REPORT OF THE
DEPARTMENT OF ECONOMIC DEVELOPMENT TO

# EXAMINE THE FEASIBILITY OF DEVELOPING IMPORT-EXPORT BANKING WITHIN THE COMMONWEALTH

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

# HOUSE DOCUMENT NO. 72

COMMONWEALTH OF VIRGINIA
RICHMOND
1995

COMMONWEALTH of VIRGINIA

*Office of the Governor*

George Allen
Governor

Robert T. Skunda
Secretary of Commerce and Trade

TO: The Honorable George Allen
Members of the General Assembly of Virginia

House Joint Resolution No. 170, agreed to by the General Assembly in 1994, requests that the Department of Economic Development (i) undertake a comparehensive evaluation of the availability of capital in conjunction with import-export activities and (ii) examine, in particular, the feasibility of developing in Virginia an import-export banking system comparable to that reportedly in operation in Maryland and California.

As directed by this joint resolution, I hereby submit the attached report which includes the findings of the evaluation.

I wish to express my sincere appreciation to the many individuals who assisted the Department of Economic Development in carrying out the request of the General Assembly for this important study.

Respectfully submitted

Robert T. Skunda
Secretary of Commerce and Trade

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# PREFACE

House Joint Resolution No. 170 passed by the 1994 Session of the General Assembly directed the Virginia Department of Economic Development to examine the feasibility of import-export banking within the Commonwealth. Specifically, the agency was requested to (i) undertake a comprehensive evaluation of the availability of capital in conjunction with export activities, and (ii) examine, in particular, the feasibility of developing an import-export banking system comparable to that reportedly in operation in Maryland and California.

The study was conducted by the staff of the Virginia Small Business Financing Authority (VSBFA). VSBFA is the state's primary business financing agency and the administrator of Virginia's export financing assistance program. Specific staff members assigned to the study included:

1) Cathleen M. Surface, VSBFA Executive Director, responsible for oversight and completion of the study.

2) Cynthia H. Arrington - VSBFA Manager of Program Development, coordinator of study procedures, collection of information and drafting of report.

3) Anna M. Cobb - Manager of VSBFA's Export Financing Assistance Program, contributing editor for the information regarding existing federal and state programs and the comparative analysis of the Maryland and California programs.

4) Michael P. Christin - VSBFA Program Manager, contributing editor for information on export insurance programs and the analysis of existing Virginia banking services.

5) Karen A. Aylward - VSBFA Program Manager, survey format and distribution.

A major component of the study included a survey of selected Virginia exporters regarding the need and availability of financing. This study was conducted with the assistance of the Virginia Commonwealth University Department of Marketing. Advising faculty and student team members included:

1) Dr. Van R. Wood - Professor of Marketing, Philip Morris Chair in International Business, School of Business

2) Dr. Frank J. Franzak - Associate Professor of Marketing, School of Business

3) Gary Pokrifka - Masters of Business Administration student. Responsible for final design of survey document, statistical analysis of data and final report of survey results.

4) Philip Sturm - Ph.D. student. Assisted in initial planning of survey process.

**Study of Export Banking in Virginia**

**House Joint Resolution 170**

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# EXECUTIVE SUMMARY

The information collected during the process of the study, which included direct responses from selected Virginia exporters and existing providers of export financing assistance, conclusively supports the need for state involvement to provide financial assistance in the area of finance and to facilitate access to capital for international trade activity. It was clear that the basic infrastructure provided by Virginia banks and existing public sector programs (federal and state) is well-conceived but limited in outreach and flexibility. The supporting survey data indicates that the availability of financing has a significant impact on the competitiveness of Virginia exporters but that knowledge levels are relatively low regarding available options. In the review of existing public and private-sector programs in Virginia, it was evident that these programs have significant value; however, their resources are insufficient to reach and serve a significant sector of the potential market. The analysis of financing programs in California and Maryland clearly reflects the investment required to deliver a successful program and adequately meet the needs of the international business community. As a result, the following two conclusions are offered:

1) Virginia should consider maximizing its existing export financing infrastructure by devoting additional resources to the program currently established within the Virginia Small Business Financing Authority. The availability of staff to work in partnership with the Virginia banking community and provide one-to-one assistance to Virginia exporters throughout the financing transaction could maximize the value of existing public and private sector resources.

2) Consideration should be given to the establishment of a state funded Export Guaranty Program to reduce reliance on federally funded credit enhancement available through the U. S. Small Business Administration and the U. S. Export-Import Bank. In Maryland and California, a substantially greater number of businesses have been served through a more flexible and accessible state funded and administered program.

The report provides complete details regarding survey responses, experience and operating data from export financing programs in Maryland and California, an analysis of Virginia's current Export Financing Assistance Program, and a review of international banking services offered by four major regional Virginia banks. In summary, Virginia has the infrastructure in place to deliver comprehensive export financing assistance to Virginia businesses. With implementation of the enhancements recommended above, Virginia can better increase the competitiveness of its businesses in the international marketplace.

# CHAPTER I

## Introduction

House Joint Resolution No. 170 directed the Virginia Department of Economic Development to undertake a comprehensive evaluation of the availability of capital in conjunction with import-export activities. Specifically, the legislation directed the agency to examine the feasibility of developing a comprehensive import-export financing program similar to those currently in place in the states of California and Maryland. To fulfill the requirements of this directive, the study included the following activities:

I. Survey of Selected Virginia Exporters/Profile of Export Financing Needs

II. Review/Evaluation of Current Financing Resources

- A. Export Financing Offered by Virginia Banks
- B. Federal Export Financing Programs
- C. State Export Financing Programs (Virginia Small Business Financing Authority)

III. Research on Export Financing Programs in California and Maryland

IV. Formulation of Proposed Enhancements to Virginia's Export Financing Program

The primary data collected through the survey of selected Virginia exporters supported a current assessment of export financing needs in Virginia. This research, coupled with the evaluation of existing financing resources in Virginia, and comparisons to model programs in Maryland and California, provided the foundation for the conclusions and proposed program enhancements presented herein.

