



British Exporters Association

**The BExA Guide to
Financing Exports**

CONTENTS

Foreword

Editor's Note

Introduction Why finance exports?

Chapter 1 Financing without using banks

Chapter 2 Financing working capital before despatch

Chapter 3 Financing invoices

Chapter 4 Transactional trade finance

Chapter 5 Back-to-back and transferable letters of credit

Chapter 6 Bond issue support

Chapter 7 ECGD-supported medium term finance

Chapter 8 Leasing

Terminology

Contacts listings: some providers of trade finance and related services.

Foreword: exporting in recessionary times

This Guide to Financing Exports is the seventh guide published by the British Exporters Association. Previous topics* ranged from how to export through to protection against customer failure, and specialist volumes on contract bonds, letters of credit, and getting your goods back when you've not been paid. Our Guides are written by exporters for exporters, and are aimed at empowering the exporter with knowledge without delving into overwhelming detail.

At the time of writing, the UK economy continues to shrink, and, although the weakness of the pound should mean that UK exports are competitive, many of our export markets are also in recession.

At a time like this it is important to get your market strategy right, and don't take your eye off the ball in relation to your domestic sales. Look at your product range and make sure that you have what your customers need to buy in a recession. If your customers' customers are more cost conscious, make sure that your product delivers more value than your competitors', and don't stop innovating just because it is a downturn. Find out what motivates your customers. Don't assume that they will all want longer payment terms – to be able to offer longer terms, you will have to increase your borrowings. It may be better to work with your customers to improve their margins.

Most importantly, look at the financial state of the companies that you trade with, review your contract wordings, risk management and export paperwork, and get some good credit insurance or use letters of credit for protection.

Be careful before you relax your credit terms. Finance is not a solution for other problems. But it can be a powerful tool in winning new business. Used wisely (and this is where this Guide comes in) it can enable your customer to place an order with you which might not otherwise be forthcoming. It is these additional orders that the UK needs now more than ever.

Sir Richard Needham
President of BExA
October 2009

* BExA Guides are available to download from www.bexa.co.uk and hard copies are provided to members: Successful Exporting (2008), Letters of Credit (2003, updated for UCP600 in 2007), On-Demand Contract Bonds (2004), Export Credit Insurance (2007) and Retention of Title (2005).

Editor's note

Our government, as with other governments, has recognised that one of the ways that a country can pull itself out of recession is by exporting. So, it has been a busy year in BExA for lobbying, and there is plenty more to achieve.

BExA's motivation for writing guides has always been that, while there is plenty of information available about aspects of exporting, most of it has been written by providers of services to the exporter rather than from the perspective of the exporter him (or her) self.

Trade finance is a case in point: almost all the merchant banks "do" trade finance in some form: the range is from finance of portfolios of invoices through to individual solutions for letters of credit, specialised contract or project finance (short term or medium term) and leasing.

What we've tried to do here is to write chapters that are necessarily short on detail but which we hope are long on ideas and pointers to help what may be right for your business. At the end, we have a contact list of relevant providers. As with previous guides, the chapters have been written and edited by exporters and their specialist bankers and insurance advisers.

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I am particularly grateful to David Millett for his support and guidance throughout.

These guides reflect the personal knowledge and experience of the contributors. You would be wise to seek out your own professional advice to suit your needs.

Susan Ross
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Chairman of BExA
October 2009

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Introduction

Why finance exports?

The short answer to why finance your exports is “to get cash”. Few exporters are in the position of selling something that customers will routinely pay in advance to receive, thus creating a gap in cash-flow. Furthermore, the very process of exporting takes time, and so your overseas customers may want longer payment terms than are customary for UK trade. This guide is being written in the spring and summer of 2009 when we have the added impact of a severe downturn in trade and company finances, which is likely to lead to customers asking for as long terms as are possible.

At the same time, banks are becoming more cautious. They are deciding how best to use their capital, preferring some business sectors and export destinations over others, and charging more. They are reviewing risk more regularly, taking a more rigorous approach to breaches of covenants, and have now to operate within the regulatory framework of Basle II. Furthermore, many overseas banks have gone home. While these factors make finance generally more difficult to negotiate, they also result in banks preferring asset-based funding, and export receivables are, in most cases, considered to be a measurable quality asset.

