Comparative Analysis of U.S. and OECD Arrangement Export Credit Agencies
The Export-Import Bank of the United States (EXIM or agency) is the official export credit agency of the United States (U.S.). EXIM is an independent, self-financing executive agency and a wholly-owned U.S. government corporation. EXIM’s mission is to support jobs in the U.S. 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 (OIG), an independent office within EXIM, was statutorily created in 2002 and organized in 2007. The mission of the EXIM OIG 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 2020 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).
To: Mary J. Buhler, Senior Vice President and Chief Financial Officer
From: Michael T. Ryan, Assistant Inspector General, Special Reviews and Communications

Subject: Comparative Analysis of U.S. and OECD Arrangement Export Credit Agencies (OIG-EV-23-04)

Date: September 29, 2023

This final report presents the results of an independent evaluation comparative analysis of U.S. and OECD Arrangement Export Credit Agencies (ECA). The objectives were: (1) to identify the magnitude of EXIM-provided export credits relative to other OECD Arrangement ECAs; (2) describe the types of export-financing delivery systems used in these countries; (3) assess how key differences in ECA practices impact the competitiveness of EXIM products; and (4) identify oversight structure of such ECAs and the role of the oversight body in relation to that ECA. Under a contract monitored by this office, we engaged the independent consulting firm of Guidehouse (previously Grant Thornton Public Sector) to perform the evaluation.

This evaluation was conducted in accordance with the 2020 Quality Standards for Inspection and Evaluation as issued by the Council of Inspectors General on Integrity and Efficiency. Those standards require that we plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our evaluation objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

During the course of the evaluation, a concern regarding a possible threat to independence was brought to the OIG’s attention. Guidehouse took steps to mitigate the concern to include the appointment of a Quality Control Director within the firm, who was independent of the evaluation team, to review the changes to the draft report and to address quality standards. These actions were taken as part of the continual process of mitigating possible independence threats and taking action to eliminate independence threats or mitigate against those threats.

This report contains 14 recommendations. 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 cooperation and courtesies provided to Guidehouse and this office during the evaluation. If you have questions, please contact me at (202) 565-3963 or michael.ryan@exim.gov.
Why We Did This Evaluation

The Export-Import Bank of the United States (EXIM) sought an independent evaluation to provide for an assessment of its practices and policies in relation to other Organization for Economic Cooperation and Development (OECD) Arrangement export credit agencies (ECA).

Following the lapse in authorization in 2015 and the subsequent lack of a Board quorum until 2019, EXIM has identified the competitiveness of EXIM products relative to foreign export credit agencies as an obstacle. In EXIM’s last global competitiveness report, its President and Chair wrote, “While the United States has taken initial steps to fold export credit into strategies to compete with China and reinvigorate domestic manufacturing capacity, it still lags behind several OECD competitors.” When EXIM is unable to match or exceed the product offerings of other ECAs, U.S. exporters are placed at a competitive disadvantage against exporters from other countries, that benefit from superior financing opportunities that give them a leg up when breaking into international markets.

What We Recommend

This report contains 14 recommendations to address various areas where EXIM is not competitive with its counterpart ECAs in other OECD countries, such as its policies on domestic content, default rate, and domestically-flagged shipping vessels. These 14 recommendations are summarized in appendix B. EXIM concurred with all 14 recommendations.

What We Found

Our evaluation found that EXIM’s competitiveness in relation to other OECD ECAs has decreased over the past decade. Most recently, EXIM lost ground to competitor ECAs as a result of its lapse in authorization and lack of Board quorum from 2015 to 2019, which caused substantial damage to its institutional reputation and medium- and long-term portfolio. EXIM has not yet fully recovered from these events because of long-standing statutory and policy limitations that continue to tie its hands even as other ECAs have adapted and evolved to changing market demands.

This evaluation found that EXIM’s product offerings remain competitive with other ECAs, particularly its loan guarantee. However, EXIM’s competitors increasingly offer a wider variety of products in line with OECD’s most current options such as untied loans and market window, which EXIM has limited ability to offer and/or match. In addition, other OECD ECAs have less stringent policies or no limitation regarding domestic content, default rate, and shipping on domestically-flagged vessels, giving them a competitive advantage over EXIM. EXIM has also been slower and has not yet fully adopted recent OECD Arrangement changes. Finally, EXIM’s oversight structure is more rigid than competitor OECD ECAs, with stringent requirements for Board review and even congressional review for certain transactions.

EXIM has not reattained the heights in lending activity that it had achieved prior to the loss of authorization and Board quorum in 2015. In general, both EXIM officials and outside parties (including lenders, exporters, and representatives from other ECAs) told us that EXIM’s diminished position is mostly the result of U.S. policy decisions and the agency’s burdensome internal review process. More positively, these same officials and outside parties largely agreed that EXIM’s product offerings remain competitive with those of other ECAs, and its external oversight requirements—although more extensive than those required by other ECAs—do not add substantially to processing times.
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## Abbreviations and Glossary

<table>
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<tr>
<th>Term</th>
<th>Description</th>
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<tr>
<td>Bpifrance</td>
<td><em>Banque publique d'investissement</em> (France)</td>
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<td>E3F</td>
<td>Export Finance for the Future</td>
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<td>ECA</td>
<td>Export Credit Agency</td>
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<td>ECGD</td>
<td>Export Credit Guarantee Department (United Kingdom)</td>
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<td>EDC</td>
<td>Export Development Canada (Canada)</td>
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<td>EKF</td>
<td><em>Danmarks Eksportkredit</em> (Denmark)</td>
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<tr>
<td>EKN</td>
<td><em>Exportkreditnämnden</em> (Sweden)</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EXIM</td>
<td>Export-Import Bank of the United States</td>
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<td>G-7</td>
<td>Group of Seven</td>
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<tr>
<td>GAO</td>
<td>Government Accountability Office</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IDA</td>
<td>Individual Delegated Authority</td>
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<tr>
<td>JBIC</td>
<td>Japan Bank for International Cooperation (Japan)</td>
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<tr>
<td>KEXIM</td>
<td>Export-Import Bank of Korea</td>
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<tr>
<td>KSURE</td>
<td>Korea Trade Insurance Corporation (Korea)</td>
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<tr>
<td>MARAD</td>
<td>United States Maritime Administration</td>
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<tr>
<td>NEXI</td>
<td>Nippon Export and Investment Insurance (Japan)</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OIG</td>
<td>Office of Inspector General</td>
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<tr>
<td>PEFCO</td>
<td>Private Export Funding Corporation</td>
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<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>SACE</td>
<td><em>Servizi Assicurativi del Commercio Estero</em> (Italy)</td>
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<tr>
<td>UKEF</td>
<td>United Kingdom Export Finance (United Kingdom)</td>
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INTRODUCTION

The Export-Import Bank of the United States’ (EXIM) lapse in authorization in 2015 and the lack of a Board quorum until 2019 significantly constrained the agency’s lending activity. EXIM is seeking to resume previous levels of business activity but has identified the competitiveness of EXIM products relative to foreign export credit agencies as an obstacle. For example, EXIM’s 2021 *Report to the U.S. Congress on Global Export Credit Competition*¹ observed that ECAs, including those party to the Organization for Economic Cooperation and Development (OECD)² Arrangement, are enhancing their product offerings to address the needs of exporters or potential exporters.

Moreover, EXIM observed that a substantial number of OECD Arrangement ECAs became more proactively involved in their government’s economic and trade goals. In her introduction to the report, EXIM’s President and Chair wrote, “While the United States has taken initial steps to fold export credit into strategies to compete with China and reinvigorate domestic manufacturing capacity, it still lags behind several OECD competitors.” When EXIM is unable to match or exceed the product offerings of other ECAs, U.S. exporters are placed at a competitive disadvantage against exporters from other countries, who benefit from superior financing opportunities that give them a leg up when breaking into international markets. According to EXIM’s Advisory Committee, “Without question, America fell behind due to the unwise actions taken to hinder the agency at a time when all major global competitors, especially China, took significant steps forward in supporting companies and workers in their countries.”

Guidehouse (previously Grant Thornton Public Sector) conducted this engagement on behalf of EXIM’s Office of Inspector General (OIG). This report presents the findings of Guidehouse’s independent evaluation. Our objectives were to:

1. Identify the magnitude of EXIM-provided export credits relative to other OECD Arrangement ECAs.
2. Describe the types of export-financing delivery systems used in these countries.
3. Assess how key differences in ECA practices impact the competitiveness of EXIM products.
4. Identify oversight structure of such ECAs and the role of the oversight body in relation to that ECA.

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² The OECD was established in 1961 to support economic growth and global trade, primarily comprising of countries in North America, Europe and the Pacific.
SCOPE AND METHODOLOGY

The scope of this evaluation focused on a pre-selected list of 10 ECAs from various OECD Arrangement nations. That list, which was created with and approved by EXIM, includes Canada’s Export Development Canada (EDC), Finland’s Finnvera, Germany’s Allianz Trade, Italy’s Servizi Assicurativi del Commercio Estero (SACE), Japan’s Nippon Export and Investment Insurance (NEXI) and Japan Bank for International Cooperation (JBIC), Denmark’s Danmarks Eksportkredit (EKF), Sweden’s Exportkreditnämnden (EKN), United Kingdom Export Finance (UKEF), South Korea’s Korea Trade Insurance Corporation (KSURE) and Export-Import Bank of Korea (KEXIM), and France’s Banque publique d'investissement (Bpifrance).

In conducting our evaluation, Guidehouse reviewed EXIM’s charter and bylaws; applicable policies and procedures; legal, financial and trade documents; and related internal Bank reports and correspondence. Guidehouse interviewed officials from EXIM, other OECD ECAs, and lenders and exporters that have participated in EXIM programs, ranging from large domestic commercial banks to specialized export lenders. Guidehouse also reviewed and analyzed data provided by EXIM about the magnitude of export credits, survey responses from the 2021 and 2022 global competitiveness reports, and shipping applications and exemptions, where available. Additionally, Guidehouse reviewed documents provided by the foreign ECAs such as lists of deal volumes by year and reports on domestic content, fossil fuel policy, and individual delegated authority (IDA).

To assess similarities and differences between EXIM and other ECAs and their impact on competitiveness, we interviewed executives from EXIM, PEFCO, and all the ECAs listed above excluding NEXI and Bpifrance, who we were unable to reach.

Guidehouse conducted this evaluation remotely from October 2022 to September 2023 in accordance with the 2020 Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

BACKGROUND

EXIM, the official ECA of the United States, was established in 1934 through Executive Order by President Franklin Roosevelt and was later made an independent agency in 1945 through congressional charter. Through various financing and insurance programs, EXIM supports U.S. job creation, prosperity, and security. EXIM is an independent Executive Branch agency that offers direct loans, loan guarantees, export credit insurance, and

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3 In March 2022, Euler Hermes changed its brand name to Allianz Trade, an arm of Allianz commercial group.

4 In April 2023, EKF changed its name to Denmark’s Export and Investment Fund or ElIFO.

5 OIG directed Guidehouse to initiate a comprehensive quality control review of this report, specifically aimed at evaluating and mitigating a possible threat to the independence of the evaluators. Per the 2020 Quality Standards for Inspection and Evaluation, this quality control review was part of a continual process to ensure that possible independence threats are eliminated or reduced to acceptable levels.
working capital guarantees in order to level the playing field for U.S. goods and services going up against foreign competition in overseas markets.\textsuperscript{6}

Other members of the OECD have ECAs similar to EXIM. In 1978, members of the OECD agreed to the \textit{Arrangement on Officially Supported Export Credits} (OECD Arrangement), which provides a framework for the orderly use of officially supported export credits to encourage competition among exporters that is not based on the most favorable officially supported financial terms and conditions but on the quality and price of good and services offered in the market. The Arrangement seeks to establish a level playing field for ECAs by placing limits on the financing terms and conditions (repayment terms, minimum premium rate, minimum interest rates) to be applied when providing officially supported export credits as well as on the use of tied aid.\textsuperscript{7}

\textbf{EXIM’s Governance Structure}

EXIM’s operations are governed by its Charter, which is set by Congress and was most recently authorized on December 20, 2019, as part of the Further Consolidated Appropriations Act, 2020 (P.L. 116-94). Federal law requires that EXIM be periodically reauthorized by Congress. EXIM is further governed by its Bylaws, which were last amended by the Board in May 2019, and establish requirements for EXIM’s Board of Directors and meeting schedule as well as the responsibilities of EXIM’s President. Key offices established by the Charter include the Office of the Chief of Staff, the position of the Chief Risk Officer, and the Program on China & Transformational Exports. EXIM’s complete organizational structure is as depicted below.

\textsuperscript{6} Insurance products cover the failure to pay for an export by an international buyer. Under direct loans, EXIM provides competitive financing for international buyers of exports directly, rather than backstopping a bank’s loan. Guarantees are when EXIM provides financing to foreign buyers by backstopping a bank’s loan. Working capital products reduce risk for lenders and increase access to capital for U.S. exporters, enabling them to fulfill sales orders.

EXIM’s Board of Directors, according to its Bylaws, Charter, and other provisions of law, consists of the President as Chairman, the First Vice President as Vice Chairman, and three further Directors appointed by the President of the United States. A quorum is defined as a simple majority of the Board, equaling three of the five members.

**Requirement to Set Rates, Terms, and Conditions that Are Competitive with Other ECAs**

EXIM’s organizational objective, per its charter, is to foster expansion of exports of manufactured goods, agricultural products, and other goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income, a commitment to reinvestment and job creation, and the increased development of the productive resources of the United States. EXIM is required to set rates, terms, and other conditions that are fully competitive with other ECAs. EXIM’s charter states:

To meet this objective in all its programs, EXIM is directed, in the exercise of its functions, to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are fully competitive with the Government-supported rates and terms and other conditions available for

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the financing of exports of goods and services from the principal countries whose exporters compete with United States exporters, including countries the governments of which are not members of the [OECD] Arrangement........

(Emphasis added.)

Requirement to Use Domestically Flagged Shipping Vessels

EXIM is additionally subject to domestic shipping requirements are based on internal policy set in conjunction with the United States Maritime Administration (MARAD), an agency of the federal Department of Transportation. MARAD, founded in 1950, oversees the domestic marine transport system, supporting ships, shipping, port operations and national security. MARAD oversees a fleet of over 12,000 ships, some of which are used to transport EXIM cargo.

Prior Reviews of EXIM’s Competitiveness with OECD ECAs and Related Issues

This evaluation builds upon prior reports conducted by both OIG and the Government Accountability Office (GAO). In conducting their reviews, OIG and GAO observed certain deficiencies and made recommendations to address identified vulnerabilities.

**GAO Testimony – Maritime Administration: Actions Needed to Enhance Cargo Preference Oversight (GAO-22-106198)**

In fiscal year 2022, GAO reviewed EXIM’s domestic shipping requirement and its impact on goods sent overseas as part of EXIM deals. GAO’s report explained that U.S. flag vessels are required to transport certain cargo owned or financed by the federal government. U.S. flagged vessel cargo volumes in 2020 were 36 percent lower than in 2012. The report recommended that MARAD publicly release annual reports on its total cargo volumes and take steps to enforce compliance with shipping conditions. As of publication of this report, the status of both recommendations is open as GAO continues to monitor MARAD’s progress on the implementation.


In fiscal year 2022, EXIM’s OIG reviewed the status of EXIM’s default rate management practices. The review served to examine: (1) whether EXIM was calculating the default rate in line with statutory requirements; (2) how EXIM manages the default rate; and (3) how the default rate cap impacts the EXIM’s ability to carry out its mission. OIG discovered that the default risk calculation underestimated risk. Because EXIM was additionally lacking in some performance data, OIG found that EXIM was not able to correctly track the success of certain export credits. OIG recommended that EXIM improve its risk management protocols and clearly communicate such practices by (1) identifying

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10 See Sec. 2(b)(1)(A).
improved measures to track portfolio risk; (2) ensuring EXIM has accurate data on all non-performing credits; and (3) clearly describe how default rate is calculated. OIG noted that all recommendations were approved and resolved.

**GAO Report – U.S. Export-Import Bank: Actions Needed to Promote Competitiveness and International Cooperation (GAO-12-294) and Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GGD-96-1)**

In fiscal year 2012, GAO conducted a gap analysis reviewing EXIM’s mission, policy requirements, domestic content requirement, and relationship to the OECD Arrangement ECAs compared to other Group of Seven (G-7) countries.\(^\text{13}\) This report identified “specific mandates” that EXIM has in various policy areas compared to G-7 nations, which follow “broad directives”. Such examples include EXIM’s domestic shipping requirement and mandate to support American jobs via domestic content requirements, which the report emphasized were higher and less flexible than EXIM’s competitors. To address these gaps, GAO recommended that EXIM conduct a review of its domestic content stance and that it works with the Department of the Treasury and international counterparts to develop competitive policies.

In fiscal year 1995, GAO examined how the United States and five European Union (EU) nations compare in regard to: (1) export financing systems used in each country; (2) differences in and types of trade-offs between the countries under study; and (3) the status of international efforts to limit the use of government-backed export credits.\(^\text{14}\) The report found that in 1993, EXIM financed $15 billion in exports (3.2 percent of total U.S. exports), compared to $74.8 billion of the five EU nations, (7.1 percent of total exports from those countries). Additionally, EXIM assumes more transactional risk than the EU countries do and offers unconditional guarantees, in strong contrast to the less flexible European guarantees. This report did not offer recommendations.