# CHAPTER II

## Survey of Virginia Exporters

A survey of selected Virginia exporters was conducted with the assistance of Virginia Commonwealth University's School of Business. One-half of the companies listed in the Virginia Exporters Directory, maintained by the Virginia Department of Economic Development's Division of International Trade and Investment, were polled. The directory database contains 1,023 Virginia businesses. Every second entry in the database was selected to accumulate a sample for participation in the survey. With this sampling approach, a 25% response rate is accepted as statistically representative of the sample. Questionnaires were completed and returned by 36% (208) of the businesses selected for participation in the survey. The survey instrument was designed to gather information regarding the businesses' general export activities and the role and importance of finance in those activities. General knowledge questions were included to determine the level of understanding of export financing methods and the general awareness of government resources available to assist in accessing capital.

Fifty-one percent of the surveys were completed by the company's chief executive officer or president. Fifty-six percent of the responses were received from companies engaged in the manufacturing or distribution of industrial products. Nearly 70% of the responses were received from companies with total annual sales of less than $20 million. Approximately 80% of the respondents had annual export sales of less than $5 million. Fifty-five percent of the companies that participated in the survey had fewer than 75 employees.

General awareness of government export financing services is low. Seventy-two percent of the businesses responding indicated that they had minimal knowledge of the Eximbank Working Capital Guarantee Program. Seventy-nine percent reported only minimal knowledge of the U.S. Small Business Administration Export Line of Credit. Similarly, 83% of the participants reported little or no knowledge of the Virginia Small Business Financing Authority Export Financing Assistance Program.

Sixty-six percent of the respondents had not attempted to obtain financing for export activities. However, 59% indicated that exports would increase by more than 10% if financing was available during the negotiation and delivery stages of an export transaction.

Thirty-seven percent of the businesses were not familiar with export credit insurance, with an additional 48% stating that they had heard of credit insurance but had never used it. Only 9% used export credit insurance on a regular basis. These figures were consistent with the response to a separate, but related, question which indicated that 89% of the respondents do not use export credit insurance. Three percent of the respondents use credit insurance to obtain financing, and only 2% utilize this financing option to offer better terms to foreign buyers. Seventy-eight percent of the participants, however, indicated that it was advantageous to offer credit terms to foreign buyers. Yet, only 7% of the businesses responding actually reported offering open account payment terms to foreign customers.

These responses appear to indicate that Virginia businesses are not taking advantage of export financing tools available to expand export sales volume, compete effectively and to enter new markets in which more competitive trade terms are required. Greater understanding of the role and impact of financing options in foreign sales transactions, coupled with uncomplicated access to capital, appear to be the primary gaps in the marketplace to be addressed by a successful state program.

## CHAPTER III

## Review of Federal Export Financing Programs

### History of the Federal Export Financing Programs

Since the establishment of the Export-Import Bank of the United States ("Eximbank") in 1934, the U.S. government has been involved in the financing of exports. Although the bank was active from its inception, it was not until the mid-1960s, when the United States began to operate at a trade deficit, that the role of the Export-Import Bank became increasingly critical.

In 1983, the United States Congress modified Eximbank's charter to require that ten percent of the agency's annual subsidy be spent on meeting the needs of small business exporters. A study conducted by the agency at that time indicated that the greatest impediment to exporting for most small businesses was a lack of access to financing. In response to this finding, Eximbank created a program known as the Working Capital Guarantee Program.

The Working Capital Guarantee Program was established to provide small businesses with access to export financing by reducing a bank's risk in lending. When the program was initially established, Eximbank provided commercial banks with a 90% guaranty, representing, as it does now, the full faith and credit of the United States government.

Eximbank initially believed a 90% federal guaranty would be sufficient to accomplish its mutual goals: providing banks with an incentive to lend, while also maintaining a stake for the bank in the servicing and outcome of the loan. Eximbank later discovered that a 90% guaranty was an insufficient incentive for many commercial banks that were unwilling to take any risk on export transactions. Consequently, the guaranty under the Working Capital Program was increased to 100% in 1992.

In 1985, the U.S. Small Business Administration joined the federal effort to promote small business exports by offering a program known as the Export Revolving Line of Credit Program ("ERLOC"). The ERLOC Program, which provided a 90% guaranty, was not actively promoted by SBA and, as a result, was grossly under-utilized.

### Current Status of Federal Export Programs

In late 1994, both the Eximbank and SBA programs underwent a dramatic restructuring as the result of recommendations made by the Trade Promotion Coordinating Committee (TPCC). The TPCC recommended that the export loan guaranty programs offered by Eximbank and the SBA be "harmonized" such that the parameters and criteria of each program were similar in scope and nature. As a result, among other similarities, both programs now offer a 90% guaranty.

In addition, the TPCC recommended that the programs be modified so that each agency would service a particular group of clients: SBA now processes all applications less than $833,000, provided that the applicant business qualifies as a "small" business under SBA guidelines. Requests for guaranties of loans in excess of $833,000 are processed by Eximbank.

Eximbank continues to market its program as the Working Capital Guarantee Program ("WCGP"); however, the SBA's program has been changed to the "Export Working Capital Program" ("EWCP"). As the programs are currently structured, both programs provide the following:

- a 90% guaranty to the commercial bank providing the financing;
- access to pre-export and post-export working capital;
- guaranties for a one-time loan for a single transaction, or for a revolving line of credit.

Although the guaranty agreements and servicing requirements of the two programs are different, the eligibility criteria are essentially the same. To access the programs, an exporter must:

- offer a reasonable assurance of repayment;
- have a minimum of one year of operating history;
- have a positive net worth;
- have a sufficient net worth to support the loan requested;
- have at least one principal employed full-time;
- qualify as a "small" business (SBA only).