The advantage of trade finance over extending your overdraft is that banks see it as an efficient means of financing your business: debts have a known value and a date when they should convert to cash. Contrast this with finance of fixed assets: how do you value them? and how long does it take to sell a property or piece of capital machinery? Trade finance bankers therefore tend to be more supportive and more likely to lend at greater levels than banks do for other forms of lending.

What credit terms might be appropriate?

Your customer is likely to ask to see the goods/services before he pays for them, and the time it takes to deliver is likely to be longer than for domestic deliveries, which will lead your customer to start a discussion on credit terms. As with your domestic sales, your export customer will also have to get your invoice signed off for payment, and for your payment to join the usual weekly or bi-weekly payment run. Let’s look at a list of typical reasons for exporters to offer longer terms to customers:

- Delivery of goods by sea or overland can take several days or even weeks.
- If your customer is a distributor/dealer of your product, he will need a stock of your goods, so by giving longer payment terms, you enable him to finance the stock.
- If you are supplying a component for a capital project, the completed item may not become revenue-generating for months or even years.
- You may have competition from local suppliers or from exports from other countries where the transit time is shorter or longer payment terms are offered, as is the custom in Southern Europe.

In reality, the majority of exports will be sold on short terms, e.g. cash, 30 days or 60 days.

Start date of credit

It is important to be absolutely clear about when the credit period starts. No invoice finance arrangement or insurance policy will be operative until the credit has started to run. So, make the start point something within your control (e.g. delivery FCA= Free Carrier) or relate it to a date specified in the contract.

While larger projects such as bridges or aircraft may involve payment over several years, typically supported by ECGD or an insurance cover, it is still quite usual that not only consumer goods but also capital goods are exported on between 30 day and 90 day payment terms. Exceptions to this include goods sold through distributors (where the goods may be on display or on trial) or to the agricultural industry (where payment follows harvest) when 6 month or even 12 month terms may be the norm.

Whatever the period of credit being given, you will need to establish **how** you are going to be paid, and write this in your invoice – e.g. by telegraphic transfer, by promissory note or by bill of exchange, and **how** you are going to manage your cash needs for the export in question and your business generally.

At its simplest, trade finance options can be described as either of:

- Financing all, or a substantial part of your receivables: converting your portfolio of short term domestic and export trade debtors into cash, or
- Financing individual larger contracts where the payment terms may be short term or medium term.

In the last 20 years there has been a growth of short term finance that builds upon an understanding of the end-to-end trade cycle of customers. The finance provider analyses trade relationships from initial supply, stock holding, through to ultimate sale and credit extended, and provides a form of finance that closely mirrors the resulting funding requirement identified through these stages.

Typical short term contractual payment terms

	Product or service	Sample payment terms (how, when and where)
		In all cases, add instructions concerning the currency, credit period and your bank account or SWIFT address
Off the shelf goods	Goods are not specially made and can be used or on-sold immediately by your customer	100% in sterling to arrive in our account no later than 30 days from delivery FCA (Free Carrier, Incoterms 2000), or 100% in Euro, payable to our account within 60 days from date of invoice, by telegraphic transfer

Capital goods, e.g. engineering	Specially designed goods.	10-20% down payment or mobilization payment to arrive in our account no later than 30 days from the date of contract signature 10-20% stage payment on achieving a milestone in development/production/trial or Factory Acceptance Test (FAT) 50-80% against shipping documents evidencing delivery FOB (Incoterms 2000) 10% on completion of site acceptance tests (SAT), in any case no later than 90 days from delivery FOB
Installation and training services	Services relating to capital goods	These services will need to be designed and the manpower pre-booked so it is advisable to require a down payment. The services may involve separate payment terms or the terms may be rolled into the terms for the supply of goods.
Regular engineering service	Supply of regular services	Monthly invoice: 100% in Euro, payable to our account within 60 days from date of invoice, by telegraphic transfer.