**RESULTS IN BRIEF**

This evaluation found that EXIM’s lending activities suffered as a result of the lapse in authorization and lack of Board quorum between July 2015 and May 2019, causing it to fall behind other OECD ECAs and see its client relationships erode. In particular, EXIM’s medium- and long-term new authorizations declined to nearly zero during this period. EXIM officials explained that medium- and long-term transactions are typically over $10 million in size, which was the level at which Board approval was required. As a result, very little was done in this space by EXIM during that four-year period in which the agency lacked a quorum on the Board. EXIM officials further explained that medium- and long-term transactions can take several years to develop, and a total stoppage in lending activity

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has a long-term impact on the associated relationships and EXIM’s ability to generate future new business.

EXIM’s medium- and long-term portfolio remains a shadow of its former self. Credit volumes were approximately $2.2 billion in 2021, down from a height of $12.1 billion in 2014. This represents roughly an 82 percent drop over 7 years.

Furthermore, in our discussions with EXIM officials and officials from other OECD ECAs, we heard that all ECAs were similarly affected between 2019 and 2022 by shocks to the global economy attributed largely to COVID-19 and the Russian invasion of Ukraine, that resulted in a global economic slowdown and reduced lending activity. However, even after accounting for these factors, we found that other ECAs fared less poorly during the same period than EXIM did. For example, the United Kingdom’s UKEF authorized medium- and long-term support of $4.0 billion in 2021, down 40 percent from a height of $6.6 billion in 2019. By contrast, EXIM’s medium and long-term authorizations dropped to $2.2 billion from $5.3 billion—a reduction of 59 percent. Notably, EXIM went from having its medium and long-term authorizations quadruple UKEF’s authorizations in 2014 ($12.1 billion to UKEF’s $3 billion) to a level that was approximately half UKEF’s size in 2021 ($2.2 billion to UKEF’s $4 billion).

The relative strength of EXIM’s product offerings is not the issue. According to EXIM officials—as well as representatives from lenders, exporters, and other ECAs—EXIM’s product rates remain competitive with its OECD counterparts. In fact, they said EXIM remains the only ECA in the world that offers 100 percent repayment on the principal of its loan guarantee products. (Other OECD ECAs typically repay between 85 and 95 percent.) Furthermore, some OECD ECAs do not offer one or more of the products that EXIM does, such as direct loans. Although several other OECD Arrangement ECAs are increasingly offering a wider variety of products, such as tied aid and market window offerings,15 this has not yet created a major competitive disadvantage for EXIM.

When asked what is creating the largest competitive disadvantages for EXIM, nearly all the EXIM and third-party officials we spoke with pointed to EXIM’s policies and internal procedures, which they said added unique and challenging-to-satisfy “other conditions” to EXIM transactions that other OECD ECAs do not require. Specifically:

- **Domestic content requirement:** EXIM’s domestic content requirement of 85 percent to receive maximum financing support is substantially higher than other ECAs. Most other OECD ECAs require less than 30 percent domestic content to finance a transaction, and several no longer have a domestic content requirement at all.

- **Two percent credit default cap:** EXIM is the only OECD ECA with a default rate cap of two percent, and the only one that is required to impose a total freeze on lending activity should this default rate cap be exceeded.

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15 Tied Aid describes financing provided to compete with distorting foreign aid offers that provide a significant competitive advantage for foreign exporters (typically from outside the OECD Arrangement). Market Window offerings allow ECAs to offer pricing competitive with the commercial market, providing ECAs more flexibility as the transaction is not dictated by OECD rules.
• **Domestically flagged shipping vessel requirement**: EXIM is the only OECD ECA that requires exporters to ship on domestically flagged shipping vessels on direct loans and transactions over $20 million, even when the product is produced in another country so long as the related financing is provided by the U.S. government.

• **Local cost cap and minimum down payment**: In April 2021, the OECD Arrangement made changes to the local cost provision to allow ECAs to cover up to 50 percent of local costs, an increase from the previous level of 30 percent. However, EXIM did not increase its cap up to between 40 percent and 50 percent (based on the country) until January 2023. Additionally, the members of the OECD Arrangement voted to reduce, temporarily, the minimum down payment requirement that exporters must make from 15 percent of the total export contract value to 5 percent for sovereign or public buyers with a guarantee by the Ministry of Finance or central bank in non-high-income markets. Again, EXIM is one of only two OECD Arrangement ECAs, among the eight OECD Arrangement ECAs whose representatives we interviewed, that has not fully adopted this change. EXIM officials cited the agency’s lengthy internal review process and stakeholder concerns about potentially affecting American jobs as factors for why EXIM took almost two years to implement the local cost provision.

Additionally, EXIM’s internal review process is substantially longer than other OECD Arrangement ECAs, which causes frustration among current and potential clients and places additional administrative burden on EXIM underwriters.

To maintain EXIM’s competitiveness and enhance its ability to support U.S. exporters and create jobs, this report contains several recommendations to EXIM to improve its policies and procedures. These include taking steps to streamline its internal review process and provide additional clarity to underwriters, lenders, and borrowers about policy requirements and authorized exceptions and waivers. We are also recommending matters for Congressional consideration to update EXIM statutory requirements and charter so that EXIM can make the policy adjustments necessary to maximize its competitiveness.
FINDINGS

To enhance EXIM’s competitiveness, we identified nine findings. We have examined the causes and effects of these nine issues and made recommendations accordingly. As described below, these span from reexamining the domestic content requirement, the MARAD shipping requirement, and the two percent default rate cap, as well as decreasing the administrative burden and streamlining the transaction approval process.

Finding 1: Recent Events Negatively Affected EXIM’s Ability to Support U.S. Exports and Jobs

OIG found that the lapse in EXIM’s authorization in 2015, the loss of Board quorum between July 2015 and May 2019, and the threat to EXIM’s authorization in late 2019 had negative, long-term effects on EXIM’s ability to support U.S. exports and jobs. EXIM’s operations halted between July and September 2015 when its congressional authorization lapsed. Despite receiving congressional reauthorization on December 4, 2015, EXIM’s operations remained constrained for three and a half more years because its Board of Directors did not have a voting quorum, which internal policies required to approve transactions over $10 million. During this period, EXIM was able to operate on a limited basis but was unable to execute transactions valued at more than $10 million, which accounted for a significant portion of its total business.\(^\text{16}\) Furthermore, EXIM could not raise the threshold for Board reviews of transactions higher than $10 million because the Board could not meet to consider such a change. EXIM faced another potential lapse in its authorization in 2019 but Congress ultimately enacted the Further Consolidated Appropriations Act in December 2019, which extended EXIM’s authorization through December 31, 2026.\(^\text{17}\)

These events damaged EXIM’s ability to stay competitive with its peers, particularly in medium- and long-term export credit financing. As shown in Figure 2, EXIM experienced a significant decline in lending activity compared to its OECD ECA peers between 2015 and 2018, from which it has yet to fully recover. EXIM officials explained that medium- and long-term transactions can take several years to develop and the events of 2015 to 2019 had a long-term impact on EXIM’s ability to generate new business.

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\(^{16}\) In the years prior to the loss of Board quorum, about 1,000 transactions out of 31,000 total transactions averaged $10 million or above in size.

\(^{17}\) Pub. L. No 116-94, Division I, Title IV (Dec. 20, 2019).
Between December 2015 and May 2019—the period in which Congress reauthorized EXIM but did not confirm the Board members necessary to achieve a voting quorum—the agency operated on a limited basis because the Board had not delegated its authority to approve transactions valued at $10 million and above. EXIM was unable to update this policy without a quorum because a policy change would also have required a Board vote.

Congress and EXIM took steps to limit EXIM’s exposure to this risk through 2026. Congress amended EXIM’s charter to incorporate Sec. 3(c)(6)(B)(i), which allows the agency to convene a temporary Board after 120 consecutive days elapse without a full Board quorum within the same term of a President of the United States.18 Additionally, after EXIM reestablished a Board quorum in May 2019, the Board immediately voted to raise the threshold for Board review of transactions from $10 to $25 million to facilitate timely approval of these transactions, consistent with direction provided by Congress in the agency’s 2015 reauthorization.19

However, EXIM’s medium- and long-term export credit products remain at risk without additional policy changes. Per EXIM’s revised Charter, the Board Chair could potentially be required to wait as many as eight months to convene a temporary Board if EXIM were to lose its quorum at the end of a U.S. President’s administration.20 Furthermore, convening special meetings of a temporary Board would likely be challenging, because the charter

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18 A temporary Board would consist of the United States Trade Representative, the Secretary of the Treasury, the Secretary of Commerce, and the other members of the Board of Directors.

19 Section 54002(c) of the Export-Import Bank Reform Act of 2015.

states that the temporary Board must consist of three Cabinet-level individuals (the Secretary of the Treasury, the Secretary of Commerce, and the U.S. Trade Representative). This, in turn, could result in delays in approval for transactions valued at more than $25 million.

The negative effects observed on EXIM’s medium- and long-term export credit authorizations can be attributed to a combination of factors, such as delays in the appointment of key officials resulting in a lack of a Board quorum, as well as increased competition from other countries’ export credit agencies and their policies.

We found that the events described above had a negative, long-term effect on EXIM’s ability to support U.S. exports and jobs. According to senior EXIM and third-party officials, the risk introduced by these events has caused long time EXIM clients to shift to other OECD ECAs, as they do not face the same statutory restrictions or political uncertainty. The officials we interviewed said that because of this dynamic, many borrowers and lenders have now cultivated relationships with other ECAs, which they said could result in these customers locating more production facilities overseas. This borrower pool has also found that it appreciates the individual policies of other OECD ECAs, such as lower domestic content requirements, less shipping regulations, and higher ease of doing business. These policy preferences might never have been realized if the borrowers had continued to only do work with EXIM, but now that they have been forced into trying new ECA relationships, they have added reasons not to return to EXIM unless EXIM adjusts other policies as well.

Furthermore, uncertainty about EXIM’s continued operations discourages future business because clients cannot be confident that EXIM products will be available in the future. Anecdotally, EXIM officials observed that potential clients were hesitant to approach EXIM or engage in export activity because of the perceived risks of working with the agency. This is especially problematic for longer term deals because EXIM clients may lack confidence that EXIM will remain authorized by Congress and be able to meet its commitments. Interviewed officials emphasized that these factors have caused “incalculable” damage to EXIM’s business standing and reputation. The *EXIM 2021-2022 Advisory Committee Statement on the EXIM Competitiveness Report* claims that the reputational damage is so severe that exporters and lenders told EXIM their own reputations are on the line for even recommending EXIM to other customers. Furthermore, EXIM’s diminished reputation reflects on the reputation of the United States government as a whole. For example, multiple senior officials at other OECD ECAs told us that they used to look to the United States for its leadership in the export credit space, but given EXIM’s recent struggles, it appears to them that the United States no longer wishes to be the leader it once was.

Finally, senior EXIM officials say the lapse in authorization and Board quorum contributed to employee attrition and low morale because many staff members lacked confidence the agency would continue to operate in the long term and chose to seek employment elsewhere. They told us that several longtime staff members, who have worked for EXIM for many years and cannot easily be replaced, chose to retire early during this period. They added that losing these experienced staffers has significantly damaged EXIM’s institutional memory and ability to process complicated transactions quickly and efficiently. This problem is further exacerbated by the fact that according to EXIM OIG’s 2022 Fiscal Year
Major Management Challenges report, nearly a quarter of EXIM’s work force is at retirement age.21

**RECOMMENDATION**

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM should:

1. Direct staff to conduct an analysis to determine suggested policy changes to further reduce the impact of a potential future loss of a Board quorum on EXIM’s medium- and long-term lending.

2. Direct staff to conduct an analysis to determine what changes should be made to further mitigate the risks to EXIM’s medium- and long-term export credit financing that were generated by the lack of Board quorum.

**Finding 2: EXIM’s OECD Products Remain Competitive with Those of Other Countries, But Other OECD ECAs Are Increasingly Offering Other Products, Including Some Not Covered by the OECD Arrangement, Which Risks Placing EXIM at a Competitive Disadvantage in the Future**

EXIM’s main product offerings are insurance, direct loans, loan guarantees, and working capital loan guarantees.22 Most OECD ECAs offer these same products with some variation in rates or terms, as summarized in the table below. According to three senior EXIM officials and officials from three foreign OECD ECAs, EXIM’s products are competitive with those of other OECD Arrangement ECAs, especially its best-in-class guarantee product: EXIM is the only ECA in the world that offers 100 percent repayment on the principal of its loan guarantee products.23 Other OECD ECAs typically repay lenders between 85 and 95

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22 Insurance products cover the failure to pay for an export by an international buyer. Under direct loans, EXIM provides competitive financing for international buyers of exports directly, rather than backstopping a bank’s loan. Guarantees are when EXIM provides financing to foreign buyers by backstopping a bank’s loan; the exporter receives payment at the time of shipment. Working capital products allow U.S. exporters to borrow more with the same collateral, allowing exporters to free up cash flow to enable transactions.

23 Per some EXIM officials, some other ECAs offered 100% cover on some portion of their authorizations during the period covered by the evaluation.
percent. Some OECD ECAs do not offer one or more of the products that EXIM does, notably direct loans and working capital.

However, several other OECD Arrangement ECAs are increasingly offering a wider variety of products, such as tied aid and market window offerings, whereas EXIM only supports such products in a competitive matching situation. Representatives from some ECAs mentioned that they have introduced new products that EXIM is not currently offering; for instance, one foreign ECA provides unique domestic financing products, namely long-term loan guarantees to ensure working capital for established domestic exporters with contracts. Representatives from other ECAs, mentioned that they do not typically innovate on products and instead monitor what other ECAs are doing to see if they need to shift their policies or products.

EXIM officials noted that EXIM does not reimburse for the down payment, and it requires a minimum down payment of 15 percent. However, in some instances OECD competitors can now require a minimum 5 percent as a result of recent OECD policy changes. This can make EXIM’s 100 percent repayment somewhat less competitive for certain transactions. For instance, when another OECD ECA reimburses for 90 percent of the principal on a loan guarantee when it requires only a 5 percent down payment, it effectively reimburses for 85.5 percent (0.90*0.95) on the value of the loan. Whereas when EXIM reimburses for 100% on the principal of loan guarantee but requires a 15 percent down payment, it effectively reimburses for 85 percent (1.00*0.85) of the export transaction.

Tied Aid describes concessional financing provided to foreign buyers in developing countries for which capital goods procurement is contractually linked to procurement from the donor country. EXIM provides tied aid to compete with distorting foreign aid offers that provide a significant competitive advantage for foreign exporters (typically from outside the OECD Arrangement). Market Window offerings allow ECAs to offer pricing competitive with the commercial market, which can provide ECAs more flexibility because the transaction is not restricted by OECD Arrangement rules and may follow commercial market terms and conditions.

In our discussions with officials representing other OECD ECAs, some indicated that their institutions are placing an increased emphasis on market window offerings. Furthermore, the Congressional Research Service recently found that “unregulated ECA financing has grown as non-OECD countries operate ECAs and OECD members provide financing outside of the OECD rules” (see Congressional Research Service, In Focus: Export-Import Bank of the United States (Ex-Im), updated March 8, 2023). However, EXIM officials stated that their data indicates that market window activity has remained stable and they had not observed a marked increase.
Figure 3: OECD ECA Product Offerings

<table>
<thead>
<tr>
<th>ECA Name</th>
<th>Country</th>
<th>Type</th>
<th>Insurance</th>
<th>Guarantee</th>
<th>Buyer Loan</th>
<th>Working Capital</th>
<th>Other Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDC</td>
<td>Canada</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>EKF</td>
<td>Denmark</td>
<td>Public</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Finlvera</td>
<td>Finland</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Export Assurance</td>
<td>France</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Euler Hermes</td>
<td>Germany</td>
<td>Mixed</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>SACE/SIMEST</td>
<td>Italy</td>
<td>Private</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>NEXI</td>
<td>Japan</td>
<td>Public</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>JBIC</td>
<td>Japan</td>
<td>Public</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Korea EXIM</td>
<td>Korea</td>
<td>Mixed</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>KSURE</td>
<td>Korea</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Atradius Dutch State Business</td>
<td>Netherlands</td>
<td>Mixed</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>EKN</td>
<td>Sweden</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>UK Export Finance</td>
<td>UK</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>US EXIM</td>
<td>US</td>
<td>Public</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>Limited</td>
</tr>
</tbody>
</table>

Both EXIM senior officials and representatives from other OECD ECAs stressed that the inherent structure of EXIM’s product offerings is sound and that they believed EXIM is mainly held back by its policy requirements. EXIM’s clients, likewise, highlighted that they felt that the agency’s products offerings are good, but its policy requirements and speed of delivery makes the products difficult to access. Some clients even noted that the comparative strength of EXIM’s products is the reason they remain willing to deal with some of the challenges associated with its burdensome policy requirements.

Generally, all OECD Arrangement ECAs, including EXIM, are limited by the OECD Arrangement in the terms and conditions they can offer on their medium- and long-term insurance, direct loans, and loan guarantees. They noted that this aligns with the purpose of the OECD Arrangement, to limit competition to the quality and price of the goods and services exported and not on the most favorable officially-supported financial terms and conditions. Representatives from some OECD ECAs told us they have stricter rules compared to EXIM on pricing or were more limited in what product offerings they could provide due to their relatively smaller economies, as they have less room for error or default due to their smaller pool of potential funding.

