

## U.S. FINANCING PROGRAMS

### *Introduction*

This report highlights some of the financing programs available by the United States Government to U.S. companies, including textile and apparel companies. The financing programs include export insurance, working capital guarantees, or offers to bid on federal contracts that support U.S. foreign assistance programs. U.S. financing programs in no way constitute subsidies, such as preferential loan rates, which are prohibited under the World Trade Organization Agreement on Subsidies and Countervailing Measures.

### *Export-Import Bank of the United States (Ex-Im Bank)*

The United States provides export financing through its official export credit agency, the Export-Import Bank (Ex-Im Bank),<sup>1</sup> an independent Federal agency that in FY 2007 provided \$12.6 billion of financing to support \$16 billion in U.S. export sales. Ex-Im Bank is mandated to provide working capital guarantees (pre-export financing), export credit insurance, and credit at rates and terms that are fully competitive with those supported by governments in the principal countries whose exporters compete with U.S. exporters.<sup>2</sup> Ex-Im Bank accepts risks that the private sector is unwilling or unable to take<sup>3</sup>; however, Ex-Im Bank support is contingent upon a finding of "reasonable assurance of repayment" and other significant criteria, including assessing the impact of the project being financed on the environment, on human rights, and on U.S. domestic industry. Ex-Im Bank works with U.S. exporters of all sizes with a special focus on small businesses, with over 85 percent of its transactions benefitting smaller exporters.

### **Prospects for U.S. Textile and Apparel Firms**

Ex-Im Bank's financing programs include pre-export working capital guarantees, short- and medium-term export credit insurance, and medium- and long-term loans and guarantees. Ex-Im Bank is export and demand driven; it does not propose projects through competitive bidding on contracts, but rather responds to U.S. companies when they approach the Bank. The appropriate type of support is based upon the normal commercial terms for the type of good or service being exported.

For most textile and apparel products, as well as a wide range of goods, raw materials, spare parts, components, and most services, Ex-Im Bank's short-term insurance program is most appropriate. The Bank offers a variety of short-term export credit insurance policies, ranging from multi-buyer and single-buyer policies issued to exporters, to products designed specifically for lenders. Short-term policies have credit terms up to 180 days. Some items, such as consumer durables, may qualify for credit terms of up to 360 days. Short-term insurance can help U.S.

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<sup>1</sup> The mission and mandates of Ex-Im Bank are codified in the Export-Import Bank Act of 1945, as amended.

<sup>2</sup> 12 USC 635, subchapter I, b (1) (A).

<sup>3</sup> Export-Import Bank of the United States online information. Viewed at: <http://www.exim.gov/about/mission.cfm>.

textile and apparel companies increase exports by limiting their international risk, enabling them to offer credit to international buyers, and facilitating greater access to working capital funds. Broadly speaking, Ex-Im Bank provides the exporter with an insurance policy that assures them of being paid even if the foreign buyer does not pay.

U.S. textile and apparel companies have utilized Ex-Im Bank's short-term insurance program to increase their exports of products such as apparel fabrics, carpeting, yarns, mattress ticking and upholstery. Between 2002-2006, the Bank helped finance \$311.7 million in textile exports for 10 U.S. textile companies.

### **Special Considerations**

As an agency of the U.S. Government, Ex-Im Bank requires that certain credit and policy requirements be satisfied in order to ensure that its financing contributes to its overall mission of supporting U.S. jobs through exports. U.S. textile and apparel exporters should be aware in particular of Ex-Im Bank policies regarding economic impact and foreign content.

### **Economic Impact Procedures**

Congress requires Ex-Im Bank to assess whether the extension of Ex-Im Bank financing support is likely to cause substantial injury<sup>4</sup> to U.S. industry or would result in the production of substantially the same product that is the subject of specified trade measures. If a transaction is deemed by Ex-Im Bank to meet the legislatively specified standards, then economic impact can be the basis for denial of Ex-Im support. The purposes of Ex-Im Bank's Economic Impact Procedures are: 1) to ensure that all transactions are screened for economic impact implications; 2) to identify those transactions that are subject to applicable trade measures or that pose a risk of substantial injury to the U.S. economy; and 3) to put only those cases that require further economic impact analysis through a more extensive process that is fair, consistent, and publicly transparent.

Ex-Im Bank reviews all transactions it receives for potential economic impact. Transactions are subject to screens designed to: (i) identify those transactions associated with specific legislative prohibitions (e.g., cases in which U.S. Countervailing Duties are applicable), and (ii) determine the potential of an export transaction to cause substantial injury to the U.S. economy (such as increasing foreign production of an exportable good).

