THE COSTS OF FINANCING EXPORTS FOR SMALL BUSINESS

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The Costs of Financing Small Business Exports

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This project has been funded with federal funds from the U.S. Small Business Administration under Contract No. SBA-8031-OA-93. The contents of this publication do not necessarily reflect the views or policies of the U.S. Small Business Administration. Nor does mention of trade names, commercial products, or organizations, imply endorsement by the U.S. Government.
The Costs of Financing Small Business Exports

ACKNOWLEDGMENTS

The study team would like to thank Charles Ou of the Office of Advocacy, U.S. Small Business Administration, for his assistance and guidance in completing this report. We would also like to cite the contributions of Sheldon Snook and Grant McKinnon, Office of International Trade, U.S. Small Business Administration, for their assistance throughout the study.

In addition, we would like to thank the board of directors of the Small Business Foundation of America: The Research Institute for Emerging Enterprise, and particularly the SBFA Research Committee, all of whom provided encouragement throughout the study. We also thank the board of directors of the Bankers Association for Foreign Trade, which helped to contribute the essential supplier-side information to the study.

Appreciation is also expressed to NCITD-The International Trade Facilitation Council for support in the early stages of this study. A thank you as well to Joseph Henshaw of PC Works, Lansdale, Pennsylvania, for assistance in developing the database and validating the statistics generated by this study.

We are also grateful to Olga del Prado and Douglas K. Freeman of Barnett Banks, Jacksonville, Florida, and Beth Duston of Information Strategies, Arlington, Virginia, for assistance.

We would also like to thank the small business owners and staff of participating financial institutions who took the time to speak with us and share information and insights about their export activities.

The Authors
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EXECUTIVE SUMMARY

Exporting activity among small businesses has expanded dramatically in recent years. The Trade Promotion Coordinating Committee estimates that between 1987 and 1994, small and mid-sized business exports increased by 150%\(^1\). In addition, there has been a 22% increase in small business exporters during this period.

There is a long-held belief that financing is one of the principal obstacles to exporting by small firms. While there has been no definitive study on the availability and the cost of export financing, the conventional wisdom holds that there is a fragmentation of credit markets for small firms in the United States, combined with the lack of specialized export lending institutions in many communities. There is also a prevailing belief that the cost of transacting an export deal, namely the financing and service charges, incurred by a small exporter are extremely high, particularly when compared with that paid by small exporters in other countries.

To explore export finance costs and challenges affecting export finance, as well as the role of financial institutions in this process, the U.S. Small Business Administration commissioned this qualitative study of small exporters and suppliers of credit. The agency has recognized the potential impact of export finance needs on small firms.

To identify the scope of the problem and prior research, a literature search was undertaken to identify trade finance issues for small businesses, finance issues, and practices and costs in Germany, a major U.S. trading partner selected for the study.

This was followed by a series of loosely structured telephone interviews with 60 exporters and nine banks and financial institutions providing trade finance. Information from this process was collected and analyzed, and is presented in this report.

This study of export transactions by small companies yielded some surprising revelations. A majority of the transactions — though most were the largest transactions undertaken by the companies at the time of the study — did not use outside pre-shipment financing. This trend toward self-financing may be limiting exporters' ability to expand in overseas markets. The other surprising finding is that the cost of export financing and transaction fees, when it was secured, typically did not exceed 6% of the total transaction. In most cases, it was in the 1%-2% range. These costs were comparable with industry averages reported by financial institutions. These costs were reportedly lower than in Germany.

Specifically, this report identifies and explores the conventional wisdom surrounding small business exports. Major findings include the following:

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- Small firms often structure their transactions to eliminate the need for external working capital. Most of the small businesses interviewed did not use pre-shipment financing. They met their cash needs for this stage of the transaction by overall working capital management or through advance payments from their buyers. The handful of companies that did require financing were exporters with relatively large orders.

- Drawing on an established line of credit from a commercial bank is the lowest-cost method of external financing. Financing costs are almost twice as high at non-bank financial firms than at banks, not including points or up-front fees for initiating loans.

- Payment mechanisms such as letters of credit take a relatively deeper bite out of smaller transactions.

- There is a difference in the capital structures of manufacturing and non-manufacturing firms that affects their ability to obtain trade finance. In addition, companies not primarily in the export business, such as manufacturers, tend to pay more for export finance — up to three times as much — than companies directly involved in the exporting business.

- The banking sector has re-emerged as a trade finance source, and many see opportunities in the small business trade finance market. However, perceptual problems persist. The potential expansion could alleviate the most restrictive and debilitating factor in small business export finance, i.e., the lack of systematic access by exporters. Nevertheless, it will take some time to fully address the financing needs of small exporters.

- The vast majority of companies in the study used traditional banks. There is a pervasive lack of knowledge of alternate finance mechanisms such as forfaiters, factorers, and transaction finance firms and public sector lending programs. Public sector programs and private financial institutions have not reached the small exporter with information about their programs.

- U.S. small business export finance costs compare favorably with those of Germany. However, small German exporters may receive higher levels of service.

Policy Implications

This study brings to light the following implications for policy-makers seeking to promote greater exporting activity in the U.S. small business sector.

- Efforts need to be undertaken to help small businesses expand exports as a part of their business. This study confirms that small exporters need to be able to increase the size and frequency of their export transactions to expand their sales, develop their business and continue to be the engine of job generation. This is not feasible with self-funded
transactions, which were the majority in this study. Without outside funding, exporters may be unable to increase the worth or number of transactions. From the lending community perspective, unless there is adequate small business volume for financial institutions, they are unwilling or unable to finance small deals.

- **Rевolving lines of credit are the least costly and most expedient ways to finance exporting.** Both banks and exporters indicate that costs are lowest when a credit line is available. The SBA and Ex-Im Bank offer strong programs in this area; more information about these programs needs to be disseminated among the small business community and finance community. Single-transaction-based financing is more costly, more suitable for larger orders that occur over a longer term.

- **More information needs to be disseminated on specialized trade finance services.** A more developed market and more informed customer base will help keep costs competitive. This includes the range of services offered through transaction finance firms as well as factoring and forfaiting houses.

- **More information is needed to track and provide support to small manufacturers and service providers.** We know very little about the exporting practices of small manufacturers. We know almost nothing about service exporters. Since service exports are not tracked, this population cannot be identified. The providers of export service and finance need more information on regional or industry-specific needs and practices. A survey in this area would provide a more focused picture of unfulfilled financial needs and the strategies businesses use now to secure the financing they require.

- **Products offered by small U.S. firms are highly competitive and are in demand.** With the increasing linkage of the U.S. economy to the global marketplace, there is an increased need to ensure that U.S. small exporters are competitive with exporters of other nations. The high ratio of companies receiving advance payments or self-financing exports in this study points to a strong ability of companies to overcome this particular barrier, as well as a tremendous demand for the products or services they offer.

For years, small exporters and export promotion experts have agreed about the kinds of programs that must be put in place to improve this competitiveness. Remedies have included encouragement of a secondary market for export finance, and urging government agencies to partner with private sector information providers to get the word out about finance programs. This study helps point out how much more we need to know about small business’ export practices, especially as those practices relate to trade finance.

Due to its limited sample size, this qualitative study was not designed to be statistically valid nor predictive. Still, the homogeneity of the responses was striking. The results provide insights into the trade finance practices of small companies.
The Costs of Financing Small Business Exports

INTRODUCTION

Exporting activity among small businesses has expanded dramatically in recent years. The Trade Promotion Coordinating Committee estimates that between 1987 and 1994, small and mid-sized business exports increased by 150%. In addition, there has been a 22% increase in small business exporters during this period. Another study, conducted by Arthur Andersen and National Small Business United, finds that over a two year period, the number of small businesses exporting doubled. The survey reveals that by 1994, 20% of small and medium-size U.S. businesses exported, up from 16% in 1993 and 11% in 1992.

There is a long-held belief that financing is one of the principal obstacles to exporting by small firms. While there has been no definitive study on the availability and the cost of export financing, the conventional wisdom holds that there is a fragmentation of credit markets for small firms in the United States, combined with the lack of specialized export lending institutions in many communities. There is also a prevailing belief that the cost of transacting an export deal, namely the financing and service charges, incurred by a small exporter are extremely high, particularly when compared with that paid by small exporters in other countries.

The public sector has attempted to address this issue. The U.S. Small Business Administration guarantees commercial bank loans to small business exporters, and the Export-Import Bank of the United States has established a program to offer guaranteed loans to small business exporters. In the fiscal year 1995, the SBA guaranteed 215 loans by 150 banking offices, totalling $76 million ($64 million of which was guaranteed by SBA). Ex-Im Bank guaranteed 204 loans totalling $306 million. Eighty percent of the deals and 18% of the dollar volume of Ex-Im's loans were to small businesses. Along with federal programs, as of 1994, 40 states offered export loan or guarantee programs to small and medium-sized exporters.

Export promotion specialists argue that federal and state government agencies have been ineffective in getting out information on their finance programs to small and medium-sized businesses. In addition, small firms and infrequent exporters lack knowledge of financing mechanisms frequently used in international trade, such as factoring and forfaiting. Most small exporters also do not take advantage of the services of non-bank financial institutions such as transaction finance firms. Meanwhile, some small exporters fault banks for their lack of knowledge or capability to handle export transactions.

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The Costs of Financing Small Business Exports

To explore export finance costs and challenges affecting export finance, as well as the role of financial institutions in this process, the U.S. Small Business Administration commissioned this study of small exporters and suppliers of credit. The agency has recognized the potential impact of export finance needs on small firms and for the balance of U.S. trade. SBA realizes government agencies and others need more information to craft appropriate programs and policies and to ensure the delivery of information to those who need it.

This report covers the following areas:

Methodology:

- A literature review was undertaken to identify trade finance issues.
- Interviews with 60 exporters were conducted to develop comprehensive information on selected export transactions.
- Interviews were conducted with nine selected financial institutions to develop information on the trade finance market.
- Interviews and research were conducted to develop comparative information about export financing in Germany, a major trading partner selected for comparative study.

Where the need for export finance arises:

- Working capital financing may be required to acquire supplies, materials or an export inventory or pay labor costs when an order is received from an importer. Sources of finance include cash in advance, internal sources, export-specific financing, and supplier credits.
- The need for payment mechanisms occurs in the post-shipment stage, usually due to the time involved in shipping a product, in collecting payment, and in the type of terms the exporter has extended to the buyer. Payment mechanisms include cash payment, open accounts, letters of credit, documentary collections, factoring and forfaiting.
- In providing working capital financing, the lender's basic concern is the estimated risk associated with the exporter's request for credit.
- Public agencies provide the guarantees that help underwrite loans to small exporters.
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Major issues investigated:

- The prevalence of working capital financing among small exporters.
- The costs of working capital financing to small exporters.
- The prevalence and costs of payment mechanisms to small exporters.
- The costs of export finance for manufacturers vs. non-manufacturers and export management companies.
- The role of the banking and finance sector in export finance markets.
- Levels of awareness and use of alternatives in export finance, including transaction finance firms.
- How German trade finance costs compare with those incurred by small U.S. exporters.
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STUDY METHODOLOGY

This is a qualitative study, intended to develop anecdotal evidence on export finance patterns within the small business sector. In order to determine the costs of export financing, loosely structured interviews were conducted with 60 companies and nine suppliers of trade financing, including banks and financial firms.

Literature Review

To identify the scope of the problem and prior research, a literature search was undertaken to identify trade finance issues for small businesses, finance issues, and German issues. More than 200 articles, reports, books, and papers were identified addressing small business export financing.

Interviews with Exporters

To develop comprehensive information on small businesses' need for and experience with export finance, a series of interviews was conducted with the presidents or export managers of small companies nationwide.

The team drew candidates for the interviews from a database of 20,000 companies maintained by the Small Business Foundation of America (SBFA). As a pre-qualification for interview, the companies must have had export experience prior to contact. Companies in the database had initially contacted SBFA's Export Opportunity Hotline between 1990 and 1994. The team drew the sample from those firms identified as "export ready." SBFA defines "export ready" as companies that have relevant business experience, a product, have been established domestically and/or have an international business plan. They evidenced some commitment to supporting an export strategy within their companies. In addition, the sample was to encompass as wide a national range as possible and be divided among three groups: 1) manufacturers, 2) export companies, brokers, and distributors, and 3) service providers.

The search generated a random sample of 500 companies. Successful interviews were completed with 60 firms. Another 75 companies contacted had ceased operations, moved and could not be located, failed to return phone calls or declined to be interviewed.

Transactions selected for study. The initial approach to this study was to query exporters about financing for their latest transaction. However, since the purpose of this study is to gauge export finance costs, it was determined that these costs were most likely incurred for only the largest transactions. The first ten interviews explored most recent transactions, and the remaining 50 interviews inquired into exporters' largest transactions to date. For areas of this study where this distinction is relevant, data is separated accordingly.
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Study instrument. Data for this study was gathered via telephone interviews, which lasted 45 minutes to one hour. The 27-page questionnaire used to guide the interviews (see Appendix G, page 159) was divided into six key sections:

- Qualifying information, covering company size, type, and annual sales
- Export experience and sales
- Details about the largest or most recent transaction
- What working capital financing was required
- What payment mechanism was used
- Perceptions about export finance issues

Office of Management and Budget guidelines stemming from the Paperwork Reduction Act stipulate that identical questionnaires sent to 10 or more parties require special clearance. To comply with OMB regulations and not exceed the nine-respondent limit, the questionnaire was divided into nine formats, with each focusing on a key area of study. A set of core questions focused on working capital finance and payment mechanism costs.

Interviews were designed to capture information about the costs of obtaining financing to complete an export transaction. The study team also attempted to gain insight regarding general export practices of the companies interviewed.

As this is intended to be a qualitative study, the sample size is not sufficiently large for this research to lay claim to statistical validity, nor was the study designed to be statistically predictive. However, in-depth interviews yielded strong anecdotal information. Through the course of the interviews, small business owners or managers were asked to reconstruct transactions that had, in some instances, occurred several years prior to the interview. Most participants estimated various transaction costs in aggregate.

At the conclusion of the original 50 interviews, the team decided to extend the sample size to include an additional ten companies. The purpose of those additional interviews was to capture financing exporting costs by such payment mechanisms as factoring, forfaiting, and transaction financing. The names of companies which had used such services were obtained from transaction finance firms. Again, for areas of this study where this distinction is relevant, data is separated accordingly.

At the conclusion of the telephone interview process, there was still a question about whether companies using letters of credit had sought to collect early payment and if they incurred additional financing costs for the advance. The 26 companies that used letters of credit were again contacted by telephone or by letter, to determine if the final payment received from their bank matched the transaction amount, or if a deduction was made. Deductions for advance payment were only made in two cases, and these were reported in the initial round of interviews.
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Characteristics of firms/study sample. The companies interviewed were drawn from the following industry sectors: distributors and export service companies (29, or 48% of the sample); manufacturing companies (21, or 35% of the sample); and services (10, or 17% of the sample). In many cases in this report, the sample was divided between manufacturers and non-manufacturers, due to the differing capitalization requirements of these two groups. Distinctions within the non-manufacturing sector are made where appropriate.

In accordance with the SBA's definition of a small business, only firms with fewer than 500 employees were interviewed for this study. The largest segment of the companies studied (42, or 70% of the sample) are from very small firms with fewer than 20 employees. The non-manufacturer sample (distributors, export-related companies, and service providers) in particular is heavily weighted toward very small companies — more than four out of five (84.2%) of this group report having fewer than 20 employees. More than two out of five of the manufacturers studied had fewer than 20 employees in their workforces (42.9%).

Another 10 companies interviewed (or about 17% of the sample) had in the range of 21 to 99 employees. About a quarter of manufacturers (23.8%) report 21-99 employees. Only 7.9% of non-manufacturers have 21-99 employees.

The smallest segment of the interview group, eight firms (or 13%), were in the upper-size range, with between 100 and 499 employees. One-third of manufacturers report having between 100 and 499 employees, and 7.9% of non-manufacturers have 100-499 employees.

Transaction sizes studied. Because this study was designed to investigate financing needs for exporters' largest transactions, the average transaction sizes covered in this study are larger than those undertaken by small exporters.

Export promotion officials estimate that small business' export transactions tend to be small — averaging less than $20,000. The Exporter magazine analyzed data from Shippers Export Declaration Forms (SEDs) from 1987 — the most recent year such data is available — and found that 78% of small enterprises had total annual shipments worth less than $250,000. The Exporter analysis found the average value per shipment to be $7,800.4

In this study, largest reported transaction sizes ranged between $1,100 and $3 million. Overall, the majority of transactions (70%) were less than $100,000 in size. The range for transactions requiring external financing was between $36,000 and $3 million. The mean transaction size for the entire sample in this study was $231,968. By comparison, the average transaction size that was financed with a working capital loan was almost three times as high — $621,900.

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By industry group, the export companies and distributors in the study had the highest mean transaction sizes, averaging $325,606. The average transaction size studied for service companies was $247,400. For manufacturers, the average size of an export transaction was $95,311.

Transaction Sizes Studied*

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<tr>
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<th>$1-$50,000</th>
<th>$50,000-$100,000</th>
<th>$100,000-$500,000</th>
<th>$500,000+</th>
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<tr>
<td>Manufacturers</td>
<td>7 (50%)</td>
<td>4 (29%)</td>
<td>2 (14%)</td>
<td>1 (7%)</td>
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<tr>
<td>Non-manufacturers</td>
<td>17 (47%)</td>
<td>7 (19%)</td>
<td>6 (17%)</td>
<td>6 (17%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>24 (48%)</td>
<td>11 (22%)</td>
<td>8 (16%)</td>
<td>7 (14%)</td>
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</table>

* Largest transactions only. Excludes ten "most recent" transactions.

Shipment volume of respondents. Almost half of the 60 exporters (27, or 45% of the sample), shipped exports once a month or less. Fifty percent of manufacturers and 41.5% of the non-manufacturers make 1-12 shipments abroad each year. Another 27.8% of manufacturers and 34.1% of non-manufacturers make 13-50 shipments annually and 22% of manufacturers and 24.2% of non-manufacturers make more than 50 shipments.

Annual Volume of Shipments

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<th>13-50</th>
<th>50+</th>
<th>N/A</th>
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<tr>
<td>Manufacturers</td>
<td>10 (48%)</td>
<td>7 (33%)</td>
<td>4 (19%)</td>
<td>-</td>
</tr>
<tr>
<td>Non-manufacturers</td>
<td>17 (44%)</td>
<td>12 (31%)</td>
<td>9 (23%)</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>27 (45%)</td>
<td>19 (32%)</td>
<td>13 (22%)</td>
<td>1 (2%)</td>
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Percentage of business in exports. Overall, a majority of the group indicate that their percentage of sales arising from exports is less than half of annual revenues. The average export sales as a percentage of total sales is 18.5% for manufacturers and 61.6% for those in distribution and export management. The service businesses interviewed report that more than a third (34.2%) of their annual revenues came from exports in 1993.
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Export management companies and distributors led in overall annual export sales, at an average of $1,780,569, compared with manufacturers averaging $856,921 annually and services at $717,750 annually.

Overall, only one manufacturer indicated that its largest transaction equaled or was greater than one month of annual sales. Among the non-manufacturers, which were typically smaller size operations, 10 out of the 39 interviewed indicated that their transaction was equal to or greater than 20% of annual sales, and an even greater number, 13, said their largest transaction equaled or exceeded one month's worth of sales.

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<th>Percentages of Export Sales to Annual Sales</th>
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<td>1%-25%</td>
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<td>--------</td>
</tr>
<tr>
<td>Manufacturers</td>
</tr>
<tr>
<td>Non-manufacturers</td>
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<tr>
<td>TOTAL</td>
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**Export experience.** As a group, the range of years of experience among participants ranged between less than a year of exporting to 25 years. The overall average was 8.7 years in exporting. Manufacturers had the most average experience (11.5 years), followed by export companies and distributors (7.5 years) and services (5.7 years).

**Export marketing and distribution channels.** Few exporters used a single distribution channel. An equal number sold directly to customers and to a foreign agent or representative. Some companies (about one out of five) used a U.S. intermediary of some type (export management firm, export trading company, broker).

Companies use a variety of strategies to attract buyers and agents. The most popular (in descending order) were: Using trade leads, visiting potential buyers in foreign countries, advertising in foreign media. Other methods employed included attending trade shows, establishing a network of retail shops in other countries, direct mail, state and government-sponsored catalog shows, domestic trade shows and responding to unsolicited orders.

Most of the participating companies do not have an export price list and their prices for export sales are the same as their prices for the domestic sales of their product.
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Importing countries. All of the firms except one sell to more than one country. Canada was the most popular trading partner among the participants (24), followed by Mexico (20), United Kingdom (10), Australia, Germany, Japan, Argentina (9 each), Venezuela (6), Chile, Russia, France (5 each), Peru, China, Korea, New Zealand (4 each), South Africa, Taiwan, Hong Kong, Brazil, Columbia, Bahamas, Netherlands (3 each), Italy, Indonesia, Hungary, Israel, Philippines, Honduras, Ecuador, Poland, Singapore, Switzerland (2 each), and Ethiopia, Malaysia, Ukraine, New Guinea, Mozambique, Zimbabwe, Grenada, Guam, Turkey, Malawi, Ghana, Zambia, and Belize (1 each).

Data analysis. Information from this process was collected and entered into a PC-based database, Paradox for Windows. Trend analysis was conducted on the data to determine relationships between variables, including general industry category, company size, export experience, and transaction size. In most cases, due to different capital requirements, manufacturers were separated from the non-manufacturers. In some cases, where relevant, the non-manufacturing segment was divided into export companies and distributors versus service-oriented companies.

In addition, general statistics based on average costs were generated. Average costs for various transactions were measured against the total value of the transactions, enabling comparisons independent of transaction size. Again, due to the limited sample size involved, the average costs for this group may not represent costs at large.

Interviews with Financial Institutions

In order to collect information on the providers of export finance, the Bankers Association for Foreign Trade (BAFT) conducted in-depth interviews with seven banks and two "non-bank" financial institutions active in the trade finance market. The interviews focused on intentions, capabilities, performance and attitudes of the financial institutions toward the trade financing of small business transactions.

Study instrument. Interviews with financial executives were conducted on an on-going, interactive basis via telephone and in person. The loosely structured questionnaire used to guide the interviews covered the following issues:

- Is small business export financing profitable?
- With respect to risk, (performance, shipping, documentation), how do large and small exporter transactions compare?
- What are the biggest cost categories and problem areas in funding/supporting small business exporters?
- What does the future look like for the financing of small business export transactions in terms of growth and profitability?
The Costs of Financing Small Business Exports

Characteristics of financial institutions/study sample. For a representative overview of the bank costs, banks with differing market approaches to domestic and overseas sales had to be included. The criteria for selecting a bank or finance company included: continuous experience and capabilities in the export financing business; a significant portfolio of small business transactions; roles as correspondent and local banks; supporting financial exports destined for the Pacific Rim, Canada, Latin America, and Western Europe; and at least five years' profitability in the export finance business.

The following financial institutions were selected for interviews:

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>General Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money center bank</td>
<td>East Coast</td>
</tr>
<tr>
<td>Money center bank</td>
<td>West Coast</td>
</tr>
<tr>
<td>Super-regional bank</td>
<td>East Coast</td>
</tr>
<tr>
<td>Super-regional bank</td>
<td>Midwest</td>
</tr>
<tr>
<td>Super-regional bank</td>
<td>South</td>
</tr>
<tr>
<td>Local commercial bank</td>
<td>Midwest</td>
</tr>
<tr>
<td>Local commercial bank</td>
<td>South</td>
</tr>
<tr>
<td>Non-bank financial firm</td>
<td>East Coast</td>
</tr>
<tr>
<td>Non-bank financial firm</td>
<td>West Coast</td>
</tr>
</tbody>
</table>

To supplement this information, data was drawn from the 165-member banks in the Access to Capital (AXCAP) program database, developed by the Bankers Association for Foreign Trade. In addition, data from a survey conducted for BAFT from an independent polling firm was included. Experienced consultants, government officials and former bankers were also interviewed.

Data Analysis. Information from the interviews with financial firms was compiled and integrated into this report. A profile of typical transaction costs and sizes was developed from these interviews. In addition, data on export transactions in 1993-94 from the AXCAP was examined through cluster analysis to determine typical ranges for letter of credit, short-term finance, and long-term finance transactions to small companies.

Comparative Information About German Export Finance

Comparative information about German export finance was also developed as part of this study. Interviews were conducted with a trade service company that facilitates U.S.-German trade, as well as with two experienced German bankers located in New York. In addition, a search for relevant literature was conducted. As part of the study, 10 major German banks with U.S. ties were contacted and asked to participate, as well as a number of private business organizations, government offices, and consultants.
WHERE THE NEED FOR EXPORT FINANCE ARISES

Export finance is the process of acquiring or providing financial support for specific export transactions. These transactions are backed by a variety of documents evidencing each transaction in process or completed, including orders, bills of exchange, or bills of lading. Export finance generally encompasses two activities — working capital financing (usually in the pre-shipment stage) and the activation of payment mechanisms (typically in the post-shipment stage).

Small businesses may require financing at several points in an export transaction. Working capital financing may be required to acquire supplies, materials or an export inventory or pay labor costs when an order is received from an importer (See Figure 1, page 16). This can include internal sources of funding (such as cash reserves) or external sources (such as drawing on a line of credit).

In most cases, particularly for an ongoing business, a single new order does not create a need for external financing. However, the need may be created by an overall imbalance in the company's cash flow. For example, an extremely large transaction (relative to company annual sales) may force a firm to seek pre-shipment finance. The need for financing usually arises when the order is new, unexpected, or is large in proportion to total annual sales. Working capital financing is the recommended source for acquiring goods and materials for an export order. The firm may use a general non-export specific line of credit available for this purpose.

Working capital financing is usually a short-term loan (one to six months) for a specific transaction. Sale proceeds then go to pay off the loan. The exporter may not require such financing if a production run required to fill the order is a short run, or if credit is extended by the exporter's suppliers, or if cash, working capital or a credit line is readily available.

Exporters can secure this type of financing by: 1) approaching a bank for a loan, 2) drawing down on a pre-established line of credit, 3) using a letter of credit as a finance instrument or receivable, 4) using the services of a non-bank financial institution or transaction finance firm, 5) leveraging supplier credit, or 6) using internal financial resources.

To be competitive, the exporter may have to offer attractive credit terms to the overseas customer and needs financial resources to do so. With export orders, the applicable accounts for wages and supplies are the same in amount and tenor as for domestic orders, but payment may take longer. Export receivables can stay open up to 150 days, so the company may require additional working capital financing. For some, or all these reasons, the exporter may seek financing from a bank or a non-bank financial institution.
Sources of Finance

Common forms of export working capital financing used by small exporters can include:

- **Cash in advance** — The overseas customer pays for the product or service before it is delivered.

- **Internal sources** — These sources include cash reserves, or a cash injection from owners in the form of temporary loans.

- **General-purpose financing** — This external funding includes loans from individuals (with or without collateral), banks, finance companies, or receivable-based loans. Typically, general loans or lines of credit require collateral of tangible and liquid assets. Loans secured by receivables have various conditions to ensure the bank's rights in this form of collateral. This is common form with working capital loans, even for export companies and distributors (if the receivables are insured). Other asset-backed working capital loans are secured by inventory, equipment or other property. Other sources include the use of credit cards, mortgage or equipment refinancing.

- **Export-specific financing** — This consists of loans or lines of credit targeted toward export sales. Like general loans or lines of credit, they are typically backed by collateral. When a small exporter requests a credit line, the bank will review the company's financial statements, accounting, inventory, management and reputation. Banks usually grant credit lines to the whole business, including its domestic and international operations. There is an assignment fee or commitment fee in the case of guaranteed use and a credit charge of prime plus a margin. There are additional variable fees and charges for the SBA's Export Line of Credit or an Ex-Im Bank guarantee program for the export-related part of the credit line. Fees and margins depend entirely on the merits of the company and the specific business transaction.

- **Supplier credits** — An exporter's vendors may extend longer terms for payment for their products and services, enabling the exporter to forestall payment to these parties until full payment is made by the overseas customer.

This study finds that the need for external financing arises with larger orders — the transactions involving pre-shipment financing averaged $670,252, compared with an average size of $188,789 for transactions not employing pre-shipment financing (among the largest transactions reported). Also, when pre-shipment financing is involved, the customer's payment is applied to retire the debt to the lending institution. **The average cost of financing found in this study:** 1% to 4% of the total transaction value.

The study also finds that average time elapsed for this process — between the initial order and final payment — was reported as 90 days for manufacturers, 53 days for export management companies and distributors, and 93 days for service providers.
Payment Mechanisms

Payment mechanisms are financial instruments that ensure payments in return for exported products. The need for payment mechanisms occurs in the post-shipment stage, usually due to the time involved in shipping a product, in collecting payment, and in the type of terms the exporter has extended to the buyer (see Figure 2, page 17).

- **Cash payment** — Includes advance payment up to COD. Cash in advance represents the least risk for the seller, but significant risk to the buyer.

- **Open account** — The exporter agrees to a series of direct payments from the customer, as invoices are sent for goods are shipped or services provided. This may be risky to the exporter, which should only offer open accounts to buyers after a satisfactory relationship has developed.

- **Letters of credit (or L/C)** — L/Cs are initiated by overseas customers through their banks, and delivered through U.S. correspondent banks. The overseas bank promises to pay the exporter, based on presentation of documents that show the transaction has taken place. L/Cs can be based on sight drafts, which ensure immediate payment upon presentation of the documents, or time drafts, which set a specified amount of time for final payment. If the L/C is irrevocable, the terms of shipment cannot be changed without the importer’s permission. If a bank confirms an irrevocable L/C, it virtually eliminates the risk of nonpayment in an export sale.

In some cases, exporters may also use L/Cs as collateral to finance purchases for export or to support export-related borrowing. Called a back-to-back letter of credit, this form of financing is usually available through non-bank or transaction finance firms more so than commercial banks. The more common way to collect early payment against an L/C is to sell the L/C to a transaction finance firm, factoring agency or other firm involved in a secondary market for L/Cs. Exporters holding letters of credit after shipment leaves the dock can sell their L/Cs to firms in this secondary market, minus a discount.

- **Documentary collections** — These are procedures, initiated by the exporter, in which the seller and buyer agree on settlement when a bill of exchange or draft and other documents representing title and interest in the goods are presented. The exporter pays the remitting bank for processing. The remitting bank sends payment to the collecting bank that presents it to the buyer for payment or acceptance.\(^5\)

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The Costs of Financing Small Business Exports

Payment Mechanisms (continued)

- **Factoring** — This is a method of selling receivables from overseas customers. An appeal of factoring is the possibility of gaining the cash from sale transactions. Exporters can take their money on or after maturity or receive a percentage advance. Factoring can be more expensive than other methods of selling receivables because of the service involved and the risk level represented by the foreign receivables. The cost will also depend on the seller's volume, experience, financial strength, history and spread of risk.⁶

- **Forfaiting** — This is a common trade finance mechanism in Europe, but it has not been widely used in the United States. The seller forfaits the right to future payment in exchange for immediate cash. It offers fixed rate financing for medium terms (three to five years). It is free from recourse because of nonpayment. Financial firms then sell the forfaiting paper in a secondary market.

More than two out of five (26, or 43%) of the exporters interviewed in this study were paid through letters of credit. The need arises with larger orders — the transactions involving pre-shipment financing averaged $307,296, compared with an average transaction of $231,968 for the entire sample. The average cost for L/Cs found in this study: 1% to 2% of the total transaction value.

The Lender's Perspective

In providing working capital financing, the lender's basic concern is the estimated risk associated with the exporter's request for credit. The greater the risk, the greater the costs are to the exporter, and the more difficult it will be for the exporter to obtain financing. The competition for customers that exists between banks can mitigate these costs as well.

In formulating costs, banks evaluate the quality of the company's assets, financials, performance risk, credit worthiness of the foreign buyer and the political and economic stability of the buyer's country. For many banks, lending against uninsured foreign receivables, or against transactions without an L/C is considered particularly risky as a stand-alone transaction. They do lend, however, against uninsured receivables if the exporter has an existing line of credit. While some banks take this risk, for the most part, non-bank financials are capturing the bulk of this business. Some banks have established subsidiaries to factor receivables, using the reliability and credit standing of the buyer as "insurance."

Working capital financing charges vary from deal to deal, country to country, product to

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The Costs of Financing Small Business Exports

product, region to region. They are always affected by the interaction of risk, competition, exchange rate, bank and company size, and by the respective business objectives at that time. Interviews with bankers for this study show that the rates paid by small U.S. exporters typically fall into a range of one to four points over prime. Data obtained from non-bank financial firms reflect higher rates, ranging between four to seven points over prime.

There are three primary types of lenders that small exporters can look to for trade finance:

- Many commercial banks and savings and loans will provide general working capital financing, via lines of credit, that can fund pre-shipment production. More specialized export lines of credit are available from banks specializing in international trade or sponsoring programs from SBA, Ex-Im Bank, or state and local export finance. Letters of credit and other payment mechanisms are typically available through banks with trade finance departments.

- Non-bank finance companies are also potential sources of funding. Typically, it is easier to get funding from these sources, but costs and interest rates are higher. These commercial finance companies are present in most U.S. cities.

- Transaction finance companies provide export-intensive capital and payment support focused on individual export transactions. A recent development in export finance in the private sector, transaction finance companies provide a range of export finance services, from financing services such as financing, forfaiting and factoring to administrative and marketing services.

Sources of Governmental Assistance

While banks and financial firms supply the actual capital, public agencies will provide the guarantees that help underwrite loans to small exporters. On a national level, the Export-Import Bank of the United States (Ex-Im Bank) provides guarantees for loans exceeding $750,000. For export loans of $750,000 or less, the U.S. Small Business Administration provides financial and business development assistance to encourage and help small businesses in developing export markets.

A number of state-level programs offer state-backed guarantees of commercial loans, direct loans by the state, and export credit insurance. Some states have enlisted other entities, such as private, non-profit organizations, to carry out their export finance services. States with active export finance programs include California, Maryland, Minnesota, South Carolina, Kansas, Florida, New York, Washington, Texas, and Massachusetts. 7

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FIGURE 1: WHERE THE NEED FOR EXPORT FINANCE ARISES: THE ORDER STAGE

ORDER PLACED BY OVERSEAS CUSTOMER

- Was the order paid for in advance? YES → PRODUCE AND SHIP; NO FINANCING REQUIRED
  NO → Is exporter’s cash flow adequate to fill order? YES → PRODUCE AND SHIP;
  NO → Are exporter’s suppliers or vendors willing to extend credit? YES → PRODUCE AND SHIP;
  NO → Is external financing available from a bank or financial institution? YES → Is there enough collateral or assets to secure this financing? YES → Exporter pays any applicable interest charges, fees/costs for financing
  NO → Are guarantees available through SBA (if $750,000 or less is financed), through Ex-Im Bank (for more than $750,000), or through state agencies? YES → PRODUCE AND SHIP;
  NO → PRODUCE AND SHIP, DRAWING UPON FINANCING

Transaction at risk of delay or cancellation. Exporter needs to consider following actions:
- Renegotiate deal with customer; seek cash in advance or other favorable terms
- Consult information sources, such as government agencies, associations, or consultants
- Draw up business plan or re-evaluate current plan
- Seek smaller-size orders
- Develop partnerships with credit suppliers or other exporting companies
FIGURE 2: WHERE THE NEED FOR EXPORT FINANCE ARISES: PAYMENT STAGE

ORDER SHIPPED TO OVERSEAS CUSTOMER

Was the order paid for in advance, or was payment made within a short period of time, and exporter has no cash-flow problems?

YES → COLLECT FINAL PAYMENT TRANSACTION COMPLETE

NO →

Was letter of credit issued, or documentary collection initiated?

YES →

Was the letter of credit or documentary collection accompanies by a sight draft?

NO →

Is exporter’s cash flow adequate to sustain operations until final payment?

YES → Exporter pays any applicable collection fees/costs for letter of credit or documentary collection

NO → Is exporter obtaining a bridge loan or drawing on line of credit to cover expenses until final payment is made?

YES → Exporter pays any applicable interest charges, fees/costs for financing

NO → Did exporter collect final payment earlier than the importer paid? (Includes the following actions.)

- Collect early payment on L/C or documentary draft
- Sell receivable to factorer

YES → Exporter pays applicable fees/costs; collects payment from bank/agency minus discount

NO → PAYMENT RECEIVED FROM IMPORTER OR COLLECTION BANK

Exporter may experience cash-flow problems, needs to consider the following actions:
- Renegotiate payment arrangements with customer; seek cash in advance or other favorable terms
- Consult information sources; such as government agencies, associations, or consultants
- Draw up business plan or re-evaluate current plan
- Seek smaller-size orders
- Develop partnerships with credit suppliers or other exporting companies
STUDY FINDINGS

When this study was launched, members of the study team expected to hear reports of great difficulty in obtaining export finance. The team anticipated that the costs of this finance — when obtainable at all — would be costly to small exporters. These interviews yielded surprising results, as reflected on the following pages.

Most of the small business exporters provided similar responses. A clear picture of finance costs did not emerge from the small business interviews, since few used pre-shipment finance. Instead, the information supplied by exporters revealed how small firms perceive their finance needs, the finance community and the trade practices of small and medium-sized companies.

In addition, detailed information was collected on the costs and fees incurred for payment mechanisms, which were used by a large segment of the interview sample.

On the following pages are the conventional wisdom about trade finance for small business, and what was found in the study to either refute or support the assumption.
CONVENTIONAL WISDOM:

To compete in export markets, small businesses must take on expensive working capital financing to raise pre-shipment capital for export deals. When unable to obtain such outside financing, deals are lost.

WHAT THE STUDY FOUND:

Small firms often structure their transactions to eliminate the need for external working capital. Most of the small businesses interviewed did not use pre-shipment financing. They met their cash needs for this stage of the transaction by overall working capital management or through advance payments from their buyers. The handful of companies that did require financing were exporters with relatively large orders.

The conventional wisdom held by many members of the business and public sector trade communities is that export working capital is difficult and costly to obtain for small exporters. For years, both the export and small business communities have considered the lack of and costs of export finance (particularly at the pre-shipment stage) of export finance to be major barriers to expanding export efforts or to beginning an export initiative. A review of the available literature widely documents this perceived problem. The Small Business Exporters Association has estimated that export finance "...is a major obstacle for many corporations who are already engaged in exporting and do not need 'how-to' export assistance. Approximately 100,000 corporations — or 97% of all exporters — fall into this category." 8 The study estimated that five billion dollars in international sales and 100,000 jobs 9 have been lost due to the lack of export financing.

A 1995 survey by the Kenan Institute paints a somewhat more optimistic picture, finding that only 17% of the responding small firms and 13% of midsize firms reported losing sales due to the inability to finance their exports. In addition, 15% of small firms and 22% of midsize firms reported losing sales because they were unable to offer competitive credit terms to their buyers. 10

The Kenan study of 626 firms also finds that 90% of the exports of the companies studied were financed from the companies' own resources, meaning they were not financed at all. 11

The Costs of Financing Small Business Exports

The study finds that another 7-8% of the export transactions were financed by drawing upon an existing line of credit. Only 3% were financed by transaction-specific loans.

Our study of 60 exporters parallels these findings. In total, 52, or 87% of the companies interviewed did not require external financing for the export transactions studied. Almost half of the companies interviewed, 29 or 48%, reported they had adequate internal cash flow to cover part or all of their working capital needs for the transaction studied. Nineteen (19) of the companies interviewed, or almost a third, 32%, received payment in advance from their customer. Another seven (or 11%) took advantage of favorable terms, or supplier credits, from their vendors.

Eight (or 13%) of the companies interviewed used pre-shipment finance to complete their transactions. (See Table 1, page 43.) This study finds that the need for such financing arises with larger orders — the transactions involving pre-shipment financing averaged $670,252, compared with an average size of $188,789 for those transactions not employing pre-shipment financing (among the largest transactions reported).

In addition, the need for working capital financing was strongest among firms involved in reselling or distributing goods, rather than manufacturers. Of the 21 manufacturers participating in the study, only one used a working capital loan. Seven of the 39 non-manufacturers interviewed obtained pre-export working capital finance. (This underlines a critical difference between the capital structures of manufacturers and non-manufacturers that this report will address later). On the average, the exporters using financing obtained this financing for 45% of the total value of the transaction (weighted by transaction size). Seven companies relied on supplier credits, combined with other financing strategies, to ship their order.

Among the companies that obtained working capital through lending institutions, the percentage of finance costs (lenders' fees plus interest, calculated by the term of the loan) ranged from two-tenths of a percent to 4% of the value of the transaction. This range of fees and interest charges is in line with those reportedly assessed by export banks and other lenders (for a detailed breakdown of working capital finance costs, see Table 3, page 46).

The sample size is too small to draw any statistically valid conclusions about working capital finance costs. Moreover, since firms will not divulge profit margins, it cannot be determined how deeply these percentages cut into their profit margins. In only one case did the percentage of the costs to the value of the transaction exceed 1%. Higher charges were incurred by the only documented transaction of less than $50,000 that employed working capital financing.
The Costs of Financing Small Business Exports

How Transactions Were Funded

<table>
<thead>
<tr>
<th>Financing Method</th>
<th>Average Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital loans</td>
<td>$621,900</td>
</tr>
<tr>
<td>Supplier credits</td>
<td>$207,400</td>
</tr>
<tr>
<td>Advance payments</td>
<td>$72,200</td>
</tr>
<tr>
<td>Internal cash flow</td>
<td>$55,000</td>
</tr>
</tbody>
</table>

(Note: Many respondents used more than one means for the same transaction.)

Non-manufacturing companies were three times as likely than manufacturers to have used working capital financing to support the transactions studied. Note that along with working capital loans, manufacturers did not use supplier credits as an option for working capital credits. The preferred method was either cash up front or in-house funding.

Not surprisingly, transaction size was the major determinant of the need for external financing. The range for transactions requiring external financing was between $36,000 and $3 million. The mean transaction size that was financed with a working capital loan was almost three times as high as the average transaction size found in the study — $621,900 versus $231,968 for the entire sample, and $188,789 for those not employing any forms of pre-shipment financing.
The Costs of Financing Small Business Exports

Cash in Advance (Buyer Financing)

A surprising revelation was the fact that close to a third of the companies interviewed were able to secure advance payment from their buyers as a means to fund the transaction. Notably, more than two out of five of the manufacturers were able to receive payment up front before shipping to their buyers.

Thus, recouping cash flow during the course of the transaction apparently was not a major factor for the exporters interviewed. In fact, three out of four (45, or 75% of the sample) exporters were either paid immediately or within 30 days of shipment. Another 15 (25%) had to wait more than 30 days. The earliest payment was 30 days prior to shipment, the slowest payment was a wait of 180 days.

The average length of time between shipping and payment was 21 days. The majority of this subset of transactions was paid for by check or by money order. Exporters reported the costs of these mechanisms generally did not exceed $25.

It was not the purpose of the study to test why the exporters had structured their transactions to eliminate the need for finance at the pre-export stage. It is interesting to note that one respondent said that his reason for insisting on cash in advance was that "it was the only way to get money quickly. I had been turned down by three banks for capital." Another respondent noted that "everything else was too hard for the local bank to deal with," and a third flat-out stated that "it's too expensive to borrow money."

One-third of the companies interviewed (20, or 33% of the sample) reported losing transactions because they could not secure export finance. One firm reported losing 10 transactions during 1993 because it could not offer payment terms to buyers as the bank had not renewed the company's line of credit.

It does not appear that the inability to offer payment terms or obtain working capital prohibited companies from beginning export. It's likely, however, that this may restrict a company from either expanding its sales in existing markets or expanding its sales into new markets. U.S. companies may be less competitive when measured against foreign companies that are willing to offer reasonable credit terms to customers.

The inability to offer credit terms may offer a partial explanation about why export sales are not a greater percentage of the exporters' total sales. The relatively small size of export transactions examined may mitigate the need for pre-shipment finance. Only one manufacturer in the study had a transaction equal to or greater than one month's worth of annual sales. Ten out of 39 non-manufacturers had transactions equal to or greater than 20% of their annual sales. Thirteen had transactions whose worth exceeded one month's worth of sales.
CONVENTIONAL WISDOM:

Pre-shipment financing costs are higher at non-bank financial firms, which traditionally assume more risks, than at conservative commercial banks. Drawing on a line of credit is the most inexpensive and expedient form of financing. Export financing would be more widespread in the small business community if working capital guarantees were more widely available.