Although EXIM can offer products such as tied aid, in practice it is constrained by its charter and by the amount of tied aid funds available to the agency. EXIM’s charter allows the agency to provide tied aid but is typically only used to counter a foreign ECA’s tied aid support. According to both EXIM officials and foreign ECA officials, this burden of proof is a nearly impossible task with non-OECD ECAs because they do not provide public disclosures of their tied aid offers, so EXIM faces significant challenges in confirming the terms of such
offers. Other OECD ECAs face no such constraints in their charters or policies that require them to first identify a competing tied aid offer before offering one of their own.

Furthermore, EXIM’s competitive product offerings help the agency remain competitive with other OECD Arrangement ECAs. According to other OECD ECA officials, EXIM’s product offerings remain on par with those of other OECD ECAs, and often have competitive interest rates and financing products. The agency has done well to maintain a strong position in this area. Although some OECD arrangement ECAs are pursuing new products—some which are not covered by the OECD Arrangement—this has not yet created a major competitive disadvantage for EXIM. To ensure this remains the case, EXIM should continue its regular benchmarking processes via the EXIM Competitiveness Report and OPAIR to review product offerings compared to other OECD ECAs.

**RECOMMENDATION**

No recommendation.

**Finding 3: EXIM Board Has Set the Domestic Content Requirement Higher Than Its OECD ECA Competitors as a Result of Internal Policy and Precedent, Reducing the Number of U.S. Exporters Eligible for Export Credit Assistance**

OIG found that EXIM’s domestic content rules are more stringent than its OECD counterparts and that reduced the number of U.S. exporters eligible for export credit assistance. EXIM’s medium- and long-term domestic content rules generally require its customers to demonstrate that 85 percent of the content of goods and services under contract have been sourced from American manufacturers and shipped from the United States to receive full financing support. According to an internal 2020 EXIM memorandum, EXIM’s 85 percent domestic content requirement is the highest used by any ECA in the world, and significantly higher than the requirements used by most of EXIM’s OECD counterparts, as can be observed in the graph below. The next highest domestic content requirement is held by the German ECA Euler Hermes, which is also regarded as conservative in its policies, and which still required only 51 percent domestic content (with possible exceptions). From there, content requirements rapidly drop for other OECD members to around 30 percent and lower.

Furthermore, many other ECAs not only offer lower domestic content requirements, but also have been steadily reducing their requirements over the past 20 years. For example, the United Kingdom’s UKEF and Canada’s EDC went from having among the highest domestic content requirements to among the lowest. According to a 2012 GAO report, despite U.S. supply chains becoming significantly more globalized over the previous four decades, EXIM has not significantly adjusted its MLT domestic content requirements since

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27 For short-term products, EXIM’s full coverage requires that U.S. content, excluding profit, exceed 50 percent. For these products, non-small businesses are also limited to only including direct costs in the content determination, whereas small business can include indirect overhead and other indirect costs. Although this 50 percent threshold is lower than the 85 percent threshold for medium- and long-term transactions, it is still higher than the minimum domestic content percentages required by most other OECD ECAs.
Since then, according to EXIM officials, the only adjustment the agency has made was to provide limited exceptions under its China and Transformational Exports Program (CTEP) in 2020. In an internal study conducted by its policy analysis group, EXIM found that the only other ECAs that have not lowered their domestic content requirements in the last 20 years are Japan’s, Korea’s, and France’s—and this is because those ECAs already had comparatively low domestic content requirements. Figure 4 shows how different ECAs have evolved their domestic content requirements since the early 2000s.


29 Specifically, exporters may qualify for full EXIM coverage for a medium- or long-term transaction with 50 percent or more U.S. content if (1) they qualify for the CTEP program and (2) receive a Transformational Export Area designation.
Furthermore, according to the same 2012 GAO report, EXIM enforces the same domestic content requirements for all sectors, even though different sectors have different content needs. EXIM’s research has confirmed that U.S. manufacturing has trended towards more foreign inputs across the board, and that this trend is more pronounced in certain sectors. For example, as shown in the table below, foreign inputs in U.S. computers and economic products rose by 109 percent over the 20-year period between 1987 and 2016.

**Table 1: Percentage of Foreign Inputs by Sector**

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>17%</td>
<td>23%</td>
<td>26%</td>
<td>25%</td>
<td>28%</td>
<td>11%</td>
</tr>
<tr>
<td>Computer and electronic products</td>
<td>23%</td>
<td>32%</td>
<td>40%</td>
<td>46%</td>
<td>48%</td>
<td>25%</td>
</tr>
<tr>
<td>Motor vehicles, bodies and trailers, parts</td>
<td>28%</td>
<td>28%</td>
<td>30%</td>
<td>33%</td>
<td>31%</td>
<td>3%</td>
</tr>
<tr>
<td>Other transportation equipment</td>
<td>11%</td>
<td>18%</td>
<td>17%</td>
<td>13%</td>
<td>16%</td>
<td>5%</td>
</tr>
</tbody>
</table>

30 In comments, EXIM noted that although its domestic content policy is not explicitly specific to sectors, certain sectors (e.g., agricultural commodities) typically use short-term financing, which has a 50 percent minimum domestic content policy rather than the 85 percent minimum domestic content than medium- and long-term financing.
All U.S. manufacturing


During interviews with stakeholders both internal and external to EXIM, stakeholders voiced differing opinions about the positive and negative effects of a high domestic content requirement. Some stakeholders argued that relaxing EXIM’s domestic content requirement would allow EXIM to provide more competitive financing and support more U.S. exports and jobs; a minority of voices argued it would encourage more firms to locate their manufacturing facilities abroad. Repeated interviews with senior EXIM officials produced widespread agreement that EXIM’s content requirements made more sense in the distant past when American supply chains were significantly more on shored. However, interviewed officials cautioned that the domestic content requirements have not caught up with the modern paradigm, where larger and larger quantities of raw materials as well as component parts are sourced from abroad, while intellectual property has come to take up a significantly larger share of American economic output.

Moreover, we found that a more nuanced approach to the problem could be palatable to both sides of this debate. Several members of EXIM’s advisory committee said they were opposed to an across-the-board reduction in EXIM’s domestic content requirement but could be persuaded to support lower domestic content requirements for a subset of strategic industries and interests, particularly those involving high technology and intellectual property. Currently EXIM has the China and Transformational Exports Program (CTEP), which offers lower content requirements, specifically for companies and industries in the Congressionally mandated Transformational Export Areas. However, there is no broader way to request exemptions outside of receiving a Transformational Export Area designation under the CTEP program.31

According to the aforementioned 2012 GAO report, EXIM is unusual in not allowing for these kinds of exceptions. Japan, for instance, makes exceptions to its 30 percent content requirement rule (already much lower than EXIM’s 85 percent requirement) for any deals with strategic importance. On the far end of this scale, Canada, Italy, and Finland all avoid fixed content requirements entirely and only consider domestic content as one factor among many in terms of how a project can benefit their national interest.

According to senior EXIM officials and external stakeholders, EXIM’s domestic content requirements have hindered EXIM’s competitiveness and are causing EXIM to lose market share to more flexible ECAs. As noted in the GAO report on EXIM from 2012, other ECAs operating within the OECD Arrangement have shifted to 51 percent domestic content or significantly lower. In the ten years since that report, that trend has only accelerated. EXIM officials and said other OECD ECAs can do business with a much larger range of businesses as a result of their less restrictive policies. Representatives from other OECD ECAs affirmed in interviews with the evaluation team that this was their experience. Because so many core components are produced abroad, most EXIM officials and even some OECD ECAs

31 Applicants both need to apply under the CTEP program and receive a Transformational Export Area designation to qualify for the lower domestic content threshold. For example, a natural gas deal could count as China competition, but not as a Transformational Export Area—and therefore not be eligible for the same financing at a lower content.
representatives told us that the domestic content policy greatly reduces the amount of U.S. exports that are eligible for fully competitive EXIM coverage. Thus, paradoxically, the policy reduces EXIM’s ability to accomplish its mission of supporting jobs through exports.

For example, one external stakeholder highlighted an American manufacturer that contemplated moving a manufacturing facility from a foreign country to the United States in 2016, and went as far as constructing a new facility in the United States. However, according to this stakeholder, the foreign country’s ECA intervened and extended highly competitive terms around domestic content. This stakeholder said that because of that deal, the manufacturer kept its existing foreign manufacturing facility, abandoning the constructed U.S. facility and resulting in fewer jobs in the U.S. economy.

Moreover, in a 2020 memorandum, EXIM reported to the Board that EXIM’s U.S. content policy was the number one obstacle to EXIM competitiveness and further reported that the then-exigent content policy was the most stringent and least flexible among the 115 export credit agencies around the world.32 This memorandum allowed for more flexibility for exports in ten transformational export areas (by lowering the required U.S. content to 51 percent in order to access full financing support). Interviews with senior EXIM officials affirmed the basic point of the memorandum, that domestic content requirements still remain one of the largest obstacles to EXIM’s ability to compete.

**RECOMMENDATION**

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM’s President should:

3. Direct staff to conduct a study exploring the potential for varying EXIM’s domestic content requirement by industry or sector for all exporters—not just those that qualify under the narrow exceptions of the CTEP program—and adopt policy changes to reflect any modifications or revisions to domestic content requirements based on the results of the study.

**Finding 4: EXIM’s Two Percent Default Rate Cap, a Statutory Requirement, Is Unique Among OECD ECAs and Discourages Its Staff from Taking Risks and Meeting Other Congressional Mandates**

OIG found that EXIM’s statutorily mandated default rate33 cap discouraged EXIM from approving transactions considered to be too high risk, whereas other OECD ECAs do not hold themselves accountable to this same standard. EXIM is required to monitor and report its default rate to Congress at least quarterly. If the default rate hits two percent, EXIM is required to have its loan exposure frozen at current levels. New loans, guarantees, and

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33 The default rate refers to the rate at which the entities to which EXIM has provided short-, medium-, or long-term financing are in default on a payment obligation under the financing. EXIM Charter at Sec. 8(g), codified at 12 U.S.C. 635g(g), as amended through Pub. L. 116–94 (Dec. 20, 2019) (hereinafter EXIM charter). EXIM calculates its default rate by dividing the total amount of the required payments that are overdue by the total amount of the financing involved. 12 U.S.C. § 635g(g)(1).
insurance can only be issued to the extent that previous authorizations are repaid and new capacity is made available. If implemented, this freeze is required to remain in place until the agency’s default rate once again falls below two percent.

According to senior EXIM officials, the legislative intent behind this policy was to discourage excessive risk taking and limit potential losses by the agency. However, they said this is an unusual and exceptionally conservative policy compared to other ECAs. Multiple officials from both within and outside EXIM said that other ECAs set a default rate ceiling of between four and five percent if they set a default rate ceiling at all. Furthermore, they said no other ECA or financial institution has implemented a cap that requires a lending freeze when targeted metrics are exceeded. In interviews with foreign ECAs, multiple officials explained that their institutions did not even have a default rate ceiling but instead tracked a series of other risk factors, generally with the goal of reaching breakeven. These ECA officials also told us that although exceeding a risk indicator might trigger adjustments in lending activity, in no case would it result in a total lending freeze.

EXIM OIG previously reported on this issue in October 2022, finding that the two percent default rate cap adversely affects the agency’s ability to execute its mission.34

EXIM is required by law to calculate and report on its default rate. Moreover, EXIM must curtail its lending activities if its reported default rate exceeds two percent. Specifically, the following provision is included in EXIM’s charter:

**Sec. 6(a)(3) Freezing of lending cap if default rate is 2 percent or more.** —If the rate calculated under section 8(g)(1) is 2 percent or more for a quarter, the Bank may not exceed the amount of loans, guarantees, and insurance outstanding on the last day of that quarter until the rate calculated under section 8(g)(1) is less than 2 percent.

According to senior EXIM officials, Congress amended this requirement into EXIM’s charter in 2012. They said Congress introduced the two percent default rate cap to ensure that financial risk is minimized across the agency and tied the cap to the decision to raise EXIM’s financing authority to up to $140 billion.35

According to one senior EXIM official, the agency does not expect its underwriters to consider the agency’s overall default rate when evaluating applications for loans, guarantees, and insurance. This senior official said it is the responsibility of EXIM’s senior leadership to determine whether a transaction is too risky. However, several other EXIM officials told us that the two percent default rate cap in the charter has had a chilling effect throughout the agency, and underwriters consider the risk to the agency’s default rate even when they are not expected to.

Senior EXIM officials noted that the two percent default rate cap in the agency’s charter discourages risk taking, which makes EXIM less competitive with other ECAs overall. This conflicts with EXIM’s role in the American economy, which is specifically to support American jobs by financing export transactions that the private sector is unwilling or unable to finance. Multiple interviewed officials also said the two percent default rate cap

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conflicts with other Administration goals and the agency’s statutory mandates. For instance, financing environmental projects or exports for projects in high priority developing countries becomes significantly more difficult if those opportunities raise the risk of triggering the two percent default rate cap. Furthermore, because exceeding the two percent default cap triggers a freeze on all new transactions, EXIM’s charter removes one of the agency’s best tools for improving its default rate: executing additional transactions with lower anticipated risk.

Similarly, several officials previously told OIG that the default rate cap contributes to a culture of risk aversion within the organization. One senior official told OIG that the impact of EXIM exceeding the two percent default rate ceiling is so severe that the default rate “effectively manages the agency.” Furthermore, EXIM officials told OIG the default rate particularly limited EXIM’s ability to pursue transactions that advance statutory initiatives such as the China and Transformational Exports Program (CTEP) and renewable energy exports. Although EXIM’s reported default rate has historically been less than 1 percent, it increased to 1.56 percent in June 2021. The initial increase in EXIM’s default rate resulted, in part, from the effects of the COVID-19 pandemic. However, the effect of non-performing credits on EXIM’s default rate was amplified by the declining value of EXIM’s total financing. External geopolitical and macroeconomic factors such as Russia’s on-going invasion of Ukraine and global inflationary pressures increased the risk that EXIM might reach the two percent default rate cap.36

**RECOMMENDATION**

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s President should:

4. In advance of EXIM’s next reauthorization, request that EXIM’s Senior Vice President for Congressional and Intergovernmental Affairs engage with interagency stakeholders to develop legislative proposals that address the challenges associated with the default rate cap.

5. Direct the Senior Vice President of the Office of Board Authorized Finance to document and circulate guidance to the agency’s underwriters clarifying that they should not factor the two percent default rate cap into their decisions.

**Finding 5: EXIM’s Use of Domestically Flagged Shipping Vessels, a Long-Standing Policy EXIM and MARAD Have Jointly Set in Response to Congressional Direction, Reduces the Competitiveness of U.S. Exporters**

EXIM’s directive for domestic vessel use by exporters hinders its competitiveness compared to other OECD ECAs, none of which require that their exports to use domestically flagged vessels. EXIM officials stated that this limitation adversely affected EXIM’s ability to support American businesses in global trade. According to EXIM’s most recent

memorandum of understanding (MOU) with the United States Maritime Administration (MARAD)—which provides advice and guidance on shipping with U.S.-flagged vessels—any and all EXIM direct loans, as well as guarantees or insurance transactions valued at over $20 million, guarantees with repayment periods over seven years, and disbursements over $20 million under credit guarantee facilities must be shipped on U.S.-flagged vessels if the export is shipped on an ocean-going vessel. This is in contrast with other ECAs, which according to a 2012 GAO report on EXIM’s competitiveness, do not have such requirements for any product at any transaction value. 37 Notably, an EXIM official noted that EXIM attempted to discuss increasing the $20 million threshold but was rebuffed by MARAD.

Companies can request waivers to be approved by the MARAD Office of Cargo Preference and Domestic Trade’s Reconsideration Committee when vessels are unavailable or are not being offered at reasonable rates. According to data made publicly available by MARAD, summarized in Table 2 below, EXIM experienced a steep drop in the number of waivers granted by MARAD in 2017, decreasing from 37 waivers granted in 2016 to 6 waivers granted in 2017. Furthermore, MARAD has granted progressively fewer non-availability exemptions, going from 13 in 2013, to 10 in 2014, to 5 in 2015, and 0 in 2016 and 2017.

