

# FINANCING GREEN PRODUCT AND SERVICES EXPORTS— PROGRAMS AT THE EXPORT-IMPORT BANK OF THE UNITED STATES

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## INTRODUCTION

*The commitment of the Obama administration to foster energy independence and to mitigate the impact of climate change, coupled with the flow of federal stimulus funding, should result in expanded activity in the environmental and renewable energy sectors of the U.S. economy. At the same time, many components of the nation's traditional industrial base, such as automobile and related supply chain manufacturing, may never recover to their former levels as economic recovery takes hold. Promoting the manufacturing of environmentally beneficial products such as wind turbines or energy efficient lighting, therefore, takes on heightened importance since it will achieve multiple, widely embraced policy objectives, from job creation to reduced fossil fuel consumption. As both the quantity and sophistication of goods and services produced by these sectors of the economy increase, U.S. businesses will seek expanded sales opportunities for their products abroad. Such export sales, however, will require capital on the part of both the domestic exporter and the foreign purchaser.*

*For businesses in the environmental and renewable energy sectors seeking capital in a tumultuous credit market, a potential source for those selling their products and services abroad is the Export-Import Bank of the United States (Ex-Im Bank).<sup>1</sup> Importantly, Ex-Im Bank has established an Environmental Exports Program in recent years, and its authorizations for Fiscal Year 2008 for renewable energy and environmentally beneficial goods and services reached \$257.3 million.<sup>2</sup>*

*This article discusses the federal policy objectives behind government sponsorship of an export bank, the particular financing programs that Ex-Im Bank operates to support U.S. businesses engaged in exporting, and the incentive program that Ex-Im Bank has implemented in order to promote the export of renewable energy and environmentally beneficial products. The article also addresses some of the mechanics of obtaining Ex-Im Bank financing. Given the ongoing turmoil in the international financial markets and the probable growth of the environmental and renewable energy sectors in the near future, familiarity with Ex-Im Bank programs could be beneficial to manufacturers and service providers engaged in or contemplating international green trade.*

## THE U.S. EXPORT CREDIT AGENCY

### Background

Ex-Im Bank is an independent federal agency whose obligations are backed by the full faith and credit of the United States government. By the terms of its charter,<sup>3</sup> its mission is to provide financing to U.S. businesses in order to facilitate the export of their goods and services, thereby contributing to domestic employment. Its mandate, however, only extends to supplementing, but not competing with, the private-sector financial markets. Ex-Im Bank's total statu-

tory authorization to provide such financing stands at \$100 billion, and at the end of Fiscal Year 2008 it had outstanding exposure of \$58.5 billion in transactions involving 160 countries.

### Challenges for Exporters

Like the export credit agencies (ECAs) of other developed countries, Ex-Im Bank was created to mitigate the particular risks and difficulties faced by exporters. Among these are political risks such as war, expropriation, confiscatory taxation and inconvert-

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ible currency, and commercial risks such as bankruptcy and difficulties enforcing payment provisions from afar. Additionally, in emerging markets foreign buyers frequently cannot obtain capital to fund their contractual obligations due to the underdeveloped banking systems and capital markets in their home countries. In other instances, the subsidies of foreign governments and ECAs create advantages against which the U.S. exporter cannot compete. As a result, domestic lenders are often reluctant to finance exports and will even avoid extending short-term domestic working capital loans due to the perceived threats to the cash flows that will cover repayment. Larger business enterprises can bridge some of these issues with relatively expensive revolving credit facilities and letters of credit provided by large financial institutions; however, the transaction costs associated with these financial products can place them beyond the reach of smaller enterprises. It is into this milieu that the Ex-Im Bank steps in as the “lender of last resort,” to provide financial services, frequently to small businesses, where the commercial financial institutions are unable or unwilling to operate.

### **EX-IM BANK FINANCIAL PRODUCTS**

Ex-Im Bank supports U.S. exporters through a number of financial products that can be grouped into three broad areas: (1) export credit insurance, (2) working capital facility guarantees, and (3) guarantees and direct loans. It is mandated by law to offer these services at rates competitive with the ECAs of other countries. Additionally, Ex-Im Bank has strategic development mandates, such as fostering African growth and the expansion of U.S. businesses into the Indian and Chinese markets, and with increasing importance, supporting the export of renewable energy and environmentally beneficial products and services.