WHAT THE STUDY FINDS:

Drawing on an established line of credit from a commercial bank is the lowest-cost method of external financing. Financing costs are almost twice as high at non-bank financial firms than at banks, not including points or up-front fees for initiating loans.

In interviews with representatives of financial institutions, the average costs for a transaction was found to be one to four points over prime for banks, and four to seven points over prime for non-bank financial firms. (As noted earlier, bank charges vary from deal to deal, country to country, product to product, region to region. They are always affected by the interaction of risk, competition, exchange rate, bank and company size, and by the respective business objectives at that time.)

When the parameters established in this study are factored in (terms, amount borrowed), the cost per transaction for financing from commercial banks are estimated to range between three-quarters of a percent and one percent of the value of the transaction. At non-bank financial firms, costs increase to one to two percent. These ranges match the ranges of fees reported by the eight companies in the study that used pre-shipment financing — averaging 1.2% of the transaction value; with costs stretching from prime plus one to six points, plus between $250 and $2,000 in fees.

Half of the companies that used pre-shipment finance drew against an existing line of credit. The fees paid to use the lines of credit ranged from $250 to $800. In one case, the buyer picked up the fees. The highest fees were incurred by those exporters employing commercial loans to finance their export deals — with one fee structure reported at more than $2,000.

<table>
<thead>
<tr>
<th>Pre-Shipment (Working Capital) Financing — Percentage of Total Transaction Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Range for companies in this study that used external pre-shipment financing</td>
</tr>
<tr>
<td>Financing through commercial banks</td>
</tr>
<tr>
<td>Financing through non-bank financial firms</td>
</tr>
</tbody>
</table>
The Costs of Financing Small Business Exports

In Table 3 (page 46), fees for the various levels of transactions were calculated for fees and interest, and have been adjusted for conditions observed among the small businesses interviewed for this study. This gives us a range of the typical fees that would have been assessed across the board for companies seeking the specified amounts of export financing.

Assumptions drawn from this study and applied against financing rates reported by financial firms (as shown in Table 3) include the following. The total costs per transaction are calculated for commercial bank financing and non-bank financial loans.

- The prime lending rate averaged at about 6% during 1994, the time period in which this study was conducted.
- Loans were only outstanding for a 90-day term, the average time between order and payment reported by exporters.
- Financing from commercial banks was drawn from a line of credit (as with half of the companies in this study that used working capital financing). This assumes that up-front transaction fees were absorbed in the initial transaction that opened the credit line.
- Only 45% of the total transaction value was subjected to financing, as found among interviewed exporters. Scenarios are also provided for loans equalling 25% and 75% of the transaction value.

In this study, the average time between the initial order and final payment was 70 days. Never did the amount of time between order and shipment exceed 270 days. The average wait was 90 days for the eight companies in the study that used pre-shipment working capital finance. Only one interviewee said the terms of the financing mandated him to “clear up” his credit line for 30 days each year. Based on the interviews, it can be assumed that the bank would retire the loan when the final payment the overseas buyer made the final payment.

Few exporters in this study and few small exporters in general — and if export promotion experts are correct in their estimates of transaction sizes — have transactions totaling over $300,000. Among the 50 largest transactions reported by exporters, only 10 firms (20%) reported orders of $300,000 or greater. Among the eight companies using working capital finance, the average amount financed was $303,750. The average transaction size involved was $670,252. This compares with an average size of $188,789 for those transactions not employing pre-shipment financing. (Again, the study team asked companies for data on their largest transaction).

Exporters mitigated the impact of these percentages on their profit margins by obtaining financing for about half the value of their transaction. The percentage paid to originate and a bank loan can cut into a large portion of the profit margin. The exporter (particularly a
The Costs of Financing Small Business Exports

trading company or distributor who works on thinner margins than do manufacturers) may incur a loss. This is particularly important since most of the companies interviewed (70%) said they do not maintain separate export price lists. The use of a working capital line of credit can help small exporters avoid some of these fees.

Working Capital Guarantees

In this study, none of the companies employing pre-shipment financing used SBA or Ex-Im Bank guarantees, and only one used state government guarantees, so comparative figures are not available. To establish how guaranteed financing would have impacted the small business exporters participating in this study, the parameters established in this study are applied to the guaranty costs outlined in Table 4 (page 47). Ex-Im Bank guarantees loans of more than $750,000, while the SBA covers transactions at or below that amount.
The Costs of Financing Small Business Exports

CONVENTIONAL WISDOM:

Export payment instruments such as letters of credit may cost too much when the transaction size is small.

WHAT THE STUDY FINDS:

Payment mechanisms do take a relatively deeper bite out of smaller transactions. Longer payments drove the greatest needs for these instruments.

Twenty-eight of the small businesses interviewed, or 47%, used some form of post-shipment payment mechanism — through a letter of credit or a documentary collection draft. (See Table 2, page 44) Twenty-six exporters used letters of credit as a payment mechanism and four companies interviewed used documentary collections. Two companies used documentary collection in conjunction with a letter of credit. Respondents said they used letters of credit because they were "safe," and said they felt documentary collections were riskier payment mechanisms than L/Cs. One interviewee said "They (documentary collections) haven't been used in twenty years."

<table>
<thead>
<tr>
<th>How Payments Were Made</th>
<th>Letter of credit</th>
<th>Direct payment*</th>
<th>Wire transfer</th>
<th>Documentary collection</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturers</td>
<td>8 (38%)</td>
<td>4 (19%)</td>
<td>8 (38%)</td>
<td>3 (14%)</td>
<td>1 (5%)</td>
</tr>
<tr>
<td>Non-manufacturers</td>
<td>18 (46%)</td>
<td>9 (23%)</td>
<td>9 (23%)</td>
<td>1 (3%)</td>
<td>2 (5%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>26 (43%)</td>
<td>13 (22%)</td>
<td>17 (28%)</td>
<td>4 (7%)</td>
<td>3 (3%)</td>
</tr>
</tbody>
</table>

* Usually via check

(Note: Some respondents used more than one payment mechanism for the same transaction.)

Fees

Exporters provided data on bank fees assessed per each transaction for payment mechanisms. Some aspects of these fees, such as confirmation, acceptance, transfer, and assignment charges are based on percentages of the value of the transaction, while other fees are fixed amounts. (See Table 11, page 73 for a breakdown of typical charges.) Charges reported for this study, which to some degree are relative to transaction size, ranged from $60 to $20,400 (see Table 2, page 44). For all forms of payment instruments, the small
The Costs of Financing Small Business Exports

Exporters interviewed paid average fees equaling 1.5% of the value of their transactions (based on an equal weighting of the responses, not influenced by transaction size). Manufacturers paid fees equaling two percent (2%) of the value of their transactions, and non-manufacturers were assessed a slightly lower average of 1.3%.

Average fees for the entire group equaled $725 per transaction, with manufacturers paying an average of $968 and non-manufacturers paying $704. Three manufacturers employed the more expensive documentary collection drafts, which drove up this average. (Note: to avoid skewing the average, the highest and lowest responses in the range were dropped.) The average L/C charge for the entire sample was equal to 1.4% of the value of the transactions affected (again, based on an equal weighting of the percentages for each company). This 1.4% was the same for both manufacturers and non-manufacturers. The average L/C fee respondents paid was $562 for manufacturers and $704 for non-manufacturers.

Fee Differentials by Financial Institutions

When serviced by a local commercial bank, the cost of an L/C was equal to 1.4% of the total value of the transaction. This was true for both manufacturers and non-manufacturers. Fees varied among other financial institutions. In this study, charges by regional money center banks averaged 4.9% of the total value of the transaction, or almost three times higher than the fees charged by local commercial banks. Fourteen (or 50%) of the companies used commercial banks to service their payment mechanisms. Regional money center banks serviced another 10 (or 36%). Foreign banks serviced two (or 7%) of the companies.

The companies interviewed paid more in L/C fees if their transaction was under $100,000 — 1.8%, versus 1% paid by companies with transactions totaling $100,000 or higher (based on an equal weighting of the reported percentages for each). The average fees paid for transactions under $100,000 were $458.50.

The smaller the transaction, the lower the profit margin realized by the small exporter who uses L/Cs. There are limits to what a bank can charge for an L/C before it ceases to pay for an exporter, but the minimum charge at many banks for negotiating and confirming an L/C averages $400.١٢ Five of the nine U.S. financial institutions interviewed for this study said they support letters of credit totaling under $100,000.

Charges for documentary collections were higher than the charges for L/Cs among the companies interviewed. Three manufacturers used documentary collections. One paid $5,250 in fees on a $300,000 transaction (1.75%). One paid $3,000 on a $50,000 order (6%).

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A third paid $400 in fees on a $100,000 order, but in this case used documentary collection with a letter of credit.

Banks interviewed for this study indicated that high documentary collection costs are not an anomaly. Both the exporter's and importer's banks incur expense in collecting and processing payment. An L/C on the other hand, is opened by the importer's bank. The U.S. exporter pays only acceptance and confirmation fees.

As noted in the section on study methodology, the potential additional costs incurred for early payment on letters of credit were explored in another round of queries to the 25 companies that used L/Cs. Deductions for advance payment were only made in two cases, and these were reported in the initial round of interviews.

### Time

Letters of credit were primarily employed in situations where payment was not immediately available for goods shipped. Among companies not using L/Cs, 52% were paid either in advance or immediately upon shipment. This contrasts with only 22% of companies with L/C transactions that were paid in advance or upon shipment. A majority of respondents paid by L/Cs (59%) were paid within 30 days, another 15% report being paid within 31 to 60 days after shipment.

Transaction sizes paid by wire transfers, the most common payment mechanism employed, ranged between $400 to $3,000,000. Exporters were issued letters of credit for transactions ranging in size between $7,500 up to $3,000,000.

### Average Transaction Sizes for Each Major Payment Mechanism Used

<table>
<thead>
<tr>
<th>Payment Mechanism</th>
<th>Average Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wire transfer</td>
<td>$314,318</td>
</tr>
<tr>
<td>Letter of credit</td>
<td>$271,639</td>
</tr>
<tr>
<td>Documentary collection</td>
<td>$118,750</td>
</tr>
<tr>
<td>Direct payment (usually via check)</td>
<td>$104,258</td>
</tr>
</tbody>
</table>
The Costs of Financing Small Business Exports

CONVENTIONAL WISDOM:

*Export finance costs are basically the same for all types of companies, whether they are manufacturers or distributors.*

WHAT THE STUDY FINDS:

There is a difference in the capital structures of manufacturing and non-manufacturing firms that affects their ability to obtain trade finance. In addition, companies not primarily in the export business, such as manufacturers, tend to pay more for export finance — up to three times as much — than companies directly involved in the exporting business.

Lenders and financial institutions examine the needs of manufacturers and non-manufacturers separately since the capital structures of these groups are dissimilar. Distributors and export companies work on a fixed cash margin. They must often purchase the goods they intend to resell for export so they require a constant, strong cash flow. As noted previously in this report, the distributors and export companies in this study showed a much greater likelihood to need to rely on both pre-and post-shipment financing than manufacturers.

Companies new to exporting or not heavily involved in exporting tend to pay more, the study confirms. The average percentage of transaction paid by the export firms was 0.7%, or about half the costs incurred by all the exporters. The total costs and fees incurred by companies in the export business tended to be lower than average.

Fourteen of the exporters were involved directly in the export business as export management companies, trading companies or as brokers. These firms tended to have fewer years of experience in business than the manufacturers, 5.6 years compared with 11.5 years. One company reported 20 years of experience, another reported 15, and a third reported 10 years experience. The remainder averaged about three years in business. Perhaps not surprisingly, export companies had higher-value transactions, an average of $364,923, as compared with manufacturers ($95,311) and services ($247,400).

Two of the 14 export-related companies (14%) used working capital financing in the pre-shipment stage in their transactions compared with one (4.8%) of the manufacturers. The percentages of transactions paid by these companies (1.0%) were essentially the same paid by the group as a whole (1.2%) but the sample size is too low to draw conclusions.

Seven of the 14 export-related businesses (50%) used post-shipment payment mechanisms. This is in line with the overall averages for the companies studied.
The Costs of Financing Small Business Exports

<table>
<thead>
<tr>
<th></th>
<th>Working capital</th>
<th>Payment mechanism</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>All companies</td>
<td>0.2%-4%</td>
<td>1.5%</td>
<td>1.7%-5.5%</td>
</tr>
<tr>
<td>Export-related companies</td>
<td>1.0%</td>
<td>0.7%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>
The Costs of Financing Small Business Exports

CONVENTIONAL WISDOM:

The banking sector is still "gun-shy" about financing exports in the wake of the LDC debt crisis and the savings and loan debacle. Many banks will not support small business exporting because it is riskier than servicing larger, established exporters.

WHAT THE STUDY FINDS:

The banking sector has re-emerged as a trade finance source, and many see opportunities in the small business trade finance market. However, perceptual problems persist.

The amounts of both working capital and payment mechanism transactions supported by U.S. financial institutions fall within the range of many small business exporters. Of the nine U.S. financial institutions interviewed for this study, five will support letters of credit of less than $100,000 — the bulk of large transaction sizes explored in this study.

Three out of the nine financial institutions were willing to provide short-term financing for amounts less than $100,000. Seven will provide long-term financing only for amounts exceeding $1 million. None of the banks interviewed will provide long-term finance for amounts less than $500,000. However, the banks monitored through AXCAP have indicated a willingness to provide finance for smaller transactions, particularly for post-shipment financing instruments such as letters of credit. Since they involve a broader scope of transactions, letters of credit are typically smaller transactions than those of working capital financing, thus the reported ranges are lower.

Range of Export Transaction Sizes Supported by U.S. Lenders

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of credit</td>
<td>$50,000-$500,000</td>
</tr>
<tr>
<td>Short-term financing (up to 6-12 months)</td>
<td>$100,000-$10 million</td>
</tr>
<tr>
<td>Medium to long-term financing</td>
<td>$1 million-$10 million+</td>
</tr>
</tbody>
</table>

(Based on ranges reported by nine financial institutions and data from 165 banks.)

Some innovative programs have been launched by financial institutions in recent years to capture the small business export market. For example, in 1993, American National Bank in Chicago started offering a flat fee of $100 for letters of credit of less than $5,000 for any new-to-export companies. This type of offer will also alleviate the higher percentage costs incurred from small letter of credit transactions that was documented earlier in this study. MTB Bank in New York has increased its number of export loans secured by

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The Costs of Financing Small Business Exports

purchase orders, as a means to help businesses with few assets and weak balance sheets.14 Typical charges for purchase-order financing fall between 1.5% and 2% of the businesses' monthly credit line as an up-front fee, as well as interest and points.

Small transaction sizes are only marginally profitable for banks and are expensive for the company requiring working capital at pre-shipment. The nine banks interviewed were virtually unanimous in their assertion that their biggest problem was the additional overhead cost of providing information, business advice and counseling to small firms. This reinforces the banks' concerns about small business' performance and reducing the overhead associated with these transactions. However, the banks interviewed said they would continue to expand their investment, despite their reservations. In fact, support for the small business market has grown. In 1994, U.S. banks approved $158 billion in general small business loans of $1 million or less — a record high.15

This increased focus on small business extends to export as well. When BAFT held their first Trade Finance Convention in 1990, about 50 U.S. banks sent representatives. In 1995, more than 100 banks participated. Second, of the banks now participating in AXCAP, more than 60% have specialized divisions to assist small business exporters.

Retreat from Export Finance Ends

Experts agree that banks ceased to become "players" in trade finance during the LDC debt crises of the late 1980s. The reluctance of banks to make foreign loans or engage in foreign direct investment spilled over to the area of export finance. The expansive domestic credit policies of the 1980s was followed by a general tightening of credit. Surviving banks consolidated their services, eliminating unprofitable and lower-profit units, which often include trade finance.

The recent credit crunch for small businesses has been well documented. In 1993, while testifying before the House Committee on Small Business, Alan Greenspan, chairman of the Board of Governors of the Federal Reserve Board, discussed how the too-expansive credit policies of the 1980s — based on a history of rising real estate values — led to the record rate of bank failures in the early 1990s. The result was that bank lending policies went through a period of exaggeratedly high underwriting standards. Bank examiners became more sensitive to the bank's credit-granting procedures.16


The Costs of Financing Small Business Exports

It is reported that these events made banks skittish about trade finance, as well as foreign lending and direct investment. Some banks were reported to have neither the capability to handle trade finance nor the desire for overseas exposure. Many banks that offered trade finance services eliminated these departments in the mid to late 1980s to reduce assets and cut payroll. Banks scaled back from the trade finance market and toward initiatives with greater returns, such as credit cards. This shift away from a consultative approach to trade finance — from which the industry is still rebuilding — may represent a competitive drawback in comparison with the banking structures of other nations, as discussed in the section on German export finance trends later in this report.

Bankers Become More Bullish on Trade

Interviews with executives from nine financial institutions engaged in export finance show a reemergence of banks in the export finance area. The interviewees stated their institutions’ commitment to trade finance was firm and irrevocable. This was due to intense competition resulting from their excess capital positions, increased demands from companies and the internationalization of the economy. In addition, the banks have funds allocated to export finance which are higher than demand. No bank or non-bank financial institution was short of export finance credits.

In fact, some of the executives interviewed for this study pointed to the fact that the United States is still relatively "new" as an exporting nation. In the past, our economic growth was not as dependent in the export sector. Typically, the way we conducted business overseas was through direct foreign investment rather than exports. In turn, U.S. banks were financing exports to U.S. subsidiaries and their markets. There was relatively little financing of shipments to foreign customers. However, this is all changing.

Some trade services — such as letters of credit — are very profitable for banks. Interviewees report that they look at letters of credit (and trade finance) as a means to develop new clients and service existing ones. More banks are jettisoning the traditional "relationship" approach and aggressively seeking new customers by providing trade services. This represents a marked change in bank strategy and one that has developed and gathered momentum in recent years. In the past, import finance has accounted for most trade finance — about 85% of the total import/export business. It is anticipated that this ratio will change in future years, particularly with the near term outlook for real world growth.

Market Surveys Confirm Renewed Growth

A study last year by the American Bankers Association showed a shift in bank investment portfolios. Banks continued to increase their holdings of government securities due to weak loan demand in 1993. Analysts expect that as loan demand increases, funds will flow
The Costs of Financing Small Business Exports

out of securities and into lending. The Bankers Association for Foreign Trade reported findings of a growing market in a 1995 study. A total of 126 banks responded to BAFT's mail-in survey, conducted by an independent polling firm. BAFT's key findings, which covered the overall export market, included the following:

- The trade finance market is growing. Eighty-five percent of the respondents reported that they were expanding international business capability to support U.S. trade. Ninety-six percent saw exports as a growth industry for the remainder of the 1990s.

- Funding exports can be profitable. Sixty percent of the bankers said that funding exports is more profitable than funding imports. Smaller banks (those with less than $10 billion in assets) were divided in profitability between exports and imports.

- The relationship between the exporter and his or her bank is critical. Ninety percent of the bankers said their trade finance operations were based on their relationships with exporters. Only 25% said their criteria was not relationship-based, but dependent upon an evaluation of the transaction at hand.

From a credit supplier perspective, since large and small businesses differ markedly by the nature of their capital structures, financing will differ accordingly. The suppliers of credit, however, will have essentially the same cost of capital for trade credits for both large and small companies. Therefore, the unit overhead costs for working capital financing incurred to service a small business exporter are significantly higher than for servicing a large firm. This situation leads to a natural rationing of trade credits to small exporters. This suggests that there may be a substantial financing market available to private institutions willing to convert — with new programs — higher risk, smaller transactions into higher returns.

The Access to Capital (AXCAP) Program, administered by BAFT, may provide

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19 AXCAP began in November 1993 to forge a link between exporters and banks, and non-bank financials active in trade finance. AXCAP is a comprehensive database listing sources of trade finance. As of mid-1995, AXCAP attracted the participation of 230 banks and other institutions with asset sizes ranging from less than $50 million to more than $100 billion. AXCAP banks are composed of about 50% BAFT members and 50% non-BAFT members. Since its inception, more than 2,000 exporters have called AXCAP. More than 300 export transactions have been processed. The majority of callers querying AXCAP over the past year, 52%, have annual revenues of up to $5 million, 30% have sales of $20 million or more and the remaining 18% have sales of between $5 and $20 million. About 60% of the calls come from trading companies and distributors.
additional evidence of this new interest in trade finance. At the time of this study, 165 of BAFT's members participated in the AXCAP program. The program provides services in twenty-three categories to exporters (see Appendix D, page 75, for details). Exporters contact AXCAP and describe their financing needs. AXCAP representatives refer the company to several banks with the potential to provide the financing.

A profile of exporters querying AXCAP since early 1994 shows a strong interest in short-term financing (covering pre-shipment working capital) within the small business sector. A majority (52%) of exporters had annual revenues of $5 million or less. More than one out of seven (15%) of the functional requests AXCAP received were for letters of credit. Fifty-three percent were for short term finance and 32% were for medium/long term finance. However, only 8% of the letters of credit handled by AXCAP members were for transactions totaling under $100,000. The bulk of the transactions reported by AXCAP members (55%) fell in the $100,000 to $500,000 range.

Potential Challenge Areas

The interviews with bank executives revealed two major problems with small business finance: 1) improper and incomplete documentation, particularly in the small firms, leading to improper asset evaluation problems and much higher letter of credit costs, raising the businesses' overall costs by an average of 50%, and 2) the uncaptured overhead cost of free advice and counseling provided by the banks which varies immensely by firm size.

Bankers report that most of the problems associated with small business exporters are with firms of under $30 million in revenues; very few of these seem to be as export ready or as capable. (SBA and Ex-Im Bank programs normally deal with this size firm.)

Still, most national and state chartered U.S. banks (there are about 9,000) are uninvolved or marginally involved in trade finance. Some of the bankers contacted said there were challenges for small business exporters in locating and obtaining banking support. One bank executives noted that "many bankers don't get involved in trade finance and don't understand it." Another commented that "it's too unprofitable, too risky, and just too much bother." Knowledge about the trade finance market may also be an impediment. "Even when trade financing is available, loan officials in many banks may not be aware of its existence, nor are they knowledgeable about international financing in general," noted another banking executive. "Most banks that provide trade financing limit themselves to letters of credit and bankers' acceptance financing," still another observed.

The banks that are committed to trade finance command a large share of total bank assets. They are geographically concentrated in the high trade states of New York, New Jersey, Pennsylvania, Florida, Texas, California, Michigan and Illinois. Of 24 U.S. banks with assets of $20 billion or above, 18 are committed to small-to-medium sized exporter trade finance. Combined, the assets of these banks total some $850 billion, out of total domestic assets of $3.6 trillion in 1995.
The Costs of Financing Small Business Exports

Banks maintain that for the most part if they do not finance a transaction, it is because of the credit risk, not because is business is small, per se. More banks are focusing on the potential of and the problems associated with small business, either by establishing small business divisions or community banks for firms with under $20 to $30 million in revenues.

Perceptual Challenges

Some of the small firms interviewed in this study do not perceive this new commitment to provide export finance. Two out of five respondents were critical of banks’ performance. The literature documents the difficulty small firms have accessing capital. In addition, exporters were vocal in their assessment of their banks’ performance- and this assessment was often unflattering. Several companies felt their banks were too small to handle international transactions or lacked personnel who were knowledgeable about trade finance. Among their comments:

- "The banks said 'okay,' (when asked if it would help the company expand its export efforts) but they won't change their policy to help."
- "The banks are not interested in small transactions because of the paperwork. They are only interested in transactions of over $200,000, particularly Ex-Im Bank."
- "Banks want nothing to do with small, high-tech companies. They do not understand small, high-tech companies. They do not have a capable or knowledgeable staff."
- "Banks are reluctant to work with small new companies that deal with product lines with which they are unfamiliar."
- "Banks say we need a longer track record before they can help."
- "We’re changing banks because ours can’t handle letter of credit transactions."
- "Banks should understand what they are doing in terms of international trade. Our banker does not understand Latin American culture and business practices. It is a question of education."
- "They are not large enough to handle exporting, so I had to go to another bank."

Evolving Regional and National Solutions

The trade finance needs of small and medium-sized businesses are often inseparable from normal loan capital and equity needs. If by exporting, small firms can get greater leverage of their limited equity, then there is a real incentive for exporting among companies with
relatively little access to capital. With little access, the price of financing is not an issue. Rather, the issue becomes the availability of finance.

To a large extent, this may be a regional issue. Without a national export banking structure, the executives interviewed point out that banks have no direct way of assessing regional export finance demand, helping to create the existing supply-demand mismatch.

The Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 will give some banks the capability to expand export services to new states at much lower costs than previously were incurred. The Act authorizes a bank holding company to acquire a bank located in any state and authorizes an insured bank (beginning June 1, 1997) to merge across state lines unless the affected states have "opted-out" of interstate branching.

Currently, at least 10 to 15 banks are in a position to establish a nationwide presence. The potential expansion could alleviate the most restrictive and debilitating factor in small business export finance, i.e., the lack of systematic access by exporters. Currently, only AXCAP provides immediate access on a national level.
The Costs of Financing Small Business Exports

CONVENTIONAL WISDOM:

Small firms are actively seeking out "alternative" modes of export financing, such as factoring houses, and many are taking advantage of federal and state guarantee programs.

WHAT THE STUDY FINDS:

The vast majority of companies in the study used traditional banks. There is a pervasive lack of knowledge of alternate finance mechanisms such as forfaiters, factorers, and transaction finance firms and public sector lending programs. Public sector programs and private financial institutions have not reached the small exporter with information about their programs.

Eighty-six percent of the exporters requiring financing approached a bank. Only one company approached a state finance program, and another used the services of a transaction finance firm. As noted earlier, no exporters dealt with the Small Business Administration or the Export-Import Bank.

Information about alternate finance mechanisms (such as forfaiting and factoring), non-bank financial institutions (such as transaction finance firms), federal government finance programs (SBA and Ex-Im Bank), state export finance programs, and private sector programs are not reaching small businesses.20

Small firms do have options for export finance outside commercial banks. The U.S. Export Import Bank provides direct loans and loan guarantees for medium and long-term export finance and foreign credit insurance. Ex-Im Bank sponsors the Working Capital Guarantee Program for loans exceeding $750,000, and these loans can be used for pre-export activities. The U.S. Small Business Administration offers pre-export finance for loans of $750,000 or less through its Export Revolving Line of Credit Loan Guarantee program, long-term financing through the International Trade Loan Program and small businesses requiring money for fixed assets and working capital may be eligible for SBA's regular 7(a) loan program. Approximately 40 states provide some type of financing program (loans, guarantees).

20 The Small Business Foundation of America, a participant in this study, has operated the Export Opportunity Hotline since 1990. The Hotline has answered export-related questions from approximately 30,000 companies. Hotline trade specialists estimate that availability of finance is one of the top five questions posed by callers. These specialists also estimate that when asked, approximately 85% of callers are unaware of the role the U.S. Small Business Administration, Eximbank, the states or private sector transaction financing, forfaiting and factoring firms play in the export process. Other export information providers report similar results.
The Costs of Financing Small Business Exports

Transaction finance firms

Unlike asset-based lenders, transaction finance firms finance specific deals rather than companies. The transaction firms use their own financial backing to obtain capital for exporter clients. In return, these firms usually receive a percentage of the deal's value.

Examples of prominent transaction finance firms include Trading Alliance Corporation in New York and Bristol International, Ltd. of Dallas. Both firms were founded by former international bankers who wanted to offer a wider range of support and services to exporters, unencumbered by the rigid cost accounting formulas used by banks to determine export creditworthiness. Services typically offered by these companies include the following:

- Supplier financing
- Pre-shipment working capital
- Back-to-back letters of credit
- Guaranteeing letters of credit
- Extending credit terms to buyers
- Making advances against receivables

Data from the export community (both exporters and service/information providers) suggests the cost of completing a deal with a transaction firm can range anywhere from 5% to 33% of a deal.

In the single recorded instance of use of a transaction finance firm in this study, the transaction involved $600,000 worth of oil field equipment. The company sought to finance $213,000. The rate was fixed a prime plus 6% that equals approximately a 12% interest rate. (The transaction finance firm would apply 2.1% credit to the exporter's next transaction.) The company owner said her firm used the transaction finance company because it needed to secure the financing within a short period of time.

In the follow-up phase for data collection for this study, we interviewed an additional 10 firms to identify use of non-bank financing. Another two firms using transaction financing were identified. The transaction sizes for the three companies using transaction finance firms ranged between $70,000 and $3,000,000 — higher than the transaction sizes of the entire group of exporters. Two of these companies in the follow-up set used working capital financing provided by a transaction financing firm. In the case of the exporters participating in this study, the fees and interest associated with the financing ranged between 0.7% and 1% of the total transaction value, roughly equivalent to the percentages incurred when financing through the banking system.

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The Costs of Financing Small Business Exports

CONVENTIONAL WISDOM:

U.S. exporters pay higher fees than companies in other nations with more "export-savvy" trading cultures, such as Germany.

WHAT THE STUDY FINDS:

U.S. small business export finance costs compare favorably with those of Germany. However, small German exporters may receive higher levels of service.

As part of this report, the costs and practices of a major trading partner were examined as a comparison to gauge U.S. trends. Due to similar trade environments, the Federal Republic of Germany was selected. Germany is the wealthiest country in Europe, with a GDP of $1.8 trillion in 1992, and is the second largest merchandise exporter and importer in the world ($430 billion and $409 billion, respectively, in 1992). Germany is also the fifth largest importer of U.S. products ($21 billion in 1992). It is also at the center of the European Community, and accessible to the burgeoning markets of Eastern Europe and Russia.

Overall, Germany offers better access to export financing than the United States does, through decentralized locations. Germany has a consortium of 54 banks in addition to other local banks. By contrast, the U.S. Ex-Im Bank does have a "city-state" program in two cities and 19 states for pre-application processing services, but no regional office network.

The German Government Guarantee System

Under the official export credit insurance system, the German federal government carries both the political and commercial risks. A mandatory consortium is authorized to provide and manage the insurance business in the name and for the account of the government. This consortium consists of a private insurance corporation, Hermes Kreditversicherungs AG (Hermes) — the leading partner in the consortium — and Treuarbeit AG — a corporation in which public bodies hold a minority stake. 22

Thirty percent of all German exports are supported by the government under Organization for Economic Cooperation and Development (OECD) guidelines, and 70% by the private sector. Private German banks finance small business exports as a matter of national priority, in contrast to U.S. banks, which operate on a profit basis. Moreover, Germany is a nation of small businesses, much more so than the U.S. Thus, the financing of export credits is driven by small business concerns, in contrast to the U.S., whose businesses never needed exports to grow because of our enormous size, market, and growth potential.

The Costs of Financing Small Business Exports

The German Banking Environment

As part of this study, an interview was conducted with a German banker currently located in New York, with 30 years experience in international banking, of which 15 were in the United States. The banker confirms that the national banking structure in Germany permits local access to a number of banks committed to export finance. He noted that there are many regions in the United States where the exporter is hard-pressed to find banks with export finance capabilities. Moreover, each German branch is a trade finance branch and the exporter gets immediate physical contact and service.

German banks also accept part of the overhead cost of "hand holding" and associated costs of dealing with small business exporters. German banks' fees and charges for working capital financing are 30% to 50% higher than those of U.S. banks, the banker confirms.

For the near future, the German banking representative interviewed for this study does not see German banks reducing these higher costs, particularly with the ongoing investment of the U.S. banking industry in efficiency and technology, along with the evolution toward a national banking system.

In a recent study involving 60 bank executives from both the U.S. and Germany, Dr. Brent Keltner, a consultant with the RAND Corporation, found that the community banking environments of the two countries vary significantly. U.S. banks tend to focus on cost-cutting while offering a range of financial services at high volumes. German banks, on the other hand, concentrate on relationship banking. This may have had an impact on the costs of export finance instruments, as discussed below.

"In the U.S. over the course of the 1980s, the trend was towards small business clients losing any claim to special status," Keltner wrote. By the early 1990s, Keltner found, most large commercial banks were treating small businesses no differently than retail customers. "Evaluation of loan applications, just like evaluations of credit cards, became a centralized, back-office affair with no contact with the business owner and no knowledge of his or her industry." In Germany, however, banks spent much of the 1980s improving their capacities for relationship banking with small businesses, Keltner observed. "This was especially true for large private commercial banks. For most German banks, branch managers act as relationship managers for the small business customer," he wrote. "As American banks turned to volume-oriented product strategies, moving away from financial advising and supporting customers in times of financial difficulties, small companies have been leaving the banking system, turning toward raising funds internally or from private sources."

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The Costs of Financing Small Business Exports

The ten largest German banks with U.S. offices were contacted to seek information on working capital financing costs, but all declined to participate in the study. Dresdner Bank did contribute a statement, indicating that "the conditions of export loans depend on the credit rating of the exporter, its ranking in the market and its financial circumstances, as well as the risk assessment of the importer's country and the actual standing of the importer and/or the importer's bank; and finally, whether the loans are secured/collateralized by an export guaranty like Hermes."

Post-Shipment Finance Costs

Added service may account for the higher rates incurred by small German exporters — there is a greater degree of "hand-holding" to help secure financing, but it comes at a higher price for export financing. For post-shipment financing, the costs reported for the most popular financing instrument — letters of credit — tended to run significantly higher for German companies (see Tables 5 and 6, pages 49-50). For pre-shipment loans, higher fees and interest drive German financing costs to almost twice the levels of that of U.S. exporters.

In examining L/C rates typically charged German exporters by their banks, and contrasting those rates against the costs paid by U.S. firms participating in this study, the difference is significant. As noted at the beginning of this report, the typical transaction size among the small U.S. companies interviewed using post-shipment financing was $307,296. Among this group, the average reported L/C charge was $657. However, for a transaction of the same size, based on the L/C cost structure reported in Table 8, the typical German company would be assessed $1,264 — almost twice as much.
The Costs of Financing Small Business Exports

### TABLE 1
**STRUCTURES OF WORKING CAPITAL LOANS (PRE-SHIPMENT FINANCING)**

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Transaction size</th>
<th>Type of loan/ amount</th>
<th>Collateral used</th>
<th>Fees + interest (based on reported term)</th>
<th>Lender</th>
<th>Terms/ Actual terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributor</td>
<td>$3,000,000</td>
<td>Commercial loan</td>
<td>Pers. property</td>
<td>Fees: $20,000 Int.: incl. above Total: $20,000 Percent of trans. 0.7%</td>
<td>Commercial finance firm</td>
<td>Upon importer pymnt/ Actual: 150 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Co. real est.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pers. assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>State govt. guarantees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>$700,000</td>
<td>Credit line/</td>
<td>Receivables</td>
<td>Fees: Buyer paid Int.: 7.5% Total: $1,250 Percent of trans. 0.2%</td>
<td>Commercial bank</td>
<td>Clear up annually/ Actual: 60 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$100,000</td>
<td>Pers. property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pers. real est.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export mgt. company</td>
<td>$600,000</td>
<td>Commercial loan</td>
<td>Irrev. L/C</td>
<td>Fees: $2,130 Int.: 12% Total: $5,751 Percent of trans. 1%</td>
<td>Commercial finance firm</td>
<td>Upon importer pymnt/ Actual: 51 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$213,000</td>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pers. real est.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>$485,000</td>
<td>Commercial loan</td>
<td>Inventory</td>
<td>Fees: NA Int.: NA Total: NA Percent of trans: NA</td>
<td>Commercial finance firm</td>
<td>NA/ Actual: 120 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$485,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export mgt. company</td>
<td>$287,000</td>
<td>Credit line/</td>
<td>Pers. property</td>
<td>Fees: $250 Int.: 8% Total: $2,113 Percent of trans. 0.7%</td>
<td>Commercial bank</td>
<td>NA/ Actual: 30 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$287,000</td>
<td>Inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Pers. real est.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$200,000</td>
<td>Credit line/</td>
<td>Pers. property</td>
<td>Fees: NA Int.: 7% Total: $1,167 Percent of trans. 0.6%</td>
<td>Commercial bank</td>
<td>Upon importer pymnt/ Actual: 30 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$200,000</td>
<td>Inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mgr.</td>
<td>$54,175</td>
<td>Personal loan</td>
<td>None</td>
<td>Fees: NA Int.: NA Total: NA Percent of trans: NA</td>
<td>Personal acquaintance</td>
<td>Upon importer pymnt/ Actual: 130 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$35,839</td>
<td>Credit line/</td>
<td>Pers. property</td>
<td>Fees: $800 Int.: 9.75% Total: $1,418 Percent of trans. 4%</td>
<td>Commercial bank</td>
<td>Upon importer pymnt/ Actual: 152 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$15,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 2
STRUCTURES OF PAYMENT MECHANISMS

Manufacturers

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Transaction size</th>
<th>Type of Instrument</th>
<th>Fees/ % of trans.</th>
<th>Payment Servicer</th>
<th>Reported length of time between shpmnt/pymnt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mfgr.</td>
<td>$300,000</td>
<td>Doc. collect.</td>
<td>$5,250 (1.75%)</td>
<td>Money cntr bank</td>
<td>180 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>secured by L/C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$175,000</td>
<td>Confirmed L/C</td>
<td>$303 (0.2%)</td>
<td>Commercial bank</td>
<td>30 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$100,000</td>
<td>Confirmed L/C</td>
<td>$520 (0.5%)</td>
<td>Commercial bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Doc. collect.</td>
<td>$400 (0.4%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$100,000</td>
<td>Confirmed L/C</td>
<td>$1,000 (1.8%)</td>
<td>Money cntr bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$54,175</td>
<td>Confirmed L/C</td>
<td>$1,000 (1.8%)</td>
<td>Commercial bank</td>
<td>10 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$50,000</td>
<td>Doc. collect.</td>
<td>$3,000 (6%)</td>
<td>Money cntr bank</td>
<td>30 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>draft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$20,000</td>
<td>Confirmed L/C</td>
<td>$250 (1.25%)</td>
<td>Money cntr bank</td>
<td>30 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$8,200</td>
<td>Confirmed L/C</td>
<td>$60 (0.7%)</td>
<td>Commercial bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Buyer paid remainder)</td>
<td></td>
</tr>
<tr>
<td>Mfgr.</td>
<td>$7,500</td>
<td>Confirmed,</td>
<td>$300 (4%)</td>
<td>Commercial bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>assignable L/C</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Non-Manufacturers

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Transaction size</th>
<th>Type of Instrument</th>
<th>Fees/ % of trans.</th>
<th>Payment Servicer</th>
<th>Reported length of time between shpmnt/pymnt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broker</td>
<td>$3,000,000</td>
<td>Confirmed L/C</td>
<td>$20,400 (0.7%)</td>
<td>Commercial bank</td>
<td>15 days</td>
</tr>
<tr>
<td>Distributor</td>
<td>$800,000</td>
<td>Confirmed L/C</td>
<td>NA</td>
<td>Commercial bank</td>
<td>37 days</td>
</tr>
<tr>
<td>Service</td>
<td>$700,000</td>
<td>Confirmed L/C</td>
<td>NA</td>
<td>Commercial bank</td>
<td>50 days</td>
</tr>
<tr>
<td>Export mgmt co.</td>
<td>$600,000</td>
<td>Confirmed,</td>
<td>$1,390 (0.2%)</td>
<td>Foreign bank in U.S.</td>
<td>6 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>assignable L/C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$300,000</td>
<td>Unconfirmed L/C</td>
<td>$800 (0.3%)</td>
<td>Commercial bank</td>
<td>30 days</td>
</tr>
<tr>
<td>Export mgmt. co.</td>
<td>$287,000</td>
<td>Unconfirmed L/C</td>
<td>$365 (0.13%)</td>
<td>Money cntr bank</td>
<td>15 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Back-to-back L/C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$250,000</td>
<td>Confirmed,</td>
<td>$8,750 (3.5%)</td>
<td>Commercial bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>assignable L/C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$200,000</td>
<td>Confirmed L/C</td>
<td>$75 (0.04%)</td>
<td>Money cntr bank</td>
<td>15 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(Buyer paid remainder)</td>
<td></td>
</tr>
<tr>
<td>Distributor</td>
<td>$100,000</td>
<td>Confirmed L/C</td>
<td>$2,000 (2%)</td>
<td>Money cntr bank</td>
<td>15 days</td>
</tr>
</tbody>
</table>
### The Costs of Financing Small Business Exports

**Non-Manufacturers (continued)**

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>Transaction size</th>
<th>Type of Instrument</th>
<th>Fees/ % of trans.</th>
<th>Payment Servicer</th>
<th>Reported length of time between shpmnt/pymnt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export mgmt co.</td>
<td>$75,000</td>
<td>Irrevocable L/C</td>
<td>$900 (1.2%)</td>
<td>Commercial bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td>Distributor</td>
<td>$70,000</td>
<td>Assignable L/C</td>
<td>$1,000 (1.4%)</td>
<td>Transaction finance firm</td>
<td>15 days</td>
</tr>
<tr>
<td>Export mgmt co.</td>
<td>$70,000</td>
<td>Confirmed L/C</td>
<td>$200 (0.3%)</td>
<td>Foreign bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td>Service</td>
<td>$60,000</td>
<td>Confirmed L/C</td>
<td>NA</td>
<td>Client company</td>
<td>120 days</td>
</tr>
<tr>
<td>Service</td>
<td>$60,000</td>
<td>L/C (type NA)</td>
<td>$300 (0.2%)</td>
<td>Commercial bank</td>
<td>30 days</td>
</tr>
<tr>
<td>Export mgmt co.</td>
<td>$25,000</td>
<td>Doc. collect. draft</td>
<td>$75 (0.3%)</td>
<td>Commercial bank</td>
<td>45 days</td>
</tr>
<tr>
<td>Distributor</td>
<td>$20,947</td>
<td>Confirmed L/C</td>
<td>$317 (1.5%)</td>
<td>Money cntr bank</td>
<td>Upon shipment</td>
</tr>
<tr>
<td>Distributor</td>
<td>$20,000</td>
<td>Irrevocable, Unconfirmed L/C</td>
<td>$300 (1.5%)</td>
<td>Commercial bank</td>
<td>15 days</td>
</tr>
<tr>
<td>Service</td>
<td>$11,000</td>
<td>Confirmed L/C</td>
<td>$575 (5.2%)</td>
<td>Money cntr bank</td>
<td>21 days in adv.</td>
</tr>
<tr>
<td>Distributor</td>
<td>$10,745</td>
<td>Confirmed L/C</td>
<td>NA</td>
<td>Money cntr bank</td>
<td>10 days</td>
</tr>
</tbody>
</table>
The Costs of Financing Small Business Exports

TABLE 3
WHAT COMPANIES PAY FOR WORKING CAPITAL FINANCING, BASED ON 90-DAY TERM
THROUGH COMMERCIAL BANKS:
(Based upon drawing down from a pre-established line of credit*)

<table>
<thead>
<tr>
<th>Size of transaction:</th>
<th>$50,000</th>
<th>$100,000</th>
<th>$300,000</th>
<th>$500,000</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOAN COSTS:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest @ prime + 1-4% (7-10%)**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% of deal financed:</td>
<td>$219-$312</td>
<td>$437-$625</td>
<td>$1,312-$1,875</td>
<td>$2,187-$3,125</td>
<td>$4,375-$6,250</td>
</tr>
<tr>
<td>45% of deal financed**:</td>
<td>$394-$562</td>
<td>$787-$1,125</td>
<td>$2,362-$3,375</td>
<td>$3,937-$5,625</td>
<td>$7,875-$11,250</td>
</tr>
<tr>
<td>75% of deal financed:</td>
<td>$656-$937</td>
<td>$1,312-$1,875</td>
<td>$3,937-$5,625</td>
<td>$6,562-$9,375</td>
<td>$12,125-$18,750</td>
</tr>
<tr>
<td>% OF TRANSACTION:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% of deal financed:</td>
<td>0.4%-0.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45% of deal financed**:</td>
<td>0.8%-1.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>75% of deal financed:</td>
<td>1.3%-1.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumes that up-front fees have previously been paid.
** Reported interest range reported by export bankers as ranging between 1-4 points over prime. Prime was 6% at the time of this study. Interest calculated for 90-day period between time of order and full payment from the customer, as found in this study.
*** Average amount financed through outside sources, as found in this study.