Table 2: MARAD Waivers Granted Between 2012 and 2017 38

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>Non-Availability</td>
<td>6</td>
<td>13</td>
<td>10</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Statutory (Carrier Error)</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Compensatory</td>
<td>4</td>
<td>9</td>
<td>8</td>
<td>0</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>P2 Service</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>19</td>
<td>32</td>
<td>5</td>
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<tr>
<td>General</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<td>US-flag Vessel(s)</td>
<td></td>
<td></td>
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<td>Available</td>
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<td>1</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

| Total Waivers Granted | 17 | 31 | 24 | 25 | 37 | 6 |


This congressionally emphasized request for U.S.-flagged vessels in EXIM’s shipping policy has been in place since 1934, but recent trends suggest the policy may be hindering EXIM’s ability to support American businesses. The MOU between EXIM and MARAD has not been updated since 2004 and the number of waivers granted by MARAD has steeply decreased since 2017. Although long-standing process is for exporters to navigate MARAD’s themselves, this may now be deterring some exporters from working with EXIM at all. According to one comment in EXIM’s 2021 global competitiveness survey, “MARAD waiver is a process that adds execution risk many sponsors/borrowers are simply not willing to

37 Guidehouse confirmed that this remains the case as of February 2023 in our interviews with foreign ECA officials.

38 Neither EXIM nor MARAD have publicly released information about MARAD waivers granted since 2017.
take, and it can single handedly divert interest from a potential [EXIM] financing;” another suggested that when exporters do not receive a waiver to the U.S. flagged shipping requirement, it drives them to work with other ECAs. The limited information available to prospective customers about the waiver process on the EXIM website may be contributing to this problem.\textsuperscript{39}

EXIM’s shipping policy was implemented following Public Resolution 17 by the 73rd Congress in 1934 (48 Stat. 500) and emphasizes that products which are part of loans made by the federal government should be transported on American flagged vessels. The sense of Congress states, “…any loans made by an instrumentality of the United States Government to foster the exporting of agricultural or other products shall provide that the products may be transported only on vessels of the United States unless, as to any or all of those products, the Secretary of Transportation, after investigation, certifies to the instrumentality that vessels of the United States are not available in sufficient number, in sufficient tonnage capacity, on necessary schedules, or at reasonable rates…” (Pub. L. 109–304, §8(c), Oct. 6, 2006, 120 Stat. 1642 codified at 46 U.S.C. §55304).\textsuperscript{40}

Although a MOU exists between EXIM and MARAD to clarify the U.S.-flagged carrier requirement, it has not been updated since 2004. This MOU increased the threshold at which the U.S. flagged carrier requirement applies from $10 to $20 million, the first such increase since 1987. EXIM could benefit from updating its MOU with MARAD to reflect changes in EXIM’s policies and priorities in the last 19 years, as well as inflation. The MOU notes that EXIM and MARAD should “meet periodically to review activity….and discuss ways in which the program may be improved.”\textsuperscript{41}

The drop off in MARAD’s shipping exemptions roughly coincides with the period between July 2015 and May 2019, when EXIM lacked a Board quorum and could not approve transactions valued at more than $10 million—which would therefore have precluded most transactions that would have required shipping with U.S. flagged vessels, as the threshold for that requirement has been set at $20 million since 2004. However, according to senior EXIM officials, this does not fully explain why MARAD continues to be granting exemptions at lower total volumes than it did prior to 2015.

According to several EXIM officials, navigating the waiver process is primarily the exporter’s responsibility. They also pointed out that the EXIM website provides limited information on how to solicit a waiver from MARAD, essentially directing users to a joint policy document from EXIM and MARAD explaining the steps to request one. One EXIM official noted that some underwriters at EXIM essentially behave as if MARAD exemptions do not exist because the likelihood of receiving one appears to be so low. In written

\textsuperscript{39} EXIM officials commented that in 2012, an interagency working group concluded that it made the most sense to house the document on the MARAD website but link to it on EXIM’s website.

\textsuperscript{40} In 2006, Congress reorganized and restated a subset of existing laws related to shipping. This codified Public Resolution 17 at 46 U.S.C. 55304. \texttt{H. Rept. 109-170 - CODIFICATION OF TITLE 46, UNITED STATES CODE, “SHIPPING”, AS POSITIVE LAW | Congress.gov | Library of Congress}

\textsuperscript{41} According to EXIM’s written comments, while not an update to the MOU, in 2012 EXIM and the Department of Transportation agreed to the Hochberg-LaHood Action Memorandum. This agreement laid out mutual objectives, as well as public transparency regarding MARAD’s application of Public Resolution 17, including criteria for granting waivers.
comments, EXIM suggested that MARAD waivers might not be as necessary if exporters provided an advance shipping plan and requested MARAD facilitation. To address these concerns and improve transparency around the EXIM’s shipping requirements, the agency should develop a detailed plan for providing clearer and more effective guidance on how to support U.S. exporters’ compliance with EXIM’s domestic shipping requirements and procedures, including processes for requesting a MARAD waiver.

EXIM’s domestic shipping requirements likely deter some customers from working with the agency. In EXIM’s 2021 Exporter and Lender survey, nearly half (22 of 46) of the respondents identified domestic shipping requirements as a significant challenge; 13 out of 24 respondents did the same in EXIM’s 2020 Exporter and Lender survey. After interviewing more than 40 officials, both within and outside of EXIM, we found a consensus that EXIM and MARAD’s domestic shipping policy diminishes EXIM’s ability to meet its core objectives of promoting job creation and economic growth. (However, EXIM officials acknowledged that U.S. flag carriers and crews benefit from the revenue and experience they gain transporting cargo mandated by EXIM and MARAD’s policy.) EXIM officials further stated that there is a limited number of U.S.-flagged vessels available at any given time. As a result, freight costs are higher compared to non-U.S. flagged vessels and there are more delays, which is not appealing to companies considering a transaction with EXIM.

According to several EXIM officials, although it is difficult to determine how many additional transactions would have occurred if not for the U.S.-flagged vessel restriction, they find it discourages exporters from coming to EXIM. In turn, this inhibits EXIM’s ability to achieve its mission of supporting exports and the creation or maintenance of U.S. jobs.

Furthermore, the U.S.-flagged shipping requirement creates special hindrances for some of EXIM’s newer policies and programs, such as its efforts to support 5G transactions. EXIM’s Board recently adopted a policy clarification that provides for “EXIM loans, loan guarantees and insurance to be made available for the purchase of goods and service shipped or invoiced from any country to facilitate U.S. exports for 5G transactions.” However, one EXIM official pointed out that it will be extremely challenging, if not impossible, for exporters to locate a U.S.-flagged vessel to transport 5G devices from one third-party country to another, because in many cases U.S. shipping lanes will not exist between two third-party countries.

**RECOMMENDATION**

To address EXIM’s competitiveness with its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s Office of the Chair should:

6. Direct the Senior Vice President for Policy Analysis and International Relations to seek updates to EXIM’s MOU with MARAD to reflect changes in EXIM’s policies and priorities and consider revisiting the $20 million threshold for U.S.-flagged shipping.

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7. Develop a comprehensive plan, in coordination with MARAD, to provide clearer and more effective guidance on EXIM’s website for U.S. exporters to assist them in complying with EXIM’s domestic shipping requirements and procedures, including processes for requesting a MARAD waiver on the use of U.S. flagged vessels.

8. In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop proposals that address the challenges associated with the impact on EXIM’s competitiveness of requiring exporters to use U.S. flagged shipping vessels.

Finding 6: EXIM Has Been Slow to Adopt Changes to the OECD Arrangement Due to Stakeholder Considerations and Statutory Constraints, Putting It at a Competitive Disadvantage with Most of Its OECD ECA Peers

EXIM has been slow to adopt recent changes to the OECD Arrangement, putting the agency at a competitive disadvantage with its OECD ECA counterparts and limiting its ability to support U.S. exports and job creation.

The member participants of the OECD Arrangement periodically make changes to the limitations and restrictions set by the Arrangement. In recent years, the OECD Arrangement member participants voted to relax certain restrictions to align ECA financing with market dynamics and requirements. Specifically, in April 2021, the OECD Arrangement made changes to the local cost provision to allow participant ECAs to cover up to 50 percent of local costs in developing countries and up to 40-percent in high-income markets, an increase from the previous level of 30 percent. EXIM did not update its local cost policy to reflect this change until January 2023, whereas other ECAs were able to update their local cost policies soon after the OECD change went into effect, if not instantaneously. The period of 21 months that EXIM lagged in updating its local cost policy left it less competitive with these ECAs. Additionally, the members of the OECD Arrangement voted to reduce, temporarily, the minimum down payment exporters must make from 15 percent of the total transaction value to 5 percent for sovereign transactions guaranteed by the Ministry of Finance in developing countries. Again, EXIM is one of only two OECD Arrangement ECAs, among the eight OECD Arrangement ECAs whose representatives we interviewed that has not fully adopted this change.43

According to senior EXIM officials, EXIM has been slow to adopt these changes, even when they could improve the ease of doing business and increase the competitiveness of U.S. exporters. Interviewed officials told OIG this puts U.S. exporters at a competitive disadvantage compared to foreign exporters who can access more favorable terms from their countries’ ECAs, which have moved more quickly to adopt the relaxed local cost and down payment requirements in the OECD Arrangement. Three OECD ECAs have even established mechanisms to adopt OECD Arrangement policy changes automatically.

Senior EXIM officials told us that EXIM’s policies are representative of congressional decisions and EXIM’s leadership’s need to balance the competing needs of multiple stakeholders, which slows down policymaking. According to a 2012 GAO report, EXIM is

43 In written comments, EXIM noted it allows for five percent down payments in limited cases under its China and Transformational Exports Program (CTEP).
also unique in that Congress gives it policy goals, like the mandate to pursue business in Africa as an example, in addition to its core purpose of boosting support for domestic exports and supporting job growth. GAO found that other OECD ECAs have more general missions to promote exports or overall national interest without these specific policy stipulations that are the result of consideration for the interests of multiple competing stakeholders.44

EXIM officials told us their decision-making process often results in policy changes, such as to the EXIM local cost policy, being made more slowly or made based on domestic concerns rather than the international dynamics of OECD Arrangement changes. Specifically, EXIM officials said the agency was hesitant to revise the local cost provisions without Senate-confirmed leadership in place because certain stakeholders were historically sensitive to proposed changes to local cost policy. They also noted that the agency’s internal bureaucracy slows down its decision making, as well. If EXIM were to assume a policy of adopting OECD Arrangement changes automatically, like other OECD ECAs have done, it would shift the paradigm from “opt in” to “opt out” and potentially circumvent some of the challenges associated with extended debates around policy changes.

In the case of the minimum down payment, which the OECD Arrangement temporarily reduced from 15 to 5 percent in 2021, EXIM is partially constrained by its charter, which stipulates that for medium-term financing EXIM may not finance more than 85 percent of the total cost of the exports involved.45 Therefore, changing the minimum down payment to 5 percent for all medium-term transactions would require congressional action to revise EXIM’s charter. Furthermore, EXIM’s medium- and long-term content domestic content policy effectively restricts its ability to change its minimum down payment policy. As written, EXIM’s domestic content policy would require exporters to meet or exceed a heightened 95 percent domestic content threshold (rather than the standard 85 percent threshold) to qualify for a 5 percent down payment; EXIM officials observed this would not be realistic for most exporters. Additionally, one EXIM official said EXIM’s leadership decided against pursuing a change to its standard content policy to allow smaller cash payments because they viewed the OECD Arrangement change as a temporary response to COVID-19. EXIM officials noted in our interviews that the agency was surprised when the temporary measure was renewed at the OECD. Similarly, officials from other OECD ECAs told us that they did not expect these policies to be extended and had to pivot accordingly.

In conclusion, EXIM is at a competitive disadvantage when it does not adopt changes to the OECD Arrangement policies in a timely manner. The delays result in exporters from other OECD countries obtaining more favorable terms to finance trade than those EXIM is able to offer to U.S. companies.


45 See Sec. 2(a)(2).
RECOMMENDATION

To strengthen EXIM’s competitiveness with respect to its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s Office of the Chair should:

9. Direct staff to conduct a study exploring the potential for adopting a policy of implementing future changes to the OECD Arrangement automatically if no constraints exist in EXIM’s charter or enabling legislation.

10. In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop legislative proposals that would modify the agency’s charter to address the limitation in Sec. 2(a)(2), which prevents EXIM from matching recent updates to the OECD Arrangement.

11. Direct staff to conduct a study exploring the potential for revising EXIM’s domestic content policy so that lowering minimum down payments to 5 percent would not also require exporters to meet or exceed a heightened 95 percent domestic content threshold (rather than the standard 85 percent threshold) to receive full financing and down payment support.

Finding 7: Unlike Some OECD ECA Counterparts, EXIM’s Charter Prohibits It from Deprioritizing Fossil Fuel Transactions

EXIM continues to support fossil fuel transactions, unlike some other OECD ECAs, but not all, that are adopting policies of reduced or zero carbon investment. In interviews with representatives from foreign ECAs, several stated that their agencies were transitioning away from fossil fuels due to climate goals promoted by their central governments. However, the extent to which OECD ECAs can support these sectors is on a spectrum with some adopting a complete zero-carbon approach, while others have exceptions for when they would consider supporting such transactions. By contrast, EXIM has effectively adopted an “all of the above” approach to energy-related transactions. EXIM has increased the resources devoted to promotion, marketing, and execution of U.S. renewable energy exports that produce very low to zero carbon dioxide or carbon dioxide equivalent of greenhouse gases—but has not limited its financing for transactions related to oil and gas. Notably, 10 of EXIM’s 14 largest deals completed between 2011 and 2021, ranging from $3.5 billion to $750 million, were oil and gas transactions.

In particular, section 2(k)(1)(B) of EXIM’s charter states that the bank may not “...promulgate or implement policies that discriminate against an application based solely on the industry, sector, or business that the application concerns”. This effectively limits EXIM’s ability to implement zero-carbon policies that would entail a scaling back of fossil fuel transactions. Other OECD ECAs do not face such constraints.

As many OECD ECAs are transitioning away from financing carbon intensive transactions, those that have not remain more competitive in the fossil fuel financing space. In not adopting a zero-carbon policy and continuing to review oil and gas deals in accordance with EXIM’s 2013 Environmental and Social Due Diligence Procedures and Guidelines, and
given EXIM’s Charter requirements, the agency can consider financing oil and gas transactions. In turn, this makes the bank more competitive in this sector and potentially allows it to engage in more fossil fuel deals overall.

**RECOMMENDATION**

No recommendation.

**Finding 8: EXIM’s Transaction Approval Process, Internal Review, and Short Staffing Are Contributing to Slower Transaction Response Timelines than Its OECD ECA Counterparts**

OIG found that EXIM’s transaction and internal review processes are contributing to slower transaction response timelines than OECD counterparts. Specifically, EXIM’s internal review practices and processes, complex application process, and decreasing employee expertise are resulting in significant slowdowns in transaction approvals. According to one senior EXIM official, the typical turnaround period for Board approval (required for transactions valued at above $25 million) is between 90 and 120 days; another senior EXIM official said the “best case scenario” is six months. EXIM officials stated in written comments that its unconditional guarantee is of higher quality when compared to other ECAs’ 95 percent insurance or conditional guarantee products, but results in increased processing times. They also commented that EXIM is subject to a variety of legal, policy, and compliance demands that other ECAs are not. By contrast, representatives from other OECD ECAs said their organizations typically process high dollar-value transactions in 4 to 6 weeks.

Notably, EXIM was given poor ratings in reports issued by the research firm TXF Intelligence from 2020 to 2021 on scores related to deal execution speed, customer service, industry expertise, and similar factors. In 2020, a TXF report rated EXIM last compared to eight of its OECD peers. On a scale of 1 to 5, EXIM received an aggregate score of 3.0, whereas other OECD ECAs rated between 3.5 and 4.4. In 2021, TXF again found EXIM at the bottom of the pack compared to 11 of its OECD peers. On a scale of 1 to 5, EXIM received an aggregate score of 3.67—an improvement from the year prior, but still well behind close competitors like UKEF (4.13). A 2022 report by TXF titled *Export Finance Research Report-Analysis of Market Opinion* compared OECD ECAs and saw EXIM rank 12th out of 14 in speed of deal execution, 13th in understanding of client’s business, and 14th in customer service.

EXIM’s charter requires it to provide applicants timely notifications of approval or disapproval:

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46 TXF Intelligence is a UK-based research agency focusing on data and insights in trade finance. TXF reports have been cited in recent EXIM Competitiveness Reports to provide relevant figures.


Sec. 2(g) Process for Notifying Applicants of Application Status.—The Bank shall establish and adhere to a clearly defined process for— (1) acknowledging receipt of applications; (2) informing applicants that their applications are complete or, if incomplete or containing a minor defect, of the additional material or changes that, if supplied or made, would make the application eligible for consideration; and (3) keeping applicants informed of the status of their applications, including a clear and timely notification of approval or disapproval, and, in the case of disapproval, the reason for disapproval, as appropriate.49

Although EXIM’s Board recently increased its delegation of authority to agency staff for approval, EXIM officials told us in interviews that the review process remains unnecessarily long and burdensome. As shown in the figures below, EXIM’s Board is required to approve any transaction over $25 million, regardless of the nature of the transaction or the risk level. Furthermore, transactions between $5 and $25 million require additional layers of review, depending on the transaction size.

Figures 5 and 6: EXIM Internal Review Requirements

Note: For Post-Operative Amendments for Non-Impaired and Impaired Assets, Board approval only applies where an increase in the loan is contemplated that would bring the total amount of the loan over $25 million. For Impaired Assets, it assumes there are no claims. Board approval does not apply for all other Amendments for transactions over $25 million.
Per its delegation of authority, the Board must authorize large transactions through a formal vote—which, per EXIM’s statute, requires a three-person quorum.⁵⁰ EXIM’s Board amended its delegation of authority to raise the staff-level Individual Delegated Authority (IDA) threshold from $10 million to $25 million for most transactions in 2019, but multiple senior EXIM officials said it was still too low compared to other OECD ECAs.