#### ***Export Credit Insurance***

Ex-Im Bank's Export Credit Insurance Program covers U.S. businesses against the risk of non-payment arising from commercial and political risks. Policies are either “single buyer” or “multi-buyer,” the latter permitting the exporter to extend its own terms of credit to foreign buyers. Short-term policies of up to 180 days cover non-capital goods, components, and

raw materials, while policies of up to 360 days cover capital goods and consumer durables. Long-term policies are issued for up to five years and are available for capital goods having values of up to \$10 million. In addition to covering losses of between 85% and 100% of the amount of the transaction invoice, export credit insurance offers two other benefits. First, insured receivables have a greater likelihood of being financed by a domestic financial institution. Second, export credit insurance enables the exporter to offer “open-account terms,” or foreign customer financing, rather than requiring the foreign buyer to obtain capital to fund an advance cash payment or a relatively expensive letter of credit. This assists U.S. exporters in remaining competitive with foreign exporters, who often have advantageous support from their own governments. In Fiscal Year 2008 export credit insurance authorizations were just under \$3.9 billion.

For example, Hague Quality Water Inc., a water treatment equipment manufacturer based in Ohio, benefited from multi-buyer, short-term export credit insurance covering its receivables. Named Ex-Im Bank's 2009 Small Business Environmental Exporter of the Year, this exporter has been able to expand into numerous international markets and increase its export sales by 87% over a five-year period, according to Ex-Im Bank.<sup>4</sup>

In addition to the export credit insurance provided to exporters, Ex-Im Bank has institutional policies to support both domestic and foreign financial institutions providing credit related to U.S. exports.

#### ***Working Capital Program***

Ex-Im Bank's “pre-export financing” consists of a working capital guarantee issued by Ex-Im Bank to support a secured loan made by an exporter's domestic lender. The guarantee covers 75% of inventory—whether raw materials, work-in-progress, or finished goods—and 90% of accounts receivable, for a term of up to three years. The secured loans supported by Ex-Im Bank's guarantee under this program may also be used for certain soft costs related to administration, letter of credit fees, and performance bonds. One limitation of the program is that the Ex-Im Bank guaranteed loans can only finance the production of goods containing at least 50% U.S. content.

Ex-Im Bank has expedited the guarantee issuance process through its “delegated authority program,” pursuant to which qualified lenders may issue Ex-Im Bank guarantees without prior approval. Authorizations for working capital guarantees were approximately \$1.4 billion for Fiscal Year 2008.

As an example of the working capital program, Ex-Im Bank cites the case of Aquatech International Corporation of Canonsburg, Pennsylvania.<sup>5</sup> Aquatech is a green technology company exporting its water purification systems to Italy and Oman, among other places. The company entered into a \$37 million working capital revolving line of credit with a major regional bank that was supported by a guarantee from Ex-Im Bank.

### ***Guarantees and Direct Loans***

Ex-Im Bank makes medium- and long-term direct loans to foreign buyers of U.S. exports in principal amounts of up to 85% of the relevant export contract’s value. The loans are fixed-rate and are offered at the lowest interest rate permitted under the international agreement<sup>6</sup> that binds Ex-Im Bank and certain other ECAs. As of April 15, 2009, that minimum interest rate was 2.31% for loans having a maturity of five years or less.<sup>7</sup> Under the medium-term loan program, maturity is one to seven years, and under the long-term program, maturity may be extended beyond that. Foreign buyers are required to make a cash payment to the U.S. exporter of no less than 15% of the contract value. In addition to making direct loans, Ex-Im Bank issues guarantees of a foreign buyer’s indebtedness to foreign lenders on terms similar to the loan programs.

## **THE ENVIRONMENTAL EXPORTS PROGRAM**

In recent years, the U.S. government has placed a heightened emphasis on Ex-Im Bank’s mission to promote the export of goods and services related to renewable energy or that are beneficial to the environment. In furtherance of this mission, Ex-Im Bank established an Office of Renewable Energy and Environmental Exports to expedite the lending process. Internally, it also formed an Environmental Exports Team to coordinate renewable energy promotion within Ex-Im Bank. Under the Environmen-

tal Exports Program, certain Ex-Im Bank financial products have enhanced features. Repayment terms for long-term loans to finance renewable energy and water projects can be extended to 15 years. Principal may be used to finance certain local costs equal to 30% of the contract price. Local costs are those expenditures for locally originated or manufactured goods and services incurred in the project country, an example being local concrete and labor for the construction of a building foundation that is part of a financial project. Additionally, interest accruing during the construction phase may be capitalized upon completion of the project.