THROUGH NON-BANK FINANCIAL FIRMS:

<table>
<thead>
<tr>
<th>Size of transaction:</th>
<th>$50,000</th>
<th>$100,000</th>
<th>$300,000</th>
<th>$500,000</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOAN COSTS*:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest @ prime + 4%-7% (10%-13%)**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% of deal financed:</td>
<td>$312-$406</td>
<td>$625-$812</td>
<td>$1,875-$2,437</td>
<td>$3,125-$4,062</td>
<td>$4,375-$6,250</td>
</tr>
<tr>
<td>45% of deal financed**:</td>
<td>$562-$731</td>
<td>$1,125-$1,580</td>
<td>$3,375-$4,367</td>
<td>$5,625-$7,312</td>
<td>$11,250-$14,625</td>
</tr>
<tr>
<td>75% of deal financed:</td>
<td>$937-$1,219</td>
<td>$1,875-$2,437</td>
<td>$5,625-$7,312</td>
<td>$9,375-$12,187</td>
<td>$12,125-$18,750</td>
</tr>
<tr>
<td>% OF TRANSACTION:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% of deal financed:</td>
<td>0.6%-0.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>45% of deal financed**:</td>
<td>1.1%-1.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>75% of deal financed:</td>
<td>1.9%-2.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financing through a non-bank financial firm is typically transaction-specific rather than from a credit line. Therefore, the costs of financing a transaction through a finance firm will always include up-front points. In the finance firms interviewed for this study, up-front points equalling 3% to 6% of the loan value are assessed.
** Reported range for bank fees was reported by finance firms as ranging between 4-7 points over prime. Prime was 6% at the time of this study. Interest calculated for 90-day period between time of order and full payment from the customer, as found in this study.
*** Average amount was financed through outside sources, as found in this study.

Source: Interviews with executives of seven export banks and two non-bank financial firms, 1994-95.
TABLE 4
WHAT COMPANIES TYPICALLY PAY
FOR WORKING CAPITAL GUARANTEE PROGRAM TRANSACTIONS

SBA Guarantees — Loans of $750,000 or less
For average transaction terms in this study (90 days)

<table>
<thead>
<tr>
<th>Size of loan:</th>
<th>$50,000</th>
<th>$100,000</th>
<th>$300,000</th>
<th>$500,000</th>
<th>$750,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee fees (0.25%)</td>
<td>$125</td>
<td>$250</td>
<td>$750</td>
<td>$1,250</td>
<td>$1,875</td>
</tr>
<tr>
<td>Interest @ prime + 1 (7%)*</td>
<td>$875</td>
<td>$1,750</td>
<td>$5,250</td>
<td>$8,750</td>
<td>$13,125</td>
</tr>
<tr>
<td>Total Loan Costs:</td>
<td>$1,000</td>
<td>$2,000</td>
<td>$6,000</td>
<td>$10,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>% of Amount Financed:</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Est. Transaction Size**:</td>
<td>$111,000</td>
<td>$225,000</td>
<td>$670,000</td>
<td>$1,115,000</td>
<td>$1,675,000</td>
</tr>
</tbody>
</table>

* Interest calculated for 90-day period between time of order and full payment from the customer, as found in this study; assumes total debt is retired upon full payment by the importer.

** Assumes loan amount shown on top is 45% of total transaction, as found in this study. Estimated total amount of transaction is shown here.

SBA Guarantees — Loans of $750,000 or less
For average transaction of one year in length

<table>
<thead>
<tr>
<th>Size of loan:</th>
<th>$50,000</th>
<th>$100,000</th>
<th>$300,000</th>
<th>$500,000</th>
<th>$750,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee fees</td>
<td>$1,500</td>
<td>$3,000</td>
<td>$9,250</td>
<td>$16,250</td>
<td>$25,700</td>
</tr>
<tr>
<td>Interest @ prime + 1 (7%)*</td>
<td>$3,500</td>
<td>$7,000</td>
<td>$21,000</td>
<td>$35,000</td>
<td>$52,500</td>
</tr>
<tr>
<td>Total Loan Costs:</td>
<td>$5,000</td>
<td>$10,000</td>
<td>$30,250</td>
<td>$51,250</td>
<td>$78,200</td>
</tr>
<tr>
<td>% of Amount Financed:</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>10.25%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Est. Transaction Size**:</td>
<td>$111,000</td>
<td>$225,000</td>
<td>$670,000</td>
<td>$1,115,000</td>
<td>$1,675,000</td>
</tr>
</tbody>
</table>

* Interest calculated for one-year period between time of order and full payment from the customer.

** Assumes loan amount shown on top is 45% of total transaction, as found in this study. Estimated total amount of transaction is shown here.

Source: U.S. Small Business Administration.
Ex-Im Bank Guarantees — Loans of more than $750,000
For average transaction terms in this study (90 days)

<table>
<thead>
<tr>
<th>Size of loan:</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>$500</td>
</tr>
<tr>
<td>Loan &amp; security agreement</td>
<td>$3,500</td>
</tr>
<tr>
<td>Lien search &amp; recordation</td>
<td>$500</td>
</tr>
<tr>
<td>Ex-Im Bank fees</td>
<td>$15,100</td>
</tr>
<tr>
<td>Audit</td>
<td>$1,500</td>
</tr>
<tr>
<td>Interest @ prime + 1 (7%)*</td>
<td>$17,500</td>
</tr>
</tbody>
</table>

**TOTAL LOAN COSTS:** $38,600

**% OF AMOUNT FINANCED:** 3.9%

**EST. TRANSACTION SIZE**: $2,225,000

* Interest calculated for 90-day period between time of order and full payment from the customer, as found in this study; assumes total debt is retired upon full payment by the importer.

** Assumes loan amount shown on top is 45% of total transaction, as found in this study. Estimated total amount of transaction is shown here.

Source: Based on estimates supplied by exporters, banks and the Ex-Im Bank, March, 1994.
The Costs of Financing Small Business Exports

TABLE 5
BANK CHARGES FOR LETTERS OF CREDIT: GERMANY VS. U.S.

Letters of credit charges covering exports from Germany:

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Rate</th>
<th>Minimum/Maximum*</th>
<th>Comparable U.S. bank charge/rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advising</td>
<td>0.12%</td>
<td>$42.50-$200</td>
<td>$75-$100</td>
</tr>
<tr>
<td>Confirmation:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>up to 3 months</td>
<td>0.15%</td>
<td>$50 (min.)</td>
<td>$100/0.05% every 3 mos.</td>
</tr>
<tr>
<td>up to 6 months</td>
<td>0.30%</td>
<td>$100 (min.)</td>
<td></td>
</tr>
<tr>
<td>every month thereafter</td>
<td>0.15%/mo.</td>
<td>$100/quarter</td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td>0.15%</td>
<td>$50 (min.)</td>
<td>$120/0.10%</td>
</tr>
<tr>
<td>Acceptance</td>
<td>0.15%/mo.</td>
<td>$100/quarter.</td>
<td>$120/1.5% per annum</td>
</tr>
<tr>
<td>Amendment</td>
<td>$42.50</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>Standby Credits</td>
<td>Per arrangement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Documentary draft charges covering exports from Germany:

| Any amount | 0.15% | $44.50 |

* The above amounts were converted into U.S. dollars at a rate of DM 2.00 per dollar.
Source: Bankers Association for Foreign Trade, Washington, DC
The average transaction size among participants in the SBA study issued L/Cs was $307,296. Based on the reported L/C rates for German exporters, the typical fees assessed for German exporters would be as follows:

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advising</td>
<td>$100</td>
<td>$200</td>
</tr>
<tr>
<td>Confirmation (3 mos.)</td>
<td>$254</td>
<td>$461</td>
</tr>
<tr>
<td>Payment</td>
<td>$427</td>
<td>$461</td>
</tr>
<tr>
<td>Acceptance</td>
<td>$120</td>
<td>$100</td>
</tr>
<tr>
<td>Amendment</td>
<td>$70</td>
<td>$42</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$971</strong></td>
<td><strong>$1,264</strong></td>
</tr>
<tr>
<td><strong>ACTUAL:</strong></td>
<td><strong>$657</strong>*</td>
<td></td>
</tr>
</tbody>
</table>

* Total average reported by participants in the SBA study using L/Cs; not based on addition of itemized fees in the above column.

Sources: Responses of 18 U.S. companies using L/Cs; Bankers Association for Foreign Trade, Washington, DC.
The Costs of Financing Small Business Exports

CASE STUDIES

The following are four in-depth examinations of transactions conducted during calendar year 1994. These interviews were derived from the 60 interviews conducted among small business exporters.
The Costs of Financing Small Business Exports

Company A

Profile:

Company A is a Midwestern distributor whose revenue ($2 million in sales) is totally derived from export sales of mussel shells. It employs 1-20 people. The firm sells primarily to end users in Japan, Hong Kong and Korea. In 1993, Company A’s transaction sizes ranged from a low of $44,000 to a high of $287,000.

The Transaction:

Company A’s largest transaction to date, reported for this study, was a sale for $287,000 worth of mussel shells. This transaction was greater than a month’s worth of sales for Company A, although less than 20% of Company A’s total sales. While the owner of Company A could not provide exact dates for when the order was received, when the order was shipped and when it was paid for, she said that order placement, shipment and payment occurred within one month.

When the Need for Financing Arose:

In order to fulfill the order, Company A required financing. Company A owners drew down upon a pre-existing bank line of credit worth $3 million. The company owners had used a combination of the following to secure the credit line: business inventory/equipment/facilities, personal property/assets/real estate, business real estate and other financial assets. The line of credit is provided to Company A by a regional money center bank. The interest associated with the credit line is variable, two points over the prime rate.

Fees for Financing:

In addition to the interest rate, the owner of Company A identified aggregated fees of $200 to utilize the line of credit to help finance the transaction. In order to pay down the line of credit, Company A requested payment by the importer at the time the order was shipped. An unconfirmed letter of credit was the payment mechanism. Company A owner identified the following fees associated with that payment mechanism:

- Advising: $100
- Amendment: $50
- Discrepancy: $50
- Confirmation: $25
- Negotiation: $50
- Reimbursement: $50
- Wire transfer: $15
- Carrier: $25
- TOTAL: $365

52
Additional Comments:

The owner of Company A reported that the bank which offers the credit line has been acquired and the owners of Company A have been informed that the line of credit will not be renewed. "The bank has been bought by a conservative bank," says the owner. "And because it doesn't understand the market, it won't provide credit." She estimates Company A lost approximately 30 transactions totaling $4 million during the past year due to difficulty in securing financing. "If we had finance it would triple the business," says the owner. "It has been a major stumbling block."

The owner of Company A reported discussions with her bank about expanding Company A's export efforts and says the problem is the bank does not understand the commodity being exported and as an asset-based lender, examines the entire credit history of Company A. Due to the 1993 floods in the Midwest, Company A suffered a loss.

In total, Company A incurred total financing costs of $2,459 for this transaction, equaling 0.86% of the value of the order.
Company B

Profile:

A southwestern U.S. export company, Company B has been exporting for two years. It employs 1-20 people. Revenues are under $2 million. During the last 12 months, Company B has completed 13-50 export transactions.

The Transaction:

On June 16, 1994, Company B received a $600,000 order for oil field equipment to be sent to India. The order was shipped on July 31, 1994 and Company B received payment six days later on August 5th.

When the Need for Financing Arose:

Because the firm needed financing to complete the order, Company B owners approached a transaction finance firm. An irrevocable, confirmed letter of credit was used as collateral to secure the financing. The amount financed was $213,000. It was agreed that this amount would be repaid by revenue from sales.

Fees for Financing:

The interest rate charged by the transaction finance company was prime plus an additional 6%. As part of the deal, the transaction finance firm agreed to supply a 2.1% credit to Company B on their next transaction.

The owner of Company B said she approached the transaction finance company because it had been recommended to her. She did note that she had since discovered other transaction finance firms whose rates were less expensive. It took the owners of Company B two weeks to work out the details of the financing with officials from the transaction firm.

The letter of credit provided for payment by the importer at sight and proceeds were assigned to the transaction finance firm. The owner of Company B said she selected a letter of credit because she believed it was a low-risk payment mechanism. The owner of Company B identified $800 in fees. She was not able to break down the fees in any detail with the exception of $150 in discrepancy fees and a $75 fee for assigning the letter of credit.

In total, Company B paid $7,141, or 1.2% of the value of their order, in financing costs.
Company C

Profile:

Company C is a Northeastern distributor. The company has exported for two years and completed 13-50 shipments last year. It employs 1-20 people. Total sales are under $2 million and exports account for 50% of total sales.

The Transaction:

Company C's largest transaction was $60,000 worth of apparel to Russia. The signed order was received November 15, 1993, shipped January 3, 1994 and payment was received 30 days later.

When the Need for Financing Arose:

Company C's president reported that due to inadequate capital, the firm experienced difficulty in filling the order which was greater than 20% of Company D's annual sales. The company president reported being turned down by six banks for a loan. "They all want collateral but because we are a small service firm, we don't have collateral." In order to complete the transaction, Company C had to raise $30,000 and utilized credit from its suppliers as a way of financing the remaining $30,000. Company C's president said the money was raised "in house." He would offer no other detail except to say that it took 60 days to raise the capital, which he felt impeded the company's ability to fulfill the order. "As a small business we had no track record and the banks don't want to deal with Russia," said the president. He reported that if he had access to capital "business would be entirely different." Company C extended 30 day payment terms to the importer. The payment mechanism selected was letter of credit.

Fees for Financing:

L/C costs were aggregated by the president of Company C and said that they represented half a percent of the total transaction value. Company C's president also believes that letter of credit costs have increased 20%-50% during the past year. The payment was serviced by a local commercial bank.

Additional Comments:

Based on his experiences in trying to finance exports, Company C says it will cut back its export efforts dramatically. "We will absolutely phase it out," the president reports. "We can't compete with larger exporters." He reports he will change the nature of Company C to a firm that provides services to large exporting companies.

Total additional costs incurred for Company C's transaction were $300, or 0.5% of the total order.
Company D

Profile:

Company D is a manufacturer of heat transfer systems located in the southern U.S. It has exported for eight years. It employs 100-499 people.

The Transaction:

The largest export transaction reported by Company D was worth $100,000 and shipped to Indonesia. The signed order was received on March 1, 1993. Shipment and final payment were concurrent - on July 1, 1993.

When the Need for Financing Arose:

Company D needed to obtain financing to complete this order. It worked out a system of progress payments with its customer. Four payments were made to Company D by sight drafts and the final payment made by letter of credit.

Fees for Financing:

The Company D representative identified the following costs associated with the letter of credit payment mechanism:

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advising</td>
<td>$35</td>
</tr>
<tr>
<td>Amendment</td>
<td>$60</td>
</tr>
<tr>
<td>Discrepancy Fee</td>
<td>$40</td>
</tr>
<tr>
<td>Negotiation</td>
<td>$175</td>
</tr>
<tr>
<td>Commissions</td>
<td>$350</td>
</tr>
<tr>
<td>Wire Transfer Fee</td>
<td>$150</td>
</tr>
<tr>
<td>Currency Conversion</td>
<td>$40</td>
</tr>
<tr>
<td>Wire Deposit</td>
<td>$30</td>
</tr>
</tbody>
</table>

**TOTAL** $880

Costs associated with the use of sight drafts were aggregated by the Company D representative at $400.

The four payments were made every 16 weeks. Company D said that the bank charged $35-40 in fees for advancing the sight draft. They estimated that five days passed between the payment made by the importer to his bank and the bank releasing the payment to Company D.

Total additional costs incurred for transaction: $1,280, or 1.28% of the total order.
APPENDIX A
CHARACTERISTICS OF STUDY SAMPLE

On the following pages are more demographic breakouts of the sample of 60 companies interviewed for this study.
### TABLE 7
**INDUSTRY CATEGORIES REPRESENTED IN THE STUDY**

<table>
<thead>
<tr>
<th>Industry Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial machinery/equipment</td>
<td>7</td>
</tr>
<tr>
<td>Apparel</td>
<td>4</td>
</tr>
<tr>
<td>Auto/automotive accessories</td>
<td>4</td>
</tr>
<tr>
<td>Computers/software/hardware/peripherals</td>
<td>4</td>
</tr>
<tr>
<td>Construction machinery/supplies</td>
<td>3</td>
</tr>
<tr>
<td>Food</td>
<td>3</td>
</tr>
<tr>
<td>Food processing equipment</td>
<td>3</td>
</tr>
<tr>
<td>Household furnishings/appliances</td>
<td>3</td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>3</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>3</td>
</tr>
<tr>
<td>Aircraft/aviation</td>
<td>2</td>
</tr>
<tr>
<td>Consumer goods</td>
<td>2</td>
</tr>
<tr>
<td>Process controls/testing</td>
<td>2</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2</td>
</tr>
<tr>
<td>Other (1 each)</td>
<td>14*</td>
</tr>
</tbody>
</table>

* Includes books, oil field machinery and equipment, optic instruments, chemicals, engines, dyestuffs, environmental equipment, robotics.
The Costs of Financing Small Business Exports

## TABLE 8
**PRODUCTS OR SERVICES EXPORTED IN TRANSACTIONS STUDIED**

<table>
<thead>
<tr>
<th>Products/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural airplane</td>
</tr>
<tr>
<td>Agricultural machinery</td>
</tr>
<tr>
<td>Air distribution and venting products</td>
</tr>
<tr>
<td>Aircraft parts</td>
</tr>
<tr>
<td>Animal feeds</td>
</tr>
<tr>
<td>Apparel</td>
</tr>
<tr>
<td>Apple butter</td>
</tr>
<tr>
<td>Auto parts</td>
</tr>
<tr>
<td>Belt buckles</td>
</tr>
<tr>
<td>Biological products for wastewater treatment</td>
</tr>
<tr>
<td>Botanical extract</td>
</tr>
<tr>
<td>Bulldozer undercarriage parts</td>
</tr>
<tr>
<td>Caterpillar motor grader</td>
</tr>
<tr>
<td>Chickens</td>
</tr>
<tr>
<td>Collectibles, porcelain stamps, coins</td>
</tr>
<tr>
<td>Computers/Computer equipment</td>
</tr>
<tr>
<td>Concrete texturing and finishing tools</td>
</tr>
<tr>
<td>Dental equipment</td>
</tr>
<tr>
<td>Doughnut-making machine</td>
</tr>
<tr>
<td>Dyestuffs</td>
</tr>
<tr>
<td>Electronic engraving and imaging systems</td>
</tr>
<tr>
<td>Engines</td>
</tr>
<tr>
<td>Engine oil</td>
</tr>
<tr>
<td>Food processing equipment</td>
</tr>
<tr>
<td>Freshwater mussel shells</td>
</tr>
<tr>
<td>Games</td>
</tr>
<tr>
<td>Greeting cards</td>
</tr>
<tr>
<td>Heat transfer system</td>
</tr>
<tr>
<td>Honing parts</td>
</tr>
<tr>
<td>Hospital &amp; medical supplies</td>
</tr>
<tr>
<td>Hotel furnishings</td>
</tr>
<tr>
<td>Industrial parts</td>
</tr>
<tr>
<td>Kitchen appliances</td>
</tr>
<tr>
<td>Matchmaking service</td>
</tr>
<tr>
<td>Medical and machinery supplies</td>
</tr>
<tr>
<td>Multipurpose cleaner/degreaser</td>
</tr>
<tr>
<td>Night vision equipment</td>
</tr>
<tr>
<td>Oil field equipment</td>
</tr>
<tr>
<td>Ornamental railings</td>
</tr>
<tr>
<td>Patented accessories for container handling</td>
</tr>
<tr>
<td>Pool cues</td>
</tr>
<tr>
<td>Precision optic wave plates</td>
</tr>
<tr>
<td>Prototype development model</td>
</tr>
<tr>
<td>Robotics</td>
</tr>
<tr>
<td>Skate wheels</td>
</tr>
<tr>
<td>Software</td>
</tr>
<tr>
<td>Spare parts for oil industry pipelines</td>
</tr>
<tr>
<td>Telephone headsets</td>
</tr>
<tr>
<td>Tools, supplies and equipment for jewelry manufacturers</td>
</tr>
<tr>
<td>Used motorcycles</td>
</tr>
<tr>
<td>Voice mail system</td>
</tr>
<tr>
<td>Well screens</td>
</tr>
</tbody>
</table>
TABLE 9
STATES REPRESENTED IN THIS STUDY

<table>
<thead>
<tr>
<th>State</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>7</td>
</tr>
<tr>
<td>Texas</td>
<td>6</td>
</tr>
<tr>
<td>Illinois</td>
<td>3</td>
</tr>
<tr>
<td>New York</td>
<td>3</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>3</td>
</tr>
<tr>
<td>Virginia</td>
<td>2</td>
</tr>
<tr>
<td>Colorado</td>
<td>2</td>
</tr>
<tr>
<td>Florida</td>
<td>2</td>
</tr>
<tr>
<td>Indiana</td>
<td>2</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>2</td>
</tr>
<tr>
<td>Michigan</td>
<td>2</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>2</td>
</tr>
<tr>
<td>New Jersey</td>
<td>2</td>
</tr>
<tr>
<td>Ohio</td>
<td>2</td>
</tr>
<tr>
<td>Arkansas</td>
<td>1</td>
</tr>
<tr>
<td>Georgia</td>
<td>1</td>
</tr>
<tr>
<td>Iowa</td>
<td>1</td>
</tr>
<tr>
<td>Kansas</td>
<td>1</td>
</tr>
<tr>
<td>Kentucky</td>
<td>1</td>
</tr>
<tr>
<td>Maryland</td>
<td>1</td>
</tr>
<tr>
<td>Mississippi</td>
<td>1</td>
</tr>
<tr>
<td>Montana</td>
<td>1</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1</td>
</tr>
<tr>
<td>Nevada</td>
<td>1</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>1</td>
</tr>
<tr>
<td>Oregon</td>
<td>1</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>1</td>
</tr>
<tr>
<td>South Carolina</td>
<td>1</td>
</tr>
<tr>
<td>Tennessee</td>
<td>1</td>
</tr>
<tr>
<td>Utah</td>
<td>1</td>
</tr>
<tr>
<td>Washington</td>
<td>1</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1</td>
</tr>
<tr>
<td>Wyoming</td>
<td>1</td>
</tr>
</tbody>
</table>
TABLE 10
COUNTRIES TO WHICH PRODUCTS/SERVICES WERE EXPORTED IN THE TRANSACTIONS STUDIED

<table>
<thead>
<tr>
<th>Country</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5</td>
</tr>
<tr>
<td>Russia</td>
<td>5</td>
</tr>
<tr>
<td>Canada</td>
<td>4</td>
</tr>
<tr>
<td>South Korea</td>
<td>4</td>
</tr>
<tr>
<td>Japan</td>
<td>4</td>
</tr>
<tr>
<td>U.K.</td>
<td>3</td>
</tr>
<tr>
<td>Thailand</td>
<td>3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>3</td>
</tr>
<tr>
<td>Australia</td>
<td>2</td>
</tr>
<tr>
<td>Chile</td>
<td>2</td>
</tr>
<tr>
<td>Israel</td>
<td>2</td>
</tr>
<tr>
<td>Mexico</td>
<td>2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>1</td>
</tr>
<tr>
<td>Belize</td>
<td>1</td>
</tr>
<tr>
<td>Columbia</td>
<td>1</td>
</tr>
<tr>
<td>Egypt</td>
<td>1</td>
</tr>
<tr>
<td>Greece</td>
<td>1</td>
</tr>
<tr>
<td>Grenada</td>
<td>1</td>
</tr>
<tr>
<td>Guam</td>
<td>1</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1</td>
</tr>
<tr>
<td>Hungary</td>
<td>1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1</td>
</tr>
</tbody>
</table>
APPENDIX B
SUMMARIES OF PARTICIPATING COMPANIES

1) **New York service company.** 1-12 export shipments per year. 33% of annual sales in export. Exported a $700,000 order for children’s books to New Zealand. Largest export transaction to date. Financed with a domestic line of credit and paid by confirmed letter of credit. No fees associated with payment.

2) **New York manufacturer.** 1-12 export shipments per year. 20% of annual sales in export. Exported a $54,175 prototype development model to Korea. Most recent transaction. Financed by private loan. Paid by confirmed letter of credit. $1,000 in fees associated with payment.

3) **California distributor.** 1-12 export shipments per year. 50% of annual sales in exports. Shipped a $35,839 order for games and novelties to Canada. Largest transaction to date. Financed with domestic line of credit. Paid by check.

4) **Wisconsin distributor.** 13-50 export shipments per year. 35% of annual sales in export. Shipped $200,000 of food processing equipment to Canada. Largest transaction to date. Financed with domestic line of credit. Payment by confirmed letter of credit. $75 in fees associated with payment.

5) **Iowa export management company.** Over 50 shipments yearly. 100% of annual sales in export. Shipped a $287,000 order for mussels to Japan. Largest transaction to date. Financed with domestic line for credit. Paid by unconfirmed, back-to-back letter of credit. $365 in fees associated with payment.

6) **Texas service company.** Over 50 export shipments yearly. 44% of total sales in export. Shipped a $485,000 order for engines to Indonesia. Largest transaction to date. Financed with export line of credit. Paid by wire transfer.

7) **Michigan manufacturer.** Over 50 export shipments yearly. 6% of total sales in export. Shipped $175,000 order for air distribution and venting products to Israel. Largest transaction to date. Financed by advance payment from buyer. Paid by irrevocable letter of credit. $303 in fees associated with payment.

8) **Massachusetts service company.** 13-50 shipments yearly. 50% of annual sales in export. Shipped $60,000 order for apparel to Russia. Financed by internal cash flow. Largest transaction to date. Paid by letter of credit. $350 in fees associated with payment.

9) **New Jersey distributor.** Over 50 export shipments yearly. 5% of total sales in export. Sent $100,000 in dyestuffs to Mexico. Largest transaction to date. Financed by internal cash flow. Paid by confirmed letter of credit. $2,000 in fees associated with payment.

10) **Indiana service company.** 13-50 shipments yearly. 8% of total sales in export. Sent $11,000 in honing parts to Chile. Largest transaction to date. Financed by internal cash flow. Paid by confirmed letter of credit. $575 in fees associated with payment.

11) **Wyoming distributor.** Over 50 export shipments yearly. Unreported percentage of annual sales in export. Sent $300,000 for collectibles shipped to Germany. Largest transaction to date. Financed by internal cash flow and supplier credit. Paid by unconfirmed letter of credit (buyer paid fees.) $800 in fees associated with payment mechanism.
The Costs of Financing Small Business Exports

12) **Arkansas distributor.** 1-20 export shipments yearly. 11% of annual sales in export. $20,947 order in cleaner shipped to Korea. Largest transaction to date. Financed with internal cash flow and supplier credit. Paid by letter of credit. $317 in fees associated with payment.

13) **California manufacturer.** 13-50 export shipments yearly. 1% of annual sales in export. Shipped $20,000 in apparel to New Zealand. Largest transaction to date. Financed by internal cash flow. Paid by letter of credit. $250 in fees associated with payment.

14) **Illinois distributor.** 1-12 export shipments yearly. Unreported percentage of annual sales in export. Shipped $10,800 in auto gears to Greece. Largest transaction to date. Financed by internal cash flow and supplier credit. Paid by confirmed letter of credit.

15) **Texas export management company.** 1-12 export shipments annually. Percentage of annual sales in export unreported. Shipped $75,000 in apparel to Thailand. Largest transaction to date. Financed by advance payment from buyer. Paid by irrevocable letter of credit. $900 in fees associated with payment.

16) **Illinois manufacturer.** Over 50 export shipments yearly. 30% of annual sales in export. Shipped $100,000 in animal feed to Korea. Largest transaction to date. Financed by cash in advance. Paid by confirmed letter of credit. $1,000 in fees associated with payment.

17) **South Carolina manufacturer.** 1-12 export shipments yearly. 1% of annual sales in export. $7,000-$8,000 order for container handling equipment to Columbia. Largest transaction to date. Financed by internal cash flow. Paid by confirmed, assigned letter of credit. $300 in payment fees.

18) **Pennsylvania distributor.** Over 50 export shipments yearly. Percentage of annual sales in export unreported. Shipped $15,000 in industrial parts to Thailand. Most recent transaction. Financed by internal cash flow. Paid by unconfirmed letter of credit. $300 in fees associated with payment.

19) **Rhode Island distributor.** 13-50 export shipments yearly. 5% of annual sales in export. $20,000 in supplies and jewelry manufacturing equipment to Hong Kong. Largest transaction to date. Financed by supplier credit. Paid by irrevocable letter of credit. $300 in fees associated with letter of credit.

20) **Virginia export management company.** Over 50 shipments yearly. Unreported percentage of annual sales in export. Shipped $70,000 order for apparel to Russia. Largest transaction to date. Financed by advance payment from buyer. $200 in fees associated with payment.

21) **Nevada manufacturer.** 13-50 export shipments yearly. 45% of annual sales in export. Shipped $8,200 order for night vision equipment to Taiwan. Largest transaction to date. Financed by surplus inventory. Paid by confirmed letter of credit. $60 in payment fees (paid by buyer).

22) **North Carolina distributor.** 13-50 export shipments yearly. 45% of annual sales in export. Shipped $800,000 in export parts to Indonesia. Largest transaction to date. Financed by supplier credit. Paid by irrevocable letter of credit.

23) **Oregon broker.** 1-12 export shipments yearly. 50% of annual sales in export. Shipped $3 million order of chicken to Russia. Largest transaction to date. Financed by internal cash flow. Paid by confirmed letter of credit. $26,592 in fees associated with payment.
The Costs of Financing Small Business Exports

24) **California export management company.** 1-12 export shipments yearly. 100% of annual sales in export. Shipped $60,000 in medical equipment and machinery to Hungary. Largest transaction to date. Financed by advance payment from buyer and supplier credit. Paid by assigned letter of credit.

25) **Pennsylvania service company.** 1-12 export shipments yearly. 1% of annual sales in export. Shipped $2,400 in foodstuffs to Germany. Largest transaction to date. Financed by advance payment from buyer. Paid by confirmed letter of credit.

26) **Virginia manufacturer.** 1-12 export shipments yearly. Unreported percentage of annual sales in exports. Shipped $6,000 in computer software to Italy. Most recent transaction. Current inventory had produced software, finance unnecessary. Paid by wire transfer.

27) **New Jersey manufacturer.** 1-12 export shipments yearly. 3% of annual sales in export. Shipped $400 in optic equipment to Taiwan. Most recent transaction to date. Financed by advance payment from buyer. Paid by wire transfer.

28) **Illinois manufacturer.** 13-50 export shipments yearly. Percent of annual sales in export unreported. Shipped $16,000 in apparel to Japan. Most recent transaction to date. Financed by internal cash flow. Paid by advance payment by buyer.

29) **Utah manufacturer.** 1-12 export shipments yearly. Unreported percentage of annual sales in export. Shipped $38,000 order for tools to Mexico. Largest transaction to date. Financed by joint venture funding incorporating advance payment from buyer. Paid by wire transfer.

30) **Missouri export management company.** 13-50 export shipments yearly. 38% of annual sales in export. Shipped $250,000 in agricultural machinery to Chile. Largest transaction to date. Financed by advance payment from buyer. Paid by wire transfer.

31) **Michigan service company.** Over 50 export shipments yearly. 7% of annual sales in export. Shipped $20,000 in greeting cards to Australia. Largest transaction to date. Paid by internal cash flow. Direct payment by check.

32) **California manufacturer.** 1-12 export shipments yearly. 50% of annual sales in export. Shipped $250,000 in botanical extracts to Korea. Most recent export transaction. Financed by internal cash flow. Paid by wire transfer.

33) **Texas export management company.** 1-12 shipments yearly. 100% of annual sales in export. Shipped $20,000 in kitchen appliances to Japan. Most export recent transaction to date. Financed by internal cash flow. Paid by check.

34) **Indiana service company.** 13-50 export shipments yearly. 75% of annual sales in exports. $1 million in services to Japan. No financing needed. Paid by check.

35) **Mississippi manufacturer.** 1-12 export shipments yearly. 5% of annual sales in export. Shipped $15,162. in heavy equipment parts to Belize. Most recent export transaction to date. Financed by internal cash flow and advance payment from buyer. Direct payment.

36) **Washington manufacturer.** 1-12 export shipments yearly. Unreported percentage of annual sales in export. $12,000 order for ornamental railings shipped to Guam. Largest transaction to date. Financed by advance payment from buyer. Paid by wire transfer.
The Costs of Financing Small Business Exports

37) **Texas broker.** 13-50 export shipments yearly. 100% of annual sales in export. Shipped $265,000 in oil pipeline parts to Venezuela. Largest export transaction to date. Financed by internal cash flow. Paid by wire transfer.

38) **Florida broker.** 13-50 export shipments yearly. 100% of annual sales in export. Shipped $50,000 in hotel furnishings to Grenada. Most recent transaction to date. Financed by advance payment from buyer and supplier credit. Paid directly by check.

39) **California manufacturer.** 1-12 export shipments yearly. 10% of annual sales in export. Shipped $8,000 in tools to Venezuela. Most recent transaction to date. Financed by internal cash flow. Paid directly by check.

40) **California distributor.** Unreported average number of shipments. 0.2% of annual sales in export. Shipped $2,000 in telephone equipment to Canada. Largest export transaction. Financed by internal cash flow. Paid directly by check.

41) **Montana manufacturer.** 1-12 export shipments yearly. 1% of annual sales in export. Shipped $1,100 order for dental equipment to Denmark. Largest transaction to date. Financed by sale of personal property. Paid directly by check.

42) **Maryland export management company.** 1-12 export shipments yearly. 100% of annual sales in export. Shipped $2,000 in food processing equipment to Switzerland. Largest export transaction. Financed by advance payment from buyer. Direct payment by check.

43) **New Hampshire distributor/retailer.** Over 50 export shipments yearly. Unreported annual sales in export. Shipped $42,000 in used motorcycles to Netherlands. Largest export transaction to date. Financed by advance payment from buyer. Direct payment by buyer.

44) **New Hampshire software developer.** 1-12 export shipments yearly. 15% of annual sales in export. Shipped $75,000 in computer software to UK. Largest export transaction to date. Financed by internal cash flow. Paid by wire transfer.

45) **Georgia high-technology company.** Over 50 export shipments yearly. 100% of annual sales in exports. Shipped $55,000 in computer equipment to Egypt. Largest transaction to date. Financed by internal cash flow. Paid by direct payment by check from buyer.

46) **Oklahoma manufacturer.** 13-50 export shipments yearly. Unreported percentage of annual sales in export. $70,000 for biological products for wastewater treatment shipped to Australia. Largest export transaction to date. Financed by advance payment from buyer. Paid by wire transfer.

47) **Ohio distributor.** 1-12 export shipments yearly. 10% of annual sales in export. Shipped $35,000 in medical supplies to Saudi Arabia. Largest export transaction to date. Financed by internal cash flow. Paid by wire transfer.

48) **Kentucky export company.** 1-12 export shipments yearly. 100% of annual sales in export sales. Shipped $27,000 in engine oil to Russia. Largest transaction to date. Financed by advance payment from buyer. Paid by wire transfer.

49) **Kansas export management company.** 13-50 export shipments yearly. Unreported percentage of annual sales in exports. Shipped $50,000 in computers to Russia. Largest transaction to date. Financed by combination of internal cash flow and advance payment. Paid by wire transfer.
The Costs of Financing Small Business Exports

50) **Colorado distributor.** 13-50 export shipments yearly. 20% of annual sales in exports. Shipped $10,000 in sports equipment to Germany. Largest export transaction to date. Financed by internal cash flow. Paid by wire transfer.

51) **Colorado manufacturer.** Over 50 export shipments yearly. 6% of annual sales in exports. Shipped $70,000 in sports equipment to Switzerland. Largest export transaction to date. Financed by advance payment from buyer. Paid by wire transfer.

52) **Pennsylvania export company.** 1-12 export shipments yearly. 100% of annual sales in exports. Shipped $25,000 in auto parts to UK. Largest transaction to date. Financed by internal cash flow. Paid by documentary collection (sight draft). $75 in fees associated with payment.

53) **New York export company.** 1-12 export shipments yearly. 100% of annual sales in exports. Shipped $70,000 in heavy equipment to Thailand. Largest export transaction to date. Finance provided by transaction finance firm. Paid by confirmed, assigned letter of credit. $1,000 in fees associated with payment.

54) **Massachusetts manufacturer.** Over 50 export shipments yearly. 40% of annual sales in export. Shipped $50,000 in robotics equipment to the U.K. Largest export transaction to date. Financed by internal cash flow. Paid by documentary collection (sight draft). $3,000 in fees associated with payment.

55) **California communications service company.** 1-12 export transactions yearly. 85% of annual sales in export. Shipped $3 million in telecommunications equipment to Germany. Largest export transaction to date. Financed by commercial loan guaranteed through a state program. Paid by wire transfer. Unreported fees associated with payment.

56) **Ohio manufacturer.** 13-50 export shipments yearly. 85% of annual sales in exports. Shipped $700,000 in electronic engraving and imaging systems to Israel. Largest export transaction to date. Financed by internal cash flow. Paid by progress payments via wire transfers. $15 in fees associated with payment.

57) **Texas export management company.** 13-50 export shipments yearly. 100% of annual sales in export. Shipped $800,000 in oil field equipment to India. Largest transaction to date. Financed through transaction finance firm. Paid by confirmed, assigned letter of credit. $1,390 in fees associated with payment.

58) **Tennessee manufacturer.** 13-50 export shipments per year. Unreported percent of annual sales in export. Shipped $100,000 in heat transfer systems to Indonesia. Largest export transaction to date. Financed by internal cash flow. Paid by documentary collection (sight draft) for four equal payments secured by confirmed letter of credit. $520 in fees associated with L/C; $400 in fees associated with documentary collection.

59) **Florida service.** 1-12 export shipments yearly. 9% of total sales in export. Shipped $8,000 in automatic controllers to Venezuela. Largest export transaction to date. Paid by documentary collection (sight draft) secured by letter of credit. Buyer paid fees.

60) **Texas manufacturer.** 1-12 export shipments yearly. 9% of total sales in export. Shipped $300,000 in agricultural airplanes to Brazil. Largest export transaction to date. Financed by internal cash flow. Paid by letter of credit, sight draft. $5,250 in fees associated with payment.
APPENDIX C
CHARACTERISTICS OF FINANCIAL INSTITUTIONS

Nine financial institutions were interviewed to identify the problems of and prospects for, small business trade finance. The interviews represented financial firms in all regions of the country, all small, medium and large banks, i.e., local, regional and money centers.

Financial institutions participating in this study included the following:

- **Two money center banks** — U.S. banks with international operations
- **Three super regional banks** — U.S. holding companies with banks operating in more than one state
- **Two local commercial banks** — U.S. banks operating within one state
- **Two non-bank financial firms** — commercial finance companies

In addition, a database of 165 banks actively participating in foreign trade was explored to pinpoint developing trends and levels of activities in export finance support.

The following figures reflect the actual average ranges of transaction sizes reported by each bank or financial institution. These are drawn from actual usage data reported by each bank.

The tables for each bank also reflect additional services supported by each financial institution. In a number of cases, services such as factoring and forfaiting are handled by subsidiaries or business partners.
SUMMARIES OF PARTICIPATING LENDING INSTITUTIONS

East Coast Money Center Bank

Assets: $50-$60 billion
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

Letter of credit: $50,000-$100,000 for 90-180 days
Short-term finance: $100,000-$500,000 for 90-180 days
Medium/long-term finance: $1,000,000-$5,000,000 for 4-5 years

Annual sales of companies targeted: $500,000-$20,000,000
Small business division: Yes
Financing techniques: Letter of credit, insurance, acceptances, factoring, forfaiting, export trading companies (transaction lending).
SBA lender: No
Ex-Im Bank delegated authority: Yes

West Coast Money Center Bank

Assets: More than $100 billion
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

Letter of credit: $500,000-$1,000,000 for 90-180 days
Short-term finance: $500,000-$1,000,000 for 365 days
Medium/long-term finance: $5,000,000-$10,000,000 for 4-5 years

Annual sales of companies targeted: $500,000-$20,000,000
Small business division: Yes
Financing techniques: Letter of credit, insurance, acceptances, factoring, forfaiting, export trading companies (transaction lending).
SBA lender: Yes
Ex-Im Bank delegated authority: Yes
The Costs of Financing Small Business Exports

Super-Regional East Coast Bank

Assets: $20-$50 billion
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

- Letter of credit: $50,000 or less for up to 90 days
- Short-term finance: $100,000-$500,000 for 90-180 days
- Medium/long-term finance: $1,000,000-$5,000,000 for 4-5 years

Annual sales of companies targeted: $500,000-$20,000,000
Small business division: Yes
Financing techniques: Letter of credit, insurance, acceptances, factoring, forfaiting.
SBA lender: Yes
Ex-Im Bank delegated authority: Yes

Super-Regional Midwest Bank

Assets: $10-$20 billion
Type of exporters targeted: experienced small to medium exporters

Typical trade finance transactions:

- Letter of credit: $50,000-$100,000 for 90-180 days
- Short-term finance: $500,000-$1,000,000 for 90-180 days

Annual sales of companies targeted: $2,500,000-$20,000,000
Small business division: No
Financing techniques: Letter of credit, insurance, acceptances, factoring.
SBA lender: No
Ex-Im Bank delegated authority: No
The Costs of Financing Small Business Exports

**Super-Regional Southern Bank**

**Assets:** More than $10-$20 billion  
**Type of exporters targeted:** new to export, experienced small to medium exporters

**Typical trade finance transactions:**

<table>
<thead>
<tr>
<th>Type of Finance</th>
<th>Amount and Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of credit</td>
<td>$100,000-$500,000</td>
</tr>
<tr>
<td>Short-term finance</td>
<td>$5,000,000-$10,000,000</td>
</tr>
<tr>
<td>Medium/long-term finance</td>
<td>$5,000,000-$10,000,000</td>
</tr>
</tbody>
</table>

**Annual sales of companies targeted:** $500,000-$20,000,000  
**Small business division:** Yes  
**Financing techniques:** Letter of credit, insurance, acceptances, factoring, export trading companies.  
**SBA lender:** Yes  
**Ex-Im Bank delegated authority:** Yes

**Local Midwestern Bank**

**Assets:** $100-$500 million  
**Type of exporters targeted:** pre-export, new to export, experienced small to medium exporters

**Typical trade finance transactions:**

<table>
<thead>
<tr>
<th>Type of Finance</th>
<th>Amount and Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter of credit</td>
<td>$100,000-$500,000</td>
</tr>
<tr>
<td>Short-term finance</td>
<td>$1,000,000-$5,000,000</td>
</tr>
<tr>
<td>Medium/long-term finance</td>
<td>$1,000,000-$5,000,000</td>
</tr>
</tbody>
</table>

**Annual sales of companies targeted:** $500,000-$20,000,000  
**Small business division:** No  
**Financing techniques:** Letter of credit, insurance, acceptances, factoring, forfaiting, export trading companies.  
**SBA lender:** No  
**Ex-Im Bank delegated authority:** No
The Costs of Financing Small Business Exports

Local Southern Bank

Assets: $1-$5 billion
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

- Letter of credit: Up to $50,000 for 90-180 days
- Short-term finance: Up to $50,000 for 180-365 days
- Medium/long-term finance: $1,000,000-$5,000,000 for 4-5 years

Annual sales of companies targeted: $500,000-$20,000,000
Small business division: Yes
Financing techniques: Letter of credit, acceptances, factoring.
SBA lender: No
Ex-Im Bank delegated authority: Yes

East Coast Non-Bank Financial Firm

Assets: Less than $50 million
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

- Letter of credit: Up to $50,000 for 90-180 days
- Short-term finance: Up to $50,000 for 180-365 days
- Medium/long-term finance: $1,000,000-$5,000,000 for 4-5 years

Annual sales of companies targeted: $500,000-$20,000,000
Small business division: Yes
Financing techniques: Letter of credit, acceptances, factoring.
SBA lender: No
Ex-Im Bank delegated authority: Yes
The Costs of Financing Small Business Exports

West Coast Non-Bank Financial Firm

Assets: Less than $50 million
Type of exporters targeted: pre-export, new to export, experienced small to medium exporters

Typical trade finance transactions:

Letter of credit: $100,000-$500,000 for up to 90 days
Short-term finance: $100,000-$500,000 for 90-180 days
Medium/long-term finance: $500,000-$1,000,000 for 2-3 years

Annual sales of companies targeted: $500,000-$15,000,000
Small business division: Yes
Financing techniques: Letter of credit, insurance, export trading companies.
SBA lender: No
Ex-Im Bank delegated authority: No
## TABLE 11
### TYPICAL ITEMIZED CHARGES FOR EXPORT LETTERS OF CREDIT

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Amount</th>
<th>Rate (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advising Letters of Credit</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Advising formatted-paid by issuing bank</td>
<td>$75</td>
<td></td>
</tr>
<tr>
<td>Amendment</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>Preliminary advice</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Confirmation, for each 3 months or part thereof</td>
<td>$100</td>
<td>0.05%</td>
</tr>
<tr>
<td>Payment</td>
<td>$120</td>
<td>0.10%</td>
</tr>
<tr>
<td>Acceptance &amp; deferred payments</td>
<td>$120</td>
<td>1.5%</td>
</tr>
<tr>
<td>Documentary examination (additional)</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>Reimbursing on another bank</td>
<td>$65</td>
<td></td>
</tr>
<tr>
<td>Reimbursing on another bank, discrepant documents</td>
<td>$70</td>
<td></td>
</tr>
<tr>
<td>Unused letters of credit</td>
<td>$60</td>
<td></td>
</tr>
<tr>
<td>Transfer</td>
<td>$300</td>
<td>0.25%</td>
</tr>
<tr>
<td>Assignment</td>
<td>$250</td>
<td>0.25%</td>
</tr>
<tr>
<td>Facsimile copies</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>Remittance</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Telecommunications</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>Discount charges</td>
<td></td>
<td>Market interest rate</td>
</tr>
</tbody>
</table>

TABLE 12
SAMPLE OF WORKING CAPITAL FINANCING COSTS
THROUGH A NON-BANK FINANCIAL FIRM

Services offered:

Short-term funding for small and mid-sized companies to complete sales under the following:
- Purchase orders
- Contracts
- Letters of credit

Focus on transactions involving:
- Creditworthy customers
- Credible suppliers

Funding provided prior to the establishment of a receivable for the sale of finished products

Funding size: Up to $250,000

Types of businesses: Distributors, trading companies, light manufacturers, resellers

Term: Up to 120 days

pany profile:

- Growth company
- Competent management
- Low capital/leveraged
- Need for pre-shipment funding
- Qualified buyers

Conditions:

- Transactions reviewed individually
- Personal guarantees required
- No collateral required

Fees:

- No initial charges or up-front fees
- Four to seven points of amount financed
- Minimum fee of $1,000
- Fees collected from proceeds of sale
APPENDIX D
ACCESS TO EXPORT CAPITAL PROGRAM (AXCAP)

AXCAP, a program administered by the Bankers’ Association for Foreign Trade, is aimed at forging a continuous communications link between exporters and banks active in trade finance in order to help meet the sharply increased need for trade finance that has emerged over the past decade in the United States.