The economic impact analysis determines if the exports involved in a transaction will result in the production of an exportable good from the foreign country. Therefore, only exports of capital goods and services (e.g., manufacturing equipment, licensing agreements) that are associated with incremental production capacity are subject to further economic analysis. The economic analysis determines if the exports involved in a transaction will enable a foreign buyer to produce an exportable good that is subject to: 1) a U.S. Specified Trade Order (including Anti-

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<sup>4</sup> Congress defined the threshold for substantial injury in Ex-Im Bank's Charter. This standard/threshold is met if the buyer's new production is equal to or greater than one percent of U.S. production of the same, similar, or competing good.

dumping or Countervailing Duty Investigations or Section 201 Injury Determinations), 2) a Preliminary Trade Action (Preliminary Anti-dumping or Countervailing Duty Determinations or Section 201 Investigations), and/or 3) will enable a foreign buyer to establish or expand production of an exportable good.

Inputs in the textile production process (fabric, for example) as well as final textile products are generally not considered to be sensitive since these items do not enable the country to increase its productive capacity; therefore, beyond initial screening for applicable trade orders, financing applications for exports of these items are unlikely to require a detailed economic impact analysis. On the other hand, requests for financing of U.S. textile machinery exports that could expand foreign production capacity are often analyzed if they meet specified thresholds (i.e., financing in excess of \$10 million) and pose the risk of injury to U.S. domestic producers.

### **Foreign Content Policy**

Another important policy that U.S. textile and apparel firms should be aware of when working with Ex-Im Bank are its requirements on the maximum amount of foreign content that can be included in its financing. As Ex-Im Bank's mission is to support U.S. jobs through exports, accordingly, there are eligibility criteria and limitations on the level of foreign content that may be included in transactions supported by the Bank. Exporters are required to certify that products meet Ex-Im Bank's eligibility criteria. The *Foreign Content Policy* differentiates slightly between short-term exports, for which at least 51 percent U.S. content is a basic requirement for support, and medium- and long-term exports, for which Ex-Im Bank support depends upon the amount of U.S. content, as noted below:

#### ***Foreign Content Policy for Short-term Exports***

Textile and apparel products are generally considered by the Bank as short-term exports.

To be eligible for Ex-Im Bank support, goods and services must be *shipped from the U.S.* to a foreign buyer, and:

- Each of the products must be produced or manufactured in the U.S.;
- The value of each product must be at least 51 percent of U.S. origin (i.e., labor, material, and components, exclusive of any mark-up); and
- Insurance, freight and other charges incurred by the exporter on the buyer's behalf may also be covered provided the gross invoice value meets the 51 percent U.S. content policy.

Value added after export from the U.S., as well as foreign charges, import duties, and taxes, are typically excluded. Typically, 100 percent of the gross invoice value is eligible for coverage, including foreign content, so long as the export meets the minimum U.S. content threshold.

### ***Foreign Content Policy for Medium- and Long-Term Exports***

While there is no U.S. content threshold for medium- and long-term exports, financing is reduced commensurate with U.S. content. To be eligible for Ex-Im Bank support, goods and services in a supply contract must be *shipped from the U.S.* to a foreign buyer. Eligible goods and services in a U.S. supply contract are those:

- Produced/originated entirely in the U.S.;
- Containing U.S.- or foreign-originated components (there is no U.S. content threshold but the financing is reduced to U.S. content only); and
- Produced/originated entirely in a foreign country (other than the buyer country) but the good has to be assembled in the U.S. and shipped from the U.S. (a good entirely assembled in the U.S. with foreign elements is eligible as it was assembled entirely in the U.S.).

The total level of support for a supply contract will be the lesser of:

- 85 percent of the value of all eligible goods and services in the U.S. supply contract; or
- 100 percent of the U.S. content in all eligible goods and services in the U.S. supply contract.

### ***Overseas Private Investment Corporation (OPIC)***

OPIC helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, assists the private sector in managing risks associated with foreign direct investment, as well as supports U.S. foreign policy through its initiatives with the private sector. OPIC-supported projects also help expand economic development overseas and encourages political stability and free market reforms. When private sector support is not available, OPIC uses various financial vehicles to help U.S. businesses of all sizes to compete in emerging markets and meet the challenges of investing overseas.

OPIC's mission is to mobilize and facilitate the participation of U.S. private capital and skills in the economic and social development of less developed countries. They also assist countries in transition from nonmarket to market economies. U.S. companies whose projects are approved are provided financing ranging from large structured loans to small business loans, political risk insurance, and investment funds.