Although most of the other OECD ECAs whose representatives we spoke with had some form of executive-level review for high-value or otherwise sensitive transactions, they had higher dollar thresholds as well as different and often more nuanced triggers for executive-level review other than dollar value. For instance, officials from one ECA said their board reviews are contingent on multiple factors, including dollar value, country risk rating and borrower risk rating. As an example, these officials described how a request from a borrower with a AAA rating would only be brought before their ECA’s board if the transaction value was over 500 million in local currency value, whereas a borrower with a BB rating would have a lower transaction value threshold for board review.

In interviews with Guidehouse, several senior EXIM officials said the Board of Directors has become more involved in all aspects of decision making. They said meetings also occur less frequently than in the past—approximately once monthly, rather than once every one to two weeks—leading to further delays in transaction approvals and policy changes. In written comments, EXIM stated that Board meetings are held as needed and their scheduling does not impact deal approval timelines.

Additionally, other factors are increasing the time needed to get through EXIM’s internal review process. For both EXIM and other third-party institutions⁵¹ that work with EXIM, aging workforces, non-replacement of retiring employees, and lack of direct experience with export finance have contributed to slower processing times. Additionally, multiple EXIM officials highlighted how the agency’s underwriters have become increasingly burdened by compliance requirements, such as anti-bribery checks. Several officials suggested that a separate compliance function dedicated to these tasks could help ease the workload and improve processing times; representatives from several other OECD ECAs said they had set up a separate compliance function for precisely that reason. Furthermore, officials from EXIM and other external parties said EXIM has fewer experienced underwriters who understand the agency’s requirements and know how to move deals through the process quickly—and up to 38 percent of EXIM’s current workforce will reach retirement age in the next 5 years.⁵² They suggested that some of EXIM’s policies and practices, such as its policy limiting staff’s ability to work remotely, might be discouraging new applicants from joining the agency. Officials from other organizations that work closely with EXIM told us that the agency is clearly short staffed and that it is affecting processing times.

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⁵⁰ Section 3(c)(6)(A) of the EXIM Charter states that the Board can only meet if there is a quorum of three members present.

⁵¹ Guidehouse conducted interviews with Advisory Committee members from the financial and industrial sectors.

⁵² Guidehouse learned via interviews and EXIM OIG’s FY 2022 Major Management Challenges report that a large number of EXIM employees will be eligible for retirement in the coming years, creating an issue as there is an overall lack of staffing and a lack of institutional expertise which would only worsen.
Similarly, a third-party bank representative told us that the lenders using EXIM’s loan guarantees now have fewer and fewer loan officers familiar with EXIM’s policy requirements, slowing the process down further. Both EXIM and third-party bank officials pointed out that EXIM’s online application platform, while cutting edge when it was introduced, is beginning to show its age, and some of the forms EXIM requires are both more difficult to complete and submit than equivalent forms required by peer ECAs.

EXIM’s drawn out transactional approval process diminishes its ability to provide clear and timely notification of approval or disapproval, as required by its Charter. EXIM stakeholders told Guidehouse that the extended period between application and transaction approval is adversely impacting EXIM’s ability to attract new customers, regain those lost as a result of the events of the recent past, and take on greater volumes of transactions. Exporters are frustrated at how slowly requests for EXIM support move as well as some of EXIM’s compliance requirements. In turn, this has led some exporters to seek support from other OECD ECAs, or to avoid executing export transactions altogether, leading U.S. exporters to cede ground to their foreign competitors.

**RECOMMENDATION**

To address EXIM’s competitiveness with its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM should:

12. Have the Office of General Counsel support efforts to consider recommendation of revisions to the Board’s delegated authority policy to allow for expedited reviews of larger deals, particularly when there is no Board quorum.

13. Have the Office of Chief Information Officer and Office of Chief Management Officer pair with the Office of General Counsel to develop a plan for decreasing the administrative burden on EXIM underwriters and third-party lenders and increasing employee expertise to facilitate faster transaction execution, to include technology options that may help in streamlining its processes and reduce cycle time, as well as centralize the administrative process and decrease the time spent by underwriters on compliance.

14. Support a study led by the Office of Human Capital, strategic planning, and other internal stakeholders, to identify specific factors impacting EXIM’s ability to attract and retain staff and implement recommendations to address workforce recruitment, retention, and succession planning needs in this area.

**Finding 9: EXIM Has Internal and External Oversight Requirements that Are Distinct from Other OECD ECAs Resulting from Differing Historical and Political Contexts as Well as Differences in Structure and Governance**

ECAs, including EXIM and other OECD members, are subject to both internal and external forms of oversight, although the specific requirements and processes can vary across
countries and organizations. In the case of EXIM, in addition to the Board that generally approves transactions over $25 million, it has an Office of Inspector General (OIG) that performs audits, inspections, investigations, evaluations and special reviews. EXIM routinely interacts with the Office of Management and Budget (OMB) and reports certain transactions to the Department of State and the National Advisory Council on International Monetary and Finance Policies (NAC) for review. The Department of Commerce and the U.S. Trade Representative are ex-officio, non-voting members of the EXIM Board. It is required by its charter to submit detailed statements about certain transactions for congressional review and public comment.

Other ECAs have similar requirements, but with small variations. For example, officials from the Korea Trade Insurance Corporation (K-SURE) stated that medium- and long-term transactions above $50 million must be reviewed by their Executive Committee while officials from the Netherlands’ Atradius stated that transactions above $35 million must be reviewed by their Credit Committee. Some ECAs, like Italy’s Sezione speciale per l’Assicurazione del Credito all’Esportazione (SACE), have internal audit functions similar to an OIG, whereas other ECAs, like United Kingdom Export Finance (UKEF), rely on external auditors. Several ECAs reported hiring third-party contractors to perform oversight and accountability roles, such as environmental, social, and governance (ESG) reviews.

<table>
<thead>
<tr>
<th>ECA</th>
<th>Transaction Oversight</th>
<th>Auditing Oversight</th>
<th>ESG</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. EXIM</td>
<td>EXIM’s Internal Delegated Authority offers an expedited approval for deals up to $25 million. Larger deals go to the Board and takes 90 to 120 days. Transactions are formally reviewed internally in three steps: commitment of resources,</td>
<td>Oversight is conducted for EXIM by its internal Office of Credit Review and Compliance, EXIM Office of the Inspector General, the Government Accountability Office, and reports to Congress. Independent external</td>
<td>After a vote by Congress in 1992, EXIM became the first ECA to implement a series of procedures for assessing the environmental impact of projects requesting financing. In 2013, EXIM adopted an updated Environmental and Social</td>
</tr>
</tbody>
</table>

53 The OIG team gathered information about EXIM’s and other OECD ECAs’ oversight requirements from structured interview questions, questionnaires, and research of publicly available information.


55 Specifically, Sec. 2(b)(3) requires that for any transaction (i) in an amount which equals or exceeds $100,000,000 or (ii) for the export of technology, fuel, equipment, materials, or goods or services to be used in the construction, alteration, operation, or maintenance of nuclear power, enrichment, reprocessing, research, or heavy water production facilities, EXIM must submit a detailed statement describing and explaining the transaction, at least 25 days of continuous session of the Congress prior to the date of final approval. Additionally, Section 3(c)(10) requires for any transaction that exceeds $100,000,000 and is concurrent with any statement required to be submitted under section 2(b)(3) the bank shall require a public notice and comment period of 25 days.

56 EXIM OIG provides non-audit oversight as well. This evaluation is an example of EXIM OIG’s non-audit oversight, for example.
vetting of major issues, approval for presentation to the Board Chair for Board consideration. If a transaction is valued at over $100 million, or in certain other cases, EXIM submits it to Congress for review and, if applicable, public notice and comment.

**UKEF**

UKEF is required to seek approval and consent from the Treasury for transactions. Credit review for deals is conducted for risk management, climate, environmental, human rights, bribery, financial due diligence, credit review committee, formal underwriting. Most transactions go to Business Group Director or Credit Committee, transactions over $200 million go to the Chief Executive. The process takes 5-6 months end to end.

**Finnvera**

Medium- and long-term deals have to be approved by the Client Manager, the Board, and the Director for the Business Line. The Credit Committee may take deals of a certain (undisclosed) threshold, but usually large transactions are approved by the Board of Directors.

**EDC**

Most EDC transaction are “auto-underwritten” and pre-approved buyers are expedited. EDC has a very

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<table>
<thead>
<tr>
<th>Organization</th>
<th>Description</th>
<th>Supporting Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKF</td>
<td>Preliminary screenings of deals go to the credit advisory board. The CEO of EKF has Independent Delegated Authority of up to $42 million USD; the management board makes the final decision; the government is not involved in transactions.</td>
<td>EKF receives oversight and evaluation from a State Authorized Public Accountant and the Auditor General. EKF begins its ESG process when evaluating potential deals for risk level and then requires further documentation to review environmental, social and governance impacts.</td>
</tr>
<tr>
<td>EKN</td>
<td>An underwriter can approve smaller transactions; larger and riskier transactions are presented to a Business Area Credit Committee &amp; EKN’s Credit Committee. High-risk and high-priority deals go to the Board of Directors. Depending on risk and size, the review process can range from one week to six months.</td>
<td>EKN is evaluated by the Swedish National Audit Office in cooperation with an independent external organization (Ernst &amp; Young). EKN conducts an ESG assessment for all transactions and ranks them into categories of A (significant negative impact), B (some impact), and C (no impact).</td>
</tr>
<tr>
<td>SACE</td>
<td>For all transactions, SACE underwriters conducts a risk assessment and then the compliance department conducts Know Your Customer and sanctions review. SACE sometimes engages independent third parties to conduct ESG reviews. Deals over 20 million EUR go to the board of directors.</td>
<td>SACE is evaluated by an Italian government official called the Standing Delegate to the Court of Auditors, as well as an independent, external organization (PricewaterhouseCoopers). SACE follows a set of due diligence standards for evaluating environmental damage that outline whether a project should be eligible for financing.</td>
</tr>
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</table>

A high threshold to require Board Review for a transaction: above $500 million in a triple AAA rated market; $300 million in a high-risk market. The EDC board is given transaction memoranda a week in advance, and the Chair can call the Risk Committee for additional information. Supporting peace institutions and taking action on climate change.
for review. Extremely large, risky and sensitive (e.g., defense articles) deals go to the Interministerial Committee. Deals of 100 million EUR or higher can take up to three months to complete.

<table>
<thead>
<tr>
<th><strong>K-SURE/Korea EXIM</strong></th>
<th>Direct short-term insurance deals can be approved in as little as one hour. Larger deals can take up to one year and require approval from the head of the department and Writing Committee. For medium- and long-term deals over $100 million (for risky deals) or $50 million (for highest risk deals), an executive committee reviews and approves.</th>
<th>K-SURE is evaluated by an internal Audit and Inspection Department.</th>
<th>Korea released its ESG standards in 2021 with 61 core indicators that all Korean corporations must report on.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bpifrance</strong></td>
<td>Guidehouse was unable to reach Bpifrance for an interview on this matter.</td>
<td>Bpifrance is both audited by an internal department and by two independent, external organizations: Mazars and PricewaterhouseCoopers.</td>
<td>Bpifrance follows OECD recommendations on ESG standards and evaluates all proposals worth over $10 million by these guidelines.</td>
</tr>
<tr>
<td><strong>Atradius Dutch State Business</strong></td>
<td>The internal review process depends on maximum liability, country risk, and deal complexity. Approximately 60 percent of deals can be transacted internally with approval from two underwriters and either a team manager or the Credit Committee. Higher risk and larger deals must be reviewed by the Guardian Authority’s Insurance Committee. Projects take between 4 weeks and 1 year to</td>
<td>Atradius is evaluated both by the Audit Committee under the Supervisory Board and by an independent, external organization (PricewaterhouseCoopers).</td>
<td>Atradius has an ESG committee dedicated to nine different work streams within ESG management, and issues regular reports to the government on sustainability.</td>
</tr>
</tbody>
</table>
approve. The average medium-to-long term deal takes 8-10 weeks.

| Euler Hermes | Deals valued at up to 5 million EUR can be approved without review by the government. Deals between 5 and 10 million EUR are presented to a weekly committee, and over 10 million EUR to a monthly committee. Deals valued at over 50 million EUR require ESG due diligence; deals valued at over 1 billion EUR require parliamentary approval. Euler Hermes is evaluated by an independent, external organization (PricewaterhouseCoopers). Euler Hermes adheres to its ESG standards in the day-to-day operations of the business. These ESG standards include ethical values in business operations, an emphasis on a low carbon economy, and sustainable growth. |
| --- | --- | --- |
| **JBIC/NEXI** | Large deals require Board of Directors approval but there is no set value threshold; it depends on credit worthiness. Approximately 10 deals a year reach this requirement. JBIC and NEXI are evaluated by the Board of Audit of Japan, by the Competent Minister, and by the Financial Services Agency—all of which are under the Japanese government. JBIC and NEXI seek to continue to provide support to green deals and review their operating structures to ensure strong governance and management systems. | Differences in internal and external oversight approaches among ECAs can be attributed to a variety of factors, including variations in historical and political contexts across different OECD countries, as well as differences in the structure and governance of individual ECAs. Offices of Inspector General, for example, are unique to the United States; they were broadly introduced to the civilian side of the Federal government by the Inspector General Act of 1978 in response to the Watergate scandal.\(^{58}\) Other differences can be explained by the structure of the ECA itself. For example, some ECAs, like Finland’s Finnvera and UKEF, are government agencies or quasi-governmental, and therefore subject to government oversight requirements. Other ECAs, like Canada’s Export Development Canada (EDC), are crown or public corporations, and therefore have varying oversight structures. Both EXIM and other OECD ECA officials agreed that their oversight requirements are an important function and do not have significant impacts on their programs or operations. Some EXIM officials said oversight reports have resulted in new compliance requirements that have slowed down processing times somewhat; however, they did not believe this was creating a competitive disadvantage when compared with other OECD ECAs. Most EXIM

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officials agreed that Department of State, NAC, and congressional reviews did not create a significant burden on EXIM or its customers as long as underwriters planned for these reviews and budgeted time accordingly. Internal and external oversight requirements do not appear to be a source of competitive difference between EXIM and other OECD ECAs.\(^{59}\)

**RECOMMENDATION**

No recommendation.

**MANAGEMENT RESPONSES TO RECOMMENDATIONS**

OIG provided a draft of this report to EXIM stakeholders for their review and comment on the findings and recommendations. OIG issued the following recommendations to EXIM. Appendix A includes the agency’s complete response.

**Recommendation 1:** EXIM should direct staff to conduct an analysis to determine suggested policy changes to further reduce the impact of a potential future loss of a Board quorum on EXIM’s medium- and long-term lending.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM conducted an analysis and suggested policy changes to further reduce the impact of a potential future loss of Board quorum on EXIM’s medium- and long-term lending.

**Recommendation 2:** EXIM should direct staff to conduct an analysis to determine what changes should be made to further mitigate the risks to EXIM’s medium- and long-term export credit financing that were generated by the lack of Board quorum.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM conducted an analysis to determine changes that will further mitigate risks to EXIM’s medium- and long-term export credit financing generated by lack of Board quorum.

**Recommendation 3:** EXIM should direct staff to conduct a study exploring the potential for varying EXIM’s domestic content requirement by industry or sector for all exporters—not just those that qualify under the narrow exceptions of the CTEP program—and adopt

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\(^{59}\) In comments, EXIM noted the two-week NAC review and 30-day congressional review are additional oversight requirements that other OECD ECAs do not have clear equivalents for.
policy changes to reflect any modifications or revisions to domestic content requirements based on the results of the study.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM conducted a study exploring the potential for varying EXIM’s domestic content requirement.

**Recommendation 4:** In advance of EXIM’s next reauthorization, EXIM should request that EXIM’s Senior Vice President for Congressional and Intergovernmental Affairs engage with interagency stakeholders to develop legislative proposals that address the challenges associated with the default rate cap.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM’s Senior Vice President for Congressional and Intergovernmental Affairs engage with interagency stakeholders to develop legislative proposals that address the challenges associated with the default rate cap.

**Recommendation 5:** EXIM should direct the Senior Vice President of the Office of Board Authorized Finance to document and circulate guidance to the agency’s underwriters clarifying that they should not factor the two percent default rate cap into their decisions.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM documented and circulated guidance to the agency’s underwriters clarifying that they should not factor the two percent default rate cap into their decisions.

**Recommendation 6:** EXIM should direct the Senior Vice President for Policy Analysis and International Relations to seek updates to EXIM’s MOU with MARAD to reflect changes in EXIM’s policies and priorities and consider revisiting the $20 million threshold for U.S.-flagged shipping.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM sought updates MOU with MARAD to reflect changes in EXIM’s policies and priorities including consideration of revisiting the $20 million threshold for U.S.-flagged shipping.
**Recommendation 7:** EXIM should develop a comprehensive plan, in coordination with MARAD, to provide clearer and more effective guidance on EXIM’s website for U.S. exporters to assist them in complying with EXIM’s domestic shipping requirements and procedures, including processes for requesting a MARAD waiver on the use of U.S. flagged vessels.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM developed a plan, in coordination with MARAD, to provide clearer and more effective guidance on EXIM’s website for U.S. exporters to assist them in complying with EXIM’s domestic shipping requirements and procedures.

**Recommendation 8:** In advance of EXIM’s next reauthorization, EXIM should engage with interagency stakeholders to develop proposals that address the challenges associated with the impact on EXIM’s competitiveness of requiring exporters to use U.S. flagged shipping vessels.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM engaged interagency stakeholders to develop proposals addressing the competitiveness challenges associated with requiring exporters to use U.S. flagged shipping vessels.