In addition, the export transaction must:

- be fully collateralized;
- cover goods or services being shipped to a country that Eximbank and SBA are authorized to support;
- contain at least 50% U.S. content (Eximbank only);
- be of a non-military nature (Eximbank only).

**Usage/Limitations of the Federal Export Loan Guaranty Programs**

- Eximbank Working Capital Guarantee Program

Because of Eximbank's long history in supporting export transactions, their credit approvals typically reflect their sophisticated knowledge and experience in this specialized lending arena. Although specific policies and guidelines are in place, Eximbank has to date been very reasonable in its application of these policies when considering Virginia's export loan guaranty requests.

In select situations, however, Eximbank program guidelines have prevented Virginia companies from accessing the program. This has most often been the case with companies involved in the production of a product being sold to a military buyer overseas.

- SBA Export Working Capital Program

In spite of the long-time availability of SBA programs for small business exporters, the SBA has not had the track record with administration of export loan guaranties experienced by Eximbank. Although the SBA appears to be committed to the success of its new program, the long-term viability of the program is unproven.

**Eximbank Credit Insurance**

The availability of export credit insurance is an important element to any export promotion effort. There are three reasons why export credit insurance is necessary to exporters.

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| Competition: | U.S. exporters must be able to offer credit terms to their foreign buyers in order to compete in foreign markets. |
| Risk: | In order to offer credit terms the exporter must be protected from the political and commercial risks of default. |
| Financing: | Insurance allows the exporter to access financing by making foreign receivables acceptable as a source of collateral. Without insurance the cash flow requirements of the exporter would not be met by private sector lenders. |

Export credit insurance is available through two sources: private insurance companies and Eximbank. In 1961, Eximbank was authorized by the U.S. Congress to issue insurance and reinsurance in order to encourage the development of U.S. export trade and to match foreign competition supported by similar export development agencies overseas.

Eximbank offers a variety of short-term and medium-term insurance policies to all exporters, including small and new-to-export companies. The coverage is for both political and commercial risks and, depending on the policy, varies from between 90% and 100% of the foreign receivable amount. Exporters may choose to purchase political-risk-only insurance through private insurers, however, insurance covering commercial risk alone is not available through Eximbank.

There are other restrictions that apply to Eximbank insurance, and it is in these restricted areas that private sector insurers have found a market. The principal restrictions that apply to Eximbank insurance are:

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| U.S. Content | The product being exported must have at least 50% U.S. content (on a cost basis). |
| Military | Eximbank cannot by law support the sale of goods or services to any foreign military. |
| Destination | Eximbank cannot by law cover the sale of U.S. goods and services to Marxist-Leninist countries. In addition, exports to certain countries cannot be covered due to the level of risk involved. |
| Terms | The term or tenor of an Eximbank policy is restricted by the type of product exported and the dollar size of the transaction. Also, in some cases, the terms of repayment by the foreign buyer are limited. |

Private sector insurers such as American International Group, Foreign Credit Insurance Agency, and Lloyds of London are not subject to these federal restrictions and have made a market in those areas. However, the minimum dollar volume that most private-sector insurance companies are willing to cover is much larger than that of Eximbank. Eximbank has no minimum transaction size or annual volume requirements, while, for example, FCIA will not provide insurance unless the exporter's annual volume exceeds $3,000,000 to $5,000,000. Also, when private insurance is available on smaller transactions, the cost is substantially higher than through Eximbank.

Eximbank has made an effort to reach small businesses by offering special insurance programs designed to encourage small businesses to export. These programs offer greater than usual coverage and, in some instances, no deductible. Eximbank has also tried to make its insurance products more accessible to small businesses by allowing intermediaries, such as state development authorities and private insurance brokers, to act as brokers on behalf of Eximbank. One such product is Eximbank's Export Credit Insurance Umbrella Policy; Virginia administers an Eximbank Umbrella Policy (see VSBFA Export Financing Assistance Program). Virginia began administering an Eximbank Umbrella Policy during 1994 to meet the needs of smaller exporters who were previously unable to effectively access Eximbank insurance.

It appears that the availability of export credit insurance is adequate for most businesses, both large and small, in Virginia. In some instances, a small or medium-size company may find that Eximbank is restricted from providing support, and comparable private insurance coverage is either unavailable or cost-prohibitive. Although no hard statistical data is available on this subject, it is estimated that the inability to access export credit insurance on reasonable terms accounts for a small percentage of uncompleted export transactions. The inaccessibility of financing, on the other hand, is often noted by insurance brokers and exporters alike as an obstacle to exporting.

## CHAPTER IV

### Virginia Small Business Financing Authority Export Financing Assistance Program

The Virginia Small Business Financing Authority (VSBFA) administers Virginia's Export Financing Assistance Program. Created in 1984 with passage of the Virginia Small Business Financing Act, VSBFA offers an array of programs to provide small and medium-size Virginia businesses with access to financing for growth and expansion. VSBFA seeks to develop new programs to fill financing gaps in the market, in partnership with other public sector programs and the private financial services community. The VSBFA office is located within the Virginia Department of Economic Development and provides financial expertise and assistance on economic development projects statewide. In an effort to meet a market need and to further its economic development mission, VSBFA established Virginia's state export financing assistancing program in 1992.

VSBFA counsels many types of companies, from new exporters who are attempting to structure payment terms to seasoned exporters who are assessing market and transaction risks. In almost every case, the companies who seek export financing assistance from VSBFA are concerned with determining their potential eligibility for financing and federal export loan guaranties.

Approximately half of the companies which approach VSBFA for export financing are seeking assistance in establishing a banking relationship which will accommodate their export financing needs. A major obstacle to private financing options is that banks which do not offer international banking services may be unwilling to consider lending to commercial customers for export transactions. VSBFA provides assistance to its client companies in locating a commercial bank that has experience and an interest in export financing.

