

# ExIm Helps SMEs WHO HELP THEMSELVES

**Ex-Im may look like it's just for the big boys, but Congress mandates that it devote resources to small business.**

By Saboor H. AbdulJaami

**I**n 2003, \$2.1 billion of the \$172 billion exported by small- and mid-sized enterprises (SMEs) benefited from financial products offered by the Export-Import Bank of the United States. During that same year, \$8.4 billion of the \$458 billion exported by large companies benefited from the support of Ex-Im. That means that in 2003, Ex-Im supported more large company exports (1.8%) than SME exports (1.2%).

This is surprising (and not exactly the way ExIm is supposed to work in theory) because smaller businesses appear to be more in need of financial export assistance than the behemoths of the business world. The question, then, is how can managers of SMEs better take advantage of Ex-Im's products and get more assistance for their exports?

The simple answer is to focus on two things: (1) build a basic understanding of Ex-Im products and their uses, and (2) design a timeline that strategically incorporates those products into your growth and financing plan.

Here's a personal example. In November of 2005, I was in Brazil looking for potential trade or project finance deals. During a business lunch, it was suggested that I meet with the owner of a boat building business who was possibly in the market for U.S. products. It turns out that he wanted to purchase several pieces of heavy equipment from a well-known U.S. brand, Caterpillar. I was confident that the deal could be done because I knew that Ex-Im offers a guarantee that foreign businesses can use to finance the purchase of U.S. goods and, moreover, the use of Ex-Im's guarantee product in this deal was a good strategic fit.

## **Becoming familiar with Ex-Im**

Many SME managers learn a little about Ex-Im and then quickly assume that Ex-Im will not help their business. It usually works this way—they visit [www.exim.gov](http://www.exim.gov), see an airplane, or an oil and gas plant mentioned, something that clearly signals “not for SME,” and click-off. This is understandable, but it misses the opportunity to exploit Ex-Im.

For SMEs, the true strength of Ex-Im is its insurance and working capital guarantees. These two products can be used to make your products more marketable by allowing you to sell competitively on open account. They can also help you to immediately obtain financing based on purchase orders or other assets such as inventory and accounts receivable.

The Export Import Bank Act of 1945, and subsequent renewals, was alert to how SMEs could be helped. It specifically required that at least one member of Ex-Im's board be from the small business community and that the bank “encourage” small business to participate in global commerce. Many SME managers are unaware of these mandated requirements and therefore do not fully take advantage of Ex-Im products and services.

## **Understanding Ex-Im's products and their uses**

Ex-Im offers a range of products, but SMEs should focus their attention on two products: (1) Ex-Im's insurance policies, and (2) Ex-Im's working capital guarantee program. These two products provide SME exporters with three benefits: Ability to obtain the working capital necessary to complete a transaction; Ability to reduce the risk of non-payment; and Ability to shorten the cash-to-cash cycle.

## How well is Ex-Im meeting Congress' goal of helping SMEs export?

Export Import Bank Act	Reality	Observation
5 member Board with one member being from the small business community	Board Members: J. H. Lambright – CSFB; Eximbank M. Cleland – Public service L. Conlin – Public service since 1994; owned small business C. M. Gutierrez – Sec. of Commerce Amb. R. Portman – U.S. Trade Representative	It appears that Ms. Conlin is the board member who is “from the small business community.” However, Ms. Conlin’s exim.gov profile does not make clear the extent and level of her involvement with the small business community.
An officer responsible for all matters concerning or affecting small business	John A. Emens, Vice President, Small Business and Deputy Head of Export Finance	According to his exim.gov profile, Mr. Emens appears to serve small business by marketing Ex-Im products and “is responsible for leading all Ex-Im Bank activities to identify and educate U.S. small business exporters in order to attract them to the Bank’s product offerings.”
Encourage the participation of small business in international commerce	Ex-Im takes effort to inform small businesses of its product offerings. Ex-Im also reaches small businesses by participating in SBA programs.	Ex-Im’s current activities may be what Congress meant by “encourage” small business participation in international commerce. However, Congress’ intent is unclear.
Develop a program that gives fair consideration to making loans and providing guarantees for the export of goods and services by small business	Ex-Im makes loans, insurance and guarantees available to all eligible businesses, including small businesses.	Ex-Im’s Small Business Insurance Policy is the product best targeted to small businesses. Ex-Im does not support SMEs through direct loans.
Devote 20% of annual loans, insurance and guarantees to small business	According to its annual report, in 2004, Ex-Im authorized 17% (\$2.2+ billion) in direct support to small businesses.	According to Ex-Im’s ’04 Annual Report, the bulk of Ex-Im support was through insurance. No loans were issued to SMEs.
Implement technology improvements, including allowing application via the web, to improve small business outreach	All Ex-Im forms and applications are currently available through exim.gov. Letters of Interest (“LI”) can be submitted online. Budgetary allocations have been made and further improvements have been promised.	In its ’04 Annual Report, Ex-Im stated that technological updates are ongoing. It is not clear when small businesses will be able to fully apply for Ex-Im products using the internet.