**Recommendation 9:** EXIM should direct staff to conduct a study exploring the potential for adopting a policy of implementing future changes to the OECD Arrangement automatically if no constraints exist in EXIM’s charter or enabling legislation.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM conducted a study exploring the potential for adoption a policy of automatically implementing changes to the OECD Arrangement in the absence of legislative or charter-based constraints.

**Recommendation 10:** In advance of EXIM’s next reauthorization, EXIM should engage with interagency stakeholders to develop legislative proposals that would modify the agency’s charter to address the limitation in Sec. 2(a)(2), which prevents EXIM from matching recent updates to the OECD Arrangement.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM engaged interagency
stakeholders to develop legislative proposals to modify the limitation in Sec. 2(a)(2) of the agency’s charter that prevent EXIM from matching recent updates to the OECD Arrangement.

**Recommendation 11:** EXIM should direct staff to conduct a study exploring the potential for revising EXIM’s domestic content policy so that lowering minimum down payments to 5 percent would not also require exporters to meet or exceed a heightened 95 percent domestic content threshold (rather than the standard 85 percent threshold) to receive full financing and down payment support.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM conducted a study exploring potentials revisions to the domestic content policy requiring heightened content thresholds to receive full financing and down payment support.

**Recommendation 12:** EXIM should have the Office of General Counsel support efforts to consider recommendation of revisions to the Board’s delegated authority policy to allow for expedited reviews of larger deals, particularly when there is no Board quorum.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM’s Office of General Counsel supported consideration of recommendation of revisions to the Board’s delegated authority policy for expedited reviews of larger deals, particularly in the absence of Board quorum.

**Recommendation 13:** EXIM should have the Office of Chief Information Officer and Office of Chief Management Officer pair with the Office of General Counsel to develop a plan for decreasing the administrative burden on EXIM underwriters and third-party lenders and increasing employee expertise to facilitate faster transaction execution, to include technology options that may help in streamlining its processes and reduce cycle time, as well as centralize the administrative process and decrease the time spent by underwriters on compliance.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM developed a plan for decreasing administrative burdens on EXIM underwriters and third-party lenders, increasing employee expertise, centralizing administrative processes, and decreasing time spent by underwriters on compliance.
**Recommendation 14:** EXIM should support a study led by the Office of Human Capital, strategic planning, and other internal stakeholders, to identify specific factors impacting EXIM’s ability to attract and retain staff and implement recommendations to address workforce recruitment, retention, and succession planning needs in this area.

**Management Response:** In its September 27, 2023, response, EXIM concurred with the recommendation.

**OIG Reply:** OIG considers the recommendation resolved. The recommendation can be closed when OIG receives and accepts documentation that EXIM supported a study to identify specific factors impacting workforce recruitment, retention, and succession planning.

**CONCLUSION**

EXIM’s mission to support U.S. jobs and help American companies seeking to export their products abroad is compounded with policy directives and administrative priorities. The agency faced struggles in recent years due to a lapse in authorization and a period where it was constrained by a lack of Board quorum. The COVID-19 pandemic also had an impact on the field of export finance, but EXIM has slowly started to increase its volume of business in recent years, with the total authorizations growing year over year. However, the agency is still struggling to reattain the heights of lending activity it had achieved prior to 2015 and continues to lag behind several of its OECD ECA peers in total output.

Over the course of this evaluation, the majority of people we interviewed told us that EXIM’s challenge is not to improve its product offerings but address the policies and internal procedures that are discouraging new business. For example, EXIM is the only OECD ECA to set minimum domestic content at 85 percent to receive full financing support, the only one to require exporters to ship using domestically-flagged vessels, the only one subject to a two percent default rate cap and require a freeze on new lending activity if that rate is exceeded, and one of the only ones not to have immediately and fully increased the local cost cap from 30 to 50 percent or decreased the minimum down payment from 15 to 5 percent. Many of these policies are mandated by statute or EXIM’s charter, limiting EXIM’s ability to change them. However, EXIM has the discretion to adjust some thresholds and exceptions related to these statutory and charter-based requirements, creating opportunities for the agency to make policy-based adjustments and then communicate these to underwriters, lenders, exporters, and borrowers.

Furthermore, EXIM’s internal review process is lengthier on average than other OECD Arrangement ECAs, which causes frustration amongst current and potential clients and places additional administrative burden on EXIM underwriters. With some of EXIM’s former clients increasingly looking to do business with other OECD Arrangement ECAs, EXIM needs to streamline and modernize its internal review and compliance processes so that it can remain competitive on transaction time and customer service.

To maintain EXIM’s competitiveness and enhance its ability to support U.S. exports, we advise that EXIM review the findings produced in this report and consider the 15 included recommendations. As EXIM continues to rebound from its lapse in authorization and other shocks like the COVID-19 pandemic, the recommendations will serve to ensure EXIM’s future success and prosperity for American exporters.
DATE: September 27, 2023
TO: The Honorable Parisa Salehi, Inspector General, Office of Inspector General
THROUGH: Mary Jean Buhler, Senior Vice President & Chief Financial Officer
FROM: Courtney Chung, Senior Vice President and Chief Management Officer
SUBJECT: EXIM Management Response to the draft Report
Comparative Analysis of U.S. and OECD Arrangement Export Credit Agencies
(Assignment No. OIG-EV-23-04), Dated September 15, 2023

Dear Ms. Salehi,

Thank you for providing the Export-Import Bank of the United States (“EXIM” or “EXIM Bank”) management with the Office of Inspector General’s (“OIG”) Comparative Analysis of U.S. and OECD Arrangement Export Credit Agencies (ECA), OIG-23-EV-04), dated September 15, 2023 (the “Report”). Management continues to support the OIG’s work which complements EXIM’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 that the “evaluation found that EXIM’s product offerings remain competitive with other ECAs, particularly its loan guarantee.”

In addition, EXIM notes that the evaluation recognized that “officials and outside parties largely agreed that EXIM’s product offerings remain competitive with other ECAs, and its external oversight requirements – although more extensive than those required by other ECAs - do not add substantially to processing times.”

EXIM looks forward to our continued strengthening of our working relationship with the Office of the Inspector General.

Recommendation 1: Direct staff to conduct an analysis to determine suggested policy changes to further reduce the impact of a potential future loss of a Board quorum on EXIM’s medium- and long-term lending.

Management Response: EXIM concurs with the recommendation and will consider what further legislative and policy options may reduce the impact of a future loss of Board quorum.
**Recommendation 2:** Direct staff to conduct an analysis to determine what changes should be made to further mitigate the risks to EXIM’s medium- and long-term export credit financing that were generated by the lack of Board quorum.

**Management Response:** EXIM concurs with the recommendation and will consider what further actions may reduce the effect of a future loss of Board quorum on the agency’s medium- and long-term export credit financing.

**Recommendation 3:** Direct staff to conduct a study exploring the potential for varying EXIM’s domestic content requirement by industry or sector for all exporters—not just those that qualify under the narrow exceptions of the CTEP program—and adopt policy changes to reflect any modifications or revisions to domestic content requirements based on the results of the study.

**Management Response:** EXIM concurs with the recommendation to conduct a study, and to recommend potential policy changes.

**Recommendation 4:** In advance of EXIM’s next reauthorization, request that EXIM’s Senior Vice President for Congressional and Intergovernmental Affairs engage with interagency stakeholders to develop legislative proposals that address the challenges associated with the default rate cap.

**Management Response:** EXIM concurs with the recommendation and will explore legislative options, consistent with interagency procedures and guidance.

**Recommendation 5:** Direct the Senior Vice President of the Office of Board Authorized Finance to document and circulate guidance to the agency’s underwriters clarifying that they should not factor the two percent default rate cap into their decisions.

**Management Response:** EXIM concurs with the recommendation. The Senior Vice President of the Office of Board Authorized Finance will formally communicate to the underwriting staff that they should not factor the two percent default rate cap into their decisions. Further, OBAF will revise the current office policy on Credit Analysis for both Medium-Term and Long-Term transactions so that the two percent default rate cap will not factor into the underwriting of their credits.

**Recommendation 6:** Direct the Senior Vice President for Policy Analysis and International Relations to seek updates to EXIM’s MOU with MARAD to reflect changes in EXIM’s policies and priorities and consider revisiting the $20 million threshold for U.S.-flagged shipping.

**Management Response:** EXIM concurs with the recommendation and will explore if MARAD is open to updating the MOU.
**Recommendation 7**: Develop a comprehensive plan, in coordination with MARAD, to provide clearer and more effective guidance on EXIM’s website for U.S. exporters to assist them in complying with EXIM’s domestic shipping requirements and procedures, including processes for requesting a MARAD waiver on the use of U.S. flagged vessels.

**Management Response**: EXIM concurs with the recommendation and will explore MARAD’s willingness to work with EXIM to develop a comprehensive plan for updating the shipping guidance on EXIM’s website.

**Recommendation 8**: In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop proposals that address the challenges associated with the impact on EXIM’s competitiveness of requiring exporters to use U.S. flagged shipping vessels.

**Management Response**: EXIM concurs with the recommendation and will explore legislative options, consistent with interagency procedures and guidance.

**Recommendation 9**: Direct staff to conduct a study exploring the potential for adopting a policy of implementing future changes to the OECD Arrangement automatically if no constraints exist in EXIM’s charter or enabling legislation.

**Management Response**: EXIM concurs and will conduct such a study of options.

**Recommendation 10**: In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop legislative proposals that would modify the agency’s charter to address the limitation in Sec. 2(a)(2), which prevents EXIM from matching recent updates to the OECD Arrangement.

**Management Response**: EXIM concurs with the recommendation and will explore legislative options, consistent with interagency procedures and guidance.

**Recommendation 11**: Direct staff to conduct a study exploring the potential for revising EXIM’s domestic content policy so that lowering minimum down payments to 5 percent would not also require exporters to meet or exceed a heightened 95 percent domestic content threshold (rather than the standard 85 percent threshold) to receive full financing and down payment support.

**Management Response**: EXIM concurs and will conduct such a study.

**Recommendation 12**: Have the Office of General Counsel support efforts to consider recommendation of revisions to the Board’s delegated authority policy to allow for expedited reviews of larger deals, particularly when there is no Board quorum.
Management Response: EXIM is conducting an internal assessment of the current Individual Delegation of Authority and will consider the feasibility of this recommendation as part of that assessment.

Recommendation 13: Have the Office of Chief Information Officer and Office of Chief Management Office pair with the Office of General Counsel to develop a plan for decreasing the administrative burden on EXIM underwriters and third-party lenders and increasing employee expertise to facilitate faster transaction execution, to include technology options that may help in streamlining its processes and reduce cycle time, as well as centralize the administrative process and decrease the time spent by underwriters on compliance.

Management Response: EXIM concurs and will explore technology options to streamline the process and reduce cycle time. Further, EXIM will explore administrative process options to streamline and reduce compliance burdens.

Recommendation 14: Support a study led by the Office of Human Capital, strategic planning, and other internal stakeholders, to identify specific factors impacting EXIM’s ability to attract and retain staff and implement recommendations to address workforce recruitment, retention, and succession planning needs in this area.

Management Response: EXIM concurs with the recommendation and will conduct a study.

CC:
The Honorable Reta Jo Lewis, President and Chair of the Board of Directors
Derek Kitchen: Deputy Director of Congressional and Intergovernmental
Hazeen Ashby, Senior Vice President and Acting Chief of Staff
Incir Tonguc-Murray, Senior Vice President and Deputy Chief Financial Officer
Jim Cruse: SVP Policy Analysis & International Relations
Kenneth Tinsley, Senior Vice President and Chief Risk Officer
Larry Decker, Senior Advisor to the President and Chair, and Acting Deputy Chief of Staff
Appendix B: List of Recommendations

Finding 1: Recent Events Negatively Affected EXIM’s Ability to Support U.S. Exports and Jobs

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM should:

1. Direct staff to conduct an analysis to determine suggested policy changes to further reduce the impact of a potential future loss of a Board quorum on EXIM’s medium- and long-term lending.

2. Direct staff to conduct an analysis to determine what changes should be made to further mitigate the risks to EXIM’s medium- and long-term export credit financing that were generated by the lack of Board quorum.

Finding 2: EXIM’s OECD Products Remain Competitive with Those of Other Countries, But Other OECD ECAs Are Increasingly Offering Other Products, Including Some Not Covered by the OECD Arrangement, Which Risks Placing EXIM at a Competitive Disadvantage in the Future

No recommendation.

Finding 3: EXIM Board Has Set the Domestic Content Requirement Higher Than Its OECD ECA Competitors as a Result of Internal Policy and Precedent, Reducing the Number of U.S. Exporters Eligible for Export Credit Assistance

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM’s President should:

3. Direct staff to conduct a study exploring the potential for varying EXIM’s domestic content requirement by industry or sector for all exporters—not just those that qualify under the narrow exceptions of the CTEP program—and adopt policy changes to reflect any modifications or revisions to domestic content requirements based on the results of the study.

Finding 4: EXIM’s Two Percent Default Rate Cap, a Statutory Requirement, Is Unique Among OECD ECAs and Discourages Its Staff from Taking Risks and Meeting Other Congressional Mandates

To address EXIM’s competitiveness with its OECD ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s President should:

4. In advance of EXIM’s next reauthorization, request that EXIM’s Senior Vice President for Congressional and Intergovernmental Affairs engage with interagency stakeholders to develop legislative proposals that address the challenges associated with the default rate cap.
5. Direct the Senior Vice President of the Office of Board Authorized Finance to document and circulate guidance to the agency’s underwriters clarifying that they should not factor the two percent default rate cap into their decisions.

Finding 5: EXIM’s Use of Domestically Flagged Shipping Vessels, a Long-Standing Policy EXIM and MARAD Have Jointly Set in Response to Congressional Direction, Reduces the Competitiveness of U.S. Exporters

To address EXIM’s competitiveness with its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s Office of the Chair should:

6. Direct the Senior Vice President for Policy Analysis and International Relations to seek updates to EXIM’s MOU with MARAD to reflect changes in EXIM’s policies and priorities and consider revisiting the $20 million threshold for U.S.-flagged shipping.

7. Develop a comprehensive plan, in coordination with MARAD, to provide clearer and more effective guidance on EXIM’s website for U.S. exporters to assist them in complying with EXIM’s domestic shipping requirements and procedures, including processes for requesting a MARAD waiver on the use of U.S. flagged vessels.

8. In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop proposals that address the challenges associated with the impact on EXIM’s competitiveness of requiring exporters to use U.S. flagged shipping vessels.

Finding 6: EXIM Has Been Slow to Adopt Changes to the OECD Arrangement Due to Stakeholder Considerations and Statutory Constraints, Putting It at a Competitive Disadvantage with Most of Its OECD ECA Peers

To strengthen EXIM’s competitiveness with respect to its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and job creation, EXIM’s Office of the Chair should:

9. Direct staff to conduct a study exploring the potential for adopting a policy of implementing future changes to the OECD Arrangement automatically if no constraints exist in EXIM’s charter or enabling legislation.

10. In advance of EXIM’s next reauthorization, engage with interagency stakeholders to develop legislative proposals that would modify the agency’s charter to address the limitation in Sec. 2(a)(2), which prevents EXIM from matching recent updates to the OECD Arrangement.

11. Direct staff to conduct a study exploring the potential for revising EXIM’s domestic content policy so that lowering minimum down payments to 5 percent would not also require exporters to meet or exceed a heightened 95 percent domestic content threshold (rather than the standard 85 percent threshold) to receive full financing and down payment support.
Finding 7: Unlike Some OECD ECA Counterparts, EXIM’s Charter Prohibits It from Deprioritizing Fossil Fuel Transactions

No recommendation.

Finding 8: EXIM’s Transaction Approval Process, Internal Review, and Short Staffing Are Contributing to Slower Transaction Response Timelines than Its OECD ECA Counterparts

To address EXIM’s competitiveness with its OECD Arrangement ECA counterparts and enhance its ability to support U.S. exports and jobs, EXIM should:

12. Have the Office of General Counsel support efforts to consider recommendation of revisions to the Board’s delegated authority policy to allow for expedited reviews of larger deals, particularly when there is no Board quorum.

13. Have the Office of Chief Information Officer and Office of Chief Management Officer pair with the Office of General Counsel to develop a plan for decreasing the administrative burden on EXIM underwriters and third-party lenders and increasing employee expertise to facilitate faster transaction execution, to include technology options that may help in streamlining its processes and reduce cycle time, as well as centralize the administrative process and decrease the time spent by underwriters on compliance.

14. Support a study led by the Office of Human Capital, strategic planning, and other internal stakeholders, to identify specific factors impacting EXIM’s ability to attract and retain staff and implement recommendations to address workforce recruitment, retention, and succession planning needs in this area.