At the present time, VSBFA does not currently have a program in place to provide direct export financing or export loan guaranties at the state level. Instead, VSBFA's Export Financing Assistance Program, is focused on assisting qualified Virginia exporters with obtaining loan guaranties and export credit insurance available from the United States government.

Since 1992, the Virginia Small Business Financing Authority has been a member of Eximbank's City/State Program. The philosophy behind the City/State Program is one of improved access: educate state (or local) representatives on the federal export programs so that they can inform and advise exporters, facilitate transactions, and minimize the government "red tape." In short, the City/State Program strives to improve local access to Eximbank programs. Under the City/State Program, Eximbank requires that each member dedicate two people to the program. To date, VSBFA has been able to dedicate only one full-time staff member to the program.

Under the City/State Program, state and local representatives, usually economic development agencies or state financing agencies, receive training on Eximbank's guarantee and insurance programs. Upon completion of the training, City/State members are certified to evaluate and process applications under Eximbank's Working Capital Guarantee Program. Applications from City/State members receive priority consideration, with responses typically received within five to ten working days after submission. VSBFA's track record with WCGP applications has been excellent, with a 100% approval history and timely responses from Eximbank.

With the Small Business Administration now responsible for the approval of export loan guaranty applications for amounts less than $833,000, at least one-half of VSBFA's applications will now likely be processed through the SBA. Provided that the SBA is able to allocate trained personnel to its program who are capable and interested in the program's success, VSBFA should be in a position to develop the same satisfactory relationship with the SBA as it has developed with Eximbank through the City/State Program.

**VSBFA Export Credit Insurance Umbrella Policy**

In addition to providing access to federal loan guaranties, VSBFA offers Virginia exporters access to export credit insurance by administering an Eximbank Export Credit Insurance Umbrella Policy. By obtaining Eximbank insurance on foreign accounts receivable, Virginia exporters protect themselves against any potential loss incurred from the inability to collect a foreign account receivable.

Although export credit insurance is typically a requirement under the Eximbank and SBA loan guaranty programs, the insurance program and the loan guaranty program are not mutually dependent. In some instances, a company may not need working capital financing but may be able to utilize export credit insurance to expand their overseas markets by offering credit terms to foreign buyers.

**Summary**

Virginia, through the VSBFA Export Financing Assistance Program, has made an excellent start in developing the export financing infrastructure necessary to allow Virginia businesses to effectively compete in international markets. Despite the inability to provide adequate full-time staffing for Virginia's export financing program, VSBFA has, to date, facilitated federal loan guarantees totalling $4.5 million which have supported export sales valued in excess of $18 million by ten Virginia companies. VSBFA recently received approval for the first export credit insurance policy under its Eximbank Umbrella Policy. The structure is in place to quickly expand the state's ability to meet the needs of Virginia exporters and enhance the private banking community's capacity to accommodate financing requests. Additional resources for the VSBFA program would facilitate greater promotion of available financing opportunities and expand critical one-to-one counseling assistance through the finance process. The establishment of a state funded loan guaranty program to accommodate transactions not eligible or appropriate for federal guaranties would close additional gaps in the marketplace and round out a comprehensive and competitive state program. Based on the U. S. Department of Commerce estimate that one job is created/sustained by every $52,000 in exports, the state's investment in an export financing assistance program will continue to be well-justified and create an excellent return for the Commonwealth.

## CHAPTER V

## Review of California World Trade Commission - Export Finance Program

Operating under the auspices of California's World Trade Commission (WTC), the California Export Finance Office (CEFO) was established in 1985. Offering two variations of state export guaranties, the WTC Export Finance Office loan guarantee program is generally touted as being the most aggressive and best funded state export financing program in the country. CEFO is headquartered in La Palma, California and has regional offices in San Diego and Santa Clara.

Under the program, CEFO provides loan guaranties of 85 percent of the loan amount, up to a maximum of $750,000 per transaction. Guaranties are available for pre-shipment financing, post-shipment financing or a combination of both. CEFO guaranties can support single or multiple transactions up to a maximum term of 18 months. Under a co-guarantee program with the U.S. Small Business Administration, an exporter may obtain financing on larger projects up to $1,176,000.

To qualify, an exporter must be a California-based company and have an established history and evidence of successful operations. In addition, an export transaction:

- must provide economic benefit to California;
- must involve goods or services having at least 51 percent California content.

Guaranties under the CEFO export finance program are issued against California's Export Finance Fund. Originally established as a $5,000,000 fund, an additional appropriation of $5,000,000 was made in 1994, doubling the funds available to support guaranties. Continual appropriations are made to the fund to maintain a level balance of $10 million. Current legislation allows for a four to one leverage of these funds. CEFO is a member of the Eximbank City/State Program; however, the majority of its transactions are handled through the state funded program. Companies referred to Eximbank by CEFO are generally "graduates" of the state program.

CEFO has a significant staff. In addition to its director, CEFO is currently staffed with two senior loan officers, six loan officers, two assistant loan officers and three administrative support personnel. CEFO also makes frequent use of part-time employees: currently CEFO employs five college-level interns and one high school student serving as a "student aide".

CEFO extended guarantees totalling $35.6 million during its fiscal year 1993-1994, supporting export sales in excess of $200 million. More than 4,000 jobs were created through these transactions. For fiscal year 1994-1995, the dollar amount of export sales supported is projected to jump by at least $100 million, with associated job creation of 6,000 positions. Over 140 banks and non-bank lenders are now on the Participating Financial Institution List for

California's program. "This program is unparalleled for a state economic development agency," noted Kevin May of ITT Commercial Finance. "It responds to the needs of both lender and exporter and provides hard dollar, documented returns to the community."

One significant hallmark of the CEFO loan guarantee program is the low - less than one percent - default rate over the past nine years. "It's apparent that there are a wealth of opportunities in the world markets for California companies," Jim Newton, Director of CEFO, noted. "Financing can often be the stumbling block for the small and mid-sized businesses that are trying to realize those opportunities. CEFO is doing what it can to make sure that the inability to access working capital doesn't cost California exports, jobs and economic growth."