AXCAP has a comprehensive database of trade finance sources; free and direct access makes these the lending capability of these banks more available to small and medium exporters and nationwide. AXCAP represents one approach to aligning demand for trade finance with its suppliers, given the general absence of a nationwide banking structure. For example, if the exporter’s local bank does not have a money-center correspondent bank, or if the exporter wishes to shop around for the best deal, he or she can use AXCAP as an information resource.

In essence, AXCAP serves as a national catalogue listing banks and other companies involved in trade finance and the trade finance services they offer. In addition, the database includes information on funding of environmental projects in Asia. AXCAP also contains a national inventory of the services offered by government export credit agencies, mainly Ex-Im Bank, Overseas Private Investment Corporation (OPIC), and SBA, and their use by financiers.

As of January 1995, 165 banks participated in AXCAP. These banks had asset sizes ranging from $50 million to more than $100 billion. Data on bank capabilities and business profiles are provided by each bank and transaction/request records are based on details of actual requests.

During a selected time period of this study (June 1, 1994 to February 28, 1995), 130 exporters made requests to the database. The majority of these companies (52%) were small businesses with annual revenues (sales) of $5 million or less. About 85% of these firms had prior export experience. Of the requests transmitted to AXCAP for trade finance during this time, 19 (or 15%) were for letters of credit, 69 (53%) were for short-term financing and 42 (32%) were for medium/long-term financing.

The duration of the letter of credit requests were up to 180 days; short-term finance includes requests up to one year; medium-term finance includes requests from one to five years; and long-terms requests were for periods of more than five years. There was a positive correlation between amount of financing and the length of the term of the loans. All of the requests for amounts of $10 million or more had terms of more than five years, almost all of the others were for less than five years.

Value of transactions supported. The largest segment of AXCAP-member banks have supported letter of credit transactions in the range of $50,000 to $1,000,000. The amount climbs into the $100,000 to $5 million range for short-term financing. For medium to long-term financing, the largest transactions supported are in $500,000 to $10 million range. The number of banks reporting various size ranges of transactions are listed below.
### Transaction Sizes Supported by AXCAP-Member Banks

<table>
<thead>
<tr>
<th></th>
<th>Letter of credit</th>
<th>Short-term financing</th>
<th>Long/medium-term financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000 or less:</td>
<td>41</td>
<td>19</td>
<td>9</td>
</tr>
<tr>
<td>$50,000 to $100,000:</td>
<td>91</td>
<td>36</td>
<td>12</td>
</tr>
<tr>
<td>$100,000 to $500,000:</td>
<td>116</td>
<td>84</td>
<td>28</td>
</tr>
<tr>
<td>$500,000 to $1 million:</td>
<td>84</td>
<td>126</td>
<td>57</td>
</tr>
<tr>
<td>$1 million to $5 million:</td>
<td>41</td>
<td>93</td>
<td>82</td>
</tr>
<tr>
<td>$5 million to $10 million:</td>
<td>21</td>
<td>32</td>
<td>63</td>
</tr>
<tr>
<td>$10 million or more:</td>
<td>12</td>
<td>16</td>
<td>33</td>
</tr>
</tbody>
</table>

**Range of export experience supported.** AXCAP-member banks report covering exporters with a range of experience, and a large majority will support new exports. The following are the number of banks serving each target market, based on the usage data:

- Pre-exporters: 120
- New-to-export: 123
- Old-to-market: 150
- New-to-market: 156
TABLE 13
NUMBER OF BANKS PROVIDING VARIOUS EXPORT TRANSACTIONS

SERVICES PROCESSING

<table>
<thead>
<tr>
<th>Service</th>
<th>Number of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentary letter of credit issuance</td>
<td>157 (96%)</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>153 (96%)</td>
</tr>
<tr>
<td>Documentary letter of credit advising</td>
<td>151 (94%)</td>
</tr>
<tr>
<td>Documentary letter of credit paying</td>
<td>148 (92%)</td>
</tr>
<tr>
<td>Assignment of proceeds</td>
<td>142 (89%)</td>
</tr>
<tr>
<td>Documentary letter of credit confirming</td>
<td>141 (88%)</td>
</tr>
<tr>
<td>Transferable letters of credit</td>
<td>141 (88%)</td>
</tr>
<tr>
<td>Foreign exchange</td>
<td>131 (82%)</td>
</tr>
<tr>
<td>Collection activity</td>
<td>128 (82%)</td>
</tr>
<tr>
<td>Commercial risk insurance</td>
<td>93 (58%)</td>
</tr>
<tr>
<td>Electronic capability</td>
<td>90 (56%)</td>
</tr>
<tr>
<td>Political risk insurance</td>
<td>89 (56%)</td>
</tr>
<tr>
<td>Insurance letter of credit</td>
<td>88 (55%)</td>
</tr>
<tr>
<td>Forfaiting</td>
<td>83 (52%)</td>
</tr>
<tr>
<td>Export trading companies</td>
<td>70 (44%)</td>
</tr>
<tr>
<td>Back-to-back letters of credit</td>
<td>66 (41%)</td>
</tr>
<tr>
<td>Other trade-related insurance</td>
<td>51 (32%)</td>
</tr>
<tr>
<td>Factoring</td>
<td>49 (31%)</td>
</tr>
<tr>
<td>Countertrade</td>
<td>21 (13%)</td>
</tr>
</tbody>
</table>

FINANCING

<table>
<thead>
<tr>
<th>Financing</th>
<th>Number of Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acceptance financing</td>
<td>146 (91%)</td>
</tr>
<tr>
<td>Warehouse receipt financing</td>
<td>57 (36%)</td>
</tr>
<tr>
<td>Trust receipt financing</td>
<td>53 (33%)</td>
</tr>
<tr>
<td>Pre-shipment financing</td>
<td>15 (9%)</td>
</tr>
</tbody>
</table>

APPENDIX E
LITERATURE SEARCH

On the following pages are the results of a comprehensive literature search of reports, books, articles and other documentation on export finance in the small business sector. Many of the studies that have been identified and examined for this literature search provide general overviews of export financing options currently available to small business, and several have quantified how difficult and costly it actually is for small firms to secure export financing.
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This 1995 survey finds that 17% of the responding small firms and 13% of midsize firms reported losing sales due to the inability to finance their exports. In addition, 15% of small firms and 22% of midsize firms reported losing sales because they were unable to offer competitive credit terms to their buyers.


American banks have spent the past decade shifting away from relationship banking toward product strategies based on high turnover, information technology, and cost reduction. In the process, they moved away from many traditional sources of competitive advantages and encouraged customers to turn to other financial providers and financial instruments. Banking institutions in Germany, in contrast, have been able to maintain a stable share of that country's financial services market by pursuing strategies in relationship banking.


Despite its massive resources, the U.S. government's export finance program is struggling to keep up with competing nations' programs and as a result, U.S. exports suffer significantly, private-sector officials said. While efforts are ongoing to further transform the U.S. Export-Import Bank into a more efficient and better-funded agency, the bank does not yet manage to serve U.S. exporters as well as analogous agencies in the European Union or in Japan serve their exporters, several business officials said. Although the Export-Import Bank has a good record in providing financing for larger deals, smaller deals are not as well served, they said. "Five billion dollars in exports and potentially 100,000 jobs are unrealized each year only because of inadequate export financing opportunities," charged the Small Business Exporters Association of Washington in a January study on export finance.


The availability of credit for international trade transactions, particularly for small and medium-sized businesses, is showing signs of improvement. This is due in part to some innovative programs at the state level and an expected shift in bank investment portfolios, bankers, trade financiers and analysts said. Banks continued to increase their holdings of government securities in 1993, due largely to weak loan demand, according to a study by the American Bankers Association, Washington, D.C.
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The Export-Import Bank of the U.S. plans to increase lending in 47 countries where it has previously been very cautious, Kenneth Brody, the agency chairman, has told Congress. In testimony before the House Appropriations Committee, Brody said 33 of the countries, which now get only one-year cover, would be open for loans of up to seven years. Congressman David Obey, the committee chairman, said Congress was likely to trim $100 million to 150 million from the proposed budget of the three major U.S. export financing agencies for fiscal 1995. The goal of the White House was to reduce federal spending for Ex-Im Bank, the Overseas Private Investment Corporation (OPIC) and the Trade & Development Agency (TDA) by 20% over the next five years. Paring back the $40 million allocated to the TDA, which finances feasibility studies, will do little for the budget, while OPIC is a profit-making federal agency. Ex-Im Bank is asking for $850 million for subsidies for the fiscal year 1995. OPIC wants $20 million and TDA $45 million, up from $40 million this year. Brody said Ex-Im Bank was clamping down on its own program. A doubling of fees for aircraft financing operations was expected to save $100 million this year and a new working capital guarantee program for small business would save another $100 million, he said. Demand for loans is still running past supply. TDA is expected to soon use up its $40 million appropriation for the year, and OPIC said it will have exhausted its funds by July. Brody said Ex-Im Bank expects to get applications totaling $250 million more than its $1 billion subsidies budget. It will push a number of project approvals in the next fiscal year.

Under a reorganization announced last month, all Ex-Im Bank financing will now be delivered by the Export Finance Group. To increase the bank's capacity, loan officers will be "liberated" from marketing and counseling functions. The bank has created two new divisions to enable aggressive focus on specialized private financing: an aircraft finance division and a project finance division to meet growing demand for limited recourse project financing. Martin Kamarch, Ex-Im Bank's vice-chairman, is in charge of the reorganization. Besides supporting more transactions in higher risk markets, the bank will now target emerging markets, expand support for small business and promote exports of environmental goods and services, he said.


There may be several reasons to decide against taking your business across the U.S. border, but 'it's too hard to get started' is not among them. Many large corporations have beaten the path for others to follow. One example is Ann Arbor-based Gelman Sciences. After 20 years of exporting, 40% of its $100 million in annual sales is generated to customers outside the U.S. Jim Fahrner, chief financial officer at Gelman Sciences, advises: 'Companies need to realize that it's a global market out there. Those that don't get involved should understand that their business will be short-lived.' Fortunately, ample assistance is near at hand. In fact, just last month, World Trade magazine cited
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our 'powerful public and private resources' as major contributors to Michigan's ranking among the top 10 export states. Among the government sources of information and assistance are the Michigan International Business Development Center and the international trade-specialty center of the Small Business Administration's Small Business Development Center network, which guides clients through a 10-step process, from planning and budgeting to getting your products into a foreign country. The Michigan District Export Council (MDEC), composed of business volunteers, counsels companies on the basics of selling overseas and provides valuable insight on federal trade issues. Local banks with trade-finance experience can help you tap into these programs. They can also assist you with other forms of export financing, show you how to hedge against currency fluctuations, and provide letters of credit and collections to help you get paid.


America's dismal trade figures this year are deceiving. They simply show that the U.S. economy has recovered faster than those of its trading partners, drawing in more imports in the process. The foreign appetite for U.S. goods should increase shortly, improving the monthly trade reports. But what the statistics can't show is just how high U.S. exports might have been if there weren't a lack of trade finance for exporters, especially small and mid-sized companies. Burned by a decade of sour loans to foreign countries, scores of commercial banks got out of trade finance in the late 1980s. Many have stayed out and others are too inexperienced to deal with trade finance. As Adelheid Nichols, manager of a small novelty store in Englewood, Colo., puts it, "We have a bank that has no clue how to do a letter of credit." Since smaller exporters often can't rely on their local bank for export assistance, it is encouraging to see that the U.S. Export-Import Bank is finally trying to tailor its programs to help these often overlooked companies.


Coordinating the efforts of sales, accounting and finance is the preparation for taking a business abroad. When these units work together, money issues do not get in the way of business. Establishing policies early for paying overseas representatives is one big way to avoid problems. Newtronics Inc. deals exclusively in irrevocable letters of credit, payable in U.S. dollars. David Carlsen of Chicago's Continental Bank says companies with strong financial positions can instill confidence in prospective customers or suppliers, which can be a key to doing the first overseas deal. Salespeople should be responsible for ensuring payment is received and contracts should include specific clauses regarding payment terms and conditions. Getting everything in order can also provide a measure of security to otherwise uncertain trading partners. Presenting a track record of timely payments or references from other clients can be more persuasive than any other credentials.

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Despite wariness about government efforts to bolster a particular industry, William Higdon of Microsensor Technology Inc. says that if the federal government works in concert with environmental technology businesses to lay the groundwork for a partnership, it might succeed and ultimately help him identify ways to boost his business. The potential for environmental technology companies appears quite promising. The countries best-positioned to take advantage of growth in the industry include the U.S., Germany, and Japan. Passage of laws such as the Clean Air Act and the Clean Water Act and numerous laws that have followed have significantly expanded markets for equipment and services needed to comply with the regulations. The environmental technology industry is encouraged by current proposals that would provide incentives for use of new technologies.


Options available to small businesses wanting to export to obtain capital include conventional financing, tapping the firm's cash flow, acquiring venture capital from an investor group, and requesting prepayment from overseas buyers.


Breaking into the Trade Game: A Small Business Guide to Exporting, a 285-page guide produced by the U.S. Small Business Administration and AT&T, is discussed.


The U.S. Export-Import Bank has adopted what officials call "a more aggressive" policy to match the "trade distorting" export financing practices of other industrial nations. Under the new policy, Ex-Im Bank said it will do much more to counter the subsidized credits that governments in other industrial nations provide to help their nationals win contracts in Third World nations. Until now, Ex-Im Bank has matched this subsidized financing only when it violates guidelines promulgated by the 25-nation Organization for Economic Cooperation and Development in Paris.


The U.S. Export-Import Bank, announcing a basic reorganization of its operations, said Thursday that it will step up its financing of U.S. exports in "higher risk" markets and expand its support for small business exporters. "Our goal," said Martin Kamarch, the Ex-Im Bank vice chairman charged with carrying out the reorganization, "is to create a flexible, responsive bank organized around the customer." The bank, he said, will be "set up to better serve existing customers, welcome new customers and aggressively reach out to potential customers." He said, however, that although the reorganization is effective
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immediately, it will take time to "phase people into new jobs and functions. I want to stress that this is an evolving process."

"Joint Counseling is the Hallmark of New U.S. Export Assistance Centers," Business America (World Trade Week Supplement), April 1994.

As the centerpiece of the Administration's National Export Strategy, the U.S. Export Assistance Centers (USEAC) consolidate in one office the export promotion and trade finance services of the U.S. Department of Commerce, the Small Business Administration, and the Export-Import Bank of the U.S.. The western regional office of the Agency for International Development is also part of the Long Beach USEAC. By streamlining and coordinating the federal government's many export services, and by working more closely with state and local export partners, the USEACs are helping U.S. firms compete in foreign markets and create new jobs at home. USEAC counseling extends beyond one-on-one sessions with clients to include presentations to both private and public partners.


Under the National Export Strategy, the resources available to assist U.S. companies in developing export strategies are coordinated by the Trade Promotion Coordinating Group. An overview of U.S. government assistance programs and contact points for further information and expertise in using these programs is presented.


The role of small businesses and the Small Business Administration in the advancement of U.S. exports is discussed.


As part of an effort to improve customer service, provide good value to the taxpayer, and make the U.S. more competitive in the global marketplace, Ex-Im Bank has been reorganized into two arms, a Business Development Group and an Export Finance Group.


As part of the National Export Strategy, Secretary of Commerce Ronald H. Brown and officials from 19 federal agencies conducted an exhaustive 6 month review that produced
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65 action recommendations that form the basis of the plan to massively upgrade the U.S. government's trade-promotion efforts. Guiding principles of the National Export Strategy are: 1) clear commercial priorities, 2) cooperation among federal agencies, 3) cooperation between the government and the private sector, and 4) cooperation with states and localities. The Trade Promotion Coordinating Committee is committed to removing obstacles to exports imposed by the government that impede the ability of American firms to compete, provided that national security is not compromised. In addition, a major interagency effort has been launched to coordinate federal government support on behalf of U.S. companies bidding for major contracts overseas. A government-wide focus on trade finance issues is also a critical element of the National Export Strategy.

"Reinventing Eximbank?" Whittington, Dennis, World Trade, April 1994.

President Clinton has appointed a Wall Street veteran, Kenneth Brody, as Ex-Im Bank's president and chairman. Brody is a personal friend and financial supporter of the President, but he also enjoys a positive reputation on Wall Street. Ex-Im Bank has been reinvigorated under Brody. He has actively pushed for the creation of a Trade Promotion Coordinating Committee (TPCC), an interagency group he hopes will be a clearinghouse for U.S. export-promotion activity. He has attempted to use TPCC to improve Ex-Im Bank's reputation among small and midsize exporters. Brody has also focused his attention on increasing exports to Russia and other former Soviet states. Ex-Im Bank is poised to provide financing for new energy projects as well as underwrite loans in the mining and forest-producing industries. Brody also convinced Congress to lift Ex-Im Bank's loan limit and provide almost $1 billion to cover financing costs.


This report examined the typical charges incurred by exporters for varying degrees of export transactions, including interest, points, and Ex-Im Bank fees. In addition, the profit margins to banks for a number of transaction sizes were explored.


Small businesses with scarce assets as collateral or with weak balance sheets receive little help from conventional lenders. The problem is exacerbated among firms that deal heavily in imports and exports. One solution is to use purchase orders as collateral. At MTB Bank, such loans have doubled over the past six months. Bristol Trade Finance Inc. in Dallas says that purchase-order financing deals rose 30% during the first two months of 1994, compared to the first quarter of 1993. These deals may be too risky and too small for most bankers, and they aren't cheap. A bank typically charges from 1.5% to 2% of a borrower's monthly credit line as an up-front fee. In addition, a borrower
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pays interest on credit used at a rate that currently equals two percentage points above the prime rate of 6%. Thus, fees and interest on a $150,000 line of credit for four months could add up to nearly 11% of the total.


This column is one in a series of weekly profiles of companies that have been honored by the U.S. Commerce Department for excellence in exporting. This year, President Clinton will honor dozens of chief executives with Commerce's "E" or "E Star" awards as each president has done since John F. Kennedy. President Kennedy introduced the "E" Award in December 1961 as a revival and adaptation of the World War II "E" pennants given to industrial plants for superior production. The "E Star" award was authorized by the U.S. secretary of commerce in 1969 to recognize continued export promotion efforts by "E" Award recipients. When the big banks shied away from small export companies in South Florida, Hamilton Bank jumped into a very profitable niche. Opening for business in 1988, the bank followed Miami's rise as the principal trading hub for Latin America's trade with the rest of the world. Since opening for business in 1988, Hamilton's total assets have climbed from $16 million to more than $360 million. In a four-year period, leading up to its "E" award in 1993, Hamilton's return on equity averaged between 30% and 35%. Hamilton was one of three banks last year to win the award, which generally is bestowed on export-oriented manufacturers.


The new national trade finance databank operated by the Bankers Association for Foreign Trade has yielded its first sizable batch of matches between exporters and bankers, with a potential of more than $1 billion in deals, according to Bryan Van Deun, the databank manager. Arranging small deals as well as large ones, the databank already is showing signs that it can play a long-awaited role in the U.S. trade finance community. "Anybody can do a large deal, so the small ones are most interesting," said Van Deun in an interview here.


U.S. companies are finding Texas' extensive infrastructure ideal for strategically located international distribution, warehousing, and manufacturing sites. The state has the country's largest deepwater port, the world's 2nd-busiest airport, and 293,000 miles of roadway. It boasts 26 foreign trade zones and 34 subzones, more than any other state. Approximately 80% of U.S.-Mexican commerce passes through Texas, including $18.84 billion of Texas exports in 1992. Logically, the border infrastructure projects have been assigned a high priority. As part of a 10-year plan, $142 million worth of border projects are already under construction, with $669 million more to come. The state is pending
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$234 million to maintain its existing highway system. As part of the Texas Highway Trunk System program adopted in 1990, $10.5 billion will be spent over 30 years to reconstruct highways linking major Texas cities, ports, and Mexico, with $1.2 billion earmarked for the border area.


The Top 10 export states rely on public-private partnerships to build trade volume. When the public sector targets export activities and resources to private enterprise, the entire state stands to profit. Most of the new state-sponsored export assistance and promotion programs target small to medium-sized companies, since large corporations typically have their own international trade support in place. However, large companies are also key players in successful public-private export efforts nationwide. Public-private partnerships in each of the top 10 states are discussed. The top 10 export states are: 1) California, 2) New York, 3) Texas, 4) Washington, 5) Michigan, 6) Illinois, 7) Ohio, 8) Florida, 9) New Jersey, and 10) Pennsylvania.


The World Trade Center is likely to win one of 10 new federal export promotion centers to open in a year. The offices aim to consolidate in one site the export-related services of 19 federal agencies, led by the Commerce Department, the Small Business Administration and the Export-Import Bank, and to coordinate with state and local export programs. The first such centers opened within the last two weeks in Baltimore, Miami and a center in Long Beach, Calif., is set to open soon. For the next step, the agencies are evaluating an unspecified number of applications from cities across the country, with a selection to be made in late spring. 'We should have one in New York, and the World Trade Center is an excellent place for it,' says Rep. Jerrold Nadler, D-Manhattan. New Jersey's two Democratic U.S. senators, Bill Bradley and Frank Lautenberg, also favor the World Trade Center site. The centers are gaining attention as a part of President Clinton's strategy to boost exports for economic growth. They follow the passage of the North American Free Trade Agreement and the negotiation of the General Agreement on Tariffs and Trade that have opened opportunities for export for U.S. businesses. New York state's exports totaled $29.3 billion in 1992.


The Clinton administration's proposed budget for the 1995 fiscal year makes heavy cuts in some areas of export financing, but increases credit support in some key regions, notably the Pacific Rim. In all, it designates $1.4 billion to pay for loan subsidies, insurance and guarantees which underwrite U.S. sales to developing countries. Taken in the context of wider budget cuts, export promotion emerges relatively well. The
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Export-Import Bank of the U.S. has secured an increase in its outlays to credit-worthy emerging markets like China and Indonesia. These rise from $259 million in 1993-94 to $458 million this fiscal year and $555 million in the year starting October 1994.

Other government departments and agencies face mixed fortunes:

• for the U.S. Department of Commerce and other agencies which provide market information to U.S. exports, the budget has requested about $290 million.

• U.S. Department of Agriculture (USDA) and State Department subsidies to foreign importers, made for both business and foreign policy purposes, will be reduced from $1 billion in FY1994 to $500 million in FY1995.

• funding to the Trade & Development Agency, which finances feasibility studies, will rise from $23 million in FY1993 to $39 million in FY1995.

• the Small Business Administration will get a 42 per cent increase for debt and equity capital guarantee programs to contribute to the creation of new employment opportunities. Small and medium-sized companies will receive increased funds to help them bear the costs of exporting or investing in less developed countries.

The USDA and Ex-Im Bank both get funding to match foreign export subsidies. Farm export subsidies will rise from $504 million last year to $532 million in FY1995. This level of spending represents surprising generosity, based on the administration's bottom line belief that exports create good jobs so that government funds must help create exports. The administration has also reserved $190 million to pay the costs of negotiating and implementing trade agreements next year.


Canada's export finance facilities are inadequate and badly in need of a thorough overhaul, according to a lengthy report submitted to the government in Ottawa by the Canadian Exporters Association (CEA). The CEA has urged action on several fronts, including bolstering the resources of the Export Development Corporation (EDC), greater efforts at co-financing with Canadian and international aid agencies, and a scheme to mobilize private-sector funds for small and medium-sized (SME) exporters. At the heart of the recommendations, says Jim Moore, CEA vice-president for policy, is a concern that Canada's export finance and credit insurance facilities are losing their competitive edge. One of the report's key proposals is a tax incentive scheme for Canadian exporters along the lines of the U.S. Foreign Sales Corporation (FSC). A recent study estimated that 10 per cent of Canada's merchandise exports would have been channeled through FSCs in 1992, had such a scheme been available. Some of the report's strongest criticism however, is leveled at the EDC. It says that: "Canadian exporters who are
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competitive in price, quality and delivery are unable to compete in export markets where, for reasons of exposure, risk or cost, the EDC is now unable to match either on its own account or Canada Account (where deals are supported by the government in the national interest), export financing offers made to foreign buyers by government-supported export credit agencies in other countries."


The management of Counter Technology Inc., a Maryland security services and technology company with 200 employees, had given little thought to exporting even though its Mexican-American owners were interested in the North American Free Trade Agreement. 'NAFTA was just pie in the sky until we got approached by Commerce,' said Julian Martinez, a company spokesman. 'We felt we had barely penetrated the domestic market, so we couldn't see going off to another country. Now I'm glad we did.' Under Export Mexico, one of the U.S. government's numerous export promotion schemes, Counter Technology was invited to be part of a delegation of U.S. minority-owned companies exhibiting in a trade show in Mexico. Company representatives were thoroughly briefed about their prospects and given appointments with likely customers in Mexico. 'The door was half way open for us. It opened our eyes to other possibilities,' Martinez said. The company is now studying two lucrative opportunities - with the U.S. embassy in Mexico and a Mexican airline. Hundreds more small and medium size businesses - which once would never have considered expanding beyond the U.S. market - are being prodded to export by the Commerce Department. Its Secretary, Ron Brown, the former Democratic party chief, seems personally to have taken over the Administration's mantra: 'exports, exports, exports...' Commerce secretaries have long preached government-business partnerships and the necessity of boosting small business exports. But Brown and his colleagues spent their first year in office preparing to make good on the talk.


The U.S. government offers a wealth of information and assistance to U.S. exporters. In fact, so much assistance is available that many businesses have difficulty identifying the programs which best meet their needs. Assistance efforts provided by state, local, and private organizations add to the confusion about where to turn first for export promotion and trade finance assistance. However, on January 31, 1994, the federal government is opening the first four U.S. Export Assistance Centers (USEAC) in Baltimore, Maryland; Miami, Florida; Chicago, Illinois; and Long Beach, California. Under one roof, USEACs will offer seamless delivery of export promotion services and trade finance programs to local businesses. In all sites, the Center's staff will work closely with the local trade community to coordinate the delivery of trade services.

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Both large and small U.S. exporters agree that one of the most difficult aspects of international business is securing financing. A number of government agencies and trade associations have identified the lack of information that exists between exporters and financial institutions and have acted to fill in that gap quickly. By late 1994, investors worldwide will be invited to use the Internet to access a global investment information database system managed by the Multilateral Investment Guarantee Agency, a member of the World Bank Group. The organizers of the database are drawing on suggestions from experts and investment promotion agencies from over 60 countries. The database will allow potential investors, project sponsors, and those who assist them to advertise their projects and services worldwide. It will include economic information and statistics such as electricity rates and labor costs as well as descriptions of investment incentives to help investors carefully evaluate markets.


Cites the importance of exporters of establishing specific policies for collecting overseas receivables on a timely basis, particularly with more trade being conducted in non-U.S. currencies. In selecting a bank, a small business should consider how fast the bank can give answers to a loan, draw up a letter of credit and get a response from an overseas corresponding bank.


International trade is becoming more common among small and medium-sized businesses. Over a two year period, the number of small businesses exporting has doubled, a survey by Arthur Andersen and National Small Business United finds. Overall, in 1994, 20% of small and medium-size U.S. businesses now report that they export, up from 16% in 1993 and 11% in 1992.


The Silicon Valley Global Trading Center (SVGTC) is a new not-for-profit organization whose goal is to make it easier and cheaper for small companies to sell overseas. Exports are difficult for small companies to achieve because of distance, costs and a maze of procedural and governmental regulations that many companies don't even try. SVGTC has persuaded the U.S. Department of Commerce, the Export-Import Bank and the California Export Finance Office to open trade offices at Techmart in Silicon Valley.


The U.S. Export-Import Bank has made extraordinary efforts over the years to lure U.S. banks into trade financing. However, a top level Clinton Administration trade finance working group reports that the supply of U.S. export finance "falls well short of demand", particularly
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pre-export financing for sellers. According to the group, businesses across a wide range of sectors report difficulties and even loss of export sales because they are unable to get the necessary funding. Ex-Im Bank included only 348 banks -- out of a total of about 11,000 U.S. commercial banks -- in 37 states on its bank referral list in 1993. Nevertheless, this number represents an advance. Twenty banks have been added to the list since last year.

To attract and retain commercial banks, Ex-Im Bank last year increased the interest coverage on new medium-term and long-term guarantee authorizations to 100 percent. Commerce Secretary Ron Brown, who heads up the Administration's trade promotion efforts, and Ex-Im Bank officials have been meeting with the Bankers Association for Foreign Trade (BAFT) to discuss means of expanding cooperation between the government and the private sector on trade finance.

BAFT, together with the Association of Reserve City Bankers, has submitted recommendations to Ex-Im Bank covering the following five areas of concern:

- **Standardization of Legal Documentation**: this would speed Ex-Im Bank's delivery of its programs, especially to smaller and medium-size companies involved in fairly straightforward transactions.

- **Small Business Support**: the Working Capital Guarantee Programs must be simplified and made more consistent with commercial lending standards to medium-sized and small businesses. Requirements for the program are, in many cases, unnecessary and unduly onerous. Ex-Im Bank needs to build more flexibility into the scheme to accommodate banks' willingness to assume different levels of risk for different customers.

- **Claims and Recoveries**: Ex-Im Bank is placing too much emphasis on technical compliance in paying claims. This mitigates the willingness of some banks to participate in the agency's programs.

- **Contract Administration**: Ex-Im Bank should delegate to commercial banks the authority to approve final documentation. This could be done for selected banks, subject to periodic audits of their performance.

- **Personnel Development**: an exchange program between Ex-Im Bank and commercial lenders should be established. This would reduce many of the problems which arise between private and government sectors.

Among the recommendations made recently by the Trade Promotion Coordinating Committee were a call for more public-private partnerships and the use of "multipliers". BAFT believes that increased Delegated Authority to commercial banks by Ex-Im Bank would reduce processing and approval time for applications, eliminate unnecessary paperwork and improve Ex-Im Bank's reach into the exporting community.
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Points out that most exporters are small companies — 96% of all exporting companies have less than 500 employees; seven out of 10 have less than 100 employees. Outlines sources of assistance, including financing assistance, such as the International Trade Administration’s Small Business program, Trade Information Center, Industry Sector Assistance, Country Desk Officers, Regional Business Information Centers, District Offices, and Overseas Embassies and Consulates. Programs with trade intermediaries and organizations include Export Trading Companies, CABNIS/CABEE — Consortia of American Businesses in the Newly Independent States (CABNIS) and the Consortia of American Businesses in Eastern Europe (CABEE), and other organizations.


Through the Industry Sector Advisory Committee on Small and Minority Business for Trade Policy Matters (ISAC 14), small and minority businesses have a voice in trade negotiations and formulating U.S. trade policy. The committee is part of the advisory committee program on trade policy matters jointly sponsored by the U.S. Department of Commerce and the Office of the U.S. Trade Representative. Congress established this private sector advisory committee system to ensure that U.S. trade policy and trade negotiation objectives adequately reflect U.S. commercial and economic interests. ISAC 14 provides advice on a broad range of trade policy issues and initiatives undertaken by the Clinton administration, including the GATT Uruguay Round, China market access, Enterprise for the Americas Initiative, trade with Japan, and trade with the newly independent states of the former Soviet Union and Eastern Europe.


U.S. banks, other than the money center giants, need to be led by the hand into the world of international trade financing through co-financing with institutions such as the U.S. Export-Import Bank, analysts and banking industry officials said. "The international arena has always been seen as a risky venture and uncharted territory for small and midsize banks to look into the marketplace on their own," said Gary N. Kleiman, senior partner at Kleiman International Consultants Inc. in Washington. He suggested that these banks should be given tax write-offs for investments in personnel and equipment in international banking activities. "This would not be a direct subsidy, and it would generate more tax revenue than it would cost because it would boost exports and jobs," Kleiman said.


An unprecedented emergence of state-level export finance programs is benefiting small- and medium-sized exporters who are unable to obtain export finance from their commercial banks.
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These state programs are evolving not only in response to a general decline in commercial bank interest in trade finance, but also from the initiative of state development leaders who realize the significance of exports to their local economies. State export finance programs vary in structure, but may include state-backed guarantees of commercial loans, direct loans by the state, and export credit insurance. Some states have enlisted other entities, such as private, non-profit organizations, to carry out their export finance services. States with such programs include Minnesota (Minnesota Export Finance Authority), California (California Export Finance Office), Maryland (Maryland Industrial Financing Authority), South Carolina (Carolina Capital Investment Corporation), Kansas (Kansas Export Finance Program), Florida (Florida Export Finance Corporation), New York (New York State Export Finance Program), Washington (Export Assistance Center), Texas (Texas Exporters Loan Fund Program), and Massachusetts (Massachusetts Industrial Finance Agency). Other state-level programs include Export-Import Bank's City/State Program, general financing agencies, and cooperative efforts with local public and private organizations.


In an interview, Commerce Secretary Ronald H. Brown stated that trade is at the forefront of the national policy, since it is key to the U.S. economic growth strategy. Every $1 billion worth of exports creates 20,000 domestic jobs. A three-pronged strategy has been established. The first step is to reduce the $50 billion trade deficit with Japan by taking a tougher approach with the new government of Prime Minister Hosokawa on issues of market access, foreign investment and intellectual property rights. The second goal is to conclude sound trade agreements such as the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA). The third pillar of the trade policy is an expanded government advocacy role. Brown stated that it has been concluded, now that the Cold War is over, that U.S. national security is inextricably tied to economic security. That being the case, export controls will be removed on computers, supercomputers and telecommunications gear. Numerous trade-related issues are addressed.


Five strategies that small or highly-leveraged firms can use to obtain more credit or otherwise finance their export activities are: 1) Sell on letters of credit (L/C). 2) Obtain a standby L/C from regular customers. 3) Use the Small Business Administration. 4) Purchase an export credit insurance policy. 5) Establish a financing arrangement with an export factor.


In the past, state and community groups generally focused on offering incentives to bring in new
companies. Today, however, more emphasis is being placed on helping existing companies grow and compete in an increasingly globalized economy. The hoped-for results are more jobs for the local economy and expansion of local and state tax bases. Among the local groups assisting existing companies with growth potential are utilities, which have long been active in promoting business. Champion International’s multi-fuel boiler at its Bucksport paper mill is reducing the state of Maine’s backlog of discarded tires. The plant buys rubber chips from two newly organized processing companies. The chips are fed into a boiler that burns at 1600 degrees. The plant generates electricity which is sold to the area’s power company and repurchased as needed at a lower rate.


Small businesses on both sides of the U.S.-Mexico border are being ushered by financial supporters into the emerging North American market that NAFTA represents at a record pace. Public sector and private bank backing of small business development aimed at exports is increasing to the point that there is something of a race between U.S. and Mexican entities to prepare their businesses more rapidly. The North American free-trade agreement promises a more profound impact on Mexican businesses than the 1989 U.S.-Canada Free Trade Agreement had on Canadian businesses, however. Most of Mexico’s 400,000 small- and medium-sized businesses are unprepared for free trade, since they have operated under government protection against imports. In practical terms, financing has been as great, if not a greater impediment for small Mexican businesses than for small U.S. companies when it comes to preparation for export. Accordingly, Mexico’s state development bank, Nacional Financiera S.A., is sharpening its focus on small business.


Export credit agencies see improvement in exposure to non-payment.


By January 1, 1994, U.S. businesses should be poised and ready to take advantage of the North American Free Trade Agreement (NAFTA). Through the elimination of tariff and non-tariff trade barriers over a period of 15 years, NAFTA will stimulate export growth in both Mexican and Canadian markets. NAFTA will give U.S. exporters direct access to the biggest market in the world - a $6.5 trillion market with 370 million people. Preparation is the key for all U.S. companies wanting to take advantage of tariff reduction under NAFTA. For small and medium-sized businesses that previously could not easily overcome Mexican trade barriers, NAFTA will dramatically increase opportunities to export goods and services to Mexico as tariffs are phased out. Guidelines are presented for U.S. businesses preparing for NAFTA.

"Subsidized Finance Key Feature of Clinton’s New Export Strategy," *International Trade*
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The Clinton Administration is adopting an aggressive new export strategy featuring a sweeping liberalization of export controls, an increase in subsidized export financing, and the goal of boosting U.S. exports from less than $700 billion now to $1 trillion by the year 2000. The long-awaited initiative was developed by Ron Brown, the U.S. Commerce Secretary, and Ken Brody, chairman of the U.S. Export-Import Bank, who coordinate the efforts of the 19 U.S. agencies involved in trade promotion. The Administration has not proposed additional budget spending for export promotion. Nor has it agreed to tie foreign aid funds to commercial financing, although an internal Administration debate went on until just before the new export program was announced. It was decided that the U.S. could not afford to come down from the "high ground" on foreign aid, particularly at a time when it has been reducing its foreign assistance, and other countries are surging ahead on aid spent per capita. Under the umbrella of the OECD, the U.S. and other industrialized countries have established multilateral rules limiting the use of subsidized export financing. These rules will not be violated, Brody said; in fact, the U.S. will seek to strengthen current limits. Brody said the current OECD agreement has been successful in reducing the total of mixed grant-aid and commercial credits to advanced developing countries from $15 billion in 1991 to around $6 billion currently. But U.S. budget rules have hindered U.S. attempts to counter tied aid. The so-called U.S. "war chest" is counted dollar-for-dollar against the bank's available subsidy appropriation level. This has kept Ex-Im Bank from resorting to the weapon in all but a few cases in the past three years. Ex-Im Bank has only used the war chest to offset unfairly subsidized financing offers which violate the OECD pact. However, from now on, the fund will be used to deter anticipated moves by other lenders or even confessional loans tied to procurement from supplying countries, particularly when the sales involve capital goods. Brody said Ex-Im Bank will switch funds from other programs to spend $150 million a year on subsidies. This can be leveraged to produce $600 million in new sales. The Administration will also increase project limits for lending by the Overseas Private Investment Corporation. Limits currently at $50 million will be boosted to $200 million.

The export promotion initiative was ordered by Congress, which used to regularly push the Reagan and Bush Administrations, with little effect, to ease U.S.-created barriers to exports. Ultimately, it mandated the establishment of a Trade Promotion Coordinating Committee (TPCC), which was to report back to Congress by September 30. The timing turned out to be fortuitous for this Administration. The U.S. small business community is in an uproar about the Clinton health care program, which proposes that all businesses contribute to their employees health insurance. The export plan gives the President the opportunity to refurbish his pro-business image.

"The president wanted this to be bold and aggressive and a signal to the business community that this is a pro-business administration that understands where jobs are created and how to promote sustained economic growth", Brown said. Early in the Administration, Brown seized on his chairmanship of the TPCC to make his mark on trade policy. The committee even went beyond its mandate to co-ordinate trade promotion programs and decided to examine and
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remove, when possible, all disincentives to exports. Much emphasis has been given in the TPCC's 65 recommendations to boost foreign sales of small and medium-sized businesses. These are expected to do most of the job creation in this decade.

Working under constraints of the budget deficit, the Administration is proposing little new spending. Like Vice President Al Gore's well-received Reinventing Government program, it proposes reallocation of resources, reorganizations and efficiencies of established programs. Erskine Bowlers, head of the Small Business Administration (SBA), told a Congressional committee that his agency and Ex-Im Bank would be working more closely together. Ex-Im Bank, he said, has its headquarters in Washington and one small West Coast office. The SBA has 100 field offices -- with tremendous network potential -- but little expertise in export financing. The SBA and Ex-Im Bank will work with other agencies to establish a national network of "one-stop shops", consolidating all federal export promotion services and to eventually replace the maze of offices that U.S. exporters now must contact. This year, four cities -- Baltimore, Chicago, Miami and Los Angeles -- have been selected for one-stop shops, and the rest will be added later.

The Commerce Department will develop commercial strategic plans for each key export market of the U.S.. The plans will consolidate and improve upon information now provided by numerous federal agencies. The TPCC is recommending a unified budget for export promotion. This could mean later on that some funding may be diverted from agriculture, which Brown frequently points out gets a disproportionate amount of the export financing dollars.


Complying with a congressional mandate included in the Export Enhancement Act of 1992, the Clinton administration last week presented strategic proposals for boosting U.S. exports that include "removing prior export licensing requirements for most telecommunications exports," according to a statement issued by Commerce Secretary Ronald H. Brown. The initial report of the 19-agency Trade Promotion Coordinating Committee authorized by 1992 amendments to the Export Enhancement Act also proposed significant loosening of export controls on computers and measures to boost the ability of U.S. companies to attract export financing. The September 30 report, "Toward a National Export Strategy," says that the Clinton administration is reviewing export controls on computers and telecom products and will take certain specific actions immediately. They include removing "prior licensing requirements for telecommunications exports -- except information security -- for use in public switched networks to most countries not proscribed by COCOM (the Western nation Coordinating Committee for Multilateral Export Controls). In addition, the U.S. will propose and work with our allies to change the control regime on telecommunications technologies for civilian end users. Included in the discussions will be reduced control levels for fiber optic, radio relay, and cellular communications systems, and more advanced switching techniques related to these types of communications." The reference to "information security" exports means encryption products, a Commerce Department official said.
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For computers, the administration will propose to COCOM allies an increase in the processing power threshold for exports to most destinations from 12.5 MTOPS (comparable to a PC using the Intel 486/33 central processing chip) to 500 MTOPS. It would raise the level to 194 MTOPS immediately and update the export control definition of "supercomputers" from the current level of 195 MTOPS to 2000 MTOPS. The report said the higher level of performance in the supercomputer definition would "free up annually about $5 billion of computer exports from the safeguards burden." Chief executive officers of 13 leading U.S. computer companies applauded the administration initiative. The Commerce Department said the overall liberalization would free about $30 billion worth of computer exports from the requirement of obtaining individual export licenses.

A Commerce Department Bureau of Export Administration official said the administration's telecom proposals reflect liberalizations recently agreed to by the COCOM member nations. Details of the agreement will be provided in implementing regulations to be published in the Federal Register, he said. Eliminating the requirement for individual licenses for exports to countries not on the COCOM proscribed list — or in COCOM parlance, expanding "General License-Free World" eligibility — would affect about $2 billion in annual telecommunications trade, the official said.