Finding 9: EXIM Has Internal and External Oversight Requirements that Are Distinct from Other OECD ECAs Resulting from Differing Historical and Political Contexts as Well as Differences in Structure and Governance

No recommendation.
Appendix C: Prior OIG PRM Reviews and Status of Recommendations

EXIM OIG Report *(OIG-EV-23-01)*

In fiscal year 2022, EXIM’s Office of Inspector General (OIG) reviewed the status of EXIM’s default rate management practices.60 The evaluation served to examine: (1) whether EXIM was calculating the default rate in line with statutory requirements; (2) how EXIM manages the default rate; and (3) how the default rate impacts the EXIM’s ability to carry out its mission. OIG discovered that the default risk calculation underestimated risk. Because EXIM was additionally lacking in some performance data, OIG found that EXIM was not able to correctly track the success of certain export credits. OIG recommended that EXIM improve its risk management protocols and clearly communicate such practices by (1) identifying improved measures to track portfolio risk; (2) ensuring EXIM has accurate data on all non-performing credits; and (3) clearly describe how default rate is calculated. OIG noted that all recommendations were approved and resolved.

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<th>No.</th>
<th>Recommendation</th>
<th>Status</th>
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<tr>
<td>1</td>
<td>Identify suitable aggregate measure(s) of portfolio risk to inform organizational decision-making</td>
<td>Open</td>
</tr>
<tr>
<td>2</td>
<td>Ensure EXIM has timely, accurate, and centralized information on all nonperforming credits</td>
<td>Open</td>
</tr>
<tr>
<td>3</td>
<td>Revise the descriptions in EXIM’s default rate report to more clearly describe the methodology used to calculate the default rate in cases where management decisions are required to determine the treatment of specific credits.</td>
<td>Closed</td>
</tr>
</tbody>
</table>

Appendix D: In-Scope OECD ECA Nations

Canada

Country Background
Canada possesses a well-developed economy with a population of 38.2 million, a GDP (PPP) of $1.83 trillion, and exports totaling $611 billion in 2021. Canadian exports are primarily natural resources (petroleum, natural gas, gold) and machinery. Canada’s economy benefits from a close relationship with United States, the world’s largest, with over 75 percent of its merchandise exports destined for the United States as well as being the largest foreign supplier of energy to the United States. Canada possesses the third highest proven oil reserves on the planet and is also a major exporter of natural gas.

Export Credit Agency (ECA) Background
The Canadian government provides export-financing assistance for banks and exports through Export Development Canada (EDC), a crown corporation (state-owned enterprise) founded in 1944. EDC provides trade credit insurance, buyer financing, structured and project finance, export guarantees, and working capital support products. The agency’s mandate emphasizes growing, supporting and developing Canadian exports, not just creating Canadian jobs.

EDC is supervised by a board of directors appointed by the Government of Canada and is subject to a legislative review every 10 years. Although the corporation works with the Minister for International Trade, it is not under the direct supervision or management of the ministry. EDC is self-sustaining through the fees for its services and interests on loans. The Government of Canada therefore has little direct control over the organization’s operations but can influence its priorities and management during legislative review.

Export Financing Programs
EDC’s offerings include a variety of risk management, financing and working capital solutions. Among risk management, credit insurance serves to protect lenders against non-payment and providing for competitive payment terms, while performance security insurance is aimed at lenders expanding to new countries with greater risks. Financing solutions on offer include buyer financing to extend loans to customers, direct lending with high risk tolerance in support of international expansion, and an investment matching program providing easy access to capital matching investments up to $5 million. Of the working capital programs on offer, the export guarantee program functions to help companies increase their borrowing capacity, working closely with the foreign exchange facility and guarantee to protect against shifts in collateral due to foreign exchange fluctuations.

Risk Appetite
EDC describes itself as very risk averse, which is common of Canadian commercial banks as well. The agency’s representatives noted in their interview with Guidehouse that this is due to Canada’s size and relatively short financial history compared to similar ECAs.
assessing risk, EDC pays very close attention to net promoter score and feedback from account managers and customers. EDC requires review from the risk management department on potentially risky transactions, occasionally taking up to 12 months to finalize. EDC utilizes country risk ratings, the volume of work other ECAs are doing in other countries and a global risk management group to evaluate risk in certain environments.

Fossil Fuel Investments

In line with commitments made by Canada at the 2021 United Nations Climate Change Conference (COP26), EDC will no longer engage in direct financing for projects and companies which deal with fossil fuels. Canada’s government seeks to be “net zero” on fossil fuels by 2050, requiring EDC to pivot on oil and gas transactions. From 2018 to July 2022, direct financing for fossil fuel companies decreased from $1.9 billion to $289 million. Similarly, EDC’s support for green technologies increased from $1.4 billion in 2018 to $4.6 billion in 2021.

Germany

Country Background

Germany possesses the largest economy in Europe and the fifth largest worldwide when measured by GDP (PPP) at $4.4 trillion in 2021. Nicknamed “Rhine capitalism,” the German economic model combines free market principles with some characteristics of a welfare state. With the second largest population in Europe at over 84 million as of 2022, Germany is recognized as the European financial hub. A major exporter of vehicles, heavy machinery and chemicals, the country exported $2 trillion in goods in 2021 with its largest trading partners being the United States, France and China.

ECA Background

Allianz Trade went through numerous incarnations, mergers and acquisitions to reach its present state. Originally born out of the French Société Française d’Assurance Crédit established in 1927, it then branched out into buying other countries’ insurers as well. In 1998 the German company Allianz purchased SFAC’s subsidiary, AGI, and created a new holding company called Euler. Euler went public in 2000 and purchased the German trade insurance company Hermes in 2002, becoming Euler-Hermes, which operates under the Allianz umbrella. Allianz became the full owner in 2018 and rebranded the subsidiary as Allianz Trade in 2022.

Export Financing Programs

Allianz Trade provides credit two types of credit insurance, coverage for receivables “due to unexpected commercial and political risks” and another insurance guarantee for any losses due to business fraud. They also offer debt collection and third-party contract guarantees that it refers to as “surety bonds”. Allianz also offers a range of products for banks and financial institutions, including corporate and structured finance, letters of credit issuance and confirmation, coverage of leasing, equipment and sales services and access to experts and advisors.

62 These figures were converted from CAD to USD. As of March 2, 2023, 1 USD = 1.36 CAD.
Risk Appetite

Allianz Trade’s risk appetite is set by its Board of Directors and determined by the Risk Function and the Risk Policy Framework. The Risk Committee oversees tracking and managing Allianz Trade’s risk appetite and ensuring that the agency is in line with its Risk Strategy. Allianz Trade does not have a target default rate. Rather, it uses country risk assessments calculated by the OECD. Allianz Trade does not calculate the likelihood of default but rather relies on country risk assessment and exposure to determine risk. Officials did not offer a specific opinion of Allianz Trade’s risk appetite compared to other ECAs in an interview. They did however emphasize Allianz Trade has a larger risk appetite compared to the private sector, as they handle transactions that the private insurance sector is not willing to cover. They noted that if an ECA was risk adverse it would not be fulfilling its mandate to cover export transactions that the private sector would not.

Fossil Fuel Investments

In 2012, Germany adopted the OECD’s Climate Change Sector Understanding and began to prioritize export financing for clean and renewable energy technologies. To fulfill this mandate, the German government initiated the Special Renewable Energies Initiative to allow for exceptions to Germany’s normally strict domestic content requirements and began offering special export credit insurance for renewables with as low as 30 percent domestic content. In 2020, Allianz Trade recorded supporting $1.16 million worth of green technologies. As of 2021, Germany pledged to join the Paris Alignment on Export Credit Agencies, and to commit to phasing out all of Allianz Trade’s export financing for oil, gas and coal by 2022. Germany’s current support for fossil fuel export financing totals $21.7 billion, handled by Allianz Trade as well as the German Development Bank and the German Investment and Development Corporation. However, as noted by ECA Watch in December 2022, Allianz Trade continues to fund fossil fuel transactions and is considering approving over $1 billion in the near future.

Italy

Country Background

Italy, with a population of over 61 million, has the third largest economy in the EU with a GDP (PPP) of $2.47 trillion. In 2021, it exported $687 billion in goods, principally medicine, vehicles and petroleum to Germany, France and the United States.

ECA Background


Servizi Assicurativi del Commercio Estero (SACE) was founded in 1977 under the Italian Ministry of Economy and Finance. In 1998, it became the Italian government’s formal “Institute for Insurance Services of Foreign Trade.” Throughout the 2000s SACE diversified its product offerings and became a joint stock company, first 100 percent government owned and then acquired in 2004 by the Italian investment bank Cassa Depositi E Prestiti.

Export Financing Programs

SACE offer buyer financing in the form of medium- and long-term loans for overseas buyers looking to purchase Italian goods. Italian foreign subsidiaries can also access finance for working capital, foreign direct investment, R&D, and capital expenditures. Lastly, they have a unique offering to cover all lawyer’s fees and judicial proceeds for bankruptcy claims and unpaid receivables, as well as offer direct expert counsel for free.

Risk Appetite

According to SACE officials, SACE operates somewhat autonomously and records only 10 percent of its transaction volume as income with the rest going to the Italian Treasury. Due to this autonomy, SACE mostly focuses on transactional risk to ensure that it can maintain its sustainable footing and generate profit. Notably, the agency does not have a target default rate or cap, thus enabling it to take on as much risk as it wishes.

Fossil Fuel Investments

As explained by SACE officials, their ECA is awaiting the finalization of a government-wide climate policy but is continuing ahead as if it were already approved. They said that as a result, the agency is beginning to phase out fossil fuel investments, but they emphasized that they still rely on natural gas, which will take a long period to drop from SACE’s portfolio. In its place, some liquified natural gas (LNG) is beginning to be exported to Italy. Going forward, SACE officials emphasize that it adheres to the climate policies laid out at COP26 and seeks to explore green options, but not completely move on from fossil fuels.

Japan (NEXI & JBIC)

Country Background

In 2021, Japan held a population of 124 million, a GDP (PPP) of $5.66 trillion, and exports totaling $919.19 billion. The United States and China are the largest destinations for Japanese goods and services, receiving roughly 20 percent of Japanese export each. Japan’s export goods are mainly comprised of electronics and machinery.

ECA Background

The Japan Bank for International Cooperation (JBIC) was founded in 1999 and provides loans and other financing servicing. Nippon Export and Investment Insurance (NEXI) is an insurance corporation owned by the Japanese government. NEXI was founded in 2001 and is under the jurisdiction of the Ministry of Economy, Trade and Industry. It provides investment services for Japanese exporters and commercial interests.

Export Financing Programs

NEXI offers a trade insurance program that covers political risk, non-payment, and bankruptcy of the importer. NEXI also offers investment insurance as well as a more
targeted form of marine insurance that covers losses during voyage from sinking ships or damaged containers. The insurance programs cover short-, medium-, and long-term business and the products can be tailored to various insurance needs. Insurance covers losses from political and commercial risks. The breath of insurance offerings at NEXI extends to covering overseas investments and loans by Japanese financial institutions. NEXI’s work with import and investment insurance distinguishes it from most of the European ECAs.

JBIC provides loans for export, import, and overseas investments. JBIC’s loan offering also include untied loans. Export loans typically cover 50 to 60 percent of the export value. All other terms and conditions for loans are set to the OECD arrangement rates. JBIC provides other financial support as well, including equity investment, guarantees, securitization, Two-Step Loans, and import support.

**Risk Appetite**

JBIC officials told us the agency’s risk appetite as relatively conservative. They said JBIC does not use a target default rate but does require extensive due diligence to be done for all potential transactions. Larger deals require board reviews to proceed, but there is no set value threshold triggering a review; JBIC officials said their agency focuses more on credit worthiness. NEXI was not able to be interviewed for this project.

**Fossil Fuel Investments**

According to Past Last Call’s 2021 assessment, Japan is ranked second among export credit agencies for support of fossil fuel technologies, behind Canada. Collectively, JBIC and NEXI offered approximately $10.6 billion for fossil fuel projects between 2018 and 2020. This is in large part because Japan produces little energy domestically and must rely on imports for its energy supply, ranking third globally in 2014 for top oil importers and first globally for top gas importers. As such, Japan’s export credit mostly goes towards Japanese oil and gas companies overseas and is seen as a tool to continue supporting the inflow of the national energy supply. Both Japanese ECAs contribute to fossil fuel funding; JBIC leads with $11.3 billion a year and NEXI follows with about $4.5 billion a year. In contrast to many other OECD ECAs which are divesting from fossil fuels, Japan in April 2021 committed to financing $10 billion worth of liquid natural gas projects in Asia, as well as extra funding for renewables). However, in June 2021 Japan agreed to halt ECA support for coal fired power plants.

**Sweden**

**Country Background**

Similar to Germany, Sweden is a market economy mixed with some elements of a welfare state. The country, with 10.4 million people, has high standards of living. It is a major

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exporter of vehicles and heavy machinery, which is nearly half of its GDP, which is $558.43 billion (PPP)\(^67\) as of 2021. Sweden’s exports in 2021 totaled $290.79 billion, with its top trading partners being Germany, Norway, and the United States.

**ECA Background**

The Swedish National Export Credits Guarantee Board (EKN) was established in 1933 as a supplement to private insurance providers and has held that role ever since, largely unchanged in form and function. EKN is wholly government owned, operated, and funded, and the board and General Director are appointed directly by the government as well. Unlike most other ECAs, which either operate independently or report to a specifically business-oriented government agency, such as the Ministry of Finance, EKN reports directly to the Swedish Ministry for Foreign Affairs, though the Ministry of Trade is still ultimately responsible for their operations.

**Export Financing Programs**

EKN specializes in guarantees both for banks and for exporting companies in 130 different countries.\(^68\) EKN offers guarantees for non-payment in 12 months or longer contracts, supplier credit guarantees, buyer credit guarantees, contract guarantees, working capital guarantees, and guarantees for letters of credit and discounted bills of exchange. EKN also offers specialized finance offerings in raw materials, metals, soft commodities and grains. This takes the form of an import guarantee for Swedish buyers and was introduced in 2022, mostly as a means of ameliorating supply chain problems.

**Risk Appetite**

EKN officials consider their agency’s credit risk appetite to be fairly high, both on country risk and on credit risk. They have no target default rate they must avoid, but rather they target a broad goal of trending towards no defaults. Ultimately, exposure limits are decided by the Swedish parliament and higher risk projects only require one extra layer of scrutiny from the Credit Committee. The highest risk projects may require review from the Board of Directors, which still offers a quick timeline for approval due to the Board’s relatively frequent once-a-week meetings for review. EKN officials noted to us that many countries are downgrading in terms of creditworthiness, so they have revised up their country policies accordingly. Still, they maintain their incentives keep their risk appetite high.

**Fossil Fuel Investments**

Sweden is a signatory to the 2015 Paris Agreement and EKN is committed to increasing financing for green technologies. In this spirit, EKN has clarified several key policies: It does not offer any financing for coal and does not offer new guarantees for export for oil and gas extraction or power plants (with exceptions for power plants that have committed to transitioning or are based in high-need developing countries). Sweden also offers a special Green Credit Guarantee for domestic green investments. The guarantee provides risk sharing for the bank lending capital to the Swedish company for these transactions. EKN officials describe the Green Credit Guarantee as one of the product offerings their

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\(^67\) Gross domestic product based on purchasing power parity (PPP).

\(^68\) Sweden has a separate agency, the Swedish Export Credit Corporation, SEK, focusing more on export credits.
organization currently prioritizes the most, due to their commitment to a transition from fossil fuels to green technology.69

**United Kingdom**

**Country Background**

The United Kingdom is the sixth largest economy worldwide with a GDP (PPP) at $3.03 trillion as of 2021 and a population of 67 million. Exports totaled $874.5 billion in 2021 and are primarily consisted of vehicles, gas turbines, gold and petroleum, with top trade partners being the United States, Germany and China.

**ECA Background**

The United Kingdom’s export financing vehicle was established as the Export Credit Guarantee Department (ECGD) in 1919 to promote post-World War I economic recovery. Also known as UK Export Finance, the agency supports viable British businesses in overseas expansion in need of financing while adding no cost to taxpayers. Given a mandate under the 1991 Export and Investment Guarantees Act, ECGD falls under the portfolio of the Secretary of State of International Trade, within His Majesty’s Treasury. ECGD assists British companies in: (1) winning export contracts by offering beneficial financing schemes; (2) offering working capital loans to support transactions; and (3) protecting companies by insuring against default. As outlined in the UK Export Finance Business Plan 2020-24, ECGD will commit to up to $52.7 billion on an engagement as part of an effort to compliment the private sector, rather than providing competition. Notably, ECGD divides its work into short term (less than 2 years) and long term (2 to 18 years) solutions.

**Export Financing Programs**

ECGD has three broad categories of product offerings: (1) financing, (2) guarantee schemes, and (3) insurance. Within financing, offerings include buyer credit facilities, direct lending, lines of credit, standard buyer loan guarantees, and supplier credit financing. Buyer Credit offers backing to lenders working with overseas buyers, ensuring that the transaction can occur. This allows the exporter to receive funds upfront in over 60 currencies, with the loan normally repaid over a two-year period. Critically, lenders are protected against default on the principal and interest. Direct Lending offers a maximum of $9.56 billion for buyers looking to finance British products, available in eight currencies up to $239 million.70 In this scheme, exporters are paid as if working through a cash contract and the borrower can repay over a set schedule at competitive interest rates.

Lines of Credit are on offer to allow overseas buyers to obtain goods and services from various distributors not tied to a specific project. This enables borrowers to obtain a wide range of products that can be needed for one specific project. Standard Buyer Loan Guarantees cover loans used to make purchases from British suppliers for contracts, typically, between $1.06 million and $31.8 million. Suppliers are paid upon shipping and

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70 These figures converted from GBP to USD. As of March 2, 2023, 1.195 USD = 1 GBP.
the borrower is given a flexible repayment schedule. Lastly, Supplier Credit Financing Facilities have largely been usurped by standard buyer loans, but still covers promissory notes originating in the UK.