This simplistic list of payment terms will describe most contract types. It becomes very clear that, although in these sample payment terms the credit period extended to the customer is short, the exporter has significant cash needs pre-delivery in terms of buying in goods, the designing of product, etc. It is for this reason that we devote a chapter to financing working capital before despatch.

Research

If you are going to offer your customer a credible finance package, it goes without saying that you will need to be prepared. If finance can only be achieved with a particular structure or with a guarantee, then this will need to be part of your bid or quote. You may need to engage a lawyer who understands the law of your customer's country to advise on guarantee wordings or contractual structures. Now is the time to understand, for example, whether a true sale with export finance or a leasing option will put your bid in the most competitive light.

Export finance: advantages for the exporter

- you receive finance on export rather than having to wait for the cash from the customer
- the volume of borrowings rises and falls in parallel with your turnover so you are not committing to a loan that is too large or too small for the trade that you actually achieve
- payment risk transfer: you can organise 'non-recourse' trade finance facilities
- the bank facility may be more extensive and cost effective than overdraft borrowing.

Where do you go to get trade finance?

The first place to look is in your contracts

- If you can, try to match your payments to suppliers with the amounts and due dates for payment from your customer.
- If you are buying in components, negotiate with your suppliers for longer terms to reflect that the goods will be exported
- Negotiate an advance payment (sometimes called a mobilisation payment) from your customer to enable you to order in these supplies
- Compare the cost of offering a discount to your customer for early payment with the cost of financing a credit period.

If these will not satisfy your needs, you will need to organize a finance facility with a bank or export house.

Assuming that you will need a steady source of finance for your exports, ask your clearing bank what facilities are available. However, you can also research the more specialist investment banks and don't ignore the UK subsidiaries of foreign banks, particularly those from the country of a main supplier or customer where local knowledge in the areas of letters of credit, regulations and legal systems can be useful. Try asking for the International Department or Trade Finance Department. Better still, try to get recommendations and introductions from other exporters.

Each bank will be different, and some will have a favoured solution such as factoring. Others will be able to provide serious amounts of structured trade finance on large projects. Some will require there to be credit insurance to be in place in your favour, others will have their own insurance and be able to finance your invoices and bills of exchange on a non-recourse basis. A variety of technical terms will be used. The purpose of this guide is to enable you to see the full range of options without getting bogged down in the technical descriptions.

If you buy in some trade finance, be sure to work the finance contracts with your contracts of sale, your management processes, and any credit insurance. You want to be sure, for example, that what the bank treats as reportable (e.g. when x days overdue) is the same as what is reportable to a credit insurer, and the same as is automatically produced for and circulated to your management.

The final section of this guide contains contact details of some relevant finance arrangers and providers.

Three steps to cheaper financing

Sooner or later, most businesses have to turn to external sources to finance growth, whether it is to invest in new equipment or machinery, to purchase property, to upgrade technology, or to maintain cashflow while a new product line kicks in. The cost of external financing can be considerable and keeping it down is a key element in maximising your profitability. Here are three ways in which you can do this:

1. Plan ahead

Plan your financing requirements well in advance - if possible as much as a year before the funds will be needed. This will give you time to prepare a robust application, shop around for the best source, and negotiate the most favourable terms. Indeed, the mere fact that you are planning your funding so far in advance will earn you brownie points with most sources! If you leave your funding to the last minute, not only will you limit your negotiating power, you might also give the impression that your expansion plans are not very well thought-out. Of course business owners need to be agile and respond to opportunities swiftly, but this does not alter the basic fact that quick money is almost invariably expensive money.

2. Make the lender bid for your business

Approach a number of sources with a well-prepared funding requirement and ask them to submit a proposal. These days, even banks are used to having to bid for your business. Ask banks for an overall proposal that covers every aspect of your business. But don't just look at the costs - consider also factors such as the quality of the working relationship, depth of knowledge of your industry, etc. Use your track record to leverage a better deal on charges or the amount of collateral required. Remember, the main concern for a lending source is the degree of risk involved, and a good track record will help mitigate this.