Eric G. Nelson, director-international affairs for the Telecommunications Industry Association, said the expansion of General License-Free World eligibility "will streamline procedures for company exports to the Free World, but for Russia and China, it means very little. We're hoping the next major announcement like this will be on telecommunications, and we hope this is just a down payment on a far more aggressive telecom package. The administration's approach does appear to be a fresh look at the whole idea of export controls. Certainly for computers, it is, but for us, it just doesn't do much." Other recommendations included in the report would help boost exports by smaller U.S. companies. They include establishment of "one-stop shops" where Commerce Department, Small Business Administration, and Export-Import Bank representatives would be available for assistance. The report also recommends measures to boost private and government financial packages for exports, including a $150 million package of "tied aid" financing to be administered by the Export-Import Bank. Such financing amounts to government foreign assistance to countries that buy U.S. exports -- a practice widely used by foreign companies and governments and one U.S. telecom exporters have decried as placing them at a significant disadvantage in competing for global contracts.


As new chairman and president of the Export-Import Bank of the U.S., Kenneth D. Brody faces an enormous challenge. Ex-Im Bank lost $700 million in 1992 on assets of $6 billion and liabilities of $9 billion. Reforms of the bank stand high on Brody's agenda. His goals include: 1) attracting more nonbank financial institutions, such as insurance and commercial finance companies, to lend money under Ex-Im Bank loan and guarantee programs, 2) increasing financing of privatization projects to help U.S. multinationals exploit the export opportunities
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ey they offer in Europe, Asia, and Latin America, 3) simplifying and standardizing loan guarantee agreements for banks, 4) having commercial banks handle the loan application for and servicing of pre-export guaranteed working capital loans for small and medium-size businesses, 5) utilizing such capital market and derivative instruments as floating- and fixed-rate interest and currency swaps so loans can be tailored to offer the most competitive terms possible, and 6) improving customer service.


A blueprint to effectively coordinate U.S. export promotion and export financing programs to maximize U.S. advantages and opportunities in the global marketplace was unveiled by Secretary of Commerce Ronald H. Brown on September 29, 1993. The National Export Strategy is expected to lead the way toward sustained U.S. growth, economic security, and job creation. The key elements of the National Export strategy are: 1) streamlining programs, which involves defining client groups and their needs, focusing specific agencies on meeting specific customer needs while eliminating overlap and duplication; 2) leveraging resources, which involves using resources of the private sector and local governments wherever possible to expand and improve service; 3) allocating resources rationally, which involves developing an effective interagency process to ensure maximum advancement of the Trade Promotion Coordinating Committee's goals; and 4) removing obstacles, which involves reducing or eliminating government-imposed impediments to export.


As U.S. exports are increasing, more manufacturing jobs have grown dependent on exports, and more small and mid-size firms are beginning to export. Some 7.2 million U.S. jobs were supported by merchandise exports in 1990, up from 5 million in 1986. In the Ninth District, over 16% of Minnesota's manufacturing jobs are dependent on exports, the highest ratio in the district. State officials expect the economy's reliance on exports to grow. Changes in the former Soviet Union and Eastern Europe, as well as in Mexico and Latin America, and market reform in China have opened new markets for both large and small companies. However, many smaller businesses considering a move to the global markets are often daunted by the idea of exchange rates, trade rules, tariffs, foreign trade representatives, and cultural customs. However, help and information are readily available to the interested exporter.


As part of the Clinton Administration's initiatives to expand U.S. exports and thereby create more and better jobs, the U.S. Commerce Department outlined more than 60 actions needed as part of an aggressive U.S. export strategy. The report examined the primary forms of export financing, including the Export-Import bank of the United States, Small Business Administration loan guarantees, and private sector funding. The report states that the U.S. exporting community as a whole maintains that financing impediments continue to discourage...
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higher levels of export sales. For the small or inexperienced exporter, the obstacles more specifically identified include: lack of information on U.S. government programs, inaccessible or unavailable working capital from the public and private sectors, and overlap and confusion in providing U.S. government financing. Small companies rely on banks for external debt financing to a greater extent than large businesses. Unfortunately, many small or inexperienced exporters lack a thorough understanding of the criteria that lenders use to make export credit decisions. This often leads to frustration on the part of exporters who, from their perspective, have all the elements necessary to qualify for export credit. Exporters who do qualify for financing frequently find it difficult to identify lenders willing to entertain export credit requests. Many U.S. banks do not offer working capital support for exporters, citing the following reasons: 1) a general aversion to foreign risks; 2) insufficient demand to justify establishing international banking operations; 3) a preference for other, more profitable lines of business; 4) overly burdensome credit and documentary requirements; 5) uncertainty surrounding the reliability of U.S. government guarantees; and 6) a general lack of awareness of U.S. government export working capital financing. Lenders claim that pre-export transaction-oriented financing for relatively small amounts is too risky, labor intensive, and not as profitable as other financial services. Even with the U.S. government's guarantee, few lenders aggressively seek this type of business.

The report urges that the U.S. government create incentives to encourage greater private sector participation in export finance, with the following recommendations: 1) streamlining the pre-export working capital guarantee programs of Ex-Im Bank and SBA to make the programs more customer-focused and to take advantage of the agencies' comparative strengths; 2) establishment of an intensive educational program for commercial lenders, illustrating the benefits of U.S. government export financing programs (e.g., reduced risk), that is targeted at private financial institutions, especially smaller and less internationally experienced banks; 3) making clear that lenders will get positive consideration for small business export loans under the Community Reinvestment Act, which encourages lenders to help meet the credit needs of their communities; 4) help stimulate the private sector's creation of a secondary market for short-term export loans, through the removal of legal, tax, accounting, and other impediments. The report also recommends coordination between federal and state/local export financing efforts: 1) encouraging qualified state/local export finance entities to enter into co-financing arrangements whereby risk is assumed on a shared basis; and 2) SBA should offer preliminary commitments to exporters whose loans are packaged by qualified state/local entities.


Virginia officials have begun fostering a closer relationship between exporters and banks in the state, thanks in part to federal export guarantees won through the Virginia Small Business Financing Authority. Under the U.S. Export-Import Bank's city-state program, the Virginia agency qualified some 18 months ago to perform pre-approval work to find working capital guarantees and loans for exporters. Recently, the agency also was authorized to approve export credit insurance umbrella policies for small companies new to exporting, said Anna Mackley, a
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financial services representative for the Small Business Financing Authority. "We have just recently begun to get Virginia banks interested in exporting through the Ex-Im program; it's a first step toward greater international trade activity," said Ms. Mackley in an interview.


In a report to be handed over to Congress on September 30, the Clinton Administration's new Trade Promotion Coordinating Committee (TPCC) will present a set of recommendations to eliminate overlap and duplication of agency services to exporters, leverage resources and reform the government's export licensing systems. In an outline of the report obtained by ITF, the Administration suggests developing a series of mechanisms to attract more private sector financial institutions in the export finance market. It also wants to increase the subsidy allotment per project funding limit for the government's Overseas Private Investment Corporation from $50 million to $200 million per project. The Administration wants to establish a national network of private-sector intermediaries in the U.S. to provide services to small and medium-sized businesses, and support an enhanced export finance role for qualified state and local finance entities (including local port and industrial development authorities).

It will re-assess the effectiveness of "tied aid" financing for generating exports to level the international competitive playing field. It wants to create strategic commercial plans for each country -- generated by a special country team and approved by the local Ambassador. It has also set up a working group to examine how to boost environmental exports. The TPCC proposes to bring together the field offices for export promotion and trade finance. Among the agencies involved are the Commerce Department, the Small Business Administration, and the Export-Import Bank. It also aims to consolidate into one agency all feasibility studies for major projects that support U.S. exports, including concept design and financial planning. Moreover, it is seeking to harmonize all aspects of the Ex-Im Bank and Small Business Administration working capital programs "to achieve a single and seamless U.S. government working capital guarantees program". The report was prepared by the TPCC, headed by Ron Brown, the Commerce Secretary, and by Ken Brody, Ex-Im Bank's chairman.


Texaco project for Russian oil field receives $28 million of U.S. assistance, receives U.S. loan guarantees, insurance to restore production in Sutormin field, Siberia; Overseas Private Investment Corp. program.


New York State will guarantee loans to small exporters under a program to be announced by the Department of Economic Development. Massachusetts unveiled a similar program the
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week before and California has been offering guaranteed export loans for small businesses through the California Export Finance Office. The idea behind these programs is that commercial banks will lend to small companies for exporting if a major share, usually 70% to 85%, of the loan is guaranteed by the state.


A unit of the U.S. Agency for International Development has decided to fund a private bank service network to help seed more U.S. exports of environmental goods and services. Pursuing such a creative solution to financing problems helps label AID's U.S.-Asia Environmental Partnership as fast-moving within a field of two dozen other federal entities now under the Clinton administration's scrutiny for efficiency in the promotion of U.S. exports. The grant is just one of a variety of measures US-AEP is planning to enhance financing availability for so-called green exports, an agency official said.


Competition is increasing among multilateral institutions to come up with the best one-stop shopping service for global investors, and the World Bank's Multilateral Investment Guarantee Agency doesn't plan to be left behind. In September, MIGA will launch "a giant database for investors, including all the factors you need to decide where to invest," according to a Washington source at the agency. Underwriting insurance for foreign investments, MIGA has access to a country's unvarnished investment policy details, and is able to evaluate the likelihood of commercial success given the broad scope of industries it covers. Thus, "If you say I want to make a tennis shoe, we can tell you how your costs in a given country will relate to a neighboring country," the MIGA source said.


Exporters need not be afraid to work with the foreign language of acronyms. From market research to financial assistance and insurance, Washington's "alphabet soup" of programs can help any size company achieve its international market goals. However, the secret to finding assistance is knowing where to look. Companies unfamiliar with foreign markets may find two U.S. Department of Commerce publications very useful — Foreign Economic Trends and Their Implications for the United States, and International Business Practices. The Export-Import Bank of the U.S. offers many financial assistance programs to U.S. exporters. For example, Ex-Im Bank guarantees 100% of the principal and interest of working capital loans extended to exporters by commercial financial institutions. The Overseas Private Investment Corp. provides medium- to long-term financing for U.S. business ventures in over 115 developing countries. Entrepreneurs International is a two-way cultural exchange program in which U.S. business executives can gather information on new markets and investment opportunities.

The credit crunch that crippled New England and other regions in the U.S. has taken hold in California. Through early May 1993, according to the Federal Reserve Bank of San Francisco, business loans at California banks were down 20% from a year earlier. Hardest hit, according to export specialists, are California's many small and medium-size companies active in international trade. Tegal Corp., a high-technology manufacturer with $40 million in sales, had to struggle to find a bank that would lend money against its foreign receivables. About 70% of Tegal's sales are international, going to the largest, best-known industrial names outside the U.S. Despite the gilt-edged customers, Tegal was rejected by several banks. Eventually, the company turned to Imperial Bank, one of the few California banks aggressively pursuing international business. Smaller banks, such as Silicon Valley Bank in San Jose, see the potential of working with small and midsize exporters, too.


A list of sources of advice and information for the entrepreneur is presented.


The Clinton administration plans to make major changes in the federal government's export promotion programs, including much more support for smaller businesses, a new emphasis on Asia, and the easing of strategic export controls, senior administration officials indicated Monday. Kenneth Brody, chairman of the Export-Import Bank, told a business conference here that, among the coming changes, his agency will extend guarantees to banks that will "make it very comfortable" for them to lend to small and medium-sized exporters. More broadly, he said, the Ex-Im Bank will become more of an export financing "wholesaler" and less of a "retailer." This means the bank will delegate more authority to banks and other financing sources to make Ex-Im Bank-backed loans without case-by-case Ex-Im Bank approval.


Overseas Private Investment Corporation offers a market driven alternative to government assistance.


Most of the U.S.' success abroad now appears to stem from smaller companies. America's new small-firm exporters can be broken into three categories: 1) those that were born exporters, 2) those that have become exporters, and 3) those that have had exports thrust upon them. Unfortunately, the first still seems to be the smallest group.

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It's 9 o'clock. Do you know what the subheading is for your product under the Harmonized Tariff Schedule? You're not alone. The complexities of customs regulations, export finance and dealing with foreign languages - including bureaucratese - have kept many a small firm from selling abroad. But in recent years, the recession and global competition have forced many business owners to take a more determined look at exporting. And many are finding that the biggest barriers - getting financing and navigating the maze of government resources and requirements - aren't nearly so high as they used to be. American National Bank, for example, last April started offering a flat fee of $100 for letters of credit of less than $5,000 for any new-to-export companies, taking much of the expense and hassle out of financing small trade deals. In March, Ex-Im Bank teamed up in Chicago with the Illinois Development Finance Authority (IDFA) and the Illinois Department of Commerce and Community Affairs (DCCA) to expedite the processing of loan guarantees for small and medium-sized firms. The state agencies are responsible for promoting the program and helping small exporters apply for Ex-Im Bank's 100% loan guarantees to finance export sales or working capital to produce goods for export. The goal is to cut a 60-to-75-day application process down to two or three weeks, although other states that previously joined the program have found it still takes at least 30 to 45 days, according to Lisa Marshall, senior program administrator at the IDFA.


MTB Bank acquired Trading Alliance Corp., a trade finance company specializing in purchase-order financing for small and medium-sized companies. "We are making an aggressive move into an area of financing that most banks don't have much of an interest in," Fredric Tordella, president of MTB Bank, said Monday in a telephone interview. Purchase-order financing, also known as pre-export financing, helps small companies with orders in hand to pay their suppliers in order to complete overseas sales.

"What Credit Crunch?" Sullivan, Deidre, World Trade, June 1993.

Analysts believe that the low dollar, the recession in the U.S., and American industry's renewed competitiveness are important factors boosting exports. In addition, the easing of the Latin America debt crisis and the end of the Cold War have opened new and profitable trading opportunities. Such cities as Miami, Florida, and New York City are home to banks whose primary focus is to support the international activities of their clients. Financing trade is these institutions' core line of business. Some have made it easier for smaller companies to obtain medium-term financing by "bundling" transactions with the cooperation of the U.S. Export-Import Bank. Jeffrey Sands of KPMG Peat Marwick sees increasing interest in factoring services, particularly among soft-good exporters and furnishers. The federal government offers a range of programs to help exporters. This assistance falls under 3 broad categories: 1) loan-guarantee programs, 2) direct loans, or 3) credit insurance.

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Good deals sometimes go bad, but deals made in the flourishing markets of the developing world need not be inherently more risky for a small company than deals done anywhere else, provided the risks are measured and managed. In managing the risks of entering an emerging market, the same rules of good judgment apply that a company would use at home, especially in extending credit. Roughly 1/4 of Altek Industries Corp.'s sales is from exports, most of that done in letters of credit denominated in U.S. dollars. According to Nancy Deering of Altek, the company has had few problems getting its money, except in Pakistan and India. Another risk associated with entering an emerging market is the limitations imposed by geography. No small company can afford to hand off its management job to a 3rd party. The Futures Group uses a tool it calls "structural reform analysis," which measures laws affecting foreign investment and repatriation of funds, and infrastructure investment.


Many small exporters need assurance that their foreign customers will pay their bills. However, they lack the resources - such as overseas branch offices and money for expensive credit reports - that big companies take for granted. To guarantee payment from overseas customers, a company should: 1) Get export credit insurance; 2) Get a letter of credit: 3) Conduct its own credit checks.


In several communities in the U.S., exporters and their allies in government are helping design the kinds of programs exporters need, persuading government to fund those programs, and leading manufacturers into the global marketplace. Examples of trade development programs that really work include: 1) California Export Finance Office, which calls itself the best export loan-guarantee effort in the U.S., 2) Oregon's International Trade Division, which actually sells products for its clients, 3) Edison Electric Institute, which co-sponsors the Small Business Foundation of America's Export Opportunity Hotline, publishes an export guidebook, and trains local economic developers in export-assistance programs, 4. Trade Development Alliance of Greater Seattle, which builds on already available export-development services in the greater metro area.


Export-credit agencies compete with sovereign borrowers; financing export credits.


Exporting is important for companies that want to grow. For the typical small company, breaking into exporting is a slow process, requiring a sizable investment of time, money, and effort. That may be why only 18% of polled small business executives said they did any exporting. To get started, small businesses first need some sound market research. A good place to begin is the local office of the U.S. & Foreign Commercial Service (US&FCS), a division of
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the Commerce Department. The US&FCS has trade specialists in 67 cities who can help locate foreign distributors and provide industry leads. They can also alert companies to overseas trade fairs. Private consultants can also help, but they can be costly. A big hurdle for many companies is lining up export financing. The Export-Import Bank in Washington, DC, tries to help smaller businesses get loans from commercial banks by providing loan guarantees and insurance.


The U.S. export-finance sector may go electronic with government support, thanks to a new proposal to electronically link commercial bank and government lenders with small and mid-sized companies that are looking to borrow money. Called AXCAP, the proposed network would help companies look beyond their own state borders for financing and would connect foreign banks and U.S. companies. This "marriage broker" system could globalize the U.S. trade finance market for tens of thousands of small U.S. exporters, a U.S. Commerce Department source said. The plan was devised by the Bankers' Association for Foreign Trade, a Washington-based non-profit group of 100 U.S. and 100 foreign banks. The Commerce Department's Economic Development Administration is considering an estimated $125,000 grant to finance the project start-up and first year of operation, according to Renee Holmes, a spokeswoman for the agency. The final decision of whether to support the project would be made by Craig Smith, acting assistant secretary of commerce, she said.


With fewer than 15 employees, Schummel Novelty Products Inc. has succeeded by exporting its product, a plastic table cloth that children can color, erase with a rag, and color again. According to Richard L. Winter, an owner and vice president of marketing for the firm, attention to detail is particularly important in international transactions. Schummel faxes its overseas customers to tell them the precise time a shipment will arrive and on which airline flight. The firm also pays careful attention to the details of export financing, particularly in the preparation of letters of credit. The company obtains most of its overseas customers by advertising in the Commerce Department's catalog-magazine, Commercial News USA. The company then sends brochures, price lists, and a description of how to order the products to all those who answer the ad. Schummel currently has 10-15 distributors who are steady customers and another 100 who order sporadically. Exports now comprise 45%-50% of Schummel's sales.


Small Business Administration officials say that the small business investment companies (SBIC) program has been thoroughly overhauled and once again is focused on its original goals - providing injections of federal and private capital to promising new ventures that would not be able to get started otherwise. In the process, the officials boast that some fledgling companies that were struggling to stay alive have gained international sales for their products. The experience of Callaway Golf (Carlsbad, California) shows how a small business owner can use
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the system to expand overseas. Founder Ely Callaway received $400,000 from the SBICs in return for yielding 4.5% of his company's stock to the investors in a straight equity deal. The company now sells equipment worldwide - anywhere there are golf courses. Besides an original idea, venture capitalists look for how the idea itself will translate into profits.


While financial institutions here are actively pursuing smaller companies for their general borrowing needs, commercial bank finance of export trade remains in the doldrums. Many banks have either gotten out of the business altogether or scaled down their operations so that they no longer have the expertise to help middle market companies structure deals. Beyond this, many banks that still maintain trade financing divisions are reluctant to deal with the middle market because of the limited fees they would receive for its smaller letters of credit, working capital loans, foreign collections and foreign exchange deals. There may be some hope on the horizon, though. The metropolitan area has become host to a growing number of trade finance boutiques willing and able to handle smaller deals. Commercial bankers also are taking to the seminar circuit, to talk to companies about presenting stronger applications and about building financing costs into their sales prices. About 55% of the middle market companies in the metropolitan area use trade financing, according to a 1992 study by the Manhattan research firm Schulman, Ronca & Bucuvalas Inc. that was commissioned by Chemical. Of all the companies contacted, 15% use Chemical for trade financing, 7% use National Westminster Bank, 5% deal with Standard Chartered and 3% call on Bank of New York. In addition, 18% use various foreign banks.


As the U.S.'s export boom matures, long-term goals are steering manufacturers toward traditional trade centers and several newer outposts that have forged strong links with growing markets. The top 10 export states in the U.S. are California, Texas, Washington, New York, Michigan, Louisiana, Ohio, Illinois, Florida, and North Carolina. Manufacturing still rules in Michigan, where export-driven firms such as Ingersoll CM Systems Inc. can count on easy access to markets, skilled labor, advanced manufacturing technology, and suppliers. In Texas, world traders are finding success from the Silicon Hills of Austin to the maquiladoras along the Mexican border. In California, officials are attempting to stop corporate defections to lower cost, less congested states by touting the state's time-honored advantages, from geography to technology. When searching for a site, Wandel & Goltermann Technologies Inc. chose North Carolina's Research Triangle park because of the area's university environment, excellent workforce, and booming telecommunications scene.


The Clinton administration's general proposal to create 100 community development banks over
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the next four years could prove a boon for very small businesses engaged in international trade, particularly importers. While the administration has not yet unveiled its detailed plan for the banks, expectations are that the banks would be seeded with assets of $100 million each, through a Federal Bank for Community Development Banks. The proposed entity initially would provide $1 billion for the new banks, with the ability to infuse as much as $5 billion, according to Ronnie Phillips, a Colorado State University professor in residence at Bard College's Jerome Levy Economics Institute. "Small (international trade) businesses would definitely benefit from this, but in discussions of how to establish the banks, it should not be identified as a primary goal," Phillips cautioned. Community development banks might nonetheless help soothe the often-heard complaint of very small businesses that the U.S. Small Business Administration still has loan hurdles in place that are too high for the very small to clear.


Once again, the House of Representatives Committee on Small Business has proposed a law that would convert pools of bank loans for small businesses into a publicly sold financial instruments to create a vast new source of funding for our nation's 100,000-plus small businesses. The latest version of the proposal is House Resolution 660, the Small Business Credit Availability Act of 1993. The measure would complement efforts of many poorly funded state export finance offices. Led by Committee Chairman John LaFalce, the House held hearings early this month on his most recent proposal he first floated the idea a decade ago for the creation of "Velda Sue," the Venture Enhancement and Loan Development Administration for Smaller Undercapitalized Enterprises.


Export-Import Bank of Japan loan programs.


An analysis by the CIGNA Economics team indicates that the U.S. economy will continue to expand slowly, probably at a rate of 3% for most of 1993. The development of a significant economic expansion before late 1993 or early 1994 is unlikely because of the multiplicity of thorny "real-world" problems facing the U.S., including: 1) the slow-growth world economy, 2) the "middle aging" of the baby boomers, which makes for a massive transition from a consumer-led to an export-led economy, 3) the lingering impact of overbuilding in the 1980s, 4) the decline in defense spending, and 5) the low level of consumer confidence. The Clinton administration will probably opt for a process of gradual adjustments to the economy, with the
primary focus on creating jobs. Clinton's 1993 economic scenario will likely include: 1) a plan to make the North American Free Trade Agreement less painful to U.S. workers, 2) a permanent tax credit for incremental investment in targeted investment areas, and 3) increased infrastructure investment.


Patterns of formal planning activity in U.S. exporters are investigated, and the relationship between export planning and export performance is explored. The research specifically addresses such issues as: 1) whether most U.S. exporters undertake little formal planning activity, 2) what the broad pattern of activity exhibited is with regard to the planning that does take place, and 3) whether there is any evidence of a relationship between formal planning activity and export performance. The findings indicate a pattern of relatively low managerial propensity to undertake formal export planning and a hierarchical pattern of planning activity. The results also indicate that firm size and environmental complexity affect planning activity. An association between export intensity and formal planning activity is also identified. However, the data do not indicate any consistent pattern in the relationship between export planning and financial performance. The findings suggest that most U.S. exporters are not undertaking important elements of formal planning action.


According to Richardson's estimates, U.S. companies lost over $3 billion in possible trade transactions because they do not receive the support that their counterparts in other industrialized nations receive. Additionally, he asserts that in comparison to these countries, less generous financing terms in the United States translate into as much as a 6.4% price disadvantage for medium-term (five-year) credits and 13.2% price disadvantage for long-term (ten-year) credits for American exporters.


The major finance and insurance programs for U.S. export and foreign investment offered by the Agency for International Development (AID), the Export-Import Bank, the Overseas Private Investment Corporation (OPIC), and the Small Business Administration (SBA) are described. AID is the federal agency that provides health, economic, and disaster assistance to eligible developing countries. AID supports the development of market economies and growth of private sector businesses throughout the world. AID's primary development tool is the Private Sector Investment Program, a portfolio of loans, credit guarantees, and training. Ex-Im Bank is an independent federal agency that helps finance the sale of U.S. goods and services to creditworthy purchasers in most foreign countries. OPIC is a U.S. government agency that assists U.S. investors through project financing, investment insurance, and investor services.
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SBA provides business development and financial assistance through regular business loans, international trade loans, and export revolving line of credit loan guarantees.


Practical tips for succeeding in exporting are presented and illustrated with case studies of numerous companies. The recommendations include: 1) Make sure export financing is understood. 2) Offer high-quality products and services to beat the competition. 3) Underbid the competition. 4) Increase employee awareness of the importance and needs of international customers. 5) Fax replies to foreign inquiries on the day received. 6) Send trial orders to foreign customers. 7) Get a commitment to exporting from top management. 8) Adapt the product to foreign tastes. 9) Make a commonsense appraisal of who needs the products.


Based on U.S. Bureau of Census statistics, Stroh estimates that companies can expect to incur approximately $1,000 in transactional costs on a single export shipment. Considering that the same statistics indicate that the average transaction value for one-third of exporters in 1987 was less than $5,000, it can be seen that the transactional cost is exorbitant and a major disincentive for small companies wishing to export.


In comparison to the other Group of Seven (G-7) industrialized Western nations, U.S. exports account for a much smaller percentage of the country's overall Gross National Product. A major factor why many U.S. companies do not engage in exporting to a larger degree is the lack of trade financing available. Businesses, especially small- and medium-sized ones, in the other G-7 nations have better access to more preferential trade financing than do those in the United States. Includes analysis of government studies and discussions with leading public- and private-sector figures in trade.


As the Clinton administration assumes office with a pledge to expand U.S. markets overseas, it must take steps to improve the nation's export finance programs. The role of the Export-Import Bank and other agencies that supply trade finance is uncertain. The reason, according to a recent congressional report, is that U.S. export finance resources "do not follow an integrated strategy" that seeks the highest return on export-assistance dollars. That fragmentation and weakness leaves American firms at a competitive disadvantage. The
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government's export-finance apparatus must be transformed from a blunt tool to a precision instrument.


St. Louis has been picked for a national pilot program to make it easier for small and medium-size manufacturers to break into overseas markets at little cost to themselves. "Many small manufacturers and producers do not export because they lack the resources... pre-export financing (like letters of credit) and general expertise," said Bob Andrews, director of the St. Louis regional office of the Small Business Administration. "Some 200 American companies account for about 85% of our exports... But small firms could prove to be the sleeping bull," added Joseph Roldan, president of Roldan Products Corp., a 65-year-old export management company.

"States Make Good Partners," Friedman, Miles; Robbins, Caroline, Business America, November 16, 1992.

Transformation of the world's markets into one interdependent global economy mandates U.S. participation in international trade and presents unusual challenges for government and business. Today, federal, state, and local budget deficits are pushing governments to avoid duplication and to find increasingly creative ways to leveraging more resources at a lower cost. States maintain regular lines of communication with the U.S. Department of Commerce and their local Commerce District Offices, and many work with multiple federal agencies, some citing as many as 10 or 12. Each state makes a conscious decision to pursue the export opportunities open to its firms and to supply some of the help needed by smaller firms to bring them to the international marketplace. In general, information on international business opportunities is screened, qualified by the state, and then matched with lists of potential exporters before being targeted to the firms most likely to have use for the particular lead. A list of state international trade contacts is included.


According to a number of states, midsize American exporters are turning increasingly to various state bodies for help because the federal government provides them with so little support. The states care more about local companies investing overseas because they've found that exports almost inevitably follow once a local manufacturer forms a joint venture with an overseas partner. According to Scott Blacklin, director of the international division of the Maryland Department of Economic Development, the states are the proper scale to identify real needs in the business community and to try to deliver them. Many states have overseas offices charged with rounding up trade leads and guiding local businesses to interested foreign buyers. Fifteen states have their own export financing programs. While states are obviously most interested in helping their own companies, the state bodies are cooperating with one another. In addition,
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the Council of State Governments has commissioned the Urban Institute to analyze which industries in each state are the best candidates for winning export sales, as well as the countries that seem the most likely targets.


American companies should take advantage of the weakness of the U.S. dollar to explore business opportunities in the international market. However, would-be exporters should not that the falling dollar will not necessarily translate into easier access to overseas markets. In fact, most exploit the falling dollar since the window of opportunity created lasts for only six to eight months, a period which is too short to allow companies to set up a viable export operation. These novice exporters would do well instead to prepare themselves for the increased costs and risks of doing business overseas. They can do this by participating in the export marketing programs of the Department of Commerce and by studying how to obtain export financing from the U.S. Export-Import Bank.


When small companies go to banks for export financing these days, they are more than likely to walk away empty-handed. Regional development officials who work with export-oriented small businesses say only a limited number of banks still provide working capital or other forms of financing to this sector, and when they do, they insist on liquid collateral and strong balance sheets to secure their loans. "Interest rates are low, but the availability of money is rare. If you don't have a solid asset base and a good track record, it's tough to get a loan," said one regional development official from the New York area who asked not to be named. He added that "unsecured financing is dead. It's assets, and hard assets, that banks are looking for" before they are willing to lend.


When Staver Co. of Bay Shore, L.I., needed money to retool its products for the export market, it turned to the U.S. Small Business Administration, which provided backing for two loans totaling $500,000. 'The loans were a significant factor in increasing our export business,' says J.B. Lazarus, Staver's chairman. With the dollar at historic lows, even small businesses should take a second look at the export market. One often-overlooked source of help is the SBA. Like the U.S. Export-Import Bank of the United States, SBA provides a variety of loans and loan guarantees to exporting companies. But unlike the Ex-Im Bank, SBA specializes in helping small businesses. Since 1976, SBA has made 1,509 export loans and loan guarantees worth more than $496 million. During the first 10 months of fiscal 1992, SBA has guaranteed 51 loans worth $13.1 million to exporters in SBA's Region II, which includes New York, New Jersey, Puerto Rico and the Virgin Islands. That compares with 34 loans worth $10.4 million in all of
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fiscal 1991. SBA loans help small business owners find the capital to start and build their export business. Through the International Trade Loan Program, companies can get SBA loan guarantees of up to $1 million for fixed-asset financing. Another $250,000 can be borrowed for working capital.


An empirical examination is made of manufacturing firms in a midwestern U.S. state. Various problems exporters face in export business, the appropriateness of government assistance with these problems, and the match between the types of government assistance desired with the assistance delivered are identified. This identification can help government agencies develop a systematic approach to export promotion. Based on the findings of this study, a number of conclusions can be made: 1) Local firms' export-related procedural expertise is alarmingly limited. 2) The availability of export financing and foreign market information is crucial for firms in the early stages of export involvement. 3) Exporting does not necessarily result in higher profitability relative to domestic business. The fact that the prime export benefit to firms appears to accrue in the area of competitiveness, rather than profitability, may be a key tentative justification for government involvement in export promotion.


Close advisers to Bill Clinton, the Democratic presidential candidate, have prepared a detailed strategy to foster "world-class" banks in the United States. "Reversing the decades-long decline of our financial sector, which supports trade and manufacturing, is vital to restoring U.S. world economic leadership," said Gary Kleiman, senior partner of Kleiman International Consultants Inc., which is in the process of relocating to Washington, D.C., from New York. Kleiman has made a series of recommendations for Mr. Clinton's international banking strategy at the request of Robert J. Shapiro, vice president of the Progressive Policy Institute. The institute is the policy-making arm of the Democratic Leadership Council, the organization of moderate Democrats that Clinton helped to found.


According to the Export-Import Bank, the official federal export credit agency, out of 12,000 U.S. banks, only about 25 now make export loans, broadly available to U.S. companies. Hardest hit by cutbacks in trade financing have been small and medium-size exporters -- companies with probably the greatest needs. Yet some U.S. institutions have continued to support U.S. trade. At the same time, several others are providing trade finance services, such as confirming letters of credit from foreign banks and international fund collections. International Business lists the top 10 U.S. banks providing trade finance options, ranked in order of range of services and international trade lending activity, as: 1) Bank of New York, 2) First Interstate Bank, 3) NationsBank, 4) Chemical Bank, 5) Norwest Bank Minnesota, 6) SouthTrust Bank of Alabama,
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As part of Japan's Business Global Partnership initiative, Japanese businesses are making an effort to help U.S. companies enter the Japanese marketplace. These efforts are having a big impact on small business' profits. Knudsen's Candy Factory was able to successfully market its products in Japan with the help of the USA Export Office of Toyota Motor Sales USA Inc. The Export Office identifies U.S. companies with export potential, links them with Toyota's network of Japanese importers, trading companies, wholesalers, and retailers, and helps them to understand Japanese import regulations, prepare export documentation, arrange for shipping, and register trademarks and patents in Japan. Japan's Ministry of International Trade and Industry (MITI) is offering several inducements for importing, including tax incentives, tariff reductions, and loan programs. MITI's Japan External Trade Organization recently advised Craig Campbell, president of Old Hickory Pole Furniture Co. Inc., about how to sell his products in Japan, and now 5% of his business is exporting.


The small business sector has a significant role to play in the promotion of U.S. exports. One of the most important reasons why small companies are reluctant to export is their lack of access to adequate financing. The Small Business Expansion Act of 1980 required that the U.S. Small Business Administration (SBA) guarantee commercial bank loans to small business exporters. In 1982, Congress also mandated that Ex-Im Bank establish a program to guarantee private sector loans to small exporters. At issue is whether both of these programs effectively meet the needs of small business exporters and whether one program administered by a single agency would promote lower costs and greater overall government efficiency. These concerns are addressed by examining the legislation and subsequent regulations that lead to the establishment of the SBA and Ex-Im Bank guarantee programs. It is clear that changes need to be made in both programs. There are two possible alternatives that Congress could take. One alternative would require both agencies to adopt the same coverage and program terms. The other alternative would require that both programs be combined and administered by one agency instead of two.


A small U.S. company in Virginia had a deal with an AAA-rated Swiss firm for $250,000 worth of bull semen, but it needed export financing to make the sale. The Foreign Credit Insurance Association, which services export credit insurance policies for the U.S. Export-Import Bank, told the company that approval of the application would take at least three weeks. But timing
was crucial -- and the deal was lost. This is just one example of the failure of U.S. government export credit agencies to help small U.S. businesses acquire badly needed trade financing cited in a recent report by the Economic Strategy Institute, a Washington DC think-tank. According to James Altschul, author of "The Export Finance Crisis", the U.S. will never overcome its trade balance problems unless it can find ways to spur small business exports. 'The scarcity of export finance is one of the principle reasons for the abysmal trade performance of the U.S.,' the report says. 'The U.S. trade imbalance will not be brought back into balance without a great increase in the accessibility and quality of trade finance services for American exporters'.

The problem is rooted in the fundamental weaknesses of the U.S. banking system, the report argues. Among the changes Altschul proposes, (adoptable at little or no cost to U.S. taxpayers, he claims) are:

- reducing the reserve requirements banks face on export finance to LDCs;
- granting tax credits or deductions for foreign taxes paid on interest on export finance loans and eliminating withholding taxes on cross-border export finance credits. (These steps would bring U.S. policy in line with most other advanced industrialized nations);
- increasing state funding for export finance insurance programs. Most of these funds are so tiny (often as small as $500,000) that an allocation to triple or quadruple their resources would be barely noticeable;
- a more aggressive stance on tied aid competition.

Business — particularly small business — has great difficulty in tapping into Ex-Im Bank's programs. The agency has only 342 employees, plus another 300 at the FCIA. Ex-Im Bank has no branches, although the FCIA operates five branches outside Washington. The UK's ECGD, Germany's Hermes and France's Coface, by comparison, all have a string of offices. Albert Hamilton of First Washington Associates, a former Ex-Im Bank official, says: 'It just isn't rational to expect 342 people, all in DC, to be able to service small exporters all over the U.S.' In its recent annual report on global competitiveness, Ex-Im Bank reported customer survey results which suggested the bank is viewed as too passive, inflexible and lacking a supportive stance. Some exporters complained about inconsistent standards; others said security requirements are sometimes excessive. One foreign finance group manager faulted Ex-Im Bank's direct lending policies, which make it a competitor of commercial banks. Trade finance offers commercial banks above-average returns at below-average risks, he said.

Despite an impression in the U.S. that all loans to non-oil producing Third World countries are foolhardy, Third World defaults on short-term credit lines have been very rare. Those losses that have been incurred have not led foreign ECAs to curtail their activities. In the U.S., however, tax and regulatory policies have adversely affected returns on trade finance, and the serious financial weaknesses of many banks have forced them to focus on their most lucrative
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lines of business to the detriment of all others.


Before Ohio companies begin to look for markets, domestic or foreign, they should consider three general criteria: accessibility, competition, and the cost of entry. Firms that choose to export must make the commitment and budget for anticipated expenses of opening a foreign market. The second step in exporting is market selection. Canada offers the lowest cost of entry of any foreign market. Market selection involves research, and the U.S. Commerce Department can provide valuable assistance for new-to-export companies. The best way to achieve market penetration without investing in a sales office staffed by foreign nationals is to appoint an agent or distributor who knows the culture, customers, and the product. The Commerce Department's qualified leads service and the Trade Opportunities Program (TOPS) are also helpful. Two important objectives in negotiating a contract are to limit competition and to protect trade secrets. Every contract should also provide a means for dispute resolution.


Insurance brokers and commercial bankers are attacking a move being studied by the U.S. Export-Import Bank to operate its credit insurance program for small and medium-size exporters, which a private insurer now operates under contract. The National Association of Insurance Brokers claims that such a move which Ex-Im Bank has yet to propose formally could undermine the service to both exporters and banks. "For many reasons we believe that such a course of action would be a great mistake," wrote Carl A. Modecki, president of the brokers association, in a July 10 letter to John D. Macomber, Ex-Im Bank president. The brokers have requested a meeting with the bank chief.


Specialized firms called export intermediaries market U.S. products and services abroad on behalf of manufacturers, farm groups, and distributors. They are generally found to pursue one of two major business strategies or patterns, or a combination of the two. One of these strategies is known as the export management company (EMC), the other as the export trading company (ETC). The EMC acts as the export arm of one or more U.S. manufacturers, helping to establish an overseas market for the company's products, usually on an exclusive basis. The ETC, in contrast, is demand-driven and transaction-oriented. It can play many roles, but most often it acts as an independent distributor, linking buyers and sellers to arrange a transaction. Recent research undertaken by the National Federation of Export Associations have profiled characteristics that EMCs/ETCs exhibit. Government recognition of the unique value of trade intermediaries has helped create national awareness of these companies within the business community and among state governments and other official supporters of export development.

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Small businesses frequently find it difficult to obtain trade finance of any kind. Many banks have pulled out of export finance activities, and those that remain in the business often shun small transactions for clients with which they have no relationship. Includes analysis of available statistics and interviews with trade financing experts. (Interesting interview finding: the minimum charge for many banks for negotiating and confirming letters of credit is $400, which is, as Altschul puts it, "a substantial chunk of the profit margin on a $10,000 or $25,000 order.")


In an interview, Roger L. Breezley, chairman and chief executive officer of Oregon's U.S. Bancorp, discussed the bank's position for the future and whether it can remain independent. According to Breezley, U.S. Bancorp's success is due to good management. The bank never takes interest rate risk, manages its margins, and does not have any investment concentration of more than about 10% in any industry. U.S. Bancorp's Northwest strategy includes northern California and Nevada with the goal of expanding its marketplace. The bank's source of business is meeting the needs of its customer base rather than products or services. U.S. Bancorp meets those needs by offering credit card services, electronic services, and investment banking services, among others. Breezley notes that it is critical to know the customer and look at the risks and rewards. Size is not a goal for U.S. Bancorp, but it should be a result of its strategic actions.


Growing numbers of small and midsize U.S. firms have extended their sales efforts to a world market 4 times larger than the U.S. market alone. Obtaining useful advice and information from the federal government also has become fairly commonplace among U.S. entrepreneurs. The Bush Administration has been working to integrate and streamline the sprawling trade-promotion bureaucracy to make its programs more accessible and responsive to American firms' needs. In May 1990, President Bush formed the Trade Promotion Coordinating Committee. Chaired by the secretary of commerce, the panel is composed of representatives of more than a dozen federal entities involved in export promotion. A key initial goal of the committee was establishment of a center for "how-to" and foreign market information for business people who seldom or never export. A 2nd major goal of the committee has been to extol the importance of trade to U.S. entrepreneurs who have never done business abroad.


John Macomber, the Export-Import Bank chairman, laid out a challenge here last week. Within five years, he said, the United States should double its exports as a percentage of the nation's output. That carries with it the idea of maintaining America's global pre-eminence while
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raising the nation's standard of living. If the challenge is met, it could end more than two decades of U.S. trade deficits. The United States, despite nearly doubling its exports since 1986 and regaining its status as the world's top exporting nation, still lags other industrial countries in one important measure of exporting prowess.


Just when American politicians want to supercharge U.S. exports, a power failure among bankers and other lenders is sapping enthusiasm for world trade. Crisis in the nation's financial industry is only part of the problem. Ignorance is the other. A study by KPMG Peat Marwick reported that fewer than 30% of American business owners knew about, or planned to use, government programs that reduce risk for companies or their bankers. These programs guarantee loans made by U.S. banks, insure shipments against currency or political risks abroad and even offer sales leads for a first overseas venture. Federal agencies, such as the Export-Import Bank, are trying to spark private sector investment. Companies may claim they do not have the time or money for exporting, but factoring could free up both. By eliminating the effort of collection, companies can do what they do best: buy and sell.


World Trade Finance Inc., Los Angeles, provided production financing for a small California company to make a mobile telephone system earmarked for the Russian market. Telemobile Inc., Torrance, Calif., received the financing against an order as a subcontractor for Cable and Wireless Plc. of Britain. Thus, the California company will not incur Russian commercial risk. "Right now, this (subcontracting) is the only way small U.S. companies can safely sell into Russia and other parts of the Commonwealth of Independent States," said Bernd Hermann, president of World Trade Finance.


Export-Import Bank of the United States to increase support of export financing for U.S. companies.


American companies seeking government assistance in exporting renewable energy equipment to Eastern Europe or elsewhere can now use a single application form. The single application, replacing five previous procedures, can be used in dealing with the U.S. Trade and Development Program (TDP), Ex-Im Bank, Overseas Private Investment Corp. (OPIC) and U.S. Agency for International Development (AID), as well as with the Small Business Administration (SBA). TDP funds U.S. firms to carry out feasibility studies, consultancies and
other planning services related to major projects in developing countries. By providing assistance in project planning, TDP promotes economic development, while helping U.S. firms to get involved in projects that offer significant export opportunities. In the past, most TDP projects were public sector projects, planned by government ministries or agencies. With Eastern European countries beginning to privatize major infrastructure and industrial projects, TDP has begun to consider funding for such projects. Ex-Im Bank facilitates export financing of U.S. goods and services. By neutralizing the effect of export credit subsidies from other governments and by absorbing credit risks that the private sector will not accept, Ex-Im Bank enables U.S. exporters to better compete in overseas markets on the basis of price, performance, delivery and service. OPIC provides U.S. investors with investment services and political risk insurance as well as direct loans and loan guarantees. Project finance is also provided through recently established special funds.


The U.S. budget deficit - now estimated at about $400 billion for next year -- looks likely to take a toll on U.S. export programs at a time when foreign sales have begun to edge downward. Eugene Lawson, vice president of the Export-Import Bank of the U.S., has told Congress that unless the Bank gets an increase in its $23 million operating budget for the current fiscal year, it will have to start cutting staff towards the end of the fiscal year. It has requested $38.6 million for operations in fiscal 1992 and $49 million in fiscal 1993. "It is a ridiculous situation", Lawson said. Officials from the Overseas Private Investment Corporation (OPIC), which provides insurance, and the State Department's Trade & Development Program, all say demand is far exceeding budgetary resources. James Berg, executive vice president of OPIC, said demand for OPIC insurance is three times its current resources - $275 million for the current year. He warned that unless Congress approves supplementary funding for the fiscal year, OPIC will have to curb all its highly touted activities in the republics of the former Soviet Union. The Trade & Development Program provides grants to U.S. firms for feasibility studies in the Third World. Its budget is $32 million against the $60 million it has received in grant requests and the $100 million it could easily use this fiscal year.