Risk Appetite

UKEF officials describe their credit risk appetite as very low, although they are slightly more flexible on trade finance. UKEF requires consent of the Treasury and must meet the Treasury's finance objectives in the framework document. UKEF are subject to external audits on their annual accounts, and they only go outside of advisory guidelines with ministerial consent. Because the UKEF mandate highlights their role as supporting and not supplanting the private market, UKEF officials told us they are limited in the functions they can perform. Their maximum exposure limit is only $59.75 billion (up from $43 billion the previous year), or less than half of what EXIM allows. In response to COVID-19, they had a temporary framework that assessed risk based on pre-COVID finance of the clients under consideration, but that program is now closed.

Fossil Fuel Investments

UKEF officially has a net zero emissions commitment. While many ECAs have made commitments to phase out fossil fuels, UKEF has the more defined national policy in place, which withdraws support for fossil fuel projects outside of the UK, with limited exceptions. This means that every new potential project is evaluated on what percent of the revenue comes from fossil fuel customers. Only potential project with a below a certain threshold are eligible for coverage. Further exemptions for coverage are made for fossil fuel customers attempting to transition away from fossil fuels, for instance by decommissioning plants or installing Carbon Capture and Sequestration capacities. UKEF has also supported $800 billion worth of renewable energy projects since 2019. Product offerings available for green technologies include insurance, guarantees and direct loans, as well as a network International Export Finance Executives who can help connect buyers to exporters. In 2020 they were ranked second place by TXF in ECAs working in sustainable transactions.

South Korea (KSURE & KEXIM)

Country Background

South Korea has a population of 51.8 million, a GDP (PPP) of $2.29 trillion and exports totaling $771 billion as of 2021. The United States and China are among the largest destinations for South Korean goods and services. South Korea’s export goods are mainly comprised of electronics and machinery.

ECA Background

Korea Trade Insurance Corporation (K-SURE) was founded as Korea Export Insurance Corporation in 1992. In 2010, the Korea Export Insurance Corporation adopted its current name and structure to reflect its focus on supporting both imports and exports for the benefit of the Korean economy. The Export-Import Bank of Korea (KEXIM) was founded in 1976 and provides financing products such as loans and guarantees for Korean exporters. K-SURE focuses exclusively on offering insurance.
Export Financing Programs

K-SURE offers insurance in the short, medium, and long terms. KSURE also provides insurance for fluctuations in exchange rate, as well as debt collection and credit database services. The insurance offerings cover political and commercial risks, and are provided in pre-shipment, post-shipment, and general coverage.

K-SURE provides direct loans, including loans for overseas investment, export-related loans, import loans, development loans, and indirect loans. The export loans cover up to 90 percent of the funds required for capital investment, R&D, overseas marketing, M&A of an export company, and export goods production with a maximum term of 10 years.

K-SURE also provides guarantees for exports, imports, and overseas investment. The export guarantee covers any company that would also be eligible for an export loan, covering up to 20 years and guaranteeing up to 60 days after the maturity date of the debt covered.

Risk Appetite

According to a senior representative at K-SURE, the agency’s risk appetite is moderate. Over 90 percent of K-SURE’s transactions are short term deals. However, K-SURE is willing to take more risk with climate related projects to fulfill the government’s policy commitment to shift away from fossil fuels. K-SURE counterbalances this added risk via a policy of investing in safer industries to offset the risk from higher risk green technology investments. K-SURE does not have a fixed default target that constrains risk taking but has been following the Task Force on Climate-Related Financial Disclosures (TCFD) report of 2022 to establish specific goals for K-SURE. Formal goals will be set in 2023.

Fossil Fuel Investments

K-SURE continues to conduct fossil fuel-related transactions; however, is still required to meet climate goals by 2030 established by the federal government. K-SURE describes itself as willing to engage in riskier deals regarding renewable energy but investing in safer industries simultaneously to offset any risk. As a part of its green energy goals, K-SURE no longer works with coal. In January 2022, K-SURE signed a Memorandum of Understanding (MOU) with the official ECA of the United Arab Emirates, Etihad Credit Insurance, to support transactions involving hydrogen and electric vehicles.71

France

Country Background

France is a highly industrialized economy and the second largest in the European Union with a population of nearly 68 million and a GDP (PPP) of $3.048 trillion as of 2021. A diverse economy with an emphasis on services, France’s top export partners include

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Germany, the United States, and Italy. Aircraft, medicine and vehicles are the main French goods sent overseas. The value of France’s exports totaled $920.8 billion in 2021.

**ECA Background**

Formed in 2013, Bpifrance Assurance Export is a joint venture of the state sovereign wealth fund and the publicly administered *Banque Publique d'Investissement*. The bank has offices in New York, Mexico City, Dusseldorf, Casablanca, Dakar, Abidjan, Nairobi, Dubai and Singapore and supports France's luxury goods and aviation sectors. It offers protection for all French companies that seek to protect their foreign investments against risks, primarily covering non-payment of loans, non-compliance of contracts, rogue acts by foreign officials and political risks.

**Export Financing Programs**

Bpifrance divides its business into credit insurance, investment loan insurance, and unconditional guarantees. Credit insurance programs include buyer credit insurance to cover lenders against non-payment, supplier credit assignment insurance protecting lenders against defaulting on receivables by a foreign debtor and letter of credit confirmation insurance to protect against default by letter of credit banks. The agency's unconditional guarantees are split between a 100 percent unconditional guarantee for exporters producing civil aircraft over 10 metric tons and an enhanced guarantee protecting the institution supporting refinancing against non-payment. Lastly, assurance export programs provide for environmental and social assessments before deal finalization. Bpifrance also offers export credit cooperation with other ECAs, including offerings such as co-insurance and a regulatory framework that ensures export transactions are conducted in accordance with the OECD Arrangement and other EU laws.

**Risk Appetite**

The Bpifrance Board of Directors sets its risk appetite at the beginning of the year, under the supervision of and in consultation with their internal Risk Department. Beyond the Risk Department itself, six other Departments play a role in overseeing risk: the Financing and Network Management Department, Investment Activities Department, Risk Department, Finance Department, Compliance and Permanent Control Department, and the General Inspection and Audit Department. Bpifrance does not have a target default rate but does have a target rate for leverage; if Bpifrance exceeds a 3 percent ratio of debt to equity then the export credit agency must take corrective actions.72 We were not able to interview Bpifrance for this report.

**Fossil Fuel Investments**

France is part of the European Consortium “Export Finance for the Future,” which commits members to divesting from fossil fuel projects and aligning their export credit agencies with climate friendly technologies. Between 2013 and 2019, France allocated over $12 Billion through Bpifrance towards support for climate friendly technologies. They offer secured loans, unsecured loans, convertible financing, structured financing and export financing for businesses pursuing carbon reduction practices, whether that scaling away from fossil fuel practices or the adoption of green products. As of the COP26 summit in

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2021, France has committed to fully phasing out fossil fuel support from the government. The French national 2023 budget declared that Bpifrance will not provide export guarantees for fossil fuel projects at any stage of their development, including “exploration, production, transport, storage, refining and distribution”. The policy does however allow for exceptions for power plants, if deemed beneficial. Further exceptions can be made for fossil fuel companies seeking financing for the dismantling of plants or the improvement of their health and safety standards.73 74

Netherlands

Country Background

A major shipping hub in Europe, the Netherlands has long been involved in international trade dating back to the formation of the Dutch East India Company. Its population is currently 17.4 million people. The Netherlands is currently the sixth largest Eurozone economy with low levels of unemployment and a GDP (PPP) of $992.7 billion and export total of $839.6 billion as of 2021. Key exports include petroleum and technology equipment with top trading partners being Germany, China and Belgium.

ECA Background

Atradius has gone through several incarnations and moved between the public and private sector. It began in 1925 as Nederlandsche Credietverzekering Maatschappij, a government agency tasked with helping boost exports. In time it grew and acquired other public and private insurance entities (such as the UK’s Export Credit Guarantee Department). In 2001, the private export insurance company Gerling Credit purchased Nederlandsche Credietverzekering Maatschappij and combined its functions. In 2004, the institution was renamed Atradius Dutch State Business under the Atradius umbrella, and in 2008 it merged with a Spanish credit agency, Crédito y Caución. The current organization, once completely owned by the Dutch government, is now both part of the Spanish firm Grupo Catalana Occidente, though it continues to be based out of the Netherlands and to do significant work for Dutch exports.

Export Financing Programs

Atradius Dutch State Business provides several standard and unconventional product offerings. Like many ECAs, they offer buyer’s insurance, exporter insurance, guarantees and working capital for exporters and coverage for depreciation in foreign currency. They also offer insurance coverage for green growth-related projects, construction projects, and a subsidy for “development” related public infrastructure projects overseas. Additionally, they will cover the overseas leasing of any capital goods manufactured in the Netherlands. Lastly, they offer special financing deals for overseas projects as fixed low interest rates.


Risk Appetite

According to Dutch officials, Atradius Dutch State Business has a very high-risk tolerance. However, the Treasury earns more in premiums than it pays out in claims, so they said it could potentially take on more risk. Green deals have an even higher risk appetite. Atradius offers recourse finance, where they support higher risk start-ups and other low-experience firms with projects. Lower risk countries are allowed to do up to $35 million in transactions approved internally without higher levels of review, a relatively low threshold for OECD ECAs. This accounts for about 60 percent of all deals, suggesting that higher risk, large transactions are a minority of Atradius’ total business volume. Higher levels of risk require sign offs from two underwriters, a team manager, and the credit committee.

Fossil Fuel Investments

Atradius Dutch State Business has withdrawn fossil fuel support as a blanket policy. This is not based around a specific eligibility criterion but simply outlined as a desired priority. Dutch exporters include maritime services, which is an industry that traditionally has many oil and gas projects. Atradius promised to stop fossil fuel transactions by January 1, 2023. The shift was driven by political considerations and decided by the Prime Minister. The green transaction change was welcomed by the ministries and government but criticized by traditional maritime customers of Atradius.

Atradius offers two main green technology support products, which Atradius officials believe are unique amongst ECAs. The first is the Green Cover Solution, which offers risk mitigation and financing for early development in green technology or helps scale up existing green products. The second, the Green Cover Investment Loan for Capital Goods, is intended to compliment the first, and offers credit insurance for investments in making capital goods more climate friendly, even if the investment is not directly in an export transaction between a Dutch company and a foreign company.75

Denmark

Country Background

Denmark, with a population of 5.9 million, is known for its welfare state and low rate of income inequality, like its Scandinavian neighbors. Its GDP (PPP) in 2021 was $339 billion, fueled by $105 billion in exports. Key trading partners include Germany, the United States and Sweden and common exports include medicine, electric generators, and pork.

ECA Background

EKF is the world’s third export credit agency, originally established in 1922 under the Ministry of Trade. With time, it was shifted to the Ministry of Industry and the Ministry of Business. In 1999 EKF became a fully state-owned enterprise, an independent public owned company owned wholly by the Danish government.

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Export Financing Programs

EKF’s main product is its loan guarantee, which comes in all forms: buyer and supplier guarantees, working capital guarantees, contract, bond, and investment guarantees. EKF has special offerings for directly financing trade and business in everything from raw materials and metals to finished personal and household goods. EKF’s “trade finance” portfolio is a broad umbrella that can cover anything from exporters, imports, and anything on the supply chain in between. EKF has a very large focus on climate change related projects, with over 60 percent of their business categorized as “green”. EKF considers its own most important central offerings to be risk coverage of a foreign buyer and a guarantee to Danish banks for export loans.

Risk Appetite

EKF officials describe their organization as being relatively risk averse. They follow Standard and Poor’s templates for risk analysis. EKF does not use a set default target like EXIM’s, but in their annual budget they attempt to forecast and account for risk. Their credit risk department is also comparatively large compared, despite their budget being only 30 billion DKK. This budget is significantly lower than most other EU nations, who are willing to take on more risk. The average deal takes six months to approve, though this timeline can stretch out significantly if the deal is perceived as carrying risk.

Fossil Fuel Investments

EKF is in the process of transitioning away from fossil fuels. Following the adoption of the COP26 standards, Denmark has completely stopped financing for coal projects and is in the process of transitioning away from other fossil fuel projects. EKF is also a member of the Export Finance for the Future (E3F) initiative which seeks to shift towards green investments. The E3F coalition of European countries aims to urgently transition away from coal, abide by the Paris Agreement and individually reassess export finance support for fossil fuels while seeking how to best phase them out of portfolios. From 2015 to 2020, Denmark conducted 3 deals in fossil fuels at a total of $96.3 million, compared to 227 deals in renewables at $10.2 billion Euros during the same timeframe.

Finland

Country Background

Much like Denmark and Sweden, Finland is a strong market economy which has adapted some characteristics of a social democracy as well. More than 5.6 million people live in Finland, which has a GDP (PPP) of nearly $270 billion as of 2021. Top exports include petroleum, paper and wood products, and vehicles, largely sent to the main trading partners of Germany, Sweden, and the United States, totaling $116.9 billion.

ECA Background

Finnvera is the state owned ECA of Finland, founded in 1999 to protect exporters from trade risks by providing loans and domestic and export credit guarantees. Its stated goals include “...increasing the number of starting enterprises; enabling financing for changes encountered by SMEs; and promotion of enterprise growth, internationalization, and exports. In its operations, Finnvera is expected to adhere to the principle of economic self-
sustainability.” The agency has services over 25,000 clients with $2.9 billion in domestic financing commitments and $23.2 billion in export credit guarantees currently.76

Export Financing Programs

Finnvera divides its offerings into loans, guarantees, export credit guarantees, export credits and interest equalization, and venture capital investments.77 Of the loans it offers, the most prominent is the Finnvera Loan, also known as an Investment and Working Capital Loan, aimed at small and medium enterprises for a variety of projects such as construction, machinery, and energy products. With a minimum value of $52,782, it is targeted at businesses with fewer than 250 employees and a total revenue below $53 million. Further loans on offer are directed at entrepreneurs, overseas Finnish small and medium enterprises, and midcap companies seeking growth. Guarantees in Finnvera’s portfolio include financing for small and medium enterprises abroad or ones that were recently founded, as well as companies in the shipping and renewable energy sectors.

Risk Appetite

Finnvera has a limited risk-taking capacity stemming from Finland’s relatively small size. Due to this, the agency frequently seeks to partner with other ECAs in transactions, which in turn allows Finnvera to take on more risk. Finnvera strives itself upon having strong risk management capabilities. They can take on more risk than the private sector because of their extensive risk analysis capabilities. Finnvera officials said their agency does not have a target default rate, but a goal of breaking even in the long term, which they believe ensured more flexibility in its transactions.

Fossil Fuel Investments

Previously, Finnvera conducted regular transactions in the oil and gas sector but is now shifting away from those due to climate goals. Finland has joined a coalition of ten European nations to create a roadmap for substantially reducing fossil fuel transactions. In 2021 Finland joined the Export Finance for Future (E3F) and signed on to end export support for fossil fuels. To keep with these obligations, in 2022 Finnvera’s Board of Directors agreed to end all future financing for new infrastructure that contributes to oil and gas extraction and transportation. Finnvera has also increased transparency as to the exact breakdown of their financing of energy sources by renewables and fossil fuels.78

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Appendix E: International Organizations

Berne Union

Formally known as The International Union of Credit & Investment Insurers, the Berne Union is a global non-profit founded in 1934 in Berne, Switzerland, to serve as an international forum and trade industry for the export credit sector. Comprised of 86 member institutions from 67 countries, it includes a mix of government ECAs and private insurers with the goal of promoting and strengthening export credits and foreign trade.

European Union

Reorganized to its current form in 1993 under the Maastricht Treaty, the European Union (EU) is a supranational entity consisting of 27 European nations comprising approximately 18 percent of global GDP. The organization, which in recent years has been exploring options for establishing a pan-EU ECA, released a set of guidelines on export credit in 2022 through its European Council. This resolution emphasized the importance of export credits to help the EU achieve its trade goals of strengthening European industry while working to lower greenhouse gas emissions.

OECD

The Organization for Economic Cooperation and Development (OECD) was founded in 1961 as a worldwide non-governmental organization of highly developed democratized and capitalist nations, currently composed of 38 members. Originally established to assist in the development of Europe after World War II, the OECD initiated the Arrangement on Officially Supported Export Credits in 1978 with the goal of "...[providing] a framework for the orderly use of officially supported export credits by fostering a level playing field in order to encourage competition among exporters...". The Arrangement consists of Australia, Canada, the European Union, Japan, South Korea, New Zealand, Norway, Switzerland, Turkey, the United Kingdom and the United States.

The Agreement, which has been regularly updated since its establishment, sets forth terms and conditions such as repayment terms, minimum premium rate, and interest rate in transactions, among others. Furthermore, the Arrangement has special provisions for the shipping, aviation, and energy sectors. One such example is that of the most recent update to the agreement in January 2022 which prohibited the use of export credits to support new coal plants as part of a push to turn to renewable energy.

79 “Arrangement and Sector Understandings,” OECD.org, https://www.oecd.org/trade/topics/export-
credits/arrangement-and-sector-understandings/.