3. Ask for more than you need

Many business owners are overly modest in their funding applications fearing that if they ask for too much it will reduce their chances of success. But it is much worse to underestimate your requirements. Returning a few months later to ask for a top up not only sets alarm bells ringing about the reliability of your business plan, it is also a lot more expensive to process two applications rather than one.

Sharia finance

If you are selling to an Islamic customer or country, you might need or want your contract to be compliant with Sharia Law, the impact of which is that the costs of finance are built into the sale price rather than shown as a separate (and potentially variable) interest charge. Many banks can advise on suitable structures.

Accounting treatment of finance

One of the aspects of finance is how it will impact on the balance sheet, and for this, you will need the advice of your own auditor who will be conversant with the various accounting standards. In the past, many facilities were deemed "off-balance sheet", however, the current motivation in the presentation of financial accounts is transparency. Although the accounting

treatment is particularly important for larger corporates, for smaller exporters a more critical issue is whether finance is provided 'with recourse' or 'non-recourse', i.e. which party is taking the risk of non-payment: will the trade finance cash need to be repaid if the customer does not pay?

Who takes the risk of non-payment?

Give some thought to the impact of a large bad debt on your annual profit or the hit to the capital invested in your business. Just because a bank is offering to finance your export receivables, don't assume that it will also take on the risk of non-payment. If it is not clear, then ask who is left holding the baby in the event that your customer doesn't pay. The answer will be different if the reason is your non-performance than if it is the customer's insolvency. If you remain exposed to the risk of bad debt, you might still need credit insurance, even if your bank does not specify that it is required.

Longer credit terms

Any of the amounts due on or after shipment described above can be extended to allow your customer longer terms, whether it be 90 days, 360 days or 2-5 years. If longer terms are requested by your customer, it is wise to seek to understand your customer's cash flow. Are longer terms being requested because you are delivering a component of a larger project where income will take some time to be realised? Or is it simply the customer's business plan to seek longer payments from suppliers? Fair enough if your product is likely to sit on your customer's shelf for a while, but ask about the terms of the on-sale. Don't simply agree to longer terms on the basis that a vehicle or white goods are sold on long payment terms to consumers: many consumers will be offered finance packages involving payment to your customer immediately on purchase.

So, your customer has said it is essential to offer a finance package. Don't worry, you the exporter are not expected to wait 60, 360 days or 3 years for your money. This is where you engage a trade finance bank. Your clearing bank may be supplying general overdraft services or trade finance. You will need to be sure that you can take this single extended risk out of any general lien on receivables. Most clearing banks will be only too happy to see that you find an adequate home for the longer term payments.

If you are going to be agreeing longer payment terms, make sure that you have an adequate Force Majeure clause and the ability to submit a termination account during the pre-delivery period in the event that the contract is frustrated. You'll have a lot of costs in designing and buying in product, and will also have had to pay some fees to banks for set-up of your finance facility. You will also need to be sure that you have addressed the issue of the transfer of title in the goods - the bank will want to know who owns them at each stage of the export. BExA's Guides to Successful Exporting and to Retention of Title have useful advice here.

Individual Buyer Credit finance

Suitable for sales of capital equipment, this medium term (2-5 or even 7-12 year) repayment mechanism is set up as three contracts.

1. Your contract with your customer for the sale of goods
2. The bank's loan agreement with the customer

3. The terms of your draw-down from the loan agreement

What you are aiming for is that, once set up, quite simply, you continue as if you were selling on short terms – with a 15-20% down payment, plus any stage-payments on milestones and on despatch and installation. Behind this is paperwork whereby the bank agrees the loan with the customer that is triggered by the existence of the export contract. There are OECD rules about how these deals are structured if they are to be supported by Export Credit Agencies such as ECGD, but you are free to organize whatever terms are suitable (and competitive!) if you have a commercial (i.e. not ECA supported) bank facility which may involve using credit insurance and/or the forfaiting market.

Buyer Credits take some work and expense to set up and therefore tend to be suitable for larger value contracts only.