The Office of Investment Policy (OIP) ensures that OPIC implements its statute and policies across all OPIC-supported projects. This includes Congressionally-mandated statutory requirements and general OPIC policy requirements. Besides environmental, worker, and human rights concerns, OIP is tasked with guaranteeing that all OPIC-supported projects do not have a negative impact on the U.S. economy and encourages positive host country development effects. OIP is responsible for evaluating the potential economic impact in the U.S. as well as the impact development is having in the host country for all OPIC-supported projects. The development analysis is called the ***Development Impact Profile (DIP)*** and is required by OPIC's enabling

legislation.. Similar to Ex-Im Bank, OPIC is demand driven; OPIC responds to requests for financing and insurance from U.S. companies. However, OPIC also periodically issues calls for projects in a specific sector or geographic region. These requests are posted on OPIC's website: <http://www.opic.gov>.

When a proposal is received, OIP conducts an analysis of the project's expected impact on U.S. employment and U.S. balance of payments flow. Depending on the project, OIP's evaluation may include an in-depth industry review and forecast of the project's potential impact on the U.S. economy. In addition, OIP calculates any positive effect of project-specific procurement on U.S. employment. OPIC conducts a DIP to assure that each project receiving OPIC support has a beneficial net impact on the economic and social development of the project's host country. Factors that are considered when conducting the host country development analysis include human capacity building; infrastructure improvement; and technology and knowledge transfer, among others.

### **Prospects for U.S. Textile and Apparel Firms**

Some projects are considered sensitive from a U.S. economic perspective and textiles and apparel falls into this category because the U.S. industry has experienced a decline during the past decade as measured by production, exports, increased imports, and employment. Hence, a project in the textile and apparel industry sector would require in-depth industry analysis because OPIC is statutorily prohibited from supporting a project that would result in the export of American jobs.

### **Minority Business Development Agency (MBDA)**

MBDA, part of the Commerce Department, works to enhance the growth and expansion of minority business enterprises in the U.S. In order to promote overall U.S. economic growth, MBDA's short- and long-term strategic interest focuses on increasing the number of small, medium, and large minority businesses (MBDA's Strategic Growth Policy).

MBDA is entrepreneurially focused, and while MBDA is not a lending institution and does not provide grants and loans for starting up a business, it does have programs that provide access to capital and markets. The Agency also develops a industry focused, data driven technical assistance approach to give minority business owners the tools essential for becoming first or second tier suppliers to corporate America and the Federal government. As such, MBDA is not necessarily focused on imports or exports. MBDA's charter does not explicitly promote export activity.

MBDA provides funding for a network of *Minority Business Development Centers (MBDCs)*. These Centers are located throughout the U.S. and provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management and technical assistance and financial planning to assist them in obtaining adequate financing for business ventures.

## **Prospects for U.S. Textile and Apparel Firms**

While MBDA does not have programs to provide businesses with financial resources, they have guided and assisted firms in obtaining such funding. MBDA is available to assist any minority owned business to succeed in the textile apparel industry. Agency officials suggest that the best opportunity exists for either emerging or established firms to move their manufacturing base to a Native American reservation.

Incentives for businesses operating on Native American soil include Federal tax benefits (depending on various circumstances Federal taxes have the possibility of being reduced or eliminated); an abundant work force; Native Americans are U.S. citizens; and only Federal wage laws apply in reservations, not state wage laws. One example is the Indian Township Passamaquoddy Tribe in Maine. The Tribe has an establishment that produces garments and chemical warfare protective clothing for the U.S. military, under the Berry Amendment. This company is majority owned by the Tribe. U.S. textile and apparel companies can also set up a subsidiary on tribal lands to benefit from the incentives offered to businesses operating on tribal land.

### **United States Agency for International Development (USAID)**

USAID is an independent federal government agency that receives overall foreign policy guidelines from the Secretary of State. USAID supports long-term and equitable economic growth and advances U.S. foreign policy objectives by supporting agriculture and trade; global health; democracy; conflict prevention; humanitarian assistance; and economic growth worldwide

USAID utilizes various *Acquisition* and *Assistance* instruments to implement its activities, such as contracts, grants, cooperative agreements, and purchase orders. The agency carries out business through a variety of available federal mechanisms - each with their own distinct policies, forms, procedures, and associated documents. USAID awards approximately \$4.0 billion a year in federal contracts and grants. Nearly one-half of the contract and grant awards made by USAID are negotiated, issued and administered by their Washington, D.C. Office of Procurement. The other half are negotiated, issued and administered by contracting and grant staff located at USAID missions worldwide. The various mechanisms utilized by USAID are:

#### **1. Contracts**

*Contracts* are awarded primarily for the acquisition of technical assistance, commodities and/or equipment, transportation services and, occasionally, construction. Direct contracts are subject to the Federal Acquisition Regulations (FAR), the USAID Supplement to the FAR (Agency for International Development Acquisition Regulations [AIDAR]), and applicable portions of the Automated Directives System (ADS) Series 300, "Acquisition & Assistance". All contracts issued ultimately support objectives of the *U.S. foreign assistance program* managed by USAID.