Notably, soft costs related to the fees of U.S. professionals, including architects, engineers, and other consultants, qualify for Ex-Im Bank financing. U.S. environmental experts in these disciplines are frequently hired for overseas projects and are the beneficiaries of Ex-Im Bank programs. In its 2008 Annual Report, Ex-Im Bank highlights as an example of its financing of environmental project soft costs the case of an engineering firm headquartered in Idaho that provided engineering and other services for the construction of a geothermal power plant in Turkey. Ex-Im Bank issued its guarantee in support of a 15-year, \$4.6 million loan from a Canadian bank to the procuring Turkish contractor of the U.S. engineering services.

A brief summary of the Environmental Exports Program, describing its various component products and listing qualifying transactions, can be found on Ex-Im Bank’s web site at: <http://www.exim.gov/products/special/environment.cfm>. For an in-depth explanation of qualifying environmental projects, program requirements, applicable federal regulations, and other information, see the Environmental Procedures and Guidelines accessible from that page of the web site.<sup>8</sup> Authorizations for Fiscal Year 2008 for environmentally beneficial goods and services were \$226.9 million, and for renewable energy were \$30.4 million.

Given their size, renewable energy and environmentally beneficial projects tend to require a more complicated financing structure, and Ex-Im Bank has the capability of participating in such transactions. In its project finance deals, a special purpose entity takes title to the project, which then pledges

the project as security and dedicates a significant portion of cash flow to repayment of the loan. In structured finance transactions, a hybrid approach is taken, with cash flow and the foreign buyer's own credit being used to facilitate repayment.

## **APPLICATION PROCESS**

### ***Getting Started***

The most practical starting point for a business interested in Ex-Im Bank financial programs is its web site (<http://www.exim.gov>) where Ex-Im Bank has abundant information about its products, underwriting guidelines, and application procedures. Copies of most applications, instructions, and transaction documents can also be downloaded from the web site. At its "Ex-Im Online" portal, Ex-Im Bank enables U.S. exporters and financial institutions to submit electronic applications and conduct other business with it related to smaller transactions.

In addition to its headquarters in Washington, D.C., Ex-Im Bank has regional offices in New York, Miami, Chicago, Houston, and Los Angeles to work with its customers. Ex-Im Bank has product specialists available for consultation by phone at 800-565-3946. As mentioned previously, it maintains an Office of Renewable Energy and Environmental Exports to specifically provide support for U.S. businesses in these economic sectors. It also partners with local export initiatives, such as state export agencies, economic development authorities, academic institutions, and small business organizations. Partner organizations can provide information and counseling regarding Ex-Im Bank products, sponsor seminars, and connect businesses to appropriate Ex-Im Bank program personnel.

### ***Delegated Authority to Professionals***

Ex-Im Bank works closely with private sector banking and insurance professionals, particularly with respect to the issuance of export credit insurance and working capital loan guarantees. The benefit to the exporter is that a specialized professional will interface with Ex-Im Bank on the exporter's behalf, resulting in an expedited underwriting process. Insurance brokers authorized to sell Ex-Im Bank credit insurance are listed on the Ex-Im Bank web site,

and, conveniently for the applicant, Ex-Im Bank pays the brokers' commissions. With respect to its loan and loan guarantee products, Ex-Im Bank has established a very practical delegated authority program. Under the program, banks that have participated in an underwriting training seminar and abide by Ex-Im Bank procedures and guidelines may process applications and then issue Ex-Im Bank's guarantees at the transaction closings. Ex-Im Bank pays a fee to banks for such work that they undertake on its behalf. Ex-Im Bank's web site sets forth the complete list of lenders with delegated authority,<sup>9</sup> and most major banks have a trade or export officer designated to operate such a program.