The Coalition for Employment through Exports (CEE), which keeps a close watch on the export agencies, estimated that Ex-Im Bank will need at least $14.5 billion and a $900 million subsidy in fiscal 1993 to meet anticipated demand. However, if Congress repeals its current limits on loans to the Commonwealth of Independent States (CIS), opens completely in Brazil and Argentina, and maintains its current pace of business in China, demand could pass $19 billion.


Capital goods exporters in New York state will be able to compete more effectively in global markets under a new state-sponsored financing program. The export finance program is aimed
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at small and midsize manufacturers of such goods as industrial machinery, computers and aircraft. They need to offer multi-year financing on these big-ticket items to win overseas orders. "If the importer of a computer system is a university in France with a limited budget, it will require at least four-year financing," said Alfred Daiboeh, director of the New York State Export Finance Program.


Money is tough to find these days - especially for the small exporter to Japan. Winning an order from a customer is often just half the battle. Even more difficult is obtaining working capital to buy parts and pay workers during production. As Sybaritic Co. president Steve Dafter learned, however, innovative export financing is available. The Minnesota start-up thought Japan's stressed-out workers would be eager customers for its egg-shaped "relaxation modules," which soothe the senses with alpha waves, dry heat and stereo sound. Dafter was so confident of the Alphamassage's foreign potential that he decided to sell overseas first, then use the proceeds to build an American distribution network. The campaign started off with a bang: last year Dafter returned from a tour of Japan and Southeast Asia with $350,000 in orders. Then came the hard part. Although Sybaritic had letters of credit (documents showing that the buyer's bank will pay for the goods when the delivery terms are met) from its customers, the company did not even have the money to set up an assembly line. As a new venture, Sybaritic had little hope of getting a regular bank loan. Dafter was set to "beg and plead" with his American suppliers to help finance production. "We never expected to bring in outside financing," he recalls. Acting on a consultant's tip, Sybaritic found a white knight, the Minnesota Export Finance Authority (MEFA) in St. Paul, which guarantees bank loans to small firms. Impressed by Sybaritic's letters of credit and the export experience of its managers, MEFA insured more than $300,000 in loans for the company. Then it found a small bank to take the guarantee. By the end of last year, Sybaritic had posted $2.5 million in sales, including $500,000 to Japan - thanks in large part to $1.5 million in MEFA-backed working-capital loans.


Factors play a crucial role in the reorganization of troubled leveraged buyout (LBO) firms and in financing start-up firms whose access to capital is now limited due to the crisis in the banking industries. During the 1980s, worldwide factoring turnover increased an average of 22% annually. By assuming responsibility for collecting accounts receivable, increasing the turnover of cash and assuming bad credit risk, factors perform an invaluable service for distressed companies. The biggest growth in factoring is occurring overseas in three areas: 1) increased trade with the former Eastern Bloc, 2) integration of regional trading blocs, and 3) increased demand for export financing. Factors play an important role in trade finance as well. With factoring it is easier for an inexperienced company to collect on foreign sales. Factoring also offers full protection against credit losses and protects against foreign exchange losses through currency exchange contracts.
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State responses to various issues in economic development financing programs are examined. To minimize public risk and dollars, most programs require borrowers to put up collateral before closing a loan. Some state programs fund a portion of the required funds and participate in the deal with another lender. States assess several factors when selecting deals, including the management team, the potential for creating jobs and attracting private investment, and the potential rate of return. The magnitude and terms of public participation vary among states. Limited state funds have encouraged public economic development agencies to function like private sector lenders in several areas, such as in their efforts to recover administrative costs associated with the assistance. States are also increasingly involved in evaluating the success of their economic development programs.


The SBA has launched a pilot program to help small exporters in California get working capital to fill orders that otherwise would go to waste. The program, which went into effect in Los Angeles at the beginning of February, could be extended nationwide, an SBA official said. Small businesses and entrepreneurs routinely "throw away" export orders of $30,000 and less because they can't get financing to complete such deals, said Lewis Brandt, export development specialist and trade finance officer at the SBA in Washington, D.C.


The Bush administration's efforts to pry open foreign markets will help only the biggest U.S. exporters unless more trade financing is made available to smaller companies, bankers said Wednesday. The president's State of the Union message and budget proposals, however, could spur overall lending by fostering optimism about the economy, the bankers said. In his speech Tuesday night, Bush cited trade as a top priority in his "long-term plan to guarantee our future."


An exporter may need either pre-shipment financing to produce or purchase the product or to provide a service, or post-shipment financing of the resulting account or accounts receivable, or both. Important factors to consider in making decisions about financing are: 1) the need for financing to make the sale, 2) the cost of different methods of financing, 3) the length of time financing is required, 4) the risks associated with financing the transaction, and 5) the availability of the exporter's own financial resources. Exporters should follow the same careful credit principles they follow for domestic customers. For a company that is new to exporting or is a small- or medium-sized business, it is important to select a bank that is sincerely interested...
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in serving businesses of similar type or size. Several federal government agencies, as well as a number of state and local ones, offer programs to assist exporters with their financing needs. The U.S. Export-Import Bank is the federal government's general trade finance agency, offering numerous programs to address a broad range of needs.


The Commerce Department’s International Trade Administration (ITA) has the chief responsibility in the federal government for promoting exports. The district offices form the domestic arm of ITA’s U.S. and Foreign Commercial Service (US&FCS). The district offices also can direct companies toward other government and private sector export services. In addition to ITA, seven other Commerce Department agencies offer export services: 1) the Bureau of Export Administration, 2) the U.S. Travel and Tourism Administration, 3) the National Institute of Standards and Technology, 4) the Minority Business Development Agency, 5) the Office of Metric Programs, 6) the National Oceanic and Atmospheric Administration, and 7) the Census Bureau. The Trade Information Center’s mission is to guide businesses through the export process and through the myriad of exporter assistance programs available from the 19 federal member agencies of the Trade Promotion Coordinating Committee.


Following five basic steps will help a company get its first exporting venture off on a smooth, orderly course. These five steps are illustrated by the actual stories and experiences of successful stories as told in the past year in Business America. They are: 1) Assess the firm’s potential, including industry trends, the firm’s domestic position in the industry, the effects exporting may have on present operations, the status of resources, and the anticipated export potential of the product. 2) Get expert counseling. 3) Select the ideal markets. 4) Formulate an export strategy. 5) Select a selling technique. There are two basic selling techniques in exporting: indirect and direct selling. The decision to market products directly or, alternatively, to utilize the services of an intermediary, should be made on the basis of: the size of the firm, the nature of its products, previous export experience and expertise, and business conditions in the selected overseas markets. Available methods of direct selling include sales representatives or agents, distributors, and direct sales to end users.


Small- and medium-sized enterprises (SMEs) in the United States have not received the support from federal and state governments that corresponding entities have in Europe. Furthermore, private banks in the United States are far less likely than their European counterparts to provide export financing to SMEs. Includes available statistics and literature and interviews with trade financing experts in the United States and Europe.
Factors Motivating Small Companies to Internationalize: The Effect of Firm Age (Exports, New Ventures), Brush, Candida Greer, D.B.A., Boston University, 1992.

Historically small businesses have sold products abroad early in their operations, but recent trends indicate many more small businesses are exporting, licensing or investing abroad before they reach six years of age. This pattern of early internationalization is not fully explained by theories of international business which assume experience and market position are needed before a company enters foreign markets. This dissertation identifies factors that have caused small businesses (less than 500 employees) to seek revenues from abroad; considers the effect of firm age in this decision; and tests the applicability of theories of international business in this context.

A conceptual framework integrating theories from international business and entrepreneurship was developed. Data was gathered using multiple methods, but primarily using a mail survey of a national random sample of 1,076 independently owned internationalized small U.S. manufacturers. A response rate of 13% yielded 134 usable questionnaires. Statistical tests for non-response bias indicated the results were representative across key dimensions. Statistical analysis was employed to test hypotheses and results showed differences in motives for internationalization based on age were fewer than expected, with four hypotheses were supported, two received mixed support, and three were not supported.

Contrary to theories and expected results, internationalization was serendipitous; occurring after customer inquiry instead of being a logically planned process. Moreover innovation and perceived market opportunity, also are important motives for small businesses to internationalize. However motives and strategies do vary by age, where young age was associated with personal contacts; planning systems, experience and high domestic sales were associated with older age businesses. Age was not related to performance in that young companies equaled old companies in growth in sales and employees, after internationalization.

Implications of this study are many. For researchers, the conceptual framework developed herein integrates international business and entrepreneurship theories laying the foundation for future examination of the strategy-performance linkages. For public policy-makers, differences in motives and strategies by age suggest blanket policies for small business internationalization may not be appropriate. For managers, this study implies age is important in considering international opportunities, and developing strategies.

Developing Foreign Trade Among Small Firms (Information Usage), Belich, Thomas James, Ph.D., University of Minnesota, 1992.

The purpose of this study was to provide a framework for analyzing the generation and use of foreign marketing information by small and medium-sized firms. Combining contingency and transaction cost analysis theories, levels of integration of information scanning functions were predicted and examined. Information processing within firms appears to complement the acquisition of foreign market data. These information flows were to be examined by considering
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the amount, direction and analyzability of information that firms encountered during foreign marketing development. 110 Minnesota firms that employed between 11 and 500 people were surveyed regarding information acquisition and usage patterns. Correlation analysis was applied between the four dependent, information usage variables, and 14 independent variables. The independent variables included both examples of environmental and organization variables. The results indicate complex patterns of information usage, even among novice exporters. From this research it is apparent that there are several influences regarding information acquisition and usage that were not anticipated. Managers of smaller firms appear to place a lower significance on opportunism than their large firm counterparts. Some general conclusions that may be derived from this study are: (1) Expedient problem solving may be more highly valued by small-business management than optimal, cost-effective solutions. (2) Centralized decision making may not necessarily preclude adaptiveness. Concentrated authority and creativity may actually facilitate responsiveness. (3) The overall volume of communications and information needs appears to decrease as a firm's product mix matures. (4) Service oriented firms tend to seek a greater volume of market specific information. (5) Use of both internal AND external sources of market information tends to increase as market distance increases.


Export promotion programs in the U.S. have not been effective in reaching small business due to inadequate targeting and not being sufficiently responsive to the needs of small firms. Lack of information on foreign markets is one of the perceived barriers for small firms to export and succeed. The improvement of export information services should evolve from a better understanding of small firms' information acquisition behavior. Previous studies used different conceptualizations of major variables, thus could not suggest coherent strategies for export promotion. This study provides a classification scheme of export information which includes environment, market, sales and procedural information. A taxonomy of export information sources is also proposed using two dimensions: personal-impersonal and direct-indirect. The uncertainty reduction approach is applied as a theoretical framework to study the impact on firms' information needs and use of information sources from uncertainty about export and a number of structural variables. A contingency model is proposed to examine the interaction between information needs and use of information sources and its impact on the satisfaction with search.

One-hundred twelve exporting firms responded to the survey. The typology of export information and taxonomy of information sources were validated. Multiple regressions suggest that environmental complexity is the best predictor of information needs. Stage of export development and size of firm, etc., were found to be significant predictors of use of various information sources. Uncertainty about export predicted the needs for environment information and use of impersonal-direct sources but not other types of information or sources. The results suggest that there are significant main effects and interactions on satisfaction with search from types of information needs and sources. Firms are the least satisfied with market information and secondary public sources. The overall model is partially supported by the data. Practical
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implications for export promoters in designing effective export programs and for exporting firms in formulating effective information search strategies are discussed. Directions for future research are suggested.


Covers European Bank for Reconstruction and Development.


Small- and medium-sized U.S. exporters are dissatisfied with the short-term finance (e.g., pricing of 180-day letters of credit) and medium- and long-term financing for capital goods exports and major projects. Sixty-five percent of the survey respondents indicated that they felt that competitive financing was generally not available from commercial lenders for exports to markets where sales opportunities are promising and where repayment is likely. Results are from a survey conducted of 71 U.S. exporters.


Teaching more of the 19 million small businesses in the United States to export is a task that some bureaucrats in Washington find daunting. Others find it simply exasperating. It is a task, nonetheless, that the U.S. Small Business Administration is being forced to face more resolutely, thanks in part to the duplication of federal export promotion efforts and Congressional interest in stamping out that inefficiency.


Finding capital to launch or expand one's business can be difficult and even dangerous. The best route is to secure as many diverse sources of capital as possible and to cultivate them deliberately and vigorously. Even if one has been in business for a few years, it is best to start with a new business plan, anticipating how the additional funding will boost the company. Among other things, the plan will help one prepare to answer investors' questions. In addition, before approaching anyone for money, it is best to think about what type of money is needed - a loan, equity, venture capital, or seed money. Finally, it is essential to prepare and rehearse, since one may only get 20 minutes to present the company to investors. Annemarie Colbin's The Natural Gourmet Cooking School was supported by an "angel," a wealthy individual who invested $250,000 in exchange for 1/2 of the school's stock.

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According to a 1991 Dun & Bradstreet Corporation survey, 36% of U.S. companies with more than 10,000 employees currently export. While only 6% of businesses with fewer than 100 employees export, that number is likely to grow dramatically, according to Thomas Kovatch of United Insurance Consultants Inc. One reason for the optimism is that 41% of the U.S.'s smallest exporters in the D&B survey predicted that their exports would increase. Buying insurance for the export market means planning for situations unfamiliar to most companies. The basic property-liability policy is a good place to start. Ocean marine insurance and liability insurance are a good first line of defense against risks. Securing coverage can be difficult, and a company that wants comprehensive insurance has to tailor coverage to its particular and potential circumstances. Companies can also retain a broker to chose the right insurance package.

"An Answer to the Credit Crunch?" Davis, Scott; Moon, Kent, ABA Banking Journal, October, 1991.

Small businesses often complain that banks only want their deposits and fees, ignoring their credit needs. The Small Business Administration's (SBA) 504 guaranteed loan program addresses this dilemma by providing a source of long-term credit at reasonable terms. Congress created the 504 program in 1980 to provide long-term financing of fixed assets for healthy, expanding small businesses. The program is administered through certified development companies licensed by SBA and had been amended to expand assistance to exporters, manufacturers, rural firms, minority-owned firms, and others. In typical 504 projects, a private sector lender provides at least 50% of the project's cost, SBA guarantees debentures that can provide up to 40% of the cost, and the borrower contributes 10% in new equity. Since 1980, the program has provided over $3 billion in financing to about 13,000 borrowers. With the 504 program, lenders find they can finance many more projects than through conventional financing techniques.


U.S. manufacturers are beginning to export more because of the need for new customers, a large trade deficit, and sagging tariff barriers worldwide. According to Antonio Villamil, chief economist for the U.S. Department of Commerce, even though the dollar is up more than 10% since January 1991, the advantages of U.S. export distribution networks abroad will not disappear. Exporting is an important part of U.S. economic growth for both large and small businesses. C.F. Martin & Co., Inc., (Nazareth, Pennsylvania), a guitar manufacturer, saw export sales rise from $4.4 million in 1988 to $6.5 million in 1990. Fiji Wear Inc. (Durango, Colorado) markets T-shirts, headgear, and beach bags almost everywhere offshore. Fiji Wear's export total went from $140,000 in 1988 to over the million-dollar mark in 1990. Some rules that seem to work for most exporters include: 1) quick response, 2) flexibility, 3) working lean, and 4) an awareness of language and cultural barriers.
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Susan Olesen created Global Computer Products Inc. (Boca Raton, Florida) to provide foreign companies with a dependable source of computer products. The company also provides consulting and training services. Olesen accesses a pool of independent computer consultants to whom she gives technical assignments on a commission basis. She attributes her company's success to listening to her customers and taking the time to meet them personally. In starting her business, she received help from the Florida Department of Commerce and the Miami District Office of the U.S. Department of Commerce's International Trade Administration.


Sabo International, a two-person firm which buys U.S. gas turbine maintenance equipment and resells it abroad, purchased a core list of potential overseas customers from the U.S. Department of Commerce. For just $45, the firm received 181 names and addresses from the Department's Foreign Traders Index. Periodic mailings to the persons on the list have helped the firm sell equipment in 25 countries. James Taylor, founder of Sabo International, offered the following advice to companies entering the export business: 1) Gain some knowledge and experience before going into the business; 2) Find out all there is to know about letters of credit; 3) Keep aware of political conditions and civil unrest in the applicable overseas markets; 4) Diversify the product line.


Although a survey by the Dun & Bradstreet Corporation showed that optimism among U.S. exporters has increased, many small companies are reluctant to begin exporting their products. The slack demand in domestic markets should encourage small companies to consider exporting, even though it requires a great deal of effort to build international business. Small companies must also overcome the reputation that U.S. companies have abroad of being undependable. According to John Rueb of Idaho Southwest Hide, the main reason people are intimidated by exporting is because they do not know anything about it. Since entering the exporting business requires a large investment of time and money, small companies must be patient and committed to long-term exporting.


Don Graham, an engineer and inventor of sewing tools, believes that many small companies could increase their profits by developing export markets. Graham opened his company, The Crowning Touch Inc. (Medford, Oregon), knowing that he had exportable products. In devising the company's export strategy, Graham received counseling from the U.S. Department of Commerce. The Crowning Touch has found customers and distributors by using the World Traders Data Report Service. Significant foreign contacts were made at the International Quilting Festival in 1987. In four years, The Crowning Touch has tripled its exports, which now account for 20% of sales. One of Graham's best markets is Japan, he also sells in Australia, the
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Netherlands, Canada, the U.K., and other countries.


Opportunities for printer exporters after the Kuwait liberation is potentially more than $1 billion in Kuwait alone. The work ranges from security printing to the rebuilding of menus at six major hotels. Major reconstruction projects, including postage stamps and other official government printing, are going to European contractors because they are closer to Kuwait. The Kuwait Investment office, with over $100 billion in assets, was headquartered in the U.K. before the invasion and is a ready customer for the British. There is no similar commercial or government entity in the U.S. The Small Business Administration has set up a subcontracting counseling program at no charge to individuals and businesses. The cooperation between the military and air operation of the French, British, and U.S. forces has led to joint ventures among defense suppliers and printers.


One of the most popular ideas in small-business circles in 1991 is small-business incubators. The incubators are facilities that help hatch start-up and struggling small companies by providing entrepreneurs with office space, support services, and professional advice they might not be able to obtain or afford anywhere else. Would-be entrepreneurs have the opportunity to work alongside and learn from others who are struggling to get their businesses off the ground. Most small-business incubators are not run for profit but are sponsored by universities, industry consortiums, or economic-development authorities and other government agencies. They expect their investments to pay dividends as incubating companies hire employees, pay taxes, and eventually move out and make it on their own. The newest trend is the emergence of targeted incubators in specialized areas. Some incubators are forging new relationships that promise to produce even better results.


Jim Delano, founder and president of Lion Coffee (Honolulu, Hawaii), found himself with a two-week deadline to save his 11-year-old company. During the 1980s, Lion’s revenues jumped 655% during one four-year period. Lion became Hawaii’s premier coffee roaster and exporter, with over $8 million in annual sales. Then, a faceless functionary in the state’s bureaucracy turned up a never-enforced clause in Hawaii’s stern quarantine laws that banned the importation of green coffee beans to any island where local coffee was grown. The bulk of Lion’s business is in exotic varieties imported from around the world. Next, experimental coffee patches planted by competitors popped up on islands where Lion had a share of the market.
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Fighting back, employees at Lion created their own press releases and managed to get the Lion side of the story covered in newspapers and on television. A groundswell of public opinion forced the state to compromise.


In the aftermath of the Persian Gulf War, under stringent new Department of Commerce rules, many small exporters that do not ordinarily consider themselves weapons exporters may feel increasingly scrutinized. Under the new rules, exporters of equipment, chemicals, and engineering services that could potentially be employed in missile or chemical weapons programs will be subject to export-licensing regulations like those affecting the export of nuclear-sensitive products. The rules cover a number of exports that previously did not require licenses, including the additional restriction of 39 precursor chemicals to the existing list of 11. Objections to the new issues concern the broadness of the dual-use definition and the unilateral nature of the regulations.


If smaller companies increased their export initiatives, the $100-billion U.S. trade deficit could be greatly reduced. According to the U.S. Census Bureau, 29% of the nation's 100,100 exporters made only two international shipments in 1987, worth an average annual total of $50,000. In all, 86,600 infrequent exporters accounted for only 9% of reported international sales, while 3,600 frequent exporters did 78%. The problem is that there are numerous barriers facing a company that starts exporting, particularly if it is small. One of the biggest barriers is financing. In most industrialized countries, the national export-finance agency provides funding to about 13-15% of all export transactions. In response to the problems, the U.S. and Foreign Commercial Service is training its staff in financing and putting together regional databases of financing sources.


The relationship between firm size, export experience, and export attitudes is examined. The data were gathered by questionnaires mailed to corporations in three midwestern states - Kansas, Missouri, and Nebraska - with 195 usable responses obtained. The results challenged some commonly held beliefs about small firm interests in exporting. Firm size did not influence attitudes toward exporting. The domination of export markets by large firms is not the consequence of unfavorable attitudes held by managers in small and mid-sized firms. However, managers in smaller firms held different views on the attributes required for international business success. They expressed greater concern about the cross-cultural skills and the spouse and family qualities required of international managers. This suggests that small size has an isolation effect. The results demonstrate that the small business exporting environment is more
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complex than previously thought.


Non-tariff barriers (NTB) can be viewed as restraints to the small business international marketing efforts that can require business strategy changes in order to adapt to market differences. Types of NTBs include import quotas, minimum import pricing, port-of-entry taxes or levies, safety and health requirements, and voluntary export restraints. NTBs are often used in combination so that the effective level of protectionism can be quite high. The level of protectionism encountered may be influenced by a firm’s choice of entry strategy. The entry strategies of indirect and direct exporting usually face more barriers than joint ventures, foreign licensing, or direct investment. The choice of an entry strategy should flow from knowledge about the specific NTBs that will be encountered. Overcoming NTBs requires a well-organized effort over several years.


Asian consumers are eager for things American, and it can be relatively easy for Americans to do business with them. Sheldon Dubow of Beverly Hills Confection Collection Inc. found the Japanese open and flexible and negotiated deals with several importers. Now, 25% of his business in upscale chocolates is exported to Japan. Dubow succeeded in Japan because his product fits into the trend for gift-giving that is sweeping Japan and other countries in Asia. Thousands of small and midsize U.S. businesses are finding opportunities in Asia. With an uncertain outlook for the U.S. economy likely to limit domestic growth, experts agree that expanding options now is both smart and necessary for small businesses. Recommendations for doing business in Asia include: 1) Target a homogeneous consumer population. 2) Learn the needs of the target country. 3) Dispense with preconceptions. 4) Be aware of foreign exchange restrictions. 5) Seek credit from U.S. agencies.


The U.S. Trade and Development Program (TDP) provides funding for U.S. firms to carry out feasibility studies, consultancies, and other planning services related to major projects in developing countries. For a major project to be eligible, it must meet certain conditions. The Export-Import Bank of the U.S. provides financial assistance for U.S. exports of capital equipment and services that are normally financed on a term of longer than one year. The Overseas Private Investment Corp. (OPIC) provides medium to long-term financing in direct loans and guaranteed loans for U.S. business ventures in over 115 developing countries. OPIC offers a variety of insurance programs designed to encourage U.S. private investment in projects in developing countries. Ex-Im Bank has adopted a new policy permitting the financing of 100% of the exposure fee charged on loans that it makes or guarantees to finance U.S. export sales. This change will simplify and expedite Ex-Im Bank’s processing of disbursement requests.
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The first step for a company in developing an export strategy is to determine its readiness for exporting. The Commerce Department can help U.S. companies identify their strengths and weaknesses in a systematic and objective way by means of its Export Qualifier Program. Through this program, the local district office of the Commerce Department's U.S. and Foreign Commercial Service (US&FCS) can provide an analysis of a company's export readiness and recommendations for follow-up action. To plan a winning strategy, the company will want to learn all it can about its target market and the customers in it -- their needs, trends, segments, differences, and expectations. The available export market entry strategies can be grouped into three categories: indirect exporting, direct exporting, and direct foreign investment. Entry into new export markets involves: 1) finding trading partners, 2) screening the list of potential candidates, 3) selecting the best candidate from the list, 4) appointing the selected distributor and entering into some kind of formal agreement, and 5) motivating the distributor.


Faced with a slow-growth home market, small U.S. electronics manufacturers are increasingly turning to Europe, where the weakened U.S. dollar has made their goods a bargain. Cambridge Products is one of many small companies making gains in Europe. The task is not easy. Even companies that overcome language barriers and meet local-content rules often must struggle to convince European customers that U.S. suppliers have a better product at a better price. The Electronic Industries Association notes that total electronics exports from the U.S. to Europe reached $53.9 billion during the first nine months of 1990, compared with $47.8 billion during the same period last year. Among the U.S. exhibitors at the 1990 Electronics show in Munich were 1) Cambridge Aeroflo Inc., 2) Goguen Industries, 3) Teknis, and 4) American Surplus Trading. Cambridge Products, a $10-million connector maker, was given a boost in Europe by Jordan Industries Inc., its holding company. Jordan spent an estimated $75,000 on developing a European strategy.


The U.S. banking system does not provide sufficient export financing, especially in the case of small- and medium-sized businesses. In the author's opinion, the main reason for this problem is that U.S. banks have not developed extensive overseas branch networks with the capability and interest in conducting a large indigenous business, and consequently U.S. banks perceive export financing as being overly risky. Based on an analysis of available statistics and comparison of U.S. and foreign banking systems relating to trade financing.


The best starting place for obtaining information about export programs is a district office of the Commerce Department's International Trade Administration (ITA). Each district office can
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offer information on: 1) trade and investment opportunities abroad, 2) foreign markets for U.S. products and services, 3) financing aid for exporters, and 4) export documentation requirements. In addition to ITA, seven other Commerce Department agencies offer export services. Expanded export licensing services and information are available from the U.S. Commerce Department's Bureau of Export Administration. The National Institute of Standards and Technology provides information about foreign standards and certification systems. The National Oceanic and Atmospheric Administration assists seafood exporters by facilitating access to foreign markets. Exporters can also get assistance from the U.S. Export-Import Bank, the Small Business Administration, the Department of Agriculture, and the Agency for International Development.


Whereas government agencies in other industrialized nations support between 13% and 15% of all their exports, those in the United States support only two percent. Lack of outreach on the part of federal agencies to business, especially small ones, is the largest factor contributing to this statistic. This is based on analysis of statistics and surveys conducted by First Washington Associates, Ltd.


A study of 165 small and medium-sized companies in the Netherlands was undertaken to examine differences in export success among exporting companies. The results indicate that the most important universal success factors are: 1) unique products, 2) good communications and personal contact, 3) a focus strategy, 4) a positive attitude and commitment toward exporting and foreign countries, 5) market knowledge, and 6) effective use of distribution channels. Product quality and competitiveness is not an absolute measure but is defined by the offerings of competitors and the wishes of customers. Marketers need to keep in mind that: 1) targeting a customer niche contributes to export success, and 2) if the export markets are not segmented, a standardized marketing mix will increase the chance of success.


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and Technology provides information about foreign standards and certification systems. The National Oceanic and Atmospheric Administration assists seafood exporters by facilitating access to foreign markets. Exporters can also get assistance from the U.S. Export-Import Bank, the Small Business Administration, the department of Agriculture, and the Agency for International Development.


A company can learn how to tackle export markets from those who have succeeded in doing it. Business America's interviews with executives of small and medium-sized companies have revealed many secrets of their success. Tips that may help exporters include: 1) Tap Eastern European markets. 2) Get a unique design and emphasize quality. 3) Give strong support service. 4) Participate in a trade fair. 5) Adjust to foreign cultures. 6) Move on several fronts. 7) Hire a freight forwarder. 8) Send press releases to trade publications. These activities have paid off for a variety of companies. For example, Action Machinery Co. got exporting thrust from its participation in the Seventh International Foundry Trade Fair and 56th World Foundry Congress in Dusseldorf, Germany, two years ago. Midwest Communications Corp. credits support services and fast response time with its breakthrough into the difficult Japanese market.


The vast majority of large banks are not interested in doing transactions below the $3-$5 million range because the profit margin is insufficient, and many small banks choose not to become involved in trade financing because they do not feel they possess the necessary expertise. Government agencies such as the SBA and Ex-Im Bank could better fill the trade financing void for small businesses if they better informed industry about available programs and made it less difficult for companies to participate in them. Includes interviews with business and bank executives and observations made over the years while working in the export business in both the public and private sectors.


Most federal agency programs related to trade financing are created or administered with little or customization ("one size fits all"). Until federal agencies work more closely with such agencies as the Colorado International Capital Corporation to design strategies to better assist small- and medium-sized businesses in obtaining export financing, U.S. trade competitiveness will suffer. Jan Sandhouse Hurst is Executive Vice President of the Colorado International Capital Corporation.
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This study examined factors that affect exporting by small businesses. Some industries within a country should have a competitive advantage over others in exporting because they use production processes intensive in factors of production in which the country has a comparative advantage. This allows them to use a cost leadership strategy. Other generic strategies include differentiation and focus.

A qualitative methodology was employed using participant observation and in-depth interviews. Twenty-seven informants were interviewed, and 13 exporting firms, with 130 or fewer employees, provided most of the data. Few firms had a cost leadership advantage, and all reported differentiating in some way. Research information came from customers or from other firms within their industries. Firms either exported without adaptation or custom designed products for all customers. Many firms relied on distributors to resell their products abroad. Others handled much of the distribution themselves. Although a foreign language was not important, several informants noted an understanding of cultural differences was critical. Problems of small firms included government regulations and restrictions, lack of information, and an aversion to working with government agencies. Small businesses with an adequate home market do not see any need to export.


This book describes the main features of systems of government support for export credits in the 22 countries that are members of the OECD Trade Committee’s Group of Export Credit Guarantees. Germany’s export credit system is examined in detail. The Ausfuhrkredit-Gesellschaft mbH (AKA) is a private company set up in 1952 as a syndicate to finance export credits. AKA comprises 54 commercial banks, granting loans to exporters, either drawn from member banks’ resources or obtained through rediscounting by the Bundesbank.


Direct loans for exporting generally have not been available from banks to small businesses due to a lack of knowledge about export loans or the small business’ lack of collateral. Fortunately, grass-roots programs at the state level (and in some large cities) have emerged in the past few years to provide export financing or loan guarantees, as well as detailed help for small businesses that want to export. California has the oldest and most active program. The state has processed over 200 working capital loan guarantees for exporters over the past five years, representing nearly $60 million in bank loans that have aided in the creation of 4,800 new jobs since 1985. Local banks and state and local governments are not the only sources of export financing. Other possible sources include the U.S. Export-Import Bank and certain foreign banks, such as Europe’s National Westminster Bank USA and Japan’s Daiwa Bank Ltd.
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Certain regional banks also are meeting trade-finance requests, such as Southeast Bank in Miami, Florida.


An increasing number of small U.S. businesses are attempting to export their goods in order to boost sales and profits. Economic and political factors contributing to this desirability of exporting include foreign competition in the domestic market, opportunities in emerging markets abroad, and the weak U.S. economy. For small companies that want to export, essential steps include: 1) Conduct research to find a suitable market. 2) Find customers through government trade fairs, trade consultants, potential agents and distributors, and others. 3) Obtain financing through regional and international banks and government programs. 4) Use only experienced specialists (freight forwarders and custom-house agents) to send goods because of complex shipping requirements. 5) Use bankers and government specialists to learn how to arrange for payments from overseas buyers. Exporters should commit themselves to pursuing export opportunities for their firms, taking the rest of the process one step at a time. Expertise at exporting is a function of frequency, where practice makes perfect.


Recent, many smaller, entrepreneurial U.S. companies have successfully entered the Pacific Rim markets of Japan, Taiwan, and the Republic of Korea. These companies are typically undercapitalized, understaffed, inexperienced, and novice exporters. Although they cannot afford to use traditional high-powered, expensive market research and market-entry techniques, they can use creative marketing to carve out lucrative niches. Some of the unorthodox tactics that smaller companies have used to identify and enter profitable Pacific Rim markets are: 1) Search out new markets. 2) Attract inquiries. 3) Utilize sidewalk market research. 4) Perform market research. 5) Try entering several markets at one time. Five tips are offered to help cash-tight companies find a low-risk way to enter a market: 1) Allow a distributor to do market testing. 2) Enter in easy steps. 3) Help solve customer problems. 4) Mix support services with a product. 5) Emphasize the company's service component.


A small company's success in the global market may depend on obtaining the right advice and support. There are several export programs available for small and midsize businesses. Marketing help in the U.S. is available from several types of export service companies, such as: 1) brokers and agents, 2) export management companies (EMCs), and 3) export trading
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companies (ETCs). Marketing help overseas is available through foreign agents and foreign distributors. While many U.S. banks are unwilling to assume the additional risks associated with export financing for small companies, government agencies that may be able to help include: 1) the Export-Import Bank of the U.S., 2) the Small Business Administration (SBA), and 3) Overseas Private Investment Corporation (OPIC). Export credit insurance is available from: 1) the Foreign Credit Insurance Association (FCIA), and 2) OPIC insurance. Government agencies, such as the SBA and International Trade Association (ITA), can also provide counseling.


The 1980s were not the lost decade in Latin America. The standard of living was no better at the beginning than at the end. Foreign debt surged, and domestic capital eroded. The worst is now over, at least in most countries. Trade between the U.S. and Latin America in 1989 topped $100 billion. The land of poverty, debt, low growth, and political instability is now the new land of opportunity for exporters and investors. Several members of the Inter-American Development bank (IADB) and the Export-Import Bank agree that Mexico is the prime example of how to reform an economy the right way. In Central America, priorities include rehabilitating the transportation and energy sectors, developing agriculture for the long term, and working on social infrastructure. Some of the projects are on a scale that would require a large U.S. firm's participation, but small business has not been forgotten.


Small business sometimes have difficulty obtaining working capital when it is needed. The Export-Import Bank of the U.S., a government agency known as Ex-Im Bank, provides guarantees to banks that extend such financing to U.S. exporters. Although the program is not designed to provide start-up assistance, it can provide valuable financial support to small businesses that have trouble meeting the demands required to carry accounts receivable, obtain inventories, and meet payroll. Ex-Im Bank's program is designed primarily to assist small and medium-sized firms. Eligibility requirements are normally determined on a case-by-case basis and turn primarily on the creditworthiness of the borrower and how the funds will be used. Ex-Im Bank prefers its financial assistance to be used to cover costs required to complete a specific export order. The exporter may not use such loans to repay existing debt, purchase fixed assets, or purchase goods and services that are made up of less than 50% U.S. content.


Michael Katz, president and co-founder of Cenogenics Corp., a manufacturer of diagnostic
products that test for a number of medical conditions, is living proof that exporting can work. Katz recently was named National Small Business Exporter of the Year by the U.S. Small Business Administration. He earned this honor by building export sales to 58% of total sales by 1989, actively exporting to 36 countries, and increasing the company's employment force from eight in 1982 to 25 at present. In 1982, Katz purchased an ailing diagnostics company, renamed the company Cenogenics, and focused on quality. All its goods are produced at U.S. standards and are tested prior to leaving the U.S. Cenogenics has learned how to package its products in insulated containers to increase shelf life and add stability. Katz researches the markets carefully to determine what and where to export. Katz advises other businesses interested in exporting to use the help available in government agencies, to learn about financing, and to meet in person with the principals of a foreign company.


The Delaware Development Office (DDO), created in 1981, has reorganized and strengthened the state's economic development efforts to encourage and expand business investment and development in Delaware. The state agency is comprised of six departments with all international trade efforts housed within the Business Development Section. Initiated in 1986, the Delaware Exporter Assistance Program provides small and medium-sized Delaware businesses with counseling and educational programs focused on international trade. The number of small businesses in Delaware participating in export activities has doubled over the last two years with some 200 small to medium-sized companies exporting or having the potential to export. Primary services of the Delaware Exporter Assistance Program include: 1) One-on-one counseling, 2) exporter education, 3) identification of overseas distributors and representatives, 4) international marketing support, 5) trade leads, and 6) export trade financing.


William Linton, president of Promega Corp., Madison, Wisconsin, believes that a company should export if there is a demand for its product. U.S. companies are likely to face foreign competitors even in the U.S. market. They will be much better off if they extend their sales horizons now by actively marketing in other countries. Linton says there must be a strong commitment from the top of the company in order for exporting to be successful. The owner, president, or manager must understand that exporting requires much time, patience, and persistence. Promega has manufactured enzymes for use in research laboratories for genetic engineering for 12 years. In 1981, the company began exporting because it found a demand for its products in many countries. Promega now has distributors in 25 countries and sales subsidiaries in Holland, the U.K., and Australia. Promega recently received an Exporter of the Year Award from the SBA.

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Many small and midsize U.S. companies are taking part in the investment boom in Europe, spurred on by the European Community's 1992 market integration and the opening of Eastern Europe. Snyder General Corp., a $900-million air-treatment company, has 10 plants in France, the U.K., Holland, Spain, and Italy, and is looking for an acquisition in West Germany. The $250-million packaging company Viatech Inc. recently purchased the French company Ferembal, and Johnson Worldwide Associates Inc., with $240 million in sales, bought France's Mitchell Sports and the U.K.'s Stowe Marine Equipment Ltd. U.S. exporters sometimes invest to gain control of distribution channels or to build assembly plants. Many chief executive officers of smaller U.S. companies hope to gain access to Eastern European markets by expanding into Western Europe. The American Business Conference, which helps companies with less than $1 billion in sales, says that at least 30 of its 100 members are expanding aggressively in Europe.


Although a few multinationals do most of the exporting from the U.S., smaller entrepreneurial companies often successfully enter Pacific Rim markets and carve out niche markets for themselves. These companies generally are undercapitalized, understaffed, inexperienced, and novice exporters that cannot afford to use traditional high-powered, expensive market research and market-entry techniques. Smaller companies have identified and entered Pacific Rim markets by: 1) watching for opportunities, 2) attracting inquiries, 3) paying attention to emerging consumer demands, 4) beginning marketing with easy, inexpensive, but rapid steps, 5) trying several markets at one time, 6) letting a distributor conduct market testing, 7) entering the market in easy steps, 8) helping solve customers' problems, 9) combining a service with a product, and 10) emphasizing the service component.


The plan of the European Community (EC) to eliminate remaining internal barriers to trade is apt to influence the ability of small exporters to remain competitive in the EC. Personal interviews were conducted with division heads and officials of the Organization for Economic Cooperation & Development, General Agreement on Tariffs and Trade, and the European Conference of the Ministries of Transport. All officials interviewed felt that smaller firms with highly differentiated products will be able to effectively compete in the post-1992 EC. Small firms tend to use pricing policies that are indiscriminant with regard to host-country market conditions. Three forces will maintain status quo within the EC for the immediate future: 1) Proposed changes will be implemented over a period of years. 2) Purchasing agents are not likely to change their behavior immediately. 3) There is a heterogeneous nature of management philosophy, backgrounds, and orientation in EC countries.

"New Opportunities for Small Businesses Under the FTA; A Review of FTA Provisions Going into Force in 1990; Business Opportunities in Atlantic Canada; Commerce Department Helps
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Provisions of the U.S.-Canada Free Trade Agreement (FTA), such as the elimination of tariffs and the opening of new government procurement to U.S. suppliers, create a number of opportunities for small U.S. business owners. Businesses planning to export their products to Canada should carefully consider the appropriate distribution channel. The Small Business Administration is offering a number of programs to assist small business exporters planning to enter the Canadian market. The Atlantic region of Canada is composed of four provinces: New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador. The region's well-developed transportation and communication networks, low production costs, skilled and stable workforce, and proximity and accessibility to major Canadian markets make it a promising market for U.S. trade and investment. The U.S. Department of Commerce's Office of Canada launched its "Canada First! Outreach Program" to: 1) educate U.S. companies on the opportunities created by the FTA, 2) encourage small- and medium-sized businesses to export to Canada, and 3) help U.S. companies develop business strategies appropriate to the new bilateral commercial environment.


A model that integrates the concepts of export strategy, administrative arrangements, and a commitment as critical variables affecting export performance is developed and tested using empirical data collected from small U.S. exporters. Patterns of small firm behavior regarding the variables in the model are also examined, with special attention focused on differences in the characteristics and behavior of small and larger U.S. exporting firms. The results indicate that the management commitment, administrative arrangement, and strategy variables are important export success factors. However, their relevance depends on the dimension of export performance being considered. For example, there is a strong association between export management commitment and formal administrative arrangements and the export proportion of sales of small firms. Regarding export profitability, product policy is indicated as a key success factor, with firms following differentiation strategies of adapting high-technology product lines best positioned for success.


A firm embarking on non-domestic business operations can select one of the following three major options: 1) staying home and exporting, 2) if resourceful, investing in foreign lands and establishing wholly owned ventures, and 3) striking a deal with an indigenous firm and forming a joint venture. Each of these alternatives has its pros and cons. For small and medium-size firms, joint ventures offer an opportunity for overcoming entry barriers in a new market or competing more effectively in an existing one. A joint venture also offers the twin advantages of familiarity and facilities: the familiarity of the local partner with the political, economic, and
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social environment of its home market and the facilities of an existing enterprise. Joint ventures need not be confined entirely to manufacturing; a joint venture between a manufacturer and a distributor qualifies as well. The key to success is matching technologies and business interests, which creates synergy.

"Perceived Barriers to Exporting and Export Assistance Requirements," Ramaswami, Sridhar and Yang, Yoo, in *International Perspectives on Trade Promotion and Assistance*, S. Tamer Cavusgil and Michael R. Czinkota, eds., 1990.

Small- and medium-sized businesses perceive the lack of available trade financing to be one of the greatest barriers to exporting. A significant number of small- and medium-sized companies that do actually export would increase their trade activity if they could utilize export trading companies and consultants on an advantageous basis. Includes interpretation of results from a survey conducted of 623 small- and medium-sized manufacturers in Texas, conducted by the Texas Economic Development Commission and the Bureau of Business Research at the University of Texas at Austin.


As a result of inadequate export financing available to small-sized companies from federal and commercial sources, state governments became involved in this activity in the 1980s. To assist small-sized companies, these state-run programs offer to make or guarantee loans on relatively small transactions — as low as $25,000 in most cases.


The federal government has not focused nearly enough on how to motivate small businesses to become involved in exporting. Although state governments have started to fill this void, much still can be done. Universities and trade associations are entities which can, and should, inform small businesses about trade financing options and petition the federal government to improve its export financing programs.


The Free-Trade Agreement between the U.S. and Canada is an attempt to make trade and investment across the world's longest undefended border more profitable, less cumbersome, and
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more secure for both U.S. and Canadian businesses. Large corporations selling in both markets are restructuring their manufacturing and distribution processes to take advantage of the strengths in each country: large-scale production in the U.S., low-volume manufacturing in Canada. However, smaller U.S. firms stand to gain most from the agreement because tariffs weigh more heavily on their profits. Customs and immigration provisions of the act also will favor small firms. Canadian officials expect the following items to be especially good for U.S. exporters: 1) medical equipment, 2) household furniture, 3) textiles and apparel, 4) sporting goods, 5) building materials and products, and 6) laboratory instruments. Recommendations for penetrating the Canadian market include learning the paperwork and attending Canadian trade shows.

"It Pays to Go the Extra Meter," Williams, Lorna, Nation's Business, September 1989.

With the 12 countries of the European Community (EC) planning to accept only metrically labeled imports following trade deregulation in 1992, U.S. exporters have an added incentive to convert to the metric system. This is especially true for small businesses, many of which have not yet converted to the metric system. These businesses are joined by the commercial aircraft, oil, and construction industries, which still use inch-pound standards domestically but make metric concessions to comply with overseas regulations or to satisfy customers. Such companies are now faced with the decision of whether to use inch-pound standards for metric products being introduced in the U.S. Although almost all companies fear the cost of replacing tools and equipment when considering metric production, they often find that the metric system requires fewer tools than the inch-pound system, and costs rarely are as high as feared. Some companies even discover that their equipment has metric capabilities that previously had gone unrecognized.


The private sector's reluctance to finance small business exports prompted the formation of L.A. XPORT, a program set up by the city of Los Angeles. The program started lending in summer 1988 when the Export Import Bank, the federal agency that facilitates export trade, asked six city and state governments to participate in a pilot program designed to reach small to midsize exporters. Ex-Im Bank's City-State Agency Cooperation Program, officially launched in early 1989, was also tested in several states in addition to California. Ex-Im Bank asked the city and state agencies to serve as partners in marketing its loan guarantees, which absorb 90% of a private lender's risk in financing smaller transactions, and its foreign credit insurance, which covers the exporter's own risk in selling to foreign countries. Los Angeles took the idea one step further by obtaining a $15-million line of credit from a local bank. In return for supporting export trade, the cities hope to create jobs and increase their tax bases.