Notifications of contract opportunities and corresponding solicitations are publicized on Federal Business Opportunities (**FedBizOpps**) at [www.fbo.gov](http://www.fbo.gov).

USAID's website has a database that provides examples of contracts that have already been awarded. The Trade Capacity Building Assistance website and database can be accessed at [www.usaid.gov/our\\_work/economic\\_growth\\_and\\_trade/eg/trade/oth\\_us\\_agencies.htm](http://www.usaid.gov/our_work/economic_growth_and_trade/eg/trade/oth_us_agencies.htm).

## **2. Grants and Cooperative Agreements**

*Grants* are awarded for a variety of recurring and unique, non-recurring programs. All grants issued ultimately support objectives of the *U.S. foreign assistance program* managed by USAID. *Grants* and *Cooperative Agreements* are used to accomplish a public purpose of support or stimulation authorized by the *Foreign Assistance Act of 1961, as amended (FAA)*. The majority of USAID awards are grants and cooperative agreements. These awards support programs of the bureaus of Global Health; Economic Growth, Agriculture and Trade; Democracy, Conflict and Humanitarian Assistance; and regional bureaus and AID Missions world-wide.

USAID publishes an *Annual Program Statement (APS)* or a *Request for Assistance (RFA)* in order to satisfy the requirement for public notice as well as to provide a mechanism for advertising competitive assistance programs. U.S. companies bid on these programs. As such, the Agency generates competition for implementing activities that are complementary to its strategic objectives through annually published *APS*'s. These statements solicit and support creative approaches by the non-governmental community that will accomplish stated objectives and may be multi-country or global in nature. In addition, *RFA*'s invite interested parties to submit applications for USAID assistance; they explain what the application should contain, how it should be written, and the evaluation criteria to be used. They are issued by *Agreement Officers*, as required, and are in accordance with *APS*'s.

Effective May 2003, *APS*'s and *RFA*'s are published on the FedGrants website [www.grants.gov](http://www.grants.gov).  
**Prospects for U.S. Textile and Apparel Firms**

Most of USAID's work focuses on assisting less and least developed countries to improve their economies. Possible opportunities for the U.S. textile and apparel industry include assisting such countries to increase their trade capacity. For example, a U.S. textile or apparel company could be awarded a contract to help such a country increase its production and trade capacity through development of a larger textile and apparel manufacturing infrastructure to facilitate the country's textile and apparel exports to the United States. Some of USAID's contract and grant awards assist countries that have a free trade agreement (FTA) with the U.S. to increase their trade capacity; for example, the Morocco-United States FTA and the Morocco New Business Opportunities (NBO) Program. Only U.S. companies are allowed to bid on USAID's contract opportunities.

### **U.S. Trade and Development Agency (USTDA)**

The U.S. Trade and Development Agency (USTDA) is a foreign assistance agency pursuant to section 661 of the Foreign Assistance Act of 1961, as amended (22 USC 2421). The agency delivers its program commitments through overseas grants, contracts with U.S. firms, and the use of trust funds at several multilateral development bank groups. USTDA is organized into six regions of the world: South and Southeast Asia; Europe and Eurasia; Latin America and the Caribbean; the Middle East, and North Africa; Sub-Saharan Africa; and East Asia.

USTDA's program is designed to help countries establish a favorable trading environment and a modern infrastructure that promotes sustainable economic development. To this end, the agency funds overseas project-sponsor access to U.S. private sector expertise in the areas of: 1) trade capacity building; and 2) project definition and investment analysis. In addition to trade capacity building assistance, USTDA funding is used for feasibility studies, technical assistance, orientation visits to the United States and workshops and conferences.

In FY 2007, USTDA obligated nearly \$45.8 million in support of the development goals of project sponsors in 65 countries. While the agency's activities span a wide variety of sectors, many focus on transportation, energy and power, water and the environment, health care, mining and natural resources, and telecommunications, and information technology.

### ***Contact Information***

#### **U.S. Department of Commerce**

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#### **Source for general information on trade finance:**

“Trade Finance Guide: A Quick Reference for U.S. Exporters”  
[http://www.ita.doc.gov/media/Publications/abstract/trade\\_finance\\_guide2008desc.html](http://www.ita.doc.gov/media/Publications/abstract/trade_finance_guide2008desc.html)

#### **Export-Import Bank of the United States**

Website ([www.exim.gov](http://www.exim.gov))

Contact information and Export-Import Bank regional offices:  
(<http://www.exim.gov/contact/contactus.cfm>)

Foreign Content Policy Office  
Policy Group  
Tel: 202-565-3760

Small Business Portal  
Website: [www.exim.gov/smallbiz/index.html](http://www.exim.gov/smallbiz/index.html)

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