Individual Supplier Credit finance

Whereas a Buyer Credit involves the bank organizing the loan, a Supplier Credit involves you the exporter providing longer credit in the terms of your contract of sale. As you don't want to wait for the cash, you engage with the bank to finance the receivables. Technically the description of supplier credit covers any trade contract where you extend credit to your customer, even if it is only 3 days or 30 days. The term supplier credit is most commonly used, however, when a significant credit period is agreed, for example 2 years.

Financing a portfolio of invoices

This is the commonest form of export finance: you engage with a bank to finance the majority of your short term receivables evidenced by invoices. While financing a single invoice of a few thousand pounds will have little impact on the cash-flow of a company that turns over several million, if the technique is used on the entire book of receivables, this can become a valuable contributor to the company's cash flow and an efficient source of working capital. Further, the finance, being handed over within a fixed number of days of export, is a known and regular event. Contrast this with waiting for the cash to arrive from your customers: you are at the mercy of the vagaries of the overseas banking processes, not to mention the willingness of your customers to part promptly with their cash.

Advantages of financing portfolios of short term receivables

- Can include receivables that normally would not qualify if you are financing a single transaction.
- Finance providers and risk-takers prefer a spread of transactions so this type of finance may be easier to arrange than finance for a single contract.
- Finance is priced more finely to reflect the spread of the portfolio instead of a single, concentrated risk.
- Individual contracts do not have to be specially monitored: management of the finance becomes embedded in company processes.

There are numerous ways to achieve short term receivables finance. Chapter 3 of this guide outlines the main options with the aim of giving

pointers as to which solution may be best for your business.

Foreign Exchange

Do not overlook the foreign exchange risk. Even if you run both sterling and euro (and dollar) bank accounts, and pay suppliers in these currencies, you may still have a foreign exchange risk if you sell in local currency overseas. Your bank will be able to advise on foreign exchange hedging techniques. If you are bidding in a foreign currency, you might consider options and tender-to-contract insurance to cover the risk that the exchange rate changes during the period when your bid is being evaluated.

Security, cost and flexibility

Paramount to the whole equation will be that you want to make it easy for your customer to choose your product over that offered by your competition. If you ask for a letter of credit or guarantee, this may tie up your customer's banking lines. However you do not want to be saddled with a bad debt. So you will need to make a judgment on each transaction:

- How well do I know this customer?
- Is export credit insurance (for open account trade) available?
- What security do I have (e.g. guarantees of payment, Retention of Title)?
- What are my cash needs? Can I match income with expenditure in order to neutralize cash flow?
- Is a letter of credit a practical option?

As readers of BExA's Letter of Credit Guide will know, a confirmed letter of credit (LC) may be regarded as one of the more secure forms of settlement. LCs also have the advantage of not choking up your bank facilities. But in reality, LCs can take a lot of work and the underlying payment undertaking is conditional upon you presenting documents in an accurate and timely manner. They are not suitable where the exact quantities or specifications or price are unknown until the last minute, such as for urgently needed spare parts. Also, since the credit crunch, people realise that not all banks are "safe as houses" and you may not be getting as much credit protection as you expect. So the benefits and costs need to be assessed in relation to the flexibility that you need combined with the scale of risk you are trying to manage.

Letter of credit confirmation: check the small print

If the advising bank of your letter of credit offers confirmation, check the detail.

One exporter accepted confirmation on an LC from Pakistan – it seemed a good idea to protect against the risk of bank non-payment – and the price was 3%. However, the advising bank was the London branch of the Islamabad issuing bank (i.e. the same legal entity) and so there was no purpose to the confirmation: credit and political risk insurance was still required.

Another exporter was offered confirmation by a UK bank at 2% on a letter of credit from Libya. However, one of the documents required under the letter of credit was a receipt for goods, signed by the customer. In other words, the customer would remain in control of payment and confirmation would be of limited value since the confirmation would not protect against risks relating to the customer or the destination country.

Beware of routinely requiring payment by letter of credit. Your prospective customer, especially in this credit crunch, might disregard your bid, even if your solution is technically superior to that of your competition, if it will cost too much in terms of bank fees and cash flow.

