage of financing to be made available or "set-aside" for small businesses.[20] The Bank calculates the annual percentage small business finance by dividing the total amount of authorized transactions that directly benefited small businesses by the total amount of transactions authorized during the fiscal year. Consequently, as the amount of financing EXIM authorizes increases so too does the difficulty of meeting the small business mandate.

[19] *See* GAO, 2006 and the Small Business discussion on pp. 17-19 of EXIM's 2016 Annual Report.

[20] *Ibid.*

Aptly described as a moving target, the percentage mandate makes it difficult for the Bank to manage achievement and adds to the complexity of developing a strategy to meet the mandate. According to OSB, "meeting the mandate is a function of the overall size of Bank authorizations. For every $10 increase, EXIM must be able to attribute $2.5[0] to small business concerns. When those numbers reach into the billions, meeting the mandate becomes a daunting task."[21]

OSB management acknowledged that currently it is not difficult for the Bank to fulfill the mandate because of the lack of a Board quorum, which precludes the approval of nearly all transactions over $10 million. However, if EXIM were to have a fully functioning Board, the pipeline of pending transactions awaiting approval could prove problematic to achieving the mandate. EXIM has nearly $40 billion in pending transactions in its pipeline according to the 2017 Annual Report.[22] In FY 2018 Budget Justification, EXIM estimated that it would "… need to authorize approximately $5.0 billion in small business transactions."[23] As of June 2018, small business authorizations represented 67 percent ($1,673.2 million) of total authorizations ($2,501.9 million).[24] The Bank's Office of Congressional Affairs and the Office of the Chairman have participated in some discussions about the challenges the percentage mandate poses with Congress, and past and current administrations.

Improved Channels of Communication. We reviewed the implementation of EXIM's small business strategy, in particular OSB's plans to identify new-to-EXIM customers. We conducted a series of interviews with Bank staff located in Washington, DC and in the three regions to better understand their roles and responsibilities.[25] We found disagreements between management and staff regarding staff's duties and standards. While management considers the disagreements to be "growing pains that are relevant to the appropriate execution of [the] small business strategy," the EXIM field operations would benefit from improved channels of communication that directly address the disagreements.[26]

Regional staff is responsible for distinguishing potential customers, aiding with and originating EXIM products, and raising awareness of the Bank at outreach events. They also directly engage with lenders, brokers, REPP participants, and other partners. As such, EXIM's ability to meet the mandate consistently via its strategy of expanding the portfolio of small businesses depends highly on the knowledge of industry, lenders, partners, and customers acquired by regional staff in their day-to-day activities.[27]

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[21] EXIM, n.d.

[22] EXIM, 2017.

[23] EXIM, 2018.

[24] ERS, 2018.

[25] *Ibid.*

[26] Garciano & Wu, 2012; Gulati, 2018; Alonso, Dessein, & Matoushek, 2008; Guth & Macmillan, 1989; Neilson, Martin, & Powers, 2008.

[27] *See* EXIM, n.d.

Yet, interviews with regional staff revealed a lack of understanding of OSB's overall agenda and a high level of discontent with the implementation of the strategy for small business. A common concern that we heard from regional staff regarding the implementation of the strategy is the increasing focus on the number of authorizations. Staff raised concerns that the focus on authorizations provides incentive that sometimes does not align with the exporters' needs. Regional staff expressed uncertainty, due to these concerns, regarding EXIM's ability to meet the 25 percent mandate should a Board quorum be in place to approve pending transactions in the Bank's pipeline. OSB management provided staff with "finger print rules" that detailed staff's performance requirements and followed-up with guidance emails. When individuals had trouble meeting performance goals, middle management reportedly met with those individuals one-on-one to discuss ways to improve performance. However, regional staff did not clearly grasp ***why*** increasing the number of authorizations was important to EXIM's ultimate goals. (emphasis added).