# CHAPTER VI

## Review of Maryland Trade Finance Program

The Maryland Trade Finance Program was established in 1985 by the Department of Economic and Employment Development to assist Maryland exporters with export financing and accessing federal government agencies offering trade finance assistance. In addition to offering access to the Eximbank and SBA guaranty programs and Eximbank's export credit insurance program, Maryland also offers state export loan guaranties.

Under the Maryland Trade Finance Program, loan guaranties of 90 percent of the loan amount up to a maximum of $1,000,000 are provided by the Maryland Industrial Development Financing Authority (MIDFA). Guaranties are offered for pre-shipment financing, post-shipment financing, or a combination of the two.

Guaranties under the Maryland Trade Finance Program are issued by MIDFA against a general purpose reserve pool of approximately $10,600,000. Current legislation allows for a five to one leverage of these funds, which also support other loan programs in Maryland. Maryland's trade finance program currently has four full-time employees, including a director, two loan officers and one support staff.

Total financing under the state-sponsored guaranty program was $12.0 million in 1992 and $12.4 million (17 transactions) in 1993. Additional financing through the Eximbank program totaled $9.8 million and $9.5 million in 1992 and 1993, respectively. In 1994, Maryland reported facilitating 98 export transactions, 17 under the state funded guaranty and 81 through Eximbank.

According to Marie Torres, Director of Maryland Trade Finance, the primary source of referrals to their program is the United States Export Assistance Center (USEAC) located in Baltimore. The USEAC, a one-stop access point for federal export promotion and finance programs staffed by representatives of the U. S. Department of Commerce and U. S. Small Business Administration, represents a decentralization of these federal programs in an effort to make assistance more accessible. A major goal of the USEAC/Maryland Trade Finance alliance is to foster cooperation between private and public sector programs to provide the totality of services smaller exporters need to successfully conclude foreign sales. Specifically, the Baltimore USEAC worked with Maryland to identify companies that had the potential for exporting, and the USEAC then began working directly with these companies. When finance became an issue, the company in question was turned over to Maryland Trade Finance for follow-up, evaluation, and assistance in accessing the finance program needed, whether from the private or public sector. The strategic alliance of Eximbank, City/State participants and the newly established USEAC appears to be an effective approach to meeting the needs of the state's exporters. The driving force in all of these efforts is the comprehensive educational and technical support offered to the business to make the export transaction (from negotiation, shipment and ultimate payment) a successful one.

## CHAPTER VII

### Review of International Banking Services In Virginia

To obtain a general overview of international banking services currently available to businesses in Virginia, interviews were held with the senior international division officers of four major regional banks that offer and actively promote international banking services. All of the banks interviewed offer a full range of international banking services, including letter of credit issuance and processing, information reporting services, banker's acceptances, import and export collection services, remittances, and foreign exchange.

With each individual bank representative, existing state and federal programs were reviewed to assure that the bankers were familiar with these programs. All were asked for their assessment of financing needs currently evident in the marketplace and to evaluate the state's role in addressing these needs in cooperation with the bank.

In summary, the results of the interviews were fairly consistent and also correspond to responses received in the survey of Virginia exporters. All of the bank representatives considered international trade to be a burgeoning market, however, they concurred that Virginia businesses need assistance and education to compete successfully in international markets, and to utilize available financing options to expand opportunities and increase profitability. Virginia clearly has a strong network of financial institutions capable of supporting export transactions. An observation was made, however, that within all of the Virginia banks involved in international finance combined, only a handful of loan officers are dedicated to assisting in international transactions. This creates a significant limitation for small and medium-size companies requiring a greater level of counseling and support. As a result, each bank considered the state program offered by VSBFA as important in reaching a larger number of exporters and lowering the bank's costs on smaller transactions. By working one-on-one with credit worthy companies to gain access to government guarantees and meet bank requirements, VSBFA could add substantial value. Bankers say that due to the special risks inherent in international transactions, access to and the availability of government guarantees are critical to the overall availability of capital for export opportunities. All of the bank representatives considered Eximbank and U. S. Small Business Administration guarantees to be important elements in the bank's portfolio of international tools in serving the market. Two of the banks emphasized that the addition of a state funded guarantee, with fewer restrictions and greater flexibility, would significantly enhance their ability to accommodate a broader range of export transactions by decreasing their risk exposure. Three of the four banks are currently active in the successful and well-established Maryland Trade Finance Program, which offers a state alternative to the federal guarantees. All of the bank representatives questioned Virginia's ability to adequately meet the demand without the investment of additional resources. According to one officer, a well-capitalized and staffed state export finance program would be an excellent competitive tool for Virginia and its businesses and would contribute significantly to economic development.

Key factors in the success of competing state programs have been 1) adequate resources to promote export financing services to businesses and provide assistance throughout the financing process, and 2) a state funded guaranty program to accommodate transactions ineligible for federal guarantees or too small to justify the federal application process. A bank's access to such state resources could greatly enhance the availability of capital and complement the export banking system infrastructure necessary to assure Virginia's competitiveness in international markets as it relates to finance.

# CHAPTER VIII

## Conclusion/Recommendations

The research completed during the process of the study, including direct responses from Virginia exporters, conclusively supports the need for greater state involvement in the area of export finance. The basic export financing infrastructure provided by Virginia banks and existing public sector programs (federal and state) is well-conceived but limited in outreach and flexibility. Access to export financing has a significant impact on the competitiveness of Virginia exporters, and knowledge levels regarding available options should be increased. At the present time, Virginia's export financing assistance, offered by the Virginia Small Business Financing Authority, has insufficient resources to adequately serve the needs of Virginia businesses. The export financing programs in Maryland and California demonstrate the level of investment required to deliver a successful program which can deliver substantial economic development impact. Given the findings presented, the following recommendations are made:

1) Virginia should maximize and expand its export financing infrastructure by giving consideration to the commitment of additional resources to the program offered by the Virginia Small Business Financing Authority. The availability of staff to form strategic alliances with other export service providers (federal, state and private) could leverage state resources and generate a strong return on dollars invested.