Committed facilities

Whichever method of trade finance, risk transfer and security you use, be sure that it will still be there when you need it. For example, if you have a contract to supply goods which will be delivered in six months time, and you have a credit limit from an insurer covering the risk and a facility in place from a bank to provide finance, you do not want to get to month 5 and discover that both of these have disappeared into the ether. You may not need to buy a commitment from date of contract, only from when it will really hurt your cash flow if the cover/finance is not there. It is really worth paying to bind in your protection and finance so it works when you need it.

When do you consider your trade finance options?

When you prepare your bid or quote you will need to build in your costs, of which finance is of course one. It is at this time when you should set your aspirations as to the cash needs for production/buying in of products and services and therefore propose suitable payment terms. If you can get credit insurance on the customer, and can therefore offer open account terms, this may set your bid ahead of that of your competition. If you can't get export credit insurance, the classic alternative (which is arguably more secure in pure risk terms) is a letter of credit. BExA's Successful Exporting Guide includes an extensive chapter relating to bidding.

The aim of this guide is to introduce, in a simplified manner, the range of options available for financing exports, and lead your thinking about what may be best for your business. The final section contains contact details for a range of providers.

	Single export or portfolio of receivables?	Who takes payment risk?	Credit insurance: who is the policyholder?	Confidential to customer?	Need special payment instrument or terms?	Fees – how charged
Finance of portfolios of invoices						
Factoring With recourse	Portfolio of short term receivables	exporter	exporter	Usually not	Simple invoice	Interest + fee charged as part of the discounting
Factoring Without recourse	Portfolio of short term receivables	bank	bank	Usually not	Simple invoice	Interest + fee charged as part of the discounting
Invoice finance or Invoice discounting with or without recourse	Portfolio of single contract, short or medium term	Exporter or bank	Exporter (when bank's interest will be noted) or bank.	Usually yes	Simple invoice	Interest + fee charged as part of the discounting
Finance on a contract-by contract basis (transactional trade finance)						
Letter of credit	Single contract, typically short term payment - 'at sight' or up to 360 days; can be used as a guarantee or 'standby LC'; medium term is possible	Bank, once documents are accepted	exporter can insure risk of non-honouring of letter of credit by the bank	No	Yes, detail is specified in the letter of credit.	<ul style="list-style-type: none"> • Set-up (issuance) fee (for customer) • Presentation fee (typically for exporter) • Charges for amendment (typically for exporter) • Confirmation charge (if used) – negotiate who pays
Forfaiting	Single contract, short or medium term	bank	Usually no credit insurance	Usually	Bill of exchange or promissory note	Interest + fee charged on discounting. Optional commitment fee.
Medium term 2-5 year credit	Single large contract	bank	bank may use ECGD or commercial insurance support	No if ECGD	e.g. 15% down-payment, instalments by bill of exchange, may need guarantee from overseas bank	Up front set-up fee (draw from advance payment) plus charges for the credit payable by customer

Chapter 1 – Financing without using banks

Winning the export order was one thing. Financing it will be another. The cash issues relating to the order have the potential to cause severe headaches in relation to your company's financial management. In addition to the new order taking up valuable management time, it is not unusual to incur considerable expenditure prior to despatch. Given that most customers will demand to pay after receipt of goods, this new export order could have an adverse impact on your working capital.

The key, of course is to recognise this in good time and plan your cash needs. This will be particularly critical if the customer is demanding longer credit terms and/or you have extended production periods. Design and manufacture of capital goods, for example, will eat up cash once you start paying suppliers and employees.

Cash outgoings that arise from the outset

- Travel costs associated with negotiating and managing the order
- Raw materials, labour, bought-in designs, components
- Advance payments for bought in services and civil works
- Bank fees for raising bonds, e.g. advance payment guarantees and performance bonds
- Bank commitment fees to secure finance facilities for the credit period and to fix the exchange rate if your contract is not in sterling
- Insurance premium for credit and political risk protection, cargo cover and uplifts in general covers such as liability insurances

These cash outlays are specific to the new order. There will also be general running costs, such as factory overheads and general overheads, to consider in case they also have an impact on cash-flow of the contract.