Number of New-to-EXIM Transactions: *For Regional Directors, the goal for new-to-EXIM transactions has changed over the last ten years. From FY 2007 to FY 2009, the goal was 17 new-to-EXIM small business transactions. The numeric goal remained the same in FY 2010. However, the transaction type was broader (i.e., new-to-EXIM transactions). From FY 2011 to FY 2013, the goal increased to 25 new-to-EXIM small business transactions (includes new-to-EXIM and renewals). Since FY 2014, the goal for new-to-EXIM transactions for regional directors has been 30 transactions. Due to the furlough in FY 2015, the 30 new-to-EXIM small business goal was prorated to 22 transactions. In FY 2018, the 30 new-to-EXIM transactions goal was broadened to include small businesses or larger businesses.*

Furthermore, Bank management and staff explained that brokers traditionally complete the insurance application as part of their duties. This has not changed. However, in circumstances where staff performance is a concern, management assigned this duty to regional staff as a tactic to improve performance. Ambiguity around this practice has created concerns among regional staff and brokers.

Regional staff plays a significant role when it comes to implementing EXIM's small business strategy. Addressing the existing disagreements, whether caused by miscommunication or divergent views, would enable management and staff to overcome this challenge.

RECOMMENDATIONS

To improve the administration of the small business strategy, we recommend that EXIM:

4. As part of the forthcoming reauthorization, seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.
5. Identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

Management Response:

Please see Appendix A, Management Response and OIG Evaluation.

CONCLUSION

In conclusion, EXIM met the congressional mandate for small business direct financing for the period of review and was generally compliant in the financing of export products and services that directly benefit small businesses. However, improvements in data quality and the calculation of the small business component are needed. In addition, the Bank faces a number of challenges that make it difficult to manage and consistently achieve the mandate. We made five recommendations to address data accuracy, the calculation of the small business component for individual transactions, and the administration of the small business strategy.

APPENDIXES

Appendix A: Management Response and OIG Evaluation

EXIM
EXPORT-IMPORT BANK OF THE UNITED STATES

Reducing Risk. Unleashing Opportunity.

November 15, 2018

Parisa Salehi
Acting Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Washington, DC 20571

Dear Ms. Salehi,

Thank you for providing the Export-Import Bank of the United States ("EXIM Bank" or "the Bank") management with the Office of the Inspector General's ("OIG") evaluation report on "EXIM's Small Business Strategy", OIG-EV-19-02, dated November 8, 2018 (the "Small Business evaluation"). Management continues to support the OIG's work which complements the Bank's efforts to continually improve its processes. EXIM Bank is proud of the strong and cooperative relationship it has with the OIG.

EXIM Bank appreciates the OIG's conclusion that "EXIM generally met the percentage mandate set by Congress for small business direct financing for the period of review" and was "generally compliant" with related policies and procedures.

Also, EXIM values the OIG's acknowledgment that EXIM "met each of […] three goals" established to implement EXIM's strategy to meet the small business mandate.

Additionally, EXIM is proud of its accomplishment and efforts of meeting the small business mandate and appreciates the OIG noting that "to support its strategic priorities, Office of Small Business (OSB) is engaged in a number of initiatives."

Further, EXIM values the OIG's acknowledgment that "EXIM's small business strategy has led to customer satisfaction". Additionally, OIG notes that "Credit insurance customers agreed that EXIM helped them to initiate and expand exports, "realize more export opportunities," position themselves for additional financing, and positively affect employment. Brokers were pleased with the Bank's regional staff, rating their satisfaction high with staff's responsiveness, availability, consistency of service and other aspects. Brokers were also satisfied with the range of products EXIM had to offer, the predictability of the Bank's decision-making process, and other Bank practices."

EXIM notes that while the Bank agrees that "EXIM field operations would benefit from improved channels of communication", EXIM management believes and will continue to communicate and highlight that increasing the number of authorizations is critical to the Bank's mission and meeting the small business mandate.

The Bank continuously strives to improve its policies and practices and agrees to all five OIG recommendations issued in this report.

Recommendation 1: For the transaction (b) (4) correct the reporting error identified in ERS.

Management response: Management agrees with the recommendation. EXIM has corrected the company's small business status in ERS for subsequent years as the company continues to have a short term multi buyer insurance policy with EXIM.