2) Consideration should be given to the establishment of a state funded Export Guaranty Program to reduce reliance on federally funded credit enhancement through Eximbank and the U. S. Small Business Administration and more adequately meet the needs of Virginia exporters. As evidenced in California and Maryland, the flexibility afforded by a state program significantly enhanced the level of capital available to exporters.

3) Based on the research findings, it is feasible to establish a program similar to that currently in place in Maryland. The enabling legislation which created the Virginia Small Business Financing Authority provides sufficient legal powers for the implementation of the financing programs recommended. Such a program would, however, require additional investment of capital to fund a loan guaranty reserve and the dedication of additional personnel to the program. Further study should be undertaken to determine whether existing state resources could be redirected to implement the above recommendations.

With the above enhancements, Virginia could be positioned well to offer a comprehensive export financing program which can promote and enhance the competitiveness of Virginia exporters and contribute significantly to the growth of Virginia's economy.

LD1149382

# HOUSE JOINT RESOLUTION NO. 170

Offered January 25, 1994

*Requesting the Department of Economic Development to examine the feasibility of developing import-export banking within the Commonwealth.*

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Patrons—Newman, Albo, Forbes, Griffith and Ingram; Senator: Bell

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Referred to Committee on Corporations, Insurance and Banking

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WHEREAS, it is critical that the Commonwealth promote economic development at every level during these difficult economic times; and

WHEREAS, such economic development is frequently reflective of the sources and magnitude of available capital; and

WHEREAS, the ever-expanding import-export market may present great opportunities for generating economic activity within the Commonwealth; and

WHEREAS, funds for such import-export activity are frequently difficult to obtain because of the volatility of such markets; and

WHEREAS, it is nevertheless desirable that funds be available for such activity to ensure that economic opportunities for the Commonwealth's businesses and citizens are not lost; now, therefore, be it

RESOLVED, by the House of Delegates, the Senate concurring, That the Department of Economic Development be requested to (i) undertake a comprehensive evaluation of the availability of capital in conjunction with import-export activities and (ii) examine, in particular, the feasibility of developing in Virginia an import-export banking system comparable to that reportedly in operation in Maryland and California.

All agencies of the Commonwealth shall provide assistance to the Department of Economic Development, upon request.

The Department of Economic Development shall complete its work in time to submit its findings and recommendations to the Governor and the 1995 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for processing legislative documents.

Official Use By Clerks

| Agreed to By The House of Delegates | | Agreed to By The Senate | |
|---|---|---|---|
| without amendment | ☐ | without amendment | ☐ |
| with amendment | ☐ | with amendment | ☐ |
| substitute | ☐ | substitute | ☐ |
| substitute w/amdt | ☐ | substitute w/amdt | ☐ |

Date: ____________ Date: ____________

Clerk of the House of Delegates Clerk of the Senate

# COMMONWEALTH of VIRGINIA

*Department of Economic Development*

February 27, 1995

Dear Virginia Exporter:

In the continuing effort to promote exports of Virginia goods and services, we request your participation in the enclosed survey of Virginia exporters. Recognizing export sales as a key factor in the Commonwealth's future growth and development, the Virginia Department of Economic Development has been asked by members of the General Assembly to conduct an evaluation of export financing programs and services (both public and private) currently available in Virginia. The School of Marketing at Virginia Commonwealth University has designed the survey and will assist in the evaluation of the responses.

Due to your experience in exporting, you have been selected to participate in this survey. Your comments are confidential and will provide valuable information regarding the role of finance in your export activities. The questionnaire will take no more than ten minutes to complete. A business reply envelope is enclosed.

We look forward to receiving your completed survey and appreciate your participation in this effort. Your responses will provide important information for the continuing development and implementation of financing programs to better meet your needs and assist Virginia businesses in competing in the global marketplace.

Sincerely,

Cathleen M. Surface
Manager, Financial Services

*P. O. Box 798, 901 East Byrd Street, Richmond, Virginia 23206-0798, (804) 371-8100*

# VIRGINIA EXPORT FINANCE SURVEY

1. **EXPORT REASONS. Indicate your company's PRIMARY reason for exporting:**

- ☐ Declining domestic opportunities
- ☐ Approached by a foreign buyer
- ☐ Competition began to export
- ☐ Increased domestic competition
- ☐ Larger profit margin
- ☐ To reduce impact of temporary market fluctuations
- ☐ Other (please specify) ________________________________

2. **FOREIGN TRAVEL. Indicate the number of out-of-the country trips (personal only) made in the last three years:**

- ☐ 0 trips
- ☐ 1 - 5 trips
- ☐ 6 - 15 trips
- ☐ more than 15 trips

3. **BUSINESS PLANNING. Indicate the percent of total time spent on PLANNING for next year (both domestic and international operations):**

- ☐ Less than 5% of total time
- ☐ 5% to 10% of total time
- ☐ 11% to 25% of total time
- ☐ More than 25% of total time

4. **EXPORT PLANNING. Indicate the percent of total time spent on EXPORT PLANNING for next year:**

- ☐ Less than 5% of total time
- ☐ 5% to 10% of total time
- ☐ 11% to 25% of total time
- ☐ More than 25% of total time

5. **TRADE ORGANIZATIONS. Are you a member of a trade organization?**

- ☐ Yes
- ☐ No

6. **TRADE JOURNALS. Do you subscribe to trade journals?**

- ☐ Yes
- ☐ No

7. **EXPORT MARKETS. Indicate what percent of your total exports are directed towards the following markets:**

