We Need Export Lending

By David Griffith and Michael R. Czinkota*

At more than twenty-five percent of U.S. GDP, exports are essential to economic recovery. Export finance is a core underpinning, which makes transactions happen. However, current export lending policies and evaluations no longer suit the conditions of the global economy. Our research of export financing practices finds significant shortcomings in current lending performance. To bridge this private sector gap, the Charter of the Export-Import Bank of the United States, which provides crucial funding to exporters, needs to be re-authorized by Congress.

Since 2007, the global financial crisis has changed the nature of exports and their financing. Banks expanded into new geographical markets. Mergers and acquisitions were encouraged to increase efficiency. Specialized export lenders were laid off and replaced with less expensive, and less experienced personnel. But they were to be supported by analytical tools which would assess creditworthiness. Yet, the current result of these changes is less quality in one-on-one interaction, less understanding of export specific issues, and a decline in the relationship with clients. The quality of export lending decisions has greatly deteriorated.

Exporters are entrepreneurs that look for new markets, create new offerings for new conditions, and work with new clients. These three characteristics require exporters to continually modify resource deployment and business strategies to meet variable customer needs influenced by international cultures, governments and environments. Innovation, risk taking, and proactive capability determine an exporter's success in the global market. Unfortunately, these characteristics are not highly valued or prioritized by export lenders. Our research indicates that lenders prefer exporters who are risk-averse. They fear those who are risk-takers, even if such risk is taken in a strategic way, which would lead to greater international success.

Export lenders tend to look only at computerized values of a financial repayment approach. Therefore, exporters with comparatively greater potential to attain international success in the long run are often unable to gain access to financial resources. Thus, they cannot contribute to an economic recovery.

For lenders, companies with a limited export history are considered higher risks for loan default and are burdened with higher interest rates and stricter repayment terms. But geography should not be a key criterion for a lender. Much more important is an exporter's strategic vision and performance outlook. How an exporter plans to achieve goals in specific markets and how it reacts to the changing global marketplace is much more critical in realizing long-term export success.

To strengthen economic performance, changes must be made in both lender and government policy. Recommended changes for lender policy include: Paying attention to the strategic aspects of exporters; linking lender support of successful exporting firms to their own social responsibility; and establishing and maintaining direct connections with exporters. The way lenders evaluate both exporters and potential loan investments needs to consider an exporter's financial situation, the firm's strategic plans and the conditions in the designated markets. Despite the beneficial use of technology in the lending sector, lenders must develop and maintain relationships with exporters to build trust and loyalty. Managers and firms should add responsibility for society and individuals to their traditional goals of efficiency and profitability. By viewing export lending in such a context, both public and private lenders can make a contribution to economic growth, provide restitution for the public support they received during the financial crisis, and re-grow their own customer base.

As for government policy, recommended changes include: setting clear and stable regulations in support of export lending; investing in export-support processes; helping to bridge any gaps during international market expansion; and presenting a unified policy for a country. In the United States, the Export-Import Bank and the Overseas Private Investment Corporation were created to assist in financing to Russia. Since there is a private sector gap in the export financing process, the Bank charter should be re-authorized by Congress before it expires in May. At the same time, more thought needs to go into a financing structure where a foreign entity is financed at a time where the collateral leaves U.S. shores.

Finally, the linkage between government agencies with the mission of encouraging exports should be tight and strong. To encourage cohesion for government policy, successful long term job creation should become part of any lending decisions.

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