Recommendation 2: Ensure the credit files contain information to support the small business status and component for transactions.

Management response: Management agrees with the recommendation. EXIM will ensure that the credit files contain information to support the small business status and component for transactions.

Recommendation 3: Develop and implement a process for timely reconciliation and updates of the Participant Hub/Master Data Management database short-term exporter-held multi-buyer insurance policies.

Management response: Management agrees with the recommendation. EXIM will develop and implement a process for timely reconciliation and updates of the Participant Hub/Master Data Management database as related to the small business status of exporters with short-term insurance policies.

Recommendation 4: As part of the forthcoming reauthorization, seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.

Management response: Management agrees with the recommendation. EXIM, as part of the forthcoming reauthorization, will seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.

Recommendation 5: Identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

Management response: Management agrees with the recommendation. EXIM will identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

2

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 EXIM funds from fraud, waste, and abuse. We look forward to strengthening our working relationship and continuing to work closely with the Office of the Inspector General.

Sincerely,

Jeffrey Goettman
Executive Vice President & Chief Operating Officer
Export-Import Bank of the United States

3

OIG Evaluation

On November 15, 2018, EXIM provided its management response to a draft of this report, agreeing with the five recommendations. The response identified the Bank's actions to address the recommendations. OIG considers the Bank's actions sufficient to resolve the reported recommendations, which will remain open until OIG determines that the agreed upon corrective actions are completed and responsive to the reported recommendations.

The Bank's management response to the reported recommendations and OIG's assessment of the response are as follows:

RECOMMENDATION 1

Recommendation 1: For the transaction (b) (4) , correct the reporting error identified in ERS.

Management Response: Management agrees with the recommendation. EXIM has corrected the company's small business status in ERS for subsequent years as the company continues to have a short term multi buyer insurance policy with EXIM.

Evaluation of Management's Response: Management's corrective actions were responsive and verified; therefore, the recommendation is closed.

RECOMMENDATION 2

Recommendation 2: Ensure the credit files contain information to support the small business status and component for transactions.

Management Response: Management agrees with the recommendation. EXIM will ensure that the credit files contain information to support the small business status and component for transactions.

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

RECOMMENDATION 3

Recommendation 3: Develop and implement a process for timely reconciliation and updates of the Participant Hub/Master Data Management database for short-term exporter-held multi-buyer insurance policies.

Management Response: Management agrees with the recommendation. EXIM will develop and implement a process for timely reconciliation and updates of the Participant HUB/Master Data Management database as related to the small business status of exporters with short-term insurance policies.

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

RECOMMENDATION 4

Recommendation 4: As part of the forthcoming reauthorization, seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.

Management Response: Management agrees with the recommendation. EXIM, as part of the forthcoming reauthorization, will seek a legislative solution to address the challenges posed by the percentage mandate requirement for small business.

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

RECOMMENDATION 5

Recommendation 5: Identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

Management Response: Management agrees with the recommendation. EXIM will identify ways to enable management and staff to directly address and resolve the disagreements about the small business strategy and implementation.

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

Table 3: Summary of Management's Comments on the Recommendations

Rec. No.	Corrective Action: Taken or Planned	Expected Completion[28]	Resolved[29]:	Open or Closed[30]
1.	EXIM corrected the company's small business status in ERS.	Completed	Yes	Closed
2.	EXIM will ensure credit files support small business statuses/components.	No Target Date Provided	Yes	Open
3.	EXIM will develop/implement a process for timely reconciliation/updates of MDM small business statuses.	No Target Date Provided	Yes	Open
4.	Per reauthorization, EXIM will seek a legislative solution addressing small business percent mandate challenges.	No Target Date Provided	Yes	Open
5.	EXIM will identify ways management and staff can address/resolve small business strategy implementation disagreement.	No Target Date Provided	Yes	Open

[28] EXIM OIG has requested target completion dates for each of the outstanding recommendations.

[29] "Resolved" means that (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; or (2) Management does not concur with the recommendation, but alternate action meets the intent of the recommendation.