______ % Canada
______ % Mexico
______ % Latin America (excluding Mexico)
______ % Western Europe (United Kingdom, France, Spain, Scandinavian countries, etc.)
______ % Eastern Europe (Italy, Germany, Switzerland, etc.)
______ % Russia (including former Soviet Union republics)
______ % Africa
______ % Middle East
______ % Japan
______ % Asia (excluding Japan)
______ % Australia (including New Zealand)
______ % Other (please specify) ________________________________

8. **NEW EXPORT MARKETS. Indicate NEW markets which your company may likely export to in 1995 and 1996:**

______ No new export markets planned
______ % Canada
______ % Mexico
______ % Latin America (excluding Mexico)
______ % Western Europe (United Kingdom, France, Spain, Scandinavian countries, etc.)
______ % Eastern Europe (Italy, Germany, Switzerland, etc.)
______ % Russia (including former Soviet Union republics)
______ % Africa
______ % Middle East
______ % Japan
______ % Asia (excluding Japan)
______ % Australia (including New Zealand)
______ % Other (please specify) ______________________
100 % Total of new markets

9. **EXPORT PROFITABILITY. When compared with your company's domestic operations, EXPORTING has been:**

- ☐ Much more profitable
- ☐ Slightly more profitable
- ☐ Equally profitable
- ☐ Slightly less profitable
- ☐ Much less profitable

10. **FUTURE EXPORT PROFITABILITY. When compared with your company's domestic operations, exporting in 1995 and 1996 is expected to be:**

- ☐ Much more profitable
- ☐ Slightly more profitable
- ☐ Equally profitable
- ☐ Slightly less profitable
- ☐ Much less profitable

11. **EXPORT CREDIT INSURANCE. Indicate how your company has used export credit insurance:**

- ☐ To obtain financing
- ☐ To offer better terms to buyers
- ☐ To obtain more attractive financing
- ☐ To provide greater financial liquidity
- ☐ Not used
- ☐ Other (please specify)______________________

12. **PAYMENT RECEIPT FORM. Payment is usually received from the foreign buyer in the following form (if appropriate, check more than one):**

- ☐ Payment in advance
- ☐ Wire transfer
- ☐ Letter of Credit
- ☐ Cash against documents
- ☐ Open account
- ☐ Utilize an export factor
- ☐ Consignment
- ☐ Barter arrangement
- ☐ Credit card
- ☐ Other (please specify) ______________________

13. **1995 EXPORT LEVEL. Your company's 1995 export sales (in dollars) are expected to increase (compared to 1994) by:**

- ☐ No change
- ☐ Less than 10%
- ☐ 10% to 25%
- ☐ 26% to 50%
- ☐ More than 50%

14. **IMPORTANCE OF EXPORT FINANCING. Indicate how much your company's EXPORT sales would be reduced without the use of external financing:**

- ☐ No change
- ☐ Less than 10%
- ☐ 10% to 25%
- ☐ 26% to 50%
- ☐ More than 50%
- ☐ External financing not used

15. **TYPES OF EXPORT FINANCING. What types of international financial services does your company use (if appropriate, check more than one):**

- ☐ Letters of Credit / Performance bonds
- ☐ Pre-export working capital financing
- ☐ Post-export financing
- ☐ Factoring
- ☐ Financing for capital equipment to produce product for export
- ☐ Other (please specify) ____________________________
- ☐ International financial services not used

16. **TERM OF EXPORT FINANCING. For what period of time does your company need external EXPORT financing for a typical transaction or sale?**

- ☐ Less than 2 months
- ☐ 2 to 6 months
- ☐ 7 to 12 months
- ☐ 13 to 18 months
- ☐ more than 18 months
- ☐ External export financing not needed

17. **FREQUENCY OF EXPORT FINANCING. How OFTEN is external export financing usually needed:**

- ☐ Less than 1 time per year
- ☐ 1 to 4 times per year
- ☐ 5 to 10 times per year
- ☐ more than 10 times per year
- ☐ Not needed

18. **FINANCE IMPORTANCE. If financing was more readily available to your company during any stage of the export process, export sales would increase by:**

- ☐ Less than 5%
- ☐ 5% to 10%
- ☐ 11% to 25%
- ☐ 26% to 50%
- ☐ More than 50 %

19. **STATE GOVERNMENT PROGRAMS. Indicate your knowledge of STATE sponsored export assistance:**

- ☐ Not aware of any state sponsored export programs
- ☐ Have heard of state sponsored export programs but have never used them
- ☐ Have heard of state export programs and have used them

20. **FEDERAL GOVERNMENT PROGRAMS. Describe your knowledge of FEDERAL sponsored export assistance:**

- ☐ Not aware of any federal sponsored export programs
- ☐ Have heard of federal sponsored export programs but have never used them
- ☐ Have heard of federal export programs and have used them

21. **EXPORT INSURANCE. Describe your knowledge of export insurance:**

- ☐ Not aware of any export insurance programs
- ☐ Have heard of export insurance but have never used it
- ☐ Have heard of export insurance and have used it occasionally
- ☐ Have heard of export insurance and used it frequently

22. **TOTAL SALES. Indicate your company's total 1994 sales volume (domestic and export):**

- ☐ Less than $1 million
- ☐ $1 million to $5 million
- ☐ $5 million to $20 million
- ☐ $20 million to $50 million
- ☐ $50 million to $100 million
- ☐ more than $100 million

23. **EXPORT SALES. Indicate your company's 1994 EXPORT SALES volume:**

- ☐ Less than $1 million
- ☐ $1 million to $5 million
- ☐ $5 million to $20 million
- ☐ $20 million to $50 million
- ☐ more than $50 million

24. **IMPORTANCE OF EXPORT FINANCING. On a scale of 1 to 5, indicate the importance of financing for your company during the following export stages:**

| | Not Important | | Moderately Important | | Very Important |
|---|---|---|---|---|---|
| A. Exploration Stage (before contact with an actual buyer) | 1 | 2 | 3 | 4 | 5 |
| B. Research & Development (e.g., modifying product or service for foreign market) | 1 | 2 | 3 | 4 | 5 |
| C. Negotiations and signing of contract with buyer (which includes the ability to extend credit) | 1 | 2 | 3 | 4 | 5 |
| D. Manufacturing of a product | 1 | 2 | 3 | 4 | 5 |
| E. Delivery of goods or service | 1 | 2 | 3 | 4 | 5 |