For relatively small firms, doing business internationally rapidly is becoming big business.
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Certified public accountants (CPA) must interpret the rules, regulations, and other nuances of doing business overseas to assess how their clients will be affected. Economic and regulatory changes in various parts of the world are influencing companies to expand internationally. They are finding that exporting is one more means by which they can grow. Time and money must be invested when developing a niche in the export marketplace. When getting started, the federal government is the first place to go for help. Most states offer a variety of trade development services. Practitioners can assist clients in finding information and evaluating potential agreements. Individual tariffs, quotas, and government-imposed trade restrictions all affect companies’ export relationships. CPAs can demonstrate added value to their clients by serving as international business advisers.

Small Community Banks Are Thriving; Small Exporters Shortchanged by U.S. Banks, Riggs, Carol R.; Blake, Daniel, D&B Reports, July/August 1989.

In many parts of the U.S., such as California and the Southeast, community banks are prospering and new ones are being founded. According to the Independent Bankers Association of America, 10,000 of the some 11,000 commercial banks in the U.S. have assets under $100 million, and these smaller banks originate the majority of loans to small businesses. Prosperity Bank & Trust Co. (Springfield, Virginia) is an example of a successful, new community bank in an upscale, fast-growing market (Fairfax County). Its current status and prospect for success is being affected by stockholders who want the bank to sell out. In the area of export financing, small and medium-sized companies are finding it difficult, if not impossible, to obtain bank loans for international trade. Big money-center and regional banks generally limit their international business to large companies because of the costs in time and labor. Community banks, which normally are more accommodating to small businesses, are not equipped and staffed to do international transactions or provide expert advice.


The Export-Import Bank of the United States was designed to solve the problem of U.S. firms being locked out of foreign markets because they cannot get the financing they need to make the transaction go forward. Ex-Im Bank programs: 1) help a firm get working capital financing to produce and market its goods and services for export, and 2) help a company obtain credit for foreign customers so they can buy U.S. goods and services. For most exporters, the starting point for using Ex-Im Bank programs is a preliminary commitment outlining the terms and conditions on which Ex-Im Bank will support a proposed export transaction. The bank’s working capital guarantee program aids small businesses in getting crucial working capital for export-related production and marketing activities. Ex-Im Bank offers insurance through its own agent. Guarantees are available for fixed or floating rate loans. Ex-Im Bank also provides medium and long-term fixed-rate loans directly to foreign buyers purchasing U.S. goods and services.

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The state of Delaware has initiated a unique program dedicated to helping small- and mid-size exporters increase their bottom lines and become more competitive in world markets. The program is called the Delaware Shared Foreign Sales Corporation Assistance program. The program greatly simplifies and reduces the cost of the process by which U.S. firms can qualify for a 15% federal tax exemption on export profits. Delaware shared foreign sales corporations (FSC) and shareholders (exporters) are exempt from state taxation in Delaware. The program, which is now in operation, is available to any U.S. corporation. Costs and benefits to shareholders are the same regardless of location. An FSC is generally established by a single exporter to conduct business only for itself, but a shared FSC can be organized by 25 or fewer unrelated exporters. By joining together and sharing the costs of start-up and maintenance of the entity, the cost to each exporter is reduced dramatically.


The export behavior of small- and medium-sized Pennsylvania firms is investigated by studying export products, target markets, export performances, and export related needs. A mail survey was conducted among 210 manufacturing firms, and discriminant analyses were used to generate results. Findings indicate that there is no substantial difference between small- and medium-sized firms from the standpoint of export products and target markets served but that the firms are differentiated in terms of governmental policy, 2) procedural and technical complexity, 3) contextual differences, 4) perceived strategic limitations, and 5) local competition. Analysis of variance (ANOVA) is used for each of the five barrier factors across three stages of development: non-exporters, marginal exporters, and active exporters. Marginal exporters are found to perceive more barriers than active exporters in two out of five barrier classes, yet no difference is found between the barrier perceptions of marginal exporters and non-exporters.


All 50 states now have international-trade divisions that promote internationalization of small- and medium-sized businesses. Each spent an average of $1.3 million to teach and assist smaller companies to locate and develop overseas markets for its products and services. Typically operating under its economic development department, a state trade division publishes books on how to export, guides to government and university services and resources, and directories of export firms. They also conduct market research, put on seminars, and offer face-to-face counseling. In a survey commissioned by the state of Washington, smaller exporters said their greatest needs, in order of importance, are better information on markets and customers, improved internal export-management skills, easing of export and import regulations, and improved financing. In the area of financing, some states are providing direct loans or guarantees to smaller exporters.

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U.S. exports, reaching an all-time high of $322 billion in 1988, seem headed for another record breaking year in 1989. With tough competition at home, more than 3,000 U.S. firms either exported their products for the first time in 1988 or ventured into new foreign markets. This can be attributed to the weaker U.S. dollar, whose value has declined 50% relative to other major currencies, making all types of American-made products cheaper overseas. U.S. exports are credited with having generated 41% of the increase in the gross national product in 1988, and the rule of thumb is that every surplus $1 million in overseas sales creates 25 new jobs at home. The most remarkable achievement is that the U.S. balance of trade no longer ebbs and flows with the fortunes of larger corporations. A recent Dun & Bradstreet survey reports that small businesses now account for nearly 1/4 of all U.S. exporters and that more small firms are considering moving into foreign markets. The rising tide of foreign investment in the U.S. has forced many companies to look abroad for new business. No longer assured of dominating the vast domestic market, they must expand and diversify to survive.


In an export transaction, the selling terms can range from cash in advance to long-term financing. Offering flexible terms is among the most effective marketing tools. The key is to strike a balance in which the importer accepts the offered terms and the exporter feels comfortable with the credit risk and liquidity. It is possible to insure foreign receivables against nonpayment by taking out an export credit insurance policy with the Foreign Credit Insurance Association. Such insurance not only reduces political risk, but can also enhance liquidity. An important factor in determining what financing terms are available is the nature of the goods themselves. Capital goods items can be financed on a medium-term basis, and key factors are the value of the export items and the estimated useful product life. A relatively safe method of documenting short-term items is to sell on the basis of a confirmed, deferred payment letter of credit.

"Export Intermediaries: Small Business Perceptions of Services and Performance," De Noble,
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A survey instrument identical to the one used by De Noble and Belch was mailed to 1,478 New Jersey-based exporters randomly selected from the 1987 Thomas' American Export Register, and 124 usable responses were received. Based on survey results, the most important services small business exporters want from an export trading company (ETC) are: 1) the ability to discover or open new foreign markets, 2) the establishment of personal contacts with potential foreign buyers, and 3) knowledge of the foreign markets' competitive conditions. Least important services were seen as: 1) consolidation of orders from overseas customers, 2) consolidation of overseas shipments with products of other exporters to lower freight costs, and 3) advice about arranging for export packaging. These results are virtually the same as those of the De Noble and Belch survey. The study indicates that present and potential ETC clients wish their export intermediaries to be much more proficient in transaction-creating export activities than in physical-fulfillment export activities.


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Decision makers' perceptions about export obstacles for firms at various stages of development are examined using data collected from small businesses via a mail survey. A total of 438 usable responses were received from U.S. businesses in non-electrical machinery, electrical and electronic equipment, and measuring, analyzing, and controlling instrument industries, for a response rate of 22.8%. A factor analysis of questionnaire items provided five barrier factors that were consistent with prior research. Leading the list was foreign markets' competitive conditions. Least important services were seen as: 1) consolidation of orders from overseas customers, 2) consolidation of overseas shipments with products of other exporters to lower freight costs, and 3) advice about arranging for export packaging. These results are virtually the same as those of the De Noble and Belch survey. The study indicates that present and potential
ETC clients wish their export intermediaries to be much more proficient in transaction-creating export activities than in physical-fulfillment export activities.


Small-to-medium-sized companies must make renewed efforts to join the large and potentially very profitable markets in Japan. The U.S. government has been successful in reducing or eliminating legal barriers for many manufacturing goods and financial services. Despite these efforts and the recent drastic appreciation of Japanese currency against the U.S. dollar, export activities of U.S. firms to Japan have not increased substantially. Problems stemming from confusion or misperception of Japanese trade barriers may particularly affect smaller sized companies because of their limited resources, such as management time and information gathering and processing capabilities. The unique Japanese culture is considered a trade barrier against foreign companies. Related to this are difficulties in finding distribution channels in Japan and in developing marketing methods suitable for Japanese markets. Severe competition from Japanese as well as foreign firms in Japan can be an obstacle for firms attempting to gain entry into Japanese markets.


Export financing is "the weak link of U.S. export expansion." The resources of the Export-Import Bank of the United States are inadequate to support a rejuvenation of the commercial financing sector to assist U.S. businesses, especially small- and mid-sized ones, to enhance their exporting. This report is based on an economic analysis and survey of the National Association of Manufacturers.


In order to profile the differences between exporting and non-exporting firms, questionnaires were mailed to 900 small to medium-sized manufacturing companies in Singapore in December 1985. Of the 156 firms that replied, 108 were current exporters and 48 were non-exporters. In general, when compared to non-exporting companies, exporting firms: 1) were larger in terms of workforce and sales volume, 2) often had some foreign equity participation, and 3) were managed by chief executive officers who were better educated. Exporters confronted major problems regarding the marketing mix in the international market. Non-exporters reported two main reasons inhibiting participation in export marketing - preoccupation with the domestic market and the feeling that their products were not marketable overseas. Non-exporting firms considering export involvement may wish to pool resources with similar firms to venture internationally, and they can seek foreign partnership to gain access to overseas markets. Positive attitudes toward export marketing can be nurtured through such activities as: 1) proper training, 2) provision of market information, and 3) assistance schemes.

U.S. companies with sales of under $400 million annually face a strategic dilemma: whether to set up full-fledged manufacturing in Europe or to continue serving the post-1992 market from the U.S. To discover how U.S. exporters are responding to the 1992 challenge, Business Week surveyed niche-market players nationwide. For companies that are setting up their first plants in Europe, such as Digital Microwave Corp. and Holland Hitch Co., the lure is to protect established relationships with European companies from encroachment by competitors. Companies that do not plan to set up in Europe, such as Gerber Scientific Inc. and manufacturers of machinery and machine tools, cite domestic advantages of a low dollar and labor that is cheaper than in Europe. Companies that wish to take a middle path are setting up better distribution and marketing systems, bolstering service networks, and establishing joint ventures. These include Mentor Graphics Corp. and Nordson Corp.


The lack of export financing available in the United States, especially to small- and medium-sized businesses, adversely affects the country's international competitiveness in the world market. U.S. government policy makers must take actions to create a conducive environment which will motivate U.S. commercial banks to increase their export financing activities. The subcommittee conducted a survey of 98 exporters of various sizes. Interesting survey result: 55% of respondents stated that they would increase exports if they could secure more export financing.


The Small Business Administration (SBA) is sponsoring a televideo conference for would-be small business exporters in October 1988. A key question about the conference is whether the target corporations can remain in the export race when the competition intensifies. Emerging growth companies in niche markets have long fared very well in the export game without help from anyone. While the Commerce Department believes the value of the dollar makes these firms competitive in the world market, economic experts warn of the pressures that come when the dollar rises. The cost of raw materials has become a crucial element in export manufacturing. The balancing point at which the dollar is cheap enough for U.S. goods to be competitive but strong enough for U.S. manufacturers to buy foreign raw materials cheaply is dependent upon the intrinsic worth of the dollar. Most of this will be far removed from the SBA teleconferencees, most of whom will be looking mainly for SBA low-interest loans.

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The Export-Import Bank, an independent U.S. government agency, recently revised its programs and organizational structure and can better facilitate the exportation of U.S. goods and services by small and midsize firms. Ex-Im Bank offers exporters financing terms comparable to those offered foreign competition by their governments. Ex-Im Bank's Working Capital program guarantees repayment to eligible lenders for financing ventures in unknown markets and risky environments. The guarantee covers up to 90% of the loan amount and must be fully secured. Post-export assistance is available through fixed-rate loans and loan guarantees. The fixed-rate loan programs allow U.S. dollar-denominated, fixed-rate loans to be made at the lowest permissible interest rate specified by the Organization for Economic Cooperation & Development. An agent of Ex-Im Bank, the Foreign Credit Insurance Association, offers insurance that protects against the risk of nonpayment on export credit transactions.


Of importance to small companies are the changes in the Omnibus Trade Bill, which have resulted in the loosening of export controls. Gene Milosh, president of the American Association of Exporters and Importers, said the bill was stripped of its most blatant protectionist provisions, but it could not be viewed as breaking down barriers to trade. The bill did give protection to certain U.S. industries, provided they demonstrate determination to make positive adjustment to their competitiveness. The complex and lengthy procedure of investigating unfair trade practices will be streamlined and largely put in the hands of the Office of the U.S. Trade Representative. The importance of this trade bill to small companies -- and its true measure -- is what it does to encourage trade. Export promotion, customs harmonization, and the loosening of export controls are some of the positive features counted by many, but others still see a protectionist potential in the legislation.

"U.S. Banks Back-Pedal on Export Credits," Dunne, Nancy, *Financial Times*, October 12, 1988. Small- and medium-sized companies in the United States cited the lack of trade financing as the major reason for not engaging in export activities, as reported by a survey conducted by the State of Maryland.


The decline of the U.S. dollar over the past four years has attracted a growing number of U.S. businesses to exporting. The resurgence was started by commodity-type products and has now reached manufacturing and capital goods. Some trade experts hope the growing involvement of smaller companies in international markets will help to reduce the trade deficit. Small companies interested in exporting need to see themselves as part of a global market. Favorable foreign-exchange rates provide an opportunity for firms to establish a foothold in foreign markets by offering low prices customers cannot resist. If a company proves to be a reliable supplier of quality products, it may be able to retain these customers when the dollar rebounds. To turn this opportunity into a springboard for growth, a long-term commitment to exporting is
The Costs of Financing Small Business Exports

needed. One of the biggest challenges for small exporters is determining how to distribute their products.


Firms from each U.S. state that have been successful in promoting foreign sales share some of their accomplishments. Some firms pursue foreign sales as a way to balance slowing domestic sales. Others tout the advantages of working with overseas distributors on a trial basis before officially working with them. The U.S. Department of Commerce can be a valuable source of information and guidance for beginning exporters. With the right product, firms can even crack the Japanese market. Many firms attribute their foreign sales success to regular attendance at foreign trade shows. While Baker Instrument Co. was greeted with indifference and skepticism when it opened its German sales and service office in 1985, it broke into the high voltage test equipment market by providing good service. PacMar Inc. provides consulting and management services. PacMar does business with foreign governments and international agencies like the World Bank and believes that services can be exported with careful targeting.


The number of subsidiaries and branches that banks operated outside of their home states for the purposes of supplying international banking services decreased from nearly 200 to slightly over 125 between 1983 and 1987. This decline is indicative of the pullback of U.S. banks from trade financing activities.


A nationwide survey of small exporters recently was conducted regarding the export tax incentive provided by the 1984 Tax Reform Act (TRA) and the issue of whether this has affected exporters negatively. The 260 responses indicate that small exporters are taking less advantage of this tax relief than they did of such relief under prior law. A major finding of the study is that many small exporters lack information on and understanding of foreign sales corporations (FSC). Therefore, replacement of the domestic international sales corporation with the FSC left many small exporters: 1) unaware of the legislation, 2) lacking in understanding of the treatment of domestic sales of items that eventually are exported, and 3) unaware of the level of export sales required of them to separate tax savings sufficient to justify the administrative cost of the TRA tax relief provisions. Small exporters appear to have been discouraged by TRA.


The enactment of the Small Business Export Expansion Act of 1980 shows that the U.S. is now
aware of the benefits of expanding small business exporting activity. A study was conducted to identify successful exporters and the agencies that they felt were the most helpful in initiating or expanding an exporting program. The measure of success used in the study was the U.S. Department of Commerce criteria for selecting a firm for the "E" Award for excellence in exporting. A questionnaire was mailed to all "E" Award winners from 1961 to 1985. Respondents were asked to evaluate 23 different activities in terms of overall importance to exporting operations. The results indicate that many of the activities rated highly dealt with the planning stages of exporting. Among the types of assistance that were rated most helpful were: 1) foreign distributors, 2) trade fairs, and 3) the U.S. Department of Commerce. The results should be helpful to small businesses considering entering into export markets.


Exporting as a means of corporate growth is particularly appropriate for manufacturers of industrial goods or products with innovative advantages and for smaller firms without the resources for more extensive international operations. A strategic group analysis was conducted of small firms competing in export markets and included a questionnaire that was sent to 393 firms in the U.S. computer hardware manufacturing field with experience in exporting. The results identified four patterns of competitive strategies used by small-sized firms in export markets. These patterns include: 1) competing through market differentiation, 2) a differentiation focus strategy, 3) pursuing innovative differentiation through technological superiority of products and new product development, and 4) a product-oriented strategy. Exporters using differentiation focus strategies and innovative differentiation strategies were found to achieve higher export performance than those using a marketing differentiation strategy.


Current U.S. trade data suggest that dynamic, smaller businesses - already regenerating the domestic economy -- are playing a larger than expected role in exporting. Actually, more than half of all exporters in the U.S. have less than 100 employees. The proportion of 50-99 employee companies that export is larger than the proportion of exporting companies with over 500 employees. Contrary to expectations, small exporters tend to be in stable or declining industries, such as machinery, jewelry, and toys, rather than high technology. A major drawback to the growing role of small companies in rectifying the balance of payments is the time it takes to become active in export markets; about 80% of small exporters are more than 12 years old. Many small companies, especially in the service sector, may not be included in available data because of the difficulty in tracking their activities.


Low-cost loans unavailable.
The Costs of Financing Small Business Exports


Most U.S. companies look to the domestic market for growth opportunities. Only 250 companies account for more than 80% of U.S. exports. Among small businesses, export activities are quite rare. The transportation and distribution (T&D) manager should take the initiative to become involved in overseas markets. T&D managers can help make the international trade challenge manageable by exploiting the resources available through the vast information network at their disposal. A trading company, such as an export management company (EMC) or an export trading company (ETC), may be the most feasible alternative for the new exporter lacking the staff and expertise to handle exporting on a direct basis. Bank-affiliated ETCs may offer some advantages, but nonbank-affiliated ETCs appear to have more staying power and are more aggressive. Information on active ETCs is available from a wide range of sources, including the U.S. Department of Commerce.


Since many of the U.S.' largest multinational firms have moved manufacturing offshore, it is up to the small and midsize firms to lead the export boom needed to narrow the huge trade deficit. The devalued dollar has helped, as distributors abroad now are soliciting U.S. firms to bid on overseas orders. In addition, the decade-long struggle for increased competitiveness and efficiency is starting to pay off. Simon C. Fireman of Ex-Im Bank predicts that the U.S. will add thousands of exporters by mid-1989. Only about one in 10 U.S. manufacturers currently exports. Of the midsize U.S. manufacturers entering overseas markets, many are privately held firms that can move more quickly into exporting. Moreover, smaller firms sometimes must export merely to survive in a global market. Another key to successful exporting is the ability to adapt to foreign needs, such as the metric system.


Breaking into exporting opens up vast opportunities for those firms that wish to expand their market. The best time to get into exporting is now, while the dollar is down and foreign economies are strong. Only 250 U.S. businesses account for 80% of the country's exports despite the fact that 250,000 American manufacturers produce goods having export potential. The U.S. Commerce Department is the federal agency most responsible for promoting and facilitating U.S. exporting, providing 1,200 trade advisers in 67 U.S. offices. The International Planning and Analysis Center (IPAC) is building a correspondent network of foreign firms. IPAC suggests that U.S. firms decide at the outset whether they will seek assistance from export management companies or whether they will do their own general contracting. Firms creating total in-house exporting units will find the endeavor complicated at best. The Export Trading Co. Act of 1982 was passed to aid exporters, but it has met with two prominent macroeconomic problems: the federal budget deficit and the need for high U.S. interest rates to finance the deficit.
The Costs of Financing Small Business Exports


Small- and medium-sized companies, which have less clout with banks and fewer export financing alternatives than do major corporations, are the entities which are suffering the most from the reduction in trade financing activities that U.S. banks are undertaking. The report analyzes various statistics and surveys conducted by trade and banking organizations.


Financing considerations are much more critical to U.S. exports today than has been the case in the past. The inability of governmental and private institutions in the United States to provide the degree of export financing available in foreign countries has greatly disadvantaged American businesses in the quest to succeed in the increasingly competitive global marketplace. The international construction industry is cited as an example of the need for financing.


By taking an international perspective and marketing aggressively, Stephen Lukas has built Capsule Technology Group Inc. (CTG) into a significant player in a global market. The Canadian firm manufactures and markets gelatin drug capsules, but it also has discovered a unique niche for itself in manufacturing and selling capsule-making machinery to other companies around the world. CTG (Windsor, Ontario), which went public in June 1987, projects total sales this year of C$37 million and profits of C$3 million. Thus far, CTG has sold 11 turnkey plants worldwide, including two in the Peoples' Republic of China. Turnkey clients receive 2-4 capsule-making machines, plus training and support, for a total price ranging between U.S. $3 million and U.S. $4 million. For future growth, Lukas plans to create new business by offering clients improvements on existing turnkey operations. Meanwhile, he is diversifying into new products, such as a fish-oil diet supplement.


Many U.S. firms that have previously limited sales to the domestic market are now entering the global marketplace. This presents a challenge to an exporter's finance department, which must establish the creditworthiness of potential overseas customers. Factors that affect the creditworthiness of a foreign concern include: 1) hostility of government policies toward exporters, 2) popularity of current leadership, 3) likelihood of violent succession, 4) the nationalization of private companies, 5) non-convertibility of currency into U.S. dollars, 6)
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restrictions on currency flows, and 7) disinvestment mandates. A number of private and
government agencies compile credit information on foreign buyers, including: 1) the exporting
company's bank, 2) U.S. commercial credit agencies, 3) the U.S. Department of Commerce, 4)
Foreign Credit Interchange Bureau, and 5) international trade publications. One way to
minimize the effects of currency fluctuation is to invoice in dollars, but if a foreign currency is
severely devalued, the cost of purchasing in U.S. dollars would increase and prevent timely
payment.


Small companies that wish to export generally are faced with financing problems. Small, local
banks view export deals as high risk, while large banks are not interested in deals that are not
large enough to justify their involvement. One reason funding is needed is that manufacturers
that export usually must pay off their U.S. suppliers long before they are able to collect from
the foreign buyers. One source of financing could be regional banks with trade finance divisions.
The Export-Import Bank of the U.S. provides export financing for U.S. manufacturers. The
Export Trading Companies, which banks were allowed to set up by a 1982 law, are another
source of funds. The Port Authority of New York and New Jersey formed a trading company in
1982 to analyze markets, source materials, and assist in financing for exporting companies.

"Export Joint Ventures as a Tool for Small Business," Gebhard, Theodore A., Business Forum,
Fall 1987.

Export joint ventures offer small- and medium-size businesses a means by which they can have
the same advantages as larger businesses. An export joint venture is an organization created by
two or more firms in which resources are combined for the purpose of exporting. The Export
Trading Company Act of 1982 was created to stimulate new entrepreneurial initiatives in export
trade by encouraging U.S. business to be more creative in designing and implementing export
ventures. A significant feature of the act is the Certificate of Review Program, which provides a
safety device by which exporters can reduce antitrust exposure by granting protection up-front
for specified export activities and methods of operation. Exporting entails special risks not
associated with domestic commerce. Such risks are manifested in such things as dealing with a
distant and unfamiliar customer base and contending with currency exchange rates. The
economics of joint ventures make sense in six broad areas: 1) scale economies, 2) risk
minimization, 3) elimination of redundant costs, 4) market development, 5) avoidance of inter-
firm rivalry, and 6) large orders. Two broad categories of export joint ventures are those whose
firms produce similar products and those whose firms produce complementary products.

"Export Behavior of Small Swedish Firms," Kaynak, Erdener; Ghauri, Pervez N.;

The characteristics of 86 small- and medium-sized Swedish regional firms engaged in
international marketing activities were studied. To determine differences in firm motivations
and strategies, active exporters were compared with light and non-exporters. The sample
The Costs of Financing Small Business Exports

responded to mailed questionnaires. The results showed that most of the firms derived less than 20% of their sales from exports. More than half (50.5%) of the respondents began exporting because of declining and/or saturated demand in the home market. However, only 3% mentioned government encouragement, in spite of the existence of institutions that help firms with exporting activities. The perceptions of exporting importance as a business activity increased as the percentage of export sales increased. The firms tended to explore market opportunities in the countries closest to them. The firms cited selecting a reliable distributor and communication with foreign customers as their most important problems. Product quality was cited by 79% of the respondents as the most important factor for success in exporting.


Companies can avoid problems with overseas sales by locating good agents and supervising their activities. According to several exporters, the research for good overseas representatives can originate with assistance by the federal Ministry of External Affairs. Firms can write to the commercial division of the appropriate Canadian Embassy, specifically detailing their marketing plans and agent qualifications. Another excellent vehicle for establishing contacts is the foreign trade show, expenses for which can be partially underwritten by the federal Program for Export Market Development. When selecting an overseas dealer-distributor, recommendations from other manufacturers are helpful. Personal interviews are integral to the selection process. The monitoring of agents' performances can take a variety of forms. While the telephone is convenient, personal contact via travel can be more effective. Careful planning and diligence can yield lucrative results from offshore sales.


Participating in a shared foreign sales corporation (FSC) is a way for small and midsize firms to increase exports while saving U.S. tax dollars. The shared FSC retains the tax benefits of the FSC while reducing the organizational burden and annual maintenance costs by splitting them among many smaller exporter-shareholders. FSCs were created to replace domestic international sales corporations (DISC). The tax benefits to an exporter who has formed an FSC are similar to those in a DISC, except that FSCs receive up to a 15% exemption from tax, instead of a deferral. However, an exporter must meet several requirements to qualify as a FSC. A shared FSC can be created by 25 or fewer unrelated exporters. In general, the higher the profits are, the higher the tax saving is, but every shareholder must pay a commission to its shared FSC. The seven major participants in a shared FSC are the: 1) sponsor, 2) manager, 3) overseas service organization, 4) domestic bank, 5) tax accountant, 6) overseas bank, and 7) exporter-shareholders.


Seventeen typical programs are evaluated with respect to their familiarity, use, and benefits on
The Costs of Financing Small Business Exports

the part of 49 exporters and 47 non-exporters. Some 96 firms located in Louisiana form the sample of the study. Results indicate that the low levels of awareness on the part of both non-exporters and exporters have caused the export promotion efforts to be ineffective. The participation rate was high among the small minority of companies that were aware of the programs. A large number affirmed a willingness to use the programs and anticipated deriving significant benefit from participation. More effort should be accorded to publicizing export promotional efforts, especially to smaller companies who currently do little exporting of their products.
APPENDIX F
GLOSSARY

The following are commonly used terms within the trade finance industry.

Acceptance

1) A time draft or bill of exchange which the drawee/payer has accepted and is unconditionally obligated to pay at maturity. The draft must be presented first for acceptance — the drawee becomes the "acceptor" — then for payment. The word "accepted" and the date and place of payment must be written on the face of the draft.
2) The drawee's act in receiving a draft and thus entering into the obligation to pay its value at maturity.
3) Broadly speaking — any agreement to purchase goods under specified terms.

Advised Letter of Credit

A letter of credit where the U.S. bank states it is acting in the capacity of an advising bank, reviewing pertinent documents to ensure there are no discrepancies. The advising bank will send documents to the issuing bank. The issuing bank may designate the advising bank to be responsible for negotiation and payment. However, the letter of credit "conveys no engagement" on the bank's part.

Assigned Letter of Credit

A term used to describe what is more properly called a transferable letter of credit. A letter of credit can be assigned regardless of the conditions in the letter of credit. The payee gives the bank the first rights to the letter of credit and the bank pays the amount designated to the assignee, before the balance of the sales proceeds are paid.

Cash Against Document

Payment for goods in which a commission house or other intermediary transfers title documents to the buyer upon payment in cash.

Cash in Advance (CIA)

Payment for goods or advance payment in which the price is paid in full before shipment is made.

Confirmed Letter of Credit

A letter of credit confirmed by a U.S. bank where the bank will guarantee payment if the buyer or the buyer's bank defaults.
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Consignment

An agreement where the exporter retains title to the goods until they are resold by the overseas customer.

Correspondent Bank

A U.S. bank with an established relationship with an overseas bank.

D/A Sight Draft

Documents against acceptance sight draft. A method of payment for goods in which documents transferring title are delivered to the buyer as soon as an acceptance is signed, stamped on a draft, guaranteeing payment of the draft.

Date Draft

A draft which matures a specified number of days after the date is issued without regard to the date of acceptance.

Documentary Draft

A draft issued by the exporter to the customer requesting payment for goods.

Documentary Letter of Credit

A document issued by the customer's bank promising payment within a specified time period.

Documents Against Acceptance

Instructions given by a shipper to a bank indicating that documents transferring title to goods should be delivered to the buyer or drawee only upon the buyer's acceptance of the attached draft.

Documents Against Payment

A type of payment for goods in which the documents transferring title to the goods are not paid the value of the draft issued against them.

Factoring

An export finance mechanism where the exporter sells or borrows on receivables to a third
The Costs of Financing Small Business Exports

party (factor). Factors can also provide credit investigation, collection, and bookkeeping.

**Forfaiting**

An export trade finance mechanism where the seller forfeits the right to future payment in return for immediate cash. Forfaiting involves fixed rate financing usually for medium term loans (3-5 years).

**Irrevocable Letter of Credit (ILC)**

A letter of credit in which the specified payment is guaranteed by the bank if all terms and conditions are met by the drawee.

**Letter of Credit (L/C)**

A document, issued by a bank per instructions buy a buyer of goods, authorizing the seller to draw a specified sum of money under specified terms, usually the receipt by the bank of certain documents within a given time.

**Open Account**

An unsecured extension of credit where goods are shipped prior to payment.

**Pre-Export Financing**

A loan to the exporter or draw on the exporter’s line of credit to finance the production or shipping of goods or services to fulfill an order.

**Revocable Letter of Credit**

A letter of credit which can be canceled or altered by the drawee/buyer after it has been issued by the drawee’s bank.

**Sight Draft**

A draft which is payable upon presentation to the drawee. A sight draft is used when the seller wishes to retain control of the shipment, either for credit reasons or for the purpose of title retention. Money will be payable at the sight of completed documents.

**Time Draft**

A draft which matures either a certain number of days after the acceptance or a certain
The Costs of Financing Small Business Exports

number of days after the date of the draft. It is essentially the same as a sight draft, except that the buyer can defer payment for a specified period of time after accepting the draft.

Transaction Financing

For the purposes of this report, financing provided by a non-bank lender who lends to a company based on a particular transaction, not on the company's financial status.

Transferable Letter of Credit

A letter of credit where the buyer is asked to make the document payable to a (usually) supplier. The supplier is paid before the exporter receives the balance of the payment. The supplier becomes responsible for ensuring the terms of shipment and payment stated in the L/C are met. Either the name of the buyer or supplier can be concealed by replacing their names on the bill of lading with the name of another third party, such as a freight forwarder.

Unconfirmed Letter of Credit

A letter of credit that is only guaranteed by the issuing bank.
## TABLE 14
PAYMENT MECHANISMS

<table>
<thead>
<tr>
<th>Method</th>
<th>Goods available to buyer</th>
<th>Usual time of payment</th>
<th>Risk to exporter</th>
<th>Risk to importer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash in advance</td>
<td>After payment</td>
<td>Before shipment</td>
<td>None</td>
<td>Maximum. Relies on exporter to ship goods as ordered.</td>
</tr>
<tr>
<td>Letter of credit</td>
<td>After payment</td>
<td>When documents are available at shipment</td>
<td>Virtually none</td>
<td>Minimal. Assured of quantity/quality at shipment if inspection report required.</td>
</tr>
<tr>
<td>Documentary collections:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sight draft</td>
<td>After payment</td>
<td>When draft is presented</td>
<td>If draft unpaid, goods must be returned</td>
<td>Minimal. Assured of quantity/quality.</td>
</tr>
<tr>
<td>Time draft</td>
<td>Before payment, exporter retains title</td>
<td>When draft matures</td>
<td>Relies on importer to pay draft</td>
<td>Minimal. Can check shipment.</td>
</tr>
<tr>
<td>Consignment</td>
<td>Before payment, exporter retains title until goods are sold/used</td>
<td>After use, inventory &amp; warehousing costs paid by exporter</td>
<td>Substantial risk</td>
<td>None</td>
</tr>
<tr>
<td>Open account</td>
<td>Before payment</td>
<td>As agreed</td>
<td>Maximum. Relies on importer to pay account as agreed.</td>
<td>None</td>
</tr>
</tbody>
</table>

APPENDIX G
DATA COLLECTION INSTRUMENT — SMALL COMPANIES

On the following pages is the questionnaire employed for the interviews with the small businesses. In order to comply with OMB guidelines regarding surveys of 10 or more businesses, only nine companies were asked all the questions in this instrument; sections were added and deleted for each following group of nine.
"FINANCING COSTS OF EXPORTING FOR SMALL BUSINESSES"
QUESTIONNAIRE FOR INTERVIEWS

MATRIX

I. By region

II. By type of company

   Manufacturer
   Distributor/Trading company
   Service
   SIC code - 2 digit
   Other

III. By size breaks

   1-19 employees
   20-99 employees
   100-499 employees
   500+ over

IV. By annual sales

   Less than $2 million
   $2-$10 million
   $10-$25 million
   $25-$50 million
   More than $50 million

V. By frequency of export

   Casual exporter -- 1-12 shipments/yr.
   Infrequent exporter -- 12-50 shipments/yr.
   Experienced/frequent exporter -- More than 50 shipments/yr.
INTERVIEW - INTRODUCTION

Good morning (afternoon). My name is __________, calling on behalf of ______________ for the Small Business Administration. The SBA is currently conducting a study to determine the issues and availability of financing for small businesses. Your business has been identified as one with an interest in exporting, and we would like to take about 20 to 30 minutes of your time to ask you questions related to your experiences in exporting. The information you provide will be treated with the strictest confidentiality.

To express our appreciation for your input into this study, we will furnish you with a complimentary one-year subscription to The Exporter magazine, the nation's most comprehensive guide to international trade for businesses of all sizes.

May you some questions pertaining to your company's experiences in exporting, or if this is not a convenient time, set up a time to talk?
I. QUALIFYING QUESTIONS

1) How long have you been exporting?
   
   ____ New to exporting [CONCLUDE INTERVIEW]
   ____ years
   ____ DON'T KNOW [ASK FOR ESTIMATE]

2) How many export transactions did you complete in the last 12 months?
   
   ____ 0 shipments [CONCLUDE INTERVIEW]
   ____ 1-12 shipments
   ____ 13-50 shipments
   ____ More than 50 shipments
   ____ DON'T KNOW [ASK FOR ESTIMATE]

3) How many people are employed in your firm?
   
   ____ 1-20 employees
   ____ 21-99 employees
   ____ 100-499 employees
   ____ More than 500 employees [CONCLUDE INTERVIEW]
   ____ DON'T KNOW [ASK FOR ESTIMATE]

NAME/ADDRESS OF COMPANY:
________________________________________________________________________________
________________________________________________________________________________

CONTACT NAME AND TITLE:
________________________________________________________________________________
II. EXPORT BACKGROUND

This first set of questions pertains to your company's general experience with exporting. If you do not have information readily available, please provide your best estimates, or refer us to an individual in your company who can provide such information.

1) What was the total value (in dollars) of your exports in 1993?

$___________

____ DON'T KNOW

2) What types of products or services did you export? [ASK FOR SIC CODE]

SIC CODE: _________

____ DON'T KNOW

3) Did you export to:

Canada?

____ Yes

____ No

____ DON'T KNOW

Mexico?

____ Yes

____ No

____ DON'T KNOW

How many other countries?

____ 1-5 countries

____ More than five countries

____ DON'T KNOW

What were these countries?

______________________________________________________________
4) What was the dollar range of your transaction sizes (average) in 1993?

$ ________ (highest) to $ ________ (lowest)

_____ DON'T KNOW

5) Do you have an export price list?

_____ Yes
_____ No [SKIP TO QUESTION 8, BELOW]

_____ DON'T KNOW [SKIP TO QUESTION 8, BELOW]

6) On the average, how much higher are prices for export sales versus domestic sales?

_____ %

7) How does your average profit margin on export sales compare to that of domestic sales?

[ASK FOR PERCENTAGE, IF AVAILABLE]

_____ Greater (_______ %)
_____ About the same
_____ Lesser (_______ %)

_____ DON'T KNOW

8) How many banks or other financing sources did you utilize during 1993 for all of your export transactions?

_____ bank(s) or financing source(s)

_____ DON'T KNOW

9) Who do you sell to?

_____ Directly to customers
_____ Through a US intermediary
_____ Through a foreign agent/distributor
_____ Other (please specify) ___________________________

_____ DON'T KNOW
_____ NOT APPLICABLE
10) Does your company address international sales efforts in its business plan?
   _____ Yes
   _____ No
   _____ DON'T KNOW

11) Do you or a representative of your firm:
   _____ Regularly attend foreign trade shows?
   _____ Regularly visit foreign countries?
   _____ Take advantage of trade lead opportunities?
   _____ Advertise to attract overseas buyers?
   _____ Visit potential buyers -- make sales calls -- in foreign countries?
   _____ Undertake any other types of efforts to market your products overseas?
      (Please specify) __________________________________________________________
      __________________________________________________________
      __________________________________________________________

12) Do you have a passport?
   _____ Yes
   _____ No
III. MOST RECENT TRANSACTION

The following set of questions pertains to your MOST RECENT completed export sale. If you do not have information readily available, please provide your best estimates, or refer us to an individual in your company who can provide such information.

1) What was the value (in dollars) of your most recent export transaction?

$  
____ DON'T KNOW

2) What country did you sell to?

__________________________________________________________  
____ DON'T KNOW

3) What was the product shipped or service provided? [ASK FOR SIC CODE]

SIC CODE: __________________________________________________  
____ DON'T KNOW

4) When did you receive the signed order?

_____/_____/_____ [DATE]

5) When did you have the order ready and trucked/transported to the shipping port?

_____/_____/_____ [DATE]

6) When did you receive the final payment for this order?

_____/_____/_____ [DATE]

7) Did you use financing -- line of credit, trade credits, or other -- for either of the periods between receipt of the order and shipping, or between shipping and final payment?

____ Yes  
____ No  
____ DON'T KNOW  [READ: Is there someone within your company we can speak with about how your most recent export transaction was financed?]
III A. PRODUCTION/FILLING THE ORDER AND PRE-EXPORT FINANCING

This next set of questions pertains to financing costs related to producing or securing the goods or services to be shipped in your most recent export transaction.

A 1) Was this order:

Equal to or greater than **20 percent of your total annual sales**?

---

_____ Yes [GO RIGHT TO QUESTION A 2]

_____ No

_____ DON'T KNOW

Equal to or greater than **one month of your annual sales**?

---

_____ Yes

_____ No

_____ DON'T KNOW

A 2) Did you have difficulty filling this order?

---

_____ No [SKIP TO QUESTION A 3, NEXT PAGE]

_____ Yes [IF YES] Was this difficulty related to any of the following challenges?

_____ Order too large

_____ Order too small

_____ Lack of knowledge of export process

_____ Need of materials

_____ Need for product modification (or special labeling, packaging)

What modifications were needed? ____________________________

_____ Internal cash flow (inadequate working capital, financing)

_____ Getting additional workers

_____ Other (please specify) ____________________________

_____ DON'T KNOW
A 3) Did you need to obtain or use credit or financing in order to fill this order?

____ Yes What type of credit or financing? Was it:

____ An export line of credit

What is the total dollar value of this credit line?

$__________

Was this line obtained specifically for this transaction?

____ Yes [SKIP TO PAGE 10, QUESTION A 4]

____ No [TURN TO NEXT PAGE, QUESTION a]

____ Other line(s) of credit

What is the total dollar value of this credit line?

$__________

Was this line obtained specifically for this transaction?

____ Yes [SKIP TO PAGE 10, QUESTION A 4]

____ No [TURN TO NEXT PAGE, QUESTION a]

____ Credit from your suppliers [SKIP TO PAGE 10, QUESTION A 4]

____ A commercial loan [SKIP TO PAGE 10, QUESTION A 4]

____ A private loan [SKIP TO PAGE 10, QUESTION A 4]

____ Other (please specify)

[SKIP TO PAGE 10, QUESTION A 4]

____ No If you did not need credit or financing, why not?

____ Adequate cash flow (cash reserves, other
cash inflow, etc.) [TURN TO NEXT PAGE]

____ Advance payment from buyers [TURN TO NEXT PAGE]

____ Other (please specify)

[TURN TO NEXT PAGE]

____ DON'T KNOW [READ: Is there someone within your company we can
speak with about how your most recent export transaction was
financed?]
FOR THOSE NOT REQUIRING EXPORT WORKING CAPITAL FINANCING:

a) Approximately what size of an order would require you to seek working capital financing or loans?

$ __________________________ [ASK RESPONDENT FOR BEST ESTIMATE]

b) Have the challenges associated with export financing discouraged you from seeking or ever prevented you from fulfilling an order of this size or larger?

  _____ Yes
  _____ No [SKIP TO QUESTION "e", NEXT PAGE]
  _____ DON'T KNOW

c) If yes, what were these challenges?

  _____ Lack of information on lending sources
  _____ Difficult to find lenders with export expertise
  _____ The size of order too small for most lenders
  _____ Lack of line of credit
  _____ Lender not interested in international transactions
  _____ Lender not willing to assign proceeds
  _____ Supplier not willing to accept assigned proceeds
  _____ Lenders deterred by economic/political stability of importer's country
  _____ Previous application(s) for financing rejected [IF SO, WHY?]
    _____ Lack of adequate collateral
    _____ Amount requested too high
    _____ Other __________________________
  _____ Financing costs too high [WHICH COSTS?]
    _____ Interest rate
    _____ Application fee
    _____ Points
    _____ Commitment fees
    _____ Credit insurance
    _____ Other __________________________
  _____ Application procedure too lengthy
  _____ Other __________________________
  _____ DON'T KNOW
d) If more sources of financing and information were more readily available, would you increase the sizes of your export orders to overseas customers and seek this financing?

_____ Yes
_____ No [WHY NOT? EXPLAIN:]

---

---

---

---

---

e) What other challenges have prevented your company from obtaining larger orders?

_____ Lack of marketing/sales leads
_____ Lack of production capability
_____ Customers are small companies/individual consumers
_____ Shipping/handling costs are too prohibitive
_____ Other ____________________________

---

---

---

[SKIP TO PAGE 13, QUESTION A 18]
FOR THOSE FINANCING THEIR EXPORT WITH PRE-EXISTING LINES OF CREDIT:

a) When was this line of credit opened?

   _____/_____/_____[DATE]

   _____ DON'T KNOW

b) What was used as collateral to secure this line of credit? Did you use:

   _____ Inventory
   _____ Receivables
   _____ Equipment
   _____ Personal property
   _____ Business real estate
   _____ Personal real estate
   _____ Personal guarantee
   _____ Other personal assets
   _____ Other company financial assets (other accounts, stocks, bonds, etc.)
   _____ Plant facilities
   _____ Other (please specify)__________________________

   _____ DON'T KNOW

c) Was it necessary to renegotiate this line of credit with your lender before drawing down to finance your most recent export transaction?

   _____ Yes
   _____ No

   _____ DON'T KNOW
A 4) Who provided this credit or financing? Was it a:

- Local U.S. commercial bank
- Regional money center bank
- Foreign bank in the country of import
- Other foreign bank
- Non-bank finance firm
- Venture capitalists/shareholders equity
- Your customer
- Other (specify) ___________________________________________
- DON'T KNOW

A 5) Was a letter of credit issued for this order?

- No
- Yes [IF YES] If yes, was it assigned?