[30] Upon determination by the EXIM OIG that the agreed-upon corrective action has been completed and is responsive to the recommendation, the recommendation can be closed.

Appendix B: Transactions Reviewed

Table 4: Selected Transactions Reviewed[31]						
	Fiscal Year	Deal Number	Term	Program	Subtransaction Authorized Amount	Small Business Authorized Amount
1	2012	(b) (4)	Medium Term	Guarantee	(b) (4)	(b) (4)
2	2012		Short Term	Working Capital		
3	2012		Short Term	Working Capital		
4	2012		Long Term	Loan		
5	2013		Long Term	Loan and Guarantee		
6	2013		Short Term	Working Capital		
7	2013		Long Term	Loan		
8	2013		Short Term	Working Capital		
9	2013		Long Term	Loan		
10	2014		Medium Term	Guarantee		
11	2014		Medium Term	Guarantee		
12	2014		Short Term	Insurance		
13	2014		Short Term	Insurance		
14	2014		Short Term	Working Capital		
15	2015		Medium Term	Insurance		
16	2015		Medium Term	Guarantee		
17	2015		Medium Term	Insurance		
18	2015		Short Term	Insurance		
19	2015		Short Term	Working Capital		
20	2015		Long Term	Guarantee		
21	2016		Short Term	Working Capital		
22	2016		Short Term	Insurance		
23	2016		Short Term	Insurance		
24	2016		Medium Term	Guarantee		
25	2016		Short Term	Working Capital		
26	2016		Medium Term	Guarantee		
27	2016		Short Term	Insurance		
28	2016		Medium Term	Guarantee		
29	2017		Short Term	Insurance		
30	2017		Short Term	Insurance		
31	2017		Medium Term	Guarantee		
32	2017		Short Term	Working Capital		
33	2017		Medium Term	Insurance		
34	2017		Medium Term	Insurance		
35	2017		Short Term	Insurance		
36	2017		Medium Term	Insurance		
Total					**$4,112,415,724**	**$328,023,756**

Source: EXIM ERS Data as of January 10, 2018

[31] Table 4 lists the transactions we reviewed. The highlighted transactions are subtransactions of larger deals, which are listed in Table 5 below. For example, for deal (b) (4) , the authorized amount of the subtransaction that we reviewed was (b) (4) , while the authorized amount of the entire deal was $1,213,529.

Table 5: Total Amount Authorized for Entire Deal[32]						
	Fiscal Year	Deal Number	Term	Program	Total Authorized Amount	Small Business Authorized Amount
1	2012	(b) (4)	Medium Term	Guarantee	$468,346	(b) (4)
2	2012		Short Term	Working Capital	$8,550,000	
3	2012		Short Term	Working Capital	$118,800,000	
4	2012		Long Term	Loan	$1,988,220,958	
5	2013		Long Term	Loan and Guarantee	$2,000,000,000	
6	2013		Short Term	Working Capital	$36,000,000	
7	2013		Long Term	Loan	$1,809,382,461	
8	2013		Short Term	Working Capital	$90,000,000	
9	2013		Long Term	Loan	$105,436,551	
10	2014		Medium Term	Guarantee	$1,213,529	
11	2014		Medium Term	Guarantee	$766,964	
12	2014		Short Term	Insurance	$4,000,000	
13	2014		Short Term	Insurance	$2,000,000	
14	2014		Short Term	Working Capital	$13,500,000	
15	2015		Medium Term	Insurance	$2,476,246	
16	2015		Medium Term	Guarantee	$40,712,000	
17	2015		Medium Term	Insurance	$10,430,000	
18	2015		Short Term	Insurance	$500,000	
19	2015		Short Term	Working Capital	$2,970,000	
20	2015		Long Term	Guarantee	$1,300,000,000	
21	2016		Short Term	Working Capital	$5,400,000	
22	2016		Short Term	Insurance	$1,000,000	
23	2016		Short Term	Insurance	$3,430,000	
24	2016		Medium Term	Guarantee	$10,178,000	
25	2016		Short Term	Working Capital	$13,500,000	
26	2016		Medium Term	Guarantee	$1,639,242	
27	2016		Short Term	Insurance	$6,000,000	
28	2016		Medium Term	Guarantee	$538,915	
29	2017		Short Term	Insurance	$6,000,000	
30	2017		Short Term	Insurance	$25,000,000	
31	2017		Medium Term	Guarantee	$1,614,150	
32	2017		Short Term	Working Capital	$4,500,000	
33	2017		Medium Term	Insurance	$713,886	
34	2017		Medium Term	Insurance	$10,022,566	
35	2017		Short Term	Insurance	$1,350,000	
36	2017		Medium Term	Insurance	$675,260	
Total					**$7,626,989,073**	**$417,967,976**