25. **EFFECTS OF FINANCING EXPORTS. Indicate how much your company's sales could increase if financing was more readily available at the following stages:**

| | Percent Increase | | | | |
|---|---|---|---|---|---|
| | 5% | 10% | 25% | 50% | > 50% |
| A. Exploration Stage (before contact with an actual buyer) | 1 | 2 | 3 | 4 | 5 |
| B. Research & Development (e.g., modifying product or service for foreign market) | 1 | 2 | 3 | 4 | 5 |
| C. Negotiations and signing contract with buyer (which includes the ability to extend credit) | 1 | 2 | 3 | 4 | 5 |
| D. Manufacturing of a product | 1 | 2 | 3 | 4 | 5 |
| E. Delivery of goods or services | 1 | 2 | 3 | 4 | 5 |

26. **FINANCING BENEFITS. In your company's experience, indicate the competitive advantage of extending credit to foreign buyers (on a scale of 1 to 5):**

| No Advantage | | Moderate Advantage | | Very Advantageous |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

27. **GOVERNMENT FINANCE PROGRAMS. On a scale of 1 to 5, indicate your knowledge of the following government finance programs:**

| | No Knowledge | | Moderate Knowledge | | Very Knowledgeable |
|---|---|---|---|---|---|
| A. Export-Import Bank Working Capital Guarantee Program | 1 | 2 | 3 | 4 | 5 |
| B. U.S. Small Business Administration Export Line of Credit | 1 | 2 | 3 | 4 | 5 |
| C. Virginia Small Business Financing Authority Export Financing Assistance Program | 1 | 2 | 3 | 4 | 5 |
| D. Commerce Trade Investment Program | 1 | 2 | 3 | 4 | 5 |
| E. AIGD World Finance Organization | 1 | 2 | 3 | 4 | 5 |

28. **FOREIGN COUNTRY DECISION. On a scale of 1 to 5, indicate the impact the following items have on your company's decision to export to a given country:**

| | No Impact | | Moderate Impact | | Large Impact |
|---|---|---|---|---|---|
| A. Exchange Rate | 1 | 2 | 3 | 4 | 5 |
| B. Tariffs | 1 | 2 | 3 | 4 | 5 |
| C. Political uncertainties | 1 | 2 | 3 | 4 | 5 |
| D. Current economic conditions of the foreign country | 1 | 2 | 3 | 4 | 5 |

29. **EMPLOYEES. Indicate the number of full-time employees at your company:**

- ☐ Less than 10 employees
- ☐ 10 to 25 employees
- ☐ 26 to 75 employees
- ☐ 75 to 150 employees
- ☐ more than 150 employees (please indicate number: ______________)

30. **EXPORT RELATED EMPLOYEES. Indicate the percentage of employees who are dependent upon your company's export activities for their employment:**

- ☐ 0
- ☐ Less than 5 percent
- ☐ 5 percent to 25 percent
- ☐ 26 percent to 50 percent
- ☐ more than 50 percent

31. **FINANCING LIMITATIONS. Identify any limitations encountered while attempting to obtain export financing (if appropriate, check more than one):**

- ☐ Current bank does not offer international financing
- ☐ Domestic operations use all of the company's available credit
- ☐ Bank will not accept foreign accounts receivable as collateral
- ☐ Letters of credit are difficult to obtain
- ☐ Bank will not lend against letter of credit from foreign buyer

- ☐ No limitations experienced
- ☐ Have not attempted to obtain export financing
- ☐ Other (please specify) ______________________________

32. **EXPORT FINANCING DIFFICULTIES. Indicate areas of difficulty encountered when attempting to obtain export related financing (if appropriate, check more than one):**

- ☐ Bank unwilling to participate in government guarantee program
- ☐ Length of time in business
- ☐ Lack of satisfactory collateral
- ☐ Recent unprofitable operations
- ☐ Transaction too small
- ☐ Bank unwilling to finance international sales transaction
- ☐ Have not attempted to obtain export related financing
- ☐ Other (please specify) ______________________________

33. **FINANCE RECEIPT. Indicate when your company last used external financing (domestic or export):**

- ☐ Within the past year
- ☐ 1 year to 5 years ago
- ☐ more than 5 years ago
- ☐ Never

34. **FINANCE KNOWLEDGE. Indicate your knowledge of the following financing methods:**

| | No Knowledge | | Moderate Knowledge | | Very Knowledgeable |
|---|---|---|---|---|---|
| Payment in advance | 1 | 2 | 3 | 4 | 5 |
| Letter of Credit | 1 | 2 | 3 | 4 | 5 |
| Cash against documents | 1 | 2 | 3 | 4 | 5 |
| Open account | 1 | 2 | 3 | 4 | 5 |
| Utilizing an export factor | 1 | 2 | 3 | 4 | 5 |
| Consignment | 1 | 2 | 3 | 4 | 5 |
| Barter arrangement | 1 | 2 | 3 | 4 | 5 |
| Credit card | 1 | 2 | 3 | 4 | 5 |

35. **POSITION DESCRIPTION. Indicate your position:**

- ☐ C.E.O., President, Owner, C.F.O.
- ☐ Vice-President
- ☐ Manager
- ☐ Director
- ☐ Other (please specify) ______________________

36. **LOCATION. For geographic analysis, please provide the first three digits of your company's zip code: ___ ___ ___**

37. **TYPE OF BUSINESS.**

- ☐ Consumer Services
- ☐ Consumer Products
- ☐ Industrial Services
- ☐ Industrial Products

38. COMMENTS. **If you have any comments or suggestions about how the state can better serve your company's exporting needs, we welcome them here.**