### ***Commitment Letters***

For larger transactions that would fall under the medium- and long-term loan and guarantee programs, an exporter must go through a more traditional and detailed application process. Since Ex-Im Bank is required, pursuant to its charter, to serve only as the lender of last resort, the threshold issue for the exporter to determine before requesting financing from Ex-Im Bank is either that (1) it is facing competition as a result of foreign ECAs, or (2) that it cannot obtain private sector financing on terms permitting it to profitably consummate the export sale. Prior to the execution of a binding contract for the sale of its goods or services, the exporter may then submit an application to Ex-Im Bank for a Letter of Interest. The Letter of Interest will be granted or rejected by Ex-Im Bank within seven days and, if granted, will remain outstanding for six months and will be renewable thereafter. Although it is not binding on Ex-Im Bank, it enables an exporter to present the Letter of Intent to a foreign buyer as evidence that financing of the transaction is likely. The exporter may also request a Preliminary Commitment where there is a competitive bidding process that so requires it. Once the contract for the sale of the goods or services has been signed, the exporter may apply for a Final Commitment, which obligates Ex-Im Bank to consummate the transaction if the terms of the Final Commitment are satisfied.

To streamline transactions where more than one ECA is involved, Ex-Im Bank has entered into agreements with the ECAs of certain other countries

to provide “one-stop-shop” or co-financing arrangements, in order to reduce transaction documentation. In such cases, the ECA providing the larger portion of financing will take the lead and document the transaction on behalf of both ECAs for the entire aggregate amount. The other ECA will then issue a commitment or reinsurance to the lead ECA, often without the exporter even being aware of the arrangement between the two ECAs.

While larger transactions would typically require an exporter to retain counsel for transactional guidance, most exporters should generally be able to navigate the process on their own with respect to smaller transactions.

## CONCLUSION

Through its Export Credit Insurance Program, working capital guarantees, and medium- and long-term direct loan programs to foreign buyers, Ex-Im Bank fills the gaps in the commercial export financing market, thereby offering financing alternatives for U.S. businesses that might not otherwise overcome the hurdles related to the export of U.S. goods and services. Indeed, it authorized \$14.4 billion in Fiscal Year 2008 to finance transactions supporting the export of U.S. goods and services. In particular, the incentives offered under the Environmental Exports Program should be considered by qualifying U.S. businesses, including architects, engineers, and environmental consultants, seeking to minimize transactional and financing costs. With the accelerating focus on renewable energy and environmen-

tally beneficial products and services, and a present willingness on the part of government to financially support policy considerations as a component of the economic stimulus package, one may see additional incentives from Ex-Im Bank in the near future.

## NOTES

1. <http://www.exim.gov>.
2. Unless otherwise indicated in this article, financial statistics have been taken from Ex-Im Bank's 2008 ANNUAL REPORT. Ex-Im Bank's fiscal year ends on September 30.
3. THE CHARTER OF THE EXPORT-IMPORT BANK OF THE UNITED STATES, cited as the Export Import Bank Act of 1945, as amended, 12 U.S.C. § 635 *et seq.*
4. “Hague Quality Water of Groveport, Ohio, is named Ex-Im Bank's Small Business Environmental Exporter of the Year.” Press release dated April 6, 2009, found at: <http://www.exim.gov/pressrelease.cfm/7D207A4E-D3C0-0840-AC67049C645CE58F/>.
5. “Ex-Im Bank renews financing for Pennsylvania green technology company to pursue water treatment projects around the World.” Press release dated January 29, 2009, found at: <http://www.exim.gov/pressrelease.cfm/24A42F37-0BC3-ACFD-66B1320C641D7EC5/>.
6. ARRANGEMENT ON GUIDELINES FOR OFFICIALLY SUPPORTED EXPORT CREDITS—2008 REVISION, available at [http://webdomino1.oecd.org/olis/2007doc.nsf/Linkto/tad-pg\(2007\)28-final](http://webdomino1.oecd.org/olis/2007doc.nsf/Linkto/tad-pg(2007)28-final).
7. The Organisation for Economic Co-Operation and Development (OECD), located in Paris, France, publishes a monthly listing of such interest rates (known as “Commercial Interest Reference Rates”) applicable to member ECAs, available at [http://www.oecd.org/departement/0,3355,en\\_2649\\_34171\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/departement/0,3355,en_2649_34171_1_1_1_1_1,00.html).
8. <http://www.exim.gov/products/policies/environment/envproc.cfm>.
9. See <http://www.exim.gov/portals/usexporter/index.cfm>.