- Yes
- No
- DON'T KNOW

A 6) Was this loan or financing insured by:

- Exim bank
- SBA
- Commercial bank
- Importing country bank
- Your state or local office of international trade
- Other (please specify) ___________________________________________
- DON'T KNOW
A 7) What did you use as collateral to secure this financing? If you drew down an existing line of credit, please indicate additional collateral required for this transaction:

- [ ] Inventory
- [ ] Receivables
- [ ] Equipment
- [ ] Personal property
- [ ] Business real estate
- [ ] Personal real estate
- [ ] Personal guarantee
- [ ] Other personal assets
- [ ] Other company financial assets (other accounts, stocks, bonds, etc.)
- [ ] Irrevocable confirmed letter of credit
- [ ] Confirmed purchase order
- [ ] Plant facilities
- [ ] Other (please specify) ____________________________
- [ ] DON'T KNOW

A 8) How did your lender deal with the foreign receivables issue?

________________________________________________________________________

A 9) What was the dollar amount financed for this transaction?

$ __________________

- [ ] DON'T KNOW

A 10) What was or is the length of this financing?

- [ ] payments over a period of _____ months/_____ days
- [ ] repayment from proceeds of sale

- [ ] DON'T KNOW

A 11) Is the interest associated with this financing fixed or variable rate?

- [ ] Fixed rate
- [ ] Variable rate
- [ ] DON'T KNOW
A 12) What were your costs associated with this financing? If you drew down an existing line of credit, please indicate your initial up-front costs:

Annual interest rate: ___%  
Commitment fees: ___%  

ITEMIZED FEES:  
Points: $ ____  
Application/processing fees: $ ____  
Credit checks: $ ____  
Credit insurance: $ ____  
Audit fees: $ ____  
Other fees (please specify):  
________________________  $ ____  
________________________  $ ____  

TOTAL DOLLAR AMOUNT OF FEES: $ ____

A 13) Why did you choose this financing source? Was it because:

_____ You have an established relationship with this lender  
_____ This lender offered the most competitive interest rates  
_____ This lender had the most competitive up-front fees  
_____ This lender provided export consulting assistance  
_____ This lender had a quick turnaround time for loan approval  
_____ Other reason (please specify)  

________________________

_____ DON'T KNOW

A 14) How many lenders or finance sources did you approach before being approved for credit for this order?

_____ Source(s) approached  
_____ DON'T KNOW
A 15) How long did it take to secure the financing for this phase of the transaction (from initial order to approval of credit)?

____ Days
____ Weeks
____ Months
____ DON'T KNOW

A 16) Did this length of time in any way impede your ability to fulfill your order from your customer?

____ Yes
____ No
____ DON'T KNOW

A 17) What difficulties, if any, did you encounter in securing this financing?

____ Difficult to find lenders with export expertise
____ The size of order too small for most lenders
____ Lack of line of credit
____ Lender not interested in international transactions
____ Lender not willing to assign proceeds
____ Supplier not willing to accept assigned proceeds
____ Lenders deterred by economic/political stability of importer's country
____ Other (specify)

A 18) How many transactions were lost in 1993 because of financing difficulties?

____ transaction(s)
____ DON'T KNOW

What was the total dollar loss in 1993?

$ _______
____ DON'T KNOW
II B. GETTING PAID/FINANCING THE SHIPMENT

The next group of questions pertains to your costs associated with collecting payment for your most recent export transaction.

B 1) What were the terms of payment you extended to your buyer for this transaction?

- [ ] Cash in advance/C.O.D. at receipt
- [ ] [NUMBER OF] Days after shipment arrives
- [ ] [NUMBER OF] Months after shipment arrives
- [ ] DON'T KNOW

B 2) What was your payment mechanism? Was it:

- [ ] Direct payments (checks, wire transfer payments to a subsidiary, etc.)
  [SKIP TO PAGE 20, SECTION C, "SHIPMENT"]

- [ ] A letter of credit [IF YES] What type of letter of credit?
  - [ ] Confirmed letter of credit
  - [ ] Unconfirmed letter of credit
  - [ ] Back-to-back letter of credit
  - [ ] Transferrable letter of credit
  - [ ] Assignable letter of credit
  [TURN TO NEXT PAGE (p. 15) TO "LETTER OF CREDIT" SECTION]

- [ ] A documentary collection [IF YES] What type of documentary draft?
  - [ ] Sight draft documents against payment
  - [ ] Time draft documents against acceptance
  - [ ] Date draft
  [SKIP TO PAGE 16 TO "DOCUMENTARY COLLECTIONS" SECTION]

- [ ] Cash in advance/progress payments [SKIP TO PAGE 16]
- [ ] Open account [SKIP TO PAGE 16]
- [ ] Insured open account [SKIP TO PAGE 16]
- [ ] Factoring [SKIP TO PAGE 17]
- [ ] Forfaiting [SKIP TO PAGE 17]
- [ ] Consignment sales [SKIP TO PAGE 17]
- [ ] Other (please specify) ____________________________

- [ ] DON'T KNOW [READ: Is there someone within your company we can speak with about the payment mechanism for your most recent export transaction?]
B 3) What were the costs associated with collecting the payment (or getting the draft accepted)?

FOR LETTER OF CREDIT:

<table>
<thead>
<tr>
<th>[RESPONDENT CAN ANSWER WITH: ACTUAL FEES or PERCENTAGE OF VALUE OF EXPORT]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advising $_________ $_________ %</td>
</tr>
<tr>
<td>Amendment $_________ $_________ %</td>
</tr>
<tr>
<td>Discrepancy fee $_________ $_________ %</td>
</tr>
<tr>
<td>Confirmation $_________ $_________ %</td>
</tr>
<tr>
<td>Negotiation $_________ $_________ %</td>
</tr>
<tr>
<td>Commissions $_________ $_________ %</td>
</tr>
<tr>
<td>Insurance $_________ $_________ %</td>
</tr>
<tr>
<td>Reimbursement $_________ $_________ %</td>
</tr>
<tr>
<td>Communications $_________ $_________ %</td>
</tr>
<tr>
<td>Surcharges for assigned payee $_________ $_________ %</td>
</tr>
<tr>
<td>Acceptance fee $_________ $_________ %</td>
</tr>
<tr>
<td>Wire transfer fee $_________ $_________ %</td>
</tr>
<tr>
<td>Courier/mail $_________ $_________ %</td>
</tr>
<tr>
<td>Currency conversion costs $_________ $_________ %</td>
</tr>
<tr>
<td>Lockbox services $_________ $_________ %</td>
</tr>
<tr>
<td>Facility fees $_________ $_________ %</td>
</tr>
<tr>
<td>Attorneys' fees $_________ $_________ %</td>
</tr>
<tr>
<td>Other (Please specify) $_________ $_________ %</td>
</tr>
</tbody>
</table>

If you were issued a letter of credit, was it discrepant upon submission when you went to get paid?

_____ Yes  _____ No  _____ DON'T KNOW

If you did attempt to assign the receivables, were you successful?

_____ Yes  _____ No  _____ DON'T KNOW

[***TURN TO PAGE 17, QUESTION B 4***]
### FOR DOCUMENTARY COLLECTIONS:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reimbursement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surcharges for assigned payee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acceptance fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Courier/mail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lockbox services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facility fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attorneys' fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

### FOR CASH IN ADVANCE:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wire transfer fee</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Check collection charges</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

### FOR OPEN ACCOUNT:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Courier/mail</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Check collection charges</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>
### FOR CONSIGNMENT:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost ($)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Courier/mail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonded warehouse charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### FOR FORFAITING TRANSACTION:

Discount rate: ___%

### FOR FACTORING TRANSACTION:

Discount rate: ___%

Minimum yearly turnover required: $___

### B 4) Have these costs increased during the past year?

- Yes (by how much? ___%)
- No
- DON'T KNOW

### B 5) Why did you choose the payment mechanism you did?

- Negotiated by buyer
- Perception of risk/safety
- Knew about mechanism
- Recommended by export service vendor
- Recommended by bank
- Other (please specify): ____________________________
- DON'T KNOW
B 6) Who serviced this payment mechanism?

____ Local U.S. commercial bank
____ Regional money center bank
____ Foreign bank in the country of import
____ Other foreign bank
____ Non-bank finance firm
____ Venture capitalists/shareholders equity
____ Your customer
____ Other (specify) __________________________
____ DON'T KNOW

B 7) Was the bank involved in advancing the payment?

____ Yes [IF YES] How much did the bank charge for the advance (for the sight draft) or for the discount on the time draft?

$ __________

____ No

____ DON'T KNOW

B 8) Did the bank pay immediately upon presentation of your letter of credit?

____ Yes

____ No

____ DON'T KNOW

B 9) Was this payment drawn against a line of credit?

____ Yes [IF YES] What were your costs associated with this financing?

Annual interest rate: _____%  
Points: _____%  
Commitment fees: _____%  

____ No [IF NO] How was this payment secured? __________________

____ DON'T KNOW

____ NOT APPLICABLE
B 10) We would like to further analyze the costs associated with servicing payment mechanisms in small business export transactions. Will you be willing to supply a copy of the documentary draft or letter of credit for your most recent transaction? You may cover over confidential information.

<table>
<thead>
<tr>
<th></th>
<th>Yes [IF YES, PLEASE SUPPLY YOUR FAX OR ADDRESS]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Other</td>
</tr>
</tbody>
</table>

19
III C. SHIPMENT

This next set of questions address costs and issues related to shipment of your order for your most recent export transaction.

C 1) Did you require a specific validated license from the Department of Commerce or other government agency?

_____ Yes
_____ No
_____ DON'T KNOW

C 2) Did you use any type of service to assist you in shipping this order?

_____ Yes
_____ No [TURN PAGE TO QUESTION C 5]
_____ DON'T KNOW [READ: Is there someone within your company we can speak with about the shipment process for your most recent export transaction?]

C 3) What services did you use in shipping this export transaction? Was it:

_____ Directly with carrier
_____ Freight forwarder
_____ Export management company
_____ IVLS
_____ Other (please specify) ____________________________

_____ DON'T KNOW
C 3) Please identify the type of service your company used to assist in shipping your order, such as:

____ Air carrier
____ Trucking/steamship company
____ Export intermediary
____ Export broker
____ Trade association
____ Export consultant
____ Subsidiary
____ Department of Commerce
____ Small Business Administration
____ State office of international trade
____ Chamber of commerce
____ Other (specify) ____________________________

____ DON'T KNOW

C 4) What were the service company's charges? If you used more than one, please describe the charges for each:

$ _____ $ _____

C 5) What was your mode of transport?

________________________________________

C 6) What were your terms?

____ FOB Vessel
____ FOB Port
____ FOB Factory
____ C @ F

Incoterms:

____ EXW ______ FCA
____ FAS ______ CFR
____ CPT ______ CIP
____ DDP ______ DDU

____ DON'T KNOW
C 7) Who obtained the insurance for this shipment?

_____ You
_____ Your customer
_____ Other ________________________
_____ DON'T KNOW

C 8) Who paid for the insurance for this shipment?

_____ You
_____ Your customer
_____ Other ________________________
_____ DON'T KNOW

If you paid, what was the cost of the insurance?

$____________

C 9) Who filled out your export documentation?

_____ Company employee
_____ Freight forwarder [TURN PAGE TO QUESTION C 13]
_____ Intermediary [TURN PAGE TO QUESTION C 13]
_____ Other (please specify) [TURN PAGE TO QUESTION C 13]

_____ DON'T KNOW

C 10) If someone in your company filled out the export documentation, please estimate the time spent on completing the following:

<table>
<thead>
<tr>
<th>DOCUMENT</th>
<th>HOURS TO COMPLETE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipper's Export Declaration</td>
<td>______</td>
</tr>
<tr>
<td>Bill of Lading</td>
<td>______</td>
</tr>
<tr>
<td>Pro Forma Invoice</td>
<td>______</td>
</tr>
<tr>
<td>Invoice</td>
<td>______</td>
</tr>
<tr>
<td>Certificate of Origin</td>
<td>______</td>
</tr>
<tr>
<td>Packing lists</td>
<td>______</td>
</tr>
<tr>
<td>Insurance certificates</td>
<td>______</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>______</td>
</tr>
</tbody>
</table>

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C 11) For purposes of calculating costs, what is the average hourly salary of the person in your company that completed the above documentation?

$____ per hour
$____ per hour for any other documentation

C 12) Did you fill out your documentation with the aid of a software program?

____ Yes
____ No
____ DON'T KNOW

If yes, what is the name of this software package?

________________________________________
____ DON'T KNOW

What is the cost of this software package?

$______________
____ DON'T KNOW

C 13) Were the costs of preparing documentation built into the price of your product?

____ Yes
____ No
____ DON'T KNOW

C 14) What was the average overall cost to ship this order?

$________

C 15) We are interested in further analyzing the costs associated with small business export transactions. Will you be willing to supply copies of the bill for your most recent as well as your smallest transaction? You may cover over confidential information.

____ Yes [PROVIDE YOUR FAX NUMBER OR ADDRESS]  ____ No
IV. RELATED FINANCING ISSUES

This final set of questions is to gauge your overall perceptions about export financing.

1) Please identify any of the following factors may have increased the direct costs of financing your most recent export transaction. Were your costs increased due to:

- Economic stability of country being shipped to
- Political stability of country being shipped to
- Creditworthiness of overseas customer
- Restrictions/tariffs/documentation on products exported
- Currency conversion
- Mode of shipment
- Other (specify) ____________________________

2) Do you feel the cost of obtaining export financing makes your prices uncompetitive in international markets?

- Yes
- No
- DON'T KNOW

3) Have you ever talked to your banker(s)/lender(s) about expanding your export efforts?

- Yes [IF YES] What was their reaction?
  
  ____________________________________________
  ____________________________________________
  ____________________________________________

- No
- DON'T KNOW

4) Have the challenges associated with export financing ever discouraged you from exporting in the past?

- Yes
- No
5) Based on your experiences with obtaining financing, will you continue to export or expand your exporting?

___ Expand
___ Continue at current level
___ Will cut back on exporting
___ DON'T KNOW

Why or why not?
_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________

6) What types of export/financing assistance from the federal government would help and encourage you to increase your level of exporting? Do you need:

___ Access to a single federal office for all export questions
___ Access to a database of financing sources
___ Guarantees
___ Government guarantees provided to banks that secure payment regardless of performance
___ Letter of credit facilitation services
___ Grants/subsidies for market intelligence, attending trade shows, outside consulting help, etc.
___ Tax incentives
___ Customer matchmaking
___ Financial service matchmaking

7) In your efforts to export, what information was provided by your banker(s) or lender(s) that you found useful? (Please specify)

_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
_________________________________________________________________________
8) How could your banker(s) or lender(s) further help you in your export efforts? (Please specify)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

9) What information provided by the SBA did you find useful? (Please specify)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

10) How could the SBA further help your export efforts? (Please specify)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
V. COMPANY BACKGROUND

That successfully concludes this interview. Thank you very much for taking the time to speak with us today. Your input will be valuable in helping SBA to better assist businesses in exporting. We just want to ask one more question about your company.

What are your gross annual domestic sales?

$ __________ per year

[IF CONFIDENTIAL, ASK FOR A RANGE:]

_____ Less than $2 million
_____ $2-$10 million
_____ $10-$20 million
_____ $20-$50 million
_____ More than $50 million
_____ DON'T KNOW
August 29, 1994

Dear Mr. 1−:

Recently, you were contacted for a study on export finance trends, sponsored by the U.S. Small Business Administration. You supplied information on a recent export transaction your company conducted. We would like to again thank you for your input into this valuable study, which will assist the SBA and U.S. Government in establishing initiatives to assist small business reach the global marketplace.

In analyzing the data, we determined that there is a need to gather some additional information to develop a more complete picture of small business export finances. Can you help us in completing this data? Attached is a brief questionnaire with four questions. Please answer these questions as completely as possible, and return the form in the enclosed postage-paid envelope (or fax to 215-957-1243). Again, all the data you provide is treated with the strictest confidentiality.

To express our appreciation for your input, you will receive a complimentary one-year subscription to The Exporter magazine, the nation’s most comprehensive guide to international trade for businesses of all sizes. In addition, if desired, we will gladly send you a complimentary copy of the study when it is completed and approved by SBA.

Please feel free to contact me if you have any questions.

Thank you,

Joseph McKendrick
Project Coordinator

(The brief questionnaire page follows. In addition, a postage-paid return envelope is enclosed. Or, you may fax the response to 215-957-1243. Thank you!)
From our last interview with you, we have the following information:

A 5~ order for 7~ shipped on 6~ to a customer in 8~. A letter of credit was issued to finance this order.

For the above transaction, we need the following additional information:

1) What was the amount of your final payment for this order from the bank (issuing the letter of credit)? *Please fill in the amount.*

$__________.

2) Did your company obtain advance payment against the draft earlier than the terms specified for your buyer? *Please check one.*

___ Yes
___ No
___ Don't know

3) If yes, what were the fees or discount rate for this advance payment? *Please fill in amount, or percentage charged by the bank, if known.*

$__________ or ________%

4) When did your overseas customer pay the servicing bank in full? *Please fill in date, if known.*

___/___/____

Thank you again for your valuable assistance!

Your complimentary one-year subscription to *The Exporter* magazine will begin this fall. Would you also like a copy of the final report when released by SBA?

___ Yes
___ No

PLEASE RETURN THIS FORM IN THE POSTAGE-PAID RETURN ENVELOPE PROVIDED, OR FAX TO: 215-957-1243
"FINANCING COSTS OF EXPORTING FOR SMALL BUSINESSES"
QUESTIONNAIRE FOR INTERVIEWS

MATRIX

I. By region

II. By type of company
   - Manufacturer
   - Distributor/Trading company
   - Service
   - SIC code - 2 digit
   - Other

III. By size breaks
   - 1-19 employees
   - 20-99 employees
   - 100-499 employees
   - 500+ over

IV. By annual sales
   - Less than $2 million
   - $2-$10 million
   - $10-$25 million
   - $25-$50 million
   - More than $50 million

V. By frequency of export
   - Casual exporter -- 1-12 shipments/yr.
   - Infrequent exporter -- 12-50 shipments/yr.
   - Experienced/frequent exporter -- More than 50 shipments/yr.
INTERVIEW - INTRODUCTION

Good morning (afternoon). My name is ____________, calling on behalf of ______________ for the Small Business Administration. The SBA is currently conducting a study to determine the issues and availability of financing for small businesses. Your business has been identified as one with an interest in exporting, and we would like to take about 20 to 30 minutes of your time to ask you questions related to your experiences in exporting. The information you provide will be treated with the strictest confidentiality.

To express our appreciation for your input into this study, we will furnish you with a complimentary one-year subscription to The Exporter magazine, the nation's most comprehensive guide to international trade for businesses of all sizes.

May you some questions pertaining to your company's experiences in exporting, or if this is not a convenient time, set up a time to talk?
I. QUALIFYING QUESTIONS

1) How long have you been exporting?
   _____ New to exporting [CONCLUDE INTERVIEW]
   _____ years
   _____ DON'T KNOW [ASK FOR ESTIMATE]

2) How many export transactions did you complete in the last 12 months?
   _____ 0 shipments [CONCLUDE INTERVIEW]
   _____ 1-12 shipments
   _____ 13-50 shipments
   _____ More than 50 shipments
   _____ DON'T KNOW [ASK FOR ESTIMATE]

3) How many people are employed in your firm?
   _____ 1-20 employees
   _____ 21-99 employees
   _____ 100-499 employees
   _____ More than 500 employees [CONCLUDE INTERVIEW]
   _____ DON'T KNOW [ASK FOR ESTIMATE]

NAME/ADDRESS OF COMPANY:

CONTACT NAME AND TITLE:

2
II. EXPORT BACKGROUND

This first set of questions pertains to your company’s general experience with exporting. If you do not have information readily available, please provide your best estimates, or refer us to an individual in your company who can provide such information.

1) What was the total value (in dollars) of your exports in 1993?

$ __________

___ DON'T KNOW

2) What types of products or services did you export? [ASK FOR SIC CODE]

SIC CODE: __________________________________________

___ DON'T KNOW

3) Did you export to:

Canada?

___ Yes

___ No

___ DON'T KNOW

Mexico?

___ Yes

___ No

___ DON'T KNOW

How many other countries?

___ 1-5 countries

___ More than five countries

___ DON'T KNOW

What were these countries?

________________________________________
4) What was the dollar range of your transaction sizes (average) in 1993?

$ ___________ (highest) to $ ___________ (lowest)

_____ DON'T KNOW

5) Do you have an export price list?

_____ Yes

_____ No [SKIP TO QUESTION 8, BELOW]

_____ DON'T KNOW [SKIP TO QUESTION 8, BELOW]

6) On the average, how much higher are prices for export sales versus domestic sales?

_____ %

7) How does your average profit margin on export sales compare to that of domestic sales?

[ASK FOR PERCENTAGE, IF AVAILABLE]

_____ Greater (_______ %)

_____ About the same

_____ Lesser (_______ %)

_____ DON'T KNOW

8) How many banks or other financing sources did you utilize during 1993 for all of your export transactions?

_____ bank(s) or financing source(s)

_____ DON'T KNOW

9) Who do you sell to?

_____ Directly to customers

_____ Through a US intermediary

_____ Through a foreign agent/distributor

_____ Other (please specify) ________________________________

_____ DON'T KNOW

_____ NOT APPLICABLE

4
10) Does your company address international sales efforts in its business plan?

____ Yes
____ No
____ DON'T KNOW

11) Do you or a representative of your firm:

____ Regularly attend foreign trade shows?
____ Regularly visit foreign countries?
____ Take advantage of trade lead opportunities?
____ Advertise to attract overseas buyers?
____ Visit potential buyers -- make sales calls -- in foreign countries?
____ Undertake any other types of efforts to market your products overseas?
(Please specify)  

12) Do you have a passport?

____ Yes
____ No
II. MOST RECENT TRANSACTION

The following set of questions pertains to your MOST RECENT completed export sale. If you do not have information readily available, please provide your best estimates, or refer us to an individual in your company who can provide such information.

1) What was the value (in dollars) of your most recent export transaction?
   
   $______
   
   ____ DON'T KNOW

2) What country did you sell to?

   ____________________________
   
   ____ DON'T KNOW

3) What was the product shipped or service provided? [ASK FOR SIC CODE]

   SIC CODE: ____________________
   
   ____ DON'T KNOW

4) When did you receive the signed order?

   ____/____/_____ [DATE]

5) When did you have the order ready and trucked/transported to the shipping port?

   ____/____/_____ [DATE]

6) When did you receive the final payment for this order?

   ____/____/_____ [DATE]

7) Did you use financing -- line of credit, trade credits, or other -- for either of the periods between receipt of the order and shipping, or between shipping and final payment?

   ____ Yes
   
   ____ No
   
   ____ DON'T KNOW [READ: Is there someone within your company we can speak with about how your most recent export transaction was financed?]
III A. PRODUCTION/FILLING THE ORDER AND PRE-EXPORT FINANCING

This next set of questions pertains to financing costs related to producing or securing the goods or services to be shipped in your most recent export transaction.

A 1) Was this order:

Equal to or greater than 20 percent of your total annual sales?

_____ Yes [GO RIGHT TO QUESTION A 2]
_____ No
_____ DON'T KNOW

Equal to or greater than one month of your annual sales?

_____ Yes
_____ No
_____ DON'T KNOW

A 2) Did you have difficulty filling this order?

_____ No [SKIP TO QUESTION A 3, NEXT PAGE]
_____ Yes [IF YES] Was this difficulty related to any of the following challenges?

_____ Order too large
_____ Order too small
_____ Lack of knowledge of export process
_____ Need of materials
_____ Need for product modification (or special labeling, packaging)

What modifications were needed? _________________________________

_____ Internal cash flow (inadequate working capital, financing)
_____ Getting additional workers
_____ Other (please specify) _________________________________

_____ DON'T KNOW
A 3) Did you need to obtain or use credit or financing in order to fill this order?  

___ Yes  What type of credit or financing?  Was it:

___ An export line of credit

What is the total dollar value of this credit line?  

$ ________

Was this line obtained specifically for this transaction?  

___ Yes [SKIP TO PAGE 10, QUESTION A 4]  

___ No [TURN TO NEXT PAGE, QUESTION a]

___ Other line(s) of credit

What is the total dollar value of this credit line?  

$ ________

Was this line obtained specifically for this transaction?  

___ Yes [SKIP TO PAGE 10, QUESTION A 4]  

___ No [TURN TO NEXT PAGE, QUESTION a]

___ Credit from your suppliers [SKIP TO PAGE 10, QUESTION A 4]  

___ A commercial loan [SKIP TO PAGE 10, QUESTION A 4]  

___ A private loan [SKIP TO PAGE 10, QUESTION A 4]  

___ Other (please specify)  

[SKIP TO PAGE 10, QUESTION A 4]

___ No  If you did not need credit or financing, why not?  

___ Adequate cash flow (cash reserves, other cash inflow, etc.) [TURN TO NEXT PAGE]  

___ Advance payment from buyers [TURN TO NEXT PAGE]  

___ Other (please specify)  

[TURN TO NEXT PAGE]

___ DON’T KNOW [READ: Is there someone within your company we can speak with about how your most recent export transaction was financed?]
FOR THOSE NOT REQUIRING EXPORT WORKING CAPITAL FINANCING:

a) Approximately what size of an order would require you to seek working capital financing or loans?

$ [ASK RESPONDENT FOR BEST ESTIMATE]

b) Have the challenges associated with export financing discouraged you from seeking or ever prevented you from fulfilling an order of this size or larger?

Yes
No [SKIP TO QUESTION "e", NEXT PAGE]
DON'T KNOW

c) If yes, what where these challenges?

Lack of information on lending sources
Difficult to find lenders with export expertise
The size of order too small for most lenders
Lack of line of credit
Lender not interested in international transactions
Lender not willing to assign proceeds
Supplier not willing to accept assigned proceeds
Lenders deterred by economic/political stability of importer's country
Previous application(s) for financing rejected [IF SO, WHY?] Lack of adequate collateral Amount requested too high Other
Financing costs too high [WHICH COSTS?] Interest rate Application fee Points Commitment fees Credit insurance Other
Application procedure too lengthy Other DON'T KNOW
d) If more sources of financing and information were more readily available, would you increase the sizes of your export orders to overseas customers and seek this financing?

___ Yes
___ No [WHY NOT? EXPLAIN:]


e) What other challenges have prevented your company from obtaining larger orders?

___ Lack of marketing/sales leads
___ Lack of production capability
___ Customers are small companies/individual consumers
___ Shipping/handling costs are too prohibitive
___ Other ________________________________

[SKIP TO PAGE 13, QUESTION A 18]
FOR THOSE FINANCING THEIR EXPORT WITH PRE-EXISTING LINES OF CREDIT:

a) When was this line of credit opened?

   _____/_____/_____ [DATE]

   _____ DON'T KNOW

b) What was used as collateral to secure this line of credit? Did you use:

   _____ Inventory
   _____ Receivables
   _____ Equipment
   _____ Personal property
   _____ Business real estate
   _____ Personal real estate
   _____ Personal guarantee
   _____ Other personal assets
   _____ Other company financial assets (other accounts, stocks, bonds, etc.)
   _____ Plant facilities
   _____ Other (please specify) ________________________________

   _____ DON'T KNOW

c) Was it necessary to renegotiate this line of credit with your lender before drawing down to finance your most recent export transaction?

   _____ Yes
   _____ No

   _____ DON'T KNOW
A 4) Who provided this credit or financing? Was it a:

- Local U.S. commercial bank
- Regional money center bank
- Foreign bank in the country of import
- Other foreign bank
- Non-bank finance firm
- Venture capitalists/shareholders equity
- Your customer
- Other (specify)

- DON'T KNOW

A 5) Was a letter of credit issued for this order?

- No
- Yes [IF YES] If yes, was it assigned?

- Yes
- No

- DON'T KNOW

A 6) Was this loan or financing insured by:

- Exim bank
- SBA
- Commercial bank
- Importing country bank
- Your state or local office of international trade
- Other (please specify)

- DON'T KNOW
A 7) What did you use as collateral to secure this financing? If you drew down an existing line of credit, please indicate additional collateral required for this transaction:

___ Inventory
___ Receivables
___ Equipment
___ Personal property
___ Business real estate
___ Personal real estate
___ Personal guarantee
___ Other personal assets
___ Other company financial assets (other accounts, stocks, bonds, etc.)
___ Irrevocable confirmed letter of credit
___ Confirmed purchase order
___ Plant facilities
___ Other (please specify) ________________________________
___ DON'T KNOW

A 8) How did your lender deal with the foreign receivables issue?

__________________________________________________________________

A 9) What was the dollar amount financed for this transaction?

$ ______________

___ DON'T KNOW

A 10) What was or is the length of this financing?

___ payments over a period of ______ months/______ days
___ repayment from proceeds of sale

___ DON'T KNOW

A 11) Is the interest associated with this financing fixed or variable rate?

___ Fixed rate
___ Variable rate

___ DON'T KNOW
A 12) What were your costs associated with this financing? If you drew down an existing line of credit, please indicate your initial up-front costs:

Annual interest rate: %
Commitment fees: %

ITEMIZED FEES:
Points: $
Application/processing fees: $
Credit checks: $
Credit insurance: $
Audit fees: $
Other fees (please specify): $

TOTAL DOLLAR AMOUNT OF FEES: $

A 13) Why did you choose this financing source? Was it because:

_____ You have an established relationship with this lender
_____ This lender offered the most competitive interest rates
_____ This lender had the most competitive up-front fees
_____ This lender provided export consulting assistance
_____ This lender had a quick turnaround time for loan approval
_____ Other reason (please specify)

_____ DON'T KNOW

A 14) How many lenders or finance sources did you approach before being approved for credit for this order?

_____ Source(s) approached
_____ DON'T KNOW
A 15) How long did it take to secure the financing for this phase of the transaction (from initial order to approval of credit)?

____ Days
____ Weeks
____ Months
____ DON'T KNOW

A 16) Did this length of time in any way impede your ability to fulfill your order from your customer?

____ Yes
____ No
____ DON'T KNOW

A 17) What difficulties, if any, did you encounter in securing this financing?

____ Difficult to find lenders with export expertise
____ The size of order too small for most lenders
____ Lack of line of credit
____ Lender not interested in international transactions
____ Lender not willing to assign proceeds
____ Supplier not willing to accept assigned proceeds
____ Lenders deterred by economic/political stability of importer's country
____ Other (specify)

A 18) How many transactions were lost in 1993 because of financing difficulties?

____ transaction(s)
____ DON'T KNOW

*What was the total dollar loss in 1993?*

$ _________

____ DON'T KNOW
III B. GETTING PAID/FINANCING THE SHIPMENT

The next group of questions pertains to your costs associated with collecting payment for your most recent export transaction.

B 1) What were the terms of payment you extended to your buyer for this transaction?

   ___ Cash in advance/C.O.D. at receipt
   ___ [NUMBER OF] Days after shipment arrives
   ___ [NUMBER OF] Months after shipment arrives
   ___ DON'T KNOW

B 2) What was your payment mechanism? Was it:

   ___ Direct payments (checks, wire transfer payments to a subsidiary, etc.)
     [SKIP TO PAGE 20, SECTION C, "SHIPMENT"]

   ___ A letter of credit [IF YES] What type of letter of credit?
     ___ Confirmed letter of credit
     ___ Unconfirmed letter of credit
     ___ Back-to-back letter of credit
     ___ Transferrable letter of credit
     ___ Assignable letter of credit
     [TURN TO NEXT PAGE (p. 15) TO "LETTER OF CREDIT" SECTION]

   ___ A documentary collection [IF YES] What type of documentary draft?
     ___ Sight draft documents against payment
     ___ Time draft documents against acceptance
     ___ Date draft
     [SKIP TO PAGE 16 TO "DOCUMENTARY COLLECTIONS" SECTION]

   ___ Cash in advance/progress payments [SKIP TO PAGE 16]
   ___ Open account [SKIP TO PAGE 16]
   ___ Insured open account [SKIP TO PAGE 16]
   ___ Factoring [SKIP TO PAGE 17]
   ___ Forfaiting [SKIP TO PAGE 17]
   ___ Consignment sales [SKIP TO PAGE 17]
   ___ Other (please specify) ________________________________

   ___ DON'T KNOW [READ: Is there someone within your company we can speak with about the payment mechanism for your most recent export transaction?]
B 3) What were the costs associated with collecting the payment (or getting
the draft accepted)?

<table>
<thead>
<tr>
<th>FOR LETTER OF CREDIT:</th>
</tr>
</thead>
<tbody>
<tr>
<td>[RESPONDENT CAN ANSWER WITH: ACTUAL PERCENTAGE OF</td>
</tr>
<tr>
<td>FEES or VALUE OF EXPORT]</td>
</tr>
<tr>
<td>Advising</td>
</tr>
<tr>
<td>Amendment</td>
</tr>
<tr>
<td>Discrepancy fee</td>
</tr>
<tr>
<td>Confirmation</td>
</tr>
<tr>
<td>Negotiation</td>
</tr>
<tr>
<td>Commissions</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Reimbursement</td>
</tr>
<tr>
<td>Communications</td>
</tr>
<tr>
<td>Surcharges for assigned payee</td>
</tr>
<tr>
<td>Acceptance fee</td>
</tr>
<tr>
<td>Wire transfer fee</td>
</tr>
<tr>
<td>Courier/mail</td>
</tr>
<tr>
<td>Currency conversion costs</td>
</tr>
<tr>
<td>Lockbox services</td>
</tr>
<tr>
<td>Facility fees</td>
</tr>
<tr>
<td>Attorneys’ fees</td>
</tr>
<tr>
<td>Other (Please specify)</td>
</tr>
</tbody>
</table>

If you were issued a letter of credit, was it discrepant upon submission when you went to get paid?

_____ Yes
_____ No
_____ DON’T KNOW

If you did attempt to assign the receivables, were you successful?

_____ Yes
_____ No
_____ DON’T KNOW

[***TURN TO PAGE 17, QUESTION B 4***]
### FOR DOCUMENTARY COLLECTIONS:

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiation</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Commissions</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Insurance</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Communications</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Surcharges for assigned payee</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Acceptance fee</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Courier/mail</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Lockbox services</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Facility fees</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Attorneys' fees</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$____</td>
<td>____%</td>
</tr>
</tbody>
</table>

### FOR CASH IN ADVANCE:

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wire transfer fee</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Check collection charges</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$____</td>
<td>____%</td>
</tr>
</tbody>
</table>

### FOR OPEN ACCOUNT:

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Communications</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Courier/mail</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Check collection charges</td>
<td>$____</td>
<td>____%</td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>$____</td>
<td>____%</td>
</tr>
</tbody>
</table>
B 3) (Continued)

FOR CONSIGNMENT:

<table>
<thead>
<tr>
<th>Service</th>
<th>$</th>
<th>%</th>
</tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wire transfer fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Courier/mail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Currency conversion costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonded warehouse charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[***PROCEED TO QUESTION B 4, BELOW***]

FOR FORFAITING TRANSACTION:

Discount rate  %

[***PROCEED TO QUESTION B 4, BELOW***]

FOR FACTORING TRANSACTION:

Discount rate  %
Minimum yearly turnover required: $   

B 4) Have these costs increased during the past year?

_____ Yes (by how much? ___ %)
_____ No
_____ DON’T KNOW

B 5) Why did you choose the payment mechanism you did?

_____ Negotiated by buyer
_____ Perception of risk/safety
_____ Knew about mechanism
_____ Recommended by export service vendor
_____ Recommended by bank
_____ Other (please specify) _____________________________________
_____ DON’T KNOW
B 6) Who serviced this payment mechanism?

- Local U.S. commercial bank
- Regional money center bank
- Foreign bank in the country of import
- Other foreign bank
- Non-bank finance firm
- Venture capitalists/shareholders equity
- Your customer
- Other (specify) ________________________________
- DON'T KNOW

B 7) Was the bank involved in advancing the payment?

- Yes
  - [IF YES] How much did the bank charge for the advance (for the sight draft) or for the discount on the time draft?
  - $ __________
- No
- DON'T KNOW

B 8) Did the bank pay immediately upon presentation of your letter of credit?

- Yes
- No
- DON'T KNOW

B 9) Was this payment drawn against a line of credit?

- Yes
  - [IF YES] What were your costs associated with this financing?
    - Annual interest rate: _____%
    - Points: _____%
    - Commitment fees: _____%
- No
  - [IF NO] How was this payment secured? __________________
- DON'T KNOW
- NOT APPLICABLE
B 10) We would like to further analyze the costs associated with servicing payment mechanisms in small business export transactions. Will you be willing to supply a copy of the documentary draft or letter of credit for your most recent transaction? You may cover over confidential information.

_____ Yes [IF YES, PLEASE SUPPLY YOUR FAX OR ADDRESS]

_____ No

_____ Other ________________________________
III C. SHIPMENT

This next set of questions address costs and issues related to shipment of your order for your most recent export transaction.

C 1) Did you require a specific validated license from the Department of Commerce or other government agency?
   
   _____ Yes
   _____ No
   _____ DON’T KNOW

C 2) Did you use any type of service to assist you in shipping this order?
   
   _____ Yes [TURN PAGE TO QUESTION C 5]
   _____ No [TURN PAGE TO QUESTION C 5]
   _____ DON’T KNOW [READ: Is there someone within your company we can speak with about the shipment process for your most recent export transaction?]

C 3) What services did you use in shipping this export transaction? Was it:
   
   _____ Directly with carrier
   _____ Freight forwarder
   _____ Export management company
   _____ IVLS
   _____ Other (please specify) ________________________________
   _____ DON’T KNOW
C 3) Please identify the type of service your company used to assist in shipping your order, such as:

- [ ] Air carrier
- [ ] Trucking/steamship company
- [ ] Export intermediary
- [ ] Export broker
- [ ] Trade association
- [ ] Export consultant
- [ ] Subsidiary
- [ ] Department of Commerce
- [ ] Small Business Administration
- [ ] State office of international trade
- [ ] Chamber of commerce
- [ ] Other (specify) ________________________________

- [ ] DON'T KNOW

C 4) What were the service company’s charges? If you used more than one, please describe the charges for each:

$ _____ $ _____

C 5) What was your mode of transport?

_____________________________________________________

C 6) What were your terms?

- [ ] FOB Vessel
- [ ] FOB Port
- [ ] FOB Factory
- [ ] C @ F

Incoterms:

- [ ] EXW
- [ ] FAS
- [ ] CPT
- [ ] DDP

- [ ] FCA
- [ ] CFR
- [ ] CIP
- [ ] DDU

- [ ] DON'T KNOW
C 7) Who obtained the insurance for this shipment?

___ You
___ Your customer
___ Other __________________________
___ DON'T KNOW

C 8) Who paid for the insurance for this shipment?

___ You
___ Your customer
___ Other __________________________
___ DON'T KNOW

If you paid, what was the cost of the insurance?

$ ____________

C 9) Who filled out your export documentation?

___ Company employee
___ Freight forwarder [TURN PAGE TO QUESTION C 13]
___ Intermediary [TURN PAGE TO QUESTION C 13]
___ Other (please specify) [TURN PAGE TO QUESTION C 13]
___ DON'T KNOW

C 10) If someone in your company filled out the export documentation, please estimate the time spent on completing the following:

<table>
<thead>
<tr>
<th>DOCUMENT</th>
<th>HOURS TO COMPLETE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipper's Export Declaration</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Bill of Lading</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Pro Forma Invoice</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Invoice</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Certificate of Origin</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Packing lists</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Insurance certificates</td>
<td><strong>:</strong></td>
</tr>
<tr>
<td>Other (specify)</td>
<td><strong>:</strong></td>
</tr>
</tbody>
</table>

22
C 11) For purposes of calculating costs, what is the average hourly salary of the person in your company that completed the above documentation?

$______ per hour
$______ per hour for any other documentation

C 12) Did you fill out your documentation with the aid of a software program?

______ Yes
______ No
______ DON’T KNOW

If yes, what is the name of this software package?

____________________________________
______ DON’T KNOW

What is the cost of this software package?

$________________
______ DON’T KNOW

C 13) Were the costs of preparing documentation built into the price of your product?

______ Yes
______ No
______ DON’T KNOW

C 14) What was the average overall cost to ship this order?

$________

C 15) We are interested in further analyzing the costs associated with small business export transactions. Will you be willing to supply copies of the bill for your most recent as well as your smallest transaction? You may cover over confidential information.

______ Yes [PROVIDE YOUR FAX NUMBER OR ADDRESS]  ____ No
IV. RELATED FINANCING ISSUES

This final set of questions is to gauge your overall perceptions about export financing.

1) Please identify any of the following factors may have increased the direct costs of financing your most recent export transaction. Were your costs increased due to:

- Economic stability of country being shipped to
- Political stability of country being shipped to
- Creditworthiness of overseas customer
- Restrictions/tariffs/documentation on products exported
- Currency conversion
- Mode of shipment
- Other (specify) ________________________________

2) Do you feel the cost of obtaining export financing makes your prices uncompetitive in international markets?

- Yes
- No
- DON'T KNOW

3) Have you ever talked to your banker(s)/lender(s) about expanding your export efforts?

- Yes [IF YES] What was their reaction?
  ________________________________
  ________________________________
  ________________________________

- No

- DON'T KNOW

4) Have the challenges associated with export financing ever discouraged you from exporting in the past?

- Yes
- No
5) Based on your experiences with obtaining financing, will you continue to export or expand your exporting?

____ Expand
____ Continue at current level
____ Will cut back on exporting
____ DON'T KNOW

Why or why not?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

6) What types of export/financing assistance from the federal government would help and encourage you to increase your level of exporting? Do you need:

____ Access to a single federal office for all export questions
____ Access to a database of financing sources
____ Guarantees
____ Government guarantees provided to banks that secure payment regardless of performance
____ Letter of credit facilitation services
____ Grants/subsidies for market intelligence, attending trade shows, outside consulting help, etc.
____ Tax incentives
____ Customer matchmaking
____ Financial service matchmaking

7) In your efforts to export, what information was provided by your banker(s) or lender(s) that you found useful? (Please specify)

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
8) How could your banker(s) or lender(s) further help you in your export efforts? (Please specify)

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

9) What information provided by the SBA did you find useful? (Please specify)

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

10) How could the SBA further help your export efforts? (Please specify)

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________
V. COMPANY BACKGROUND

That successfully concludes this interview. Thank you very much for taking the time to speak with us today. Your input will be valuable in helping SBA to better assist businesses in exporting. We just want to ask one more question about your company.

What are your gross annual domestic sales?

$ __________ per year

[IF CONFIDENTIAL, ASK FOR A RANGE:]

_____ Less than $2 million
_____ $2-$10 million
_____ $10-$20 million
_____ $20-$50 million
_____ More than $50 million
_____ DON'T KNOW
August 29, 1994

Dear Mr. 1~:

Recently, you were contacted for a study on export finance trends, sponsored by the U.S. Small Business Administration. You supplied information on a recent export transaction your company conducted. We would like to again thank you for your input into this valuable study, which will assist the SBA and U.S. Government in establishing initiatives to assist small business reach the global marketplace.

In analyzing the data, we determined that there is a need to gather some additional information to develop a more complete picture of small business export finances. Can you help us in completing this data? Attached is a brief questionnaire with four questions. Please answer these questions as completely as possible, and return the form in the enclosed postage-paid envelope (or fax to 215-957-1243). Again, all the data you provide is treated with the strictest confidentiality.

To express our appreciation for your input, you will receive a complimentary one-year subscription to The Exporter magazine, the nation's most comprehensive guide to international trade for businesses of all sizes. In addition, if desired, we will gladly send you a complimentary copy of the study when it is completed and approved by SBA.

Please feel free to contact me if you have any questions.

Thank you,

Joseph McKendrick
Project Coordinator

(The brief questionnaire page follows. In addition, a postage-paid return envelope is enclosed. Or, you may fax the response to 215-957-1243. Thank you!)
From our last interview with you, we have the following information:

A 5- order for 7- shipped on 6- to a customer in 8-. A letter of credit was issued to finance this order.

For the above transaction, we need the following additional information:

1) What was the amount of your final payment for this order from the bank (issuing the letter of credit)? (Please fill in the amount.)

   $_________.

2) Did your company obtain advance payment against the draft earlier than the terms specified for your buyer? (Please check one.)

   ___ Yes
   ___ No
   ___ Don’t know

3) If yes, what were the fees or discount rate for this advance payment? (Please fill in amount, or percentage charged by the bank, if known.)

   $_________.
   ______% 

4) When did your overseas customer pay the servicing bank in full? (Please fill in date, if known.)

   ___/___/___

Thank you again for your valuable assistance!

Your complimentary one-year subscription to The Exporter magazine will begin this fall. Would you also like a copy of the final report when released by SBA?

___ Yes
___ No

PLEASE RETURN THIS FORM IN THE POSTAGE-PAID RETURN ENVELOPE PROVIDED, OR FAX TO: 215-957-1243