### Export Credit Insurance:

Ex-Im credit insurance policies protect you from the risk of buyer non-payment due to commercial risks (buyer’s failure to pay, insolvency or bankruptcy) and political risks (cancellation of buyer’s import/export licenses, war and currency exchange). The policy *does not* protect against contract disputes, including disputes about the quality of the goods.

The small business export credit insurance policy is probably the most SME friendly of all of Ex-Im’s products. Businesses that have less than 500 employees and have exported less than an average of \$5 million in goods over the 2-year period prior to the sale are generally eligible for this policy. Although the insurance policy does not place financing directly into your hands, it can be used as credit support during an assignment of receivables—something that *will* result in immediately accessible funds.

SMEs that have been in business for at least a year and are in decent financial shape, have an excellent chance of qualifying for this product.

### Ex-Im Working Capital Financing:

This product allows you to raise funds before you export. Working with your lender, Ex-Im will provide the lender with a guarantee in the amount of 75% of your inventory or 90% of accounts receivable from non-U.S. sources. By shifting the risk of default from your lender to Ex-Im, this guarantee allows your lender to provide you with the liquidity you need to produce and export your goods.

The Ex-Im working capital loan guarantee is a great product that becomes increasingly more useful as the size of the export transaction increases. Although advertised as not being subject to a minimum or a maximum, in actuality, the Ex-Im working capital loan is probably most utilized at the \$500,000 and up level.

This product requires one year of operating history and good financial shape. Similar to Ex-Im’s insurance product, your application should be accompanied by a recent credit report, recent financial statements, a bank reference and at least two trade references.



Export-Import Bank of the United States

Southwest Windpower, Inc. of Flagstaff, Arizona, had a vision to help produce low-cost renewable energy sources to produce electricity in remote areas and with the help of Ex-Im Bank's credit insurance they can export to countries such as Brazil, Argentina, Turkey, India, South Africa, and St. Lucia.

### Ex-Im Loan Guarantee:

This is a great product if your business sells capital equipment (machinery) or certain services (engineering, architecture, etc.). Because most SMEs do not sell capital equipment or provide covered services, only a small percentage of SMEs can actually take advantage of the Ex-Im guarantee. Here is how it works. While selling your goods to a foreign buyer, you may find out that the foreign buyer is having difficulties securing funds that are needed to complete the purchase. Ex-Im can step in and, working with your buyer's lender, guarantee that loan. The guarantee covers 100% of the commercial and political risk. By eliminating the risk of the loan, Ex-Im makes it possible for your foreign buyer to secure funds at reasonable rates. You are then able to complete your sale.

### Incorporating Ex-Im's products Into Your Sales and Growth Plan

By designing a timeline that strategically incorporates Ex-Im products into your global growth and financing plans, you can increase your penetration of overseas markets and efficiently manage your company's growth rate. The first step is to determine which of the following three stages your company fits into: (1) preservation; (2) rapid growth; or (3) mature.

### Preservation—minimize risks and financial shocks

SMEs that are in the "preservation" stage generally have one to five years of operating history and, in terms of

their ability to sustain financial shocks, are relatively vulnerable. These businesses are making their first tender steps into the international marketplace.

A company in this stage can use Ex-Im's export credit insurance to reduce the risk of nonpayment. Although the costs of the insurance, no matter how small, will decrease profits, an uninsured export transaction can swiftly lead to "lights out" for any preservation stage SME.

### Rapid Growth—access funds and maintain exponential growth

SMEs that are in the "rapid growth" stage generally continue to be vulnerable to the risks that imperil preservation stage companies, due to the demand for their products or services. The primary issue that faces rapid growth SMEs is access to the funds that are necessary to finance sales and growth. Inability to fill ever-larger orders can mean the death of an SME that is in rapid growth stage.

A company that is in this stage should continue to use Ex-Im's export credit insurance to decrease the risk of certain transactions. In addition to reducing risk, the insurance policy can be used to immediately access funds through assignments of letters of credit or receivables. By using the insurance policy as credit support for outstanding receivables, you should be able to convert 80% of the supported outstanding receivables to cash and thereby significantly decrease your cash-to-cash cycle.

### Mature—sell to riskier buyers/markets without expanding risk profile

SMEs that are in the mature stage are focused users of Ex-Im products. They have reached a point where their balance sheet (1) shields them from many of the risks that threaten "preservation" SMEs and (2) allows them to access the financing that "rapid growth" SMEs so desperately need but have trouble getting. These SMEs have a clear understanding of the risk profile of their optimal customers and markets. However, if they want to maintain growth, they eventually reach a point where new customers and markets are outside of their risk profile.

These mature SMEs should use both Ex-Im's export credit insurance and its working capital guarantee to decrease the risk of transactions that fall outside of a pre-determined risk profile. By doing so, a mature SME can continue to increase sales without suffering unexpected shocks to its profit margins.

### In summary

By following a few simple steps, you can successfully use Ex-Im products to make your business a player in the global marketplace. The first step is to become comfortable with the Ex-Im products that are most useful to SMEs: export credit insurance and working capital guarantees. The next step is to understand that Ex-Im has a Congressionally mandated responsibility to devote resources to small businesses. The final step is to strategically incorporate Ex-Im into your growth and financing plan. [www.shajlaw.com](http://www.shajlaw.com)

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