Source: EXIM ERS Data as of January 10, 2018

[32] *Ibid.*

Appendix C: Small Business Transactions with Exceptions – Narratives

(b) (4) - (b) (4) ***(Insurance)***

(b) (4)

[3] The Small Business Analysis section in the decision memo identified (b) (4) as ***not*** meeting the guidelines for an EXIM small business multi-buyer policy. (emphasis added). To be eligible for this type of policy the applicant must have averaged less than $7.5 million in export credit sales over the last three years. (b) (4)'s average export credit sales exceeded the Bank's threshold amount. EXIM authorized a short-term standard multi-buyer policy. However, the authorized small business amount reported in ERS for the transaction was (b) (4) .

(b) (4) - (b) (4) ***(Guarantee)***

(b) (4)

[4] While the decision memo confirmed (b) (4) as the only exporter with "small business" status, the memo did not address the transaction's authorized small business amount reported in ERS. There was no documentation in the credit file to support the amount reported in ERS. Bank staff did not have an explanation as to why an amount was not included in the decision memo.

(b) (4) - (b) (4) ***(Direct Loan and Direct Loan Guarantee)***

(b) (4)

[5] The total estimated cost of the project was (b) (4) , with the U.S. contract price estimated at (b) (4) . The small business direct and indirect components in the Board Memo were (b) (4) percent and (b) (4) percent, respectively. The Engineering Evaluation Report dated July 30, 2012, confirmed the small business component allocations. We reviewed two exporters, (b) (4) and (b) (4) , with contracts valued at (b) (4) and (b) (4) , respectively, to test the "small business" status at the time of transaction authorization. During E&E's search for related documentation on the export entities, it was determined that the original supplier list provided by the borrower included a company address for (b) (4) that erroneously reflected an unaffiliated (b) (4) company in an associated manufacturing sector. Unaware of the borrower's misidentification, E&E staff identified the unaffiliated (b) (4) entity as a small business. E&E's research into the correct (b) (4) entity revealed that the company is part

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[33] EXIM, 2010.

[34] *Ibid.*

[35] EXIM Board Memo (October 3, 2012) and Board Meeting Minutes (November 19, 2012).

of a large international consortium and unlikely to have met the small business criteria at the time of authorization. In regards to (b) (4) E&E indicated that the exporter's FY 2011 employment met the small business employment criterion of 500 employees.

(b) (4) - (b) (4) ***(Direct Loan)***

(b) (4)

The Board Memo cover page indicated a small business direct component of (b) (4) percent and a small business indirect component of (b) (4) percent. The Engineering Memo dated June 28, 2013, confirmed the small business component allocations in the Board Memo; however, none of the exporters listed in the documents were identified as small business, including the group identified as "Various." ERS, however, reported the small business authorized amount for (b) (4) as (b) (4) . There was no documentation in the credit file to support the amount reported in ERS.

(b) (4) - (b) (4) ***(Direct Loan)***

(b) (4)

(b) (4)

We reviewed two exporters, (b) (4) and (b) (4) to test their "small business" status at the time of transaction authorization. E&E staff's recent review of the project files did not produce any documentation to the effect. According to E&E staff, the absence of such documents reflects the documentation retention policy at the time that the research for vetting the exporters was conducted in FY 2012. It predated EXIM's documentation retention policy implemented in FY 2015.

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