Financing cash outgoings

- Before despatch
If finance providers understand your business well-enough, and you have a sufficiently good track record, they may find a way to provide finance before despatch. Otherwise, such finance will tend to become part of an overall overdraft facility.
- After despatch
The following chapters describe a number of ways by which invoices / payment obligations can be financed.

This chapter concentrates on finance that you can arrange for your business without drawing it specifically from a bank facility.

Methods of financing

A number of methods can be used, and most usually it is a combination of several that will produce the most cost effective and flexible solution. N.B. contract timings do not always run according to plan, so build in some breathing space!

Self Help	Pre-shipment	Post-shipment	Other Options
<ul style="list-style-type: none"> ■ Equity/loan capital ■ Supplier Credit ■ Advance payment from customer 	<ul style="list-style-type: none"> ■ Pre-shipment finance ■ Stock finance ■ Pre-export finance 	<ul style="list-style-type: none"> ■ Receivables Purchase Facilities ■ Transactional Trade Finance ■ ECGD supported finance ■ Leasing 	<ul style="list-style-type: none"> ■ Overdraft ■ Back to Back LC ■ Transferable LC ■ Bond support

Equity

Some exporters will be fortunate and be able to finance cash outlays without needing to resort to external sources, for example, through loans from directors or, in smaller businesses, family members. For them, this will be the most flexible form of finance. However, few companies these days will be able to find an additional source of capital within the timescale needed for performance of the contract. The impact of introducing a new investor will be felt by the original owners of the business who will see their ownership stake being diluted. For most exporters, this is likely to be the last option. Be aware, none-the-less, that many of the finance agreements that stand behind export finance will require the exporter to have an adequate equity component.

Credit from suppliers

Obtaining longer credit from key suppliers to match the receipt of funds from the customer can be the most cost effective and flexible method of financing the cash shortfall. If your supplier demands payment at 30 days from the end of the month for regular supplies, ask for new terms for particular export contracts. Longer credit terms will lead to higher cost, but this may be a price worth paying if it solves your cash difficulties in the production phase. If your supplier already has a receivables finance or factoring facility, it may be possible for it to be extended for specific deliveries for the named export order. The resulting credit probably won't satisfy all your needs, but it will contribute to your effort in minimizing the cash shortfall.

Check your own creditworthiness

1. Your suppliers will be more likely to extend you credit if you are creditworthy
 - obtain a report on your own company from one of the credit reference agencies
 - see what maximum credit limit is recommended
 - check the information is accurate
 - suggest your suppliers look at your credit report.
2. Check that you are not paying other suppliers late. This will most damage your rating.
3. File your own accounts at Companies House within the required timescale.
4. Invite credit insurers to understand your business. Share financial information with them, insofar as this is allowable

Advance payments

If you are selling capital or semi-capital goods that are not 'off the shelf', you should ask the customer for an advance or 'mobilisation' payment of 10-20 or even 30% to make the contract effective. However this can have the disadvantage that the customer may, in return, demand a guarantee or 'bond' to ensure that the advance payment is repaid if you do not deliver on time. Such an advance payment guarantee (APG) will add to your costs and cash outflows. If you are able to negotiate that the bond can be issued by an insurance company (surety), you will need to pay issuing fees appropriate to your credit rating. Most export customers are not satisfied with a surety bond, and instead require that the advance payment is guaranteed by an on-demand bank bond. In order for a bank to provide such a bond on your behalf, you will need to pay fees and, unless your company is large and has an undoubted credit rating, you will need to provide security – such as the precious advance payment itself. This "cash-covered" bond rather negates the benefit of receiving the advance payment in cash. Plus you will also have the management problem of getting your bond back when it expires (typically on despatch). Chapter 6 describes bond issue support. BExA's Guide to On-demand Contract Bonds provides more detail on managing bonds.

Except for large, cash-rich companies, therefore, advance payments are only going to solve an exporter's cash needs if they do not have to be bonded.

Chapter 2 – Financing working capital before despatch

Chapter 1 lists some of the cash outgoings that arise when you win an order, and for which you'll not be paid until either your customer pays you or you draw down from an invoice finance facility on despatch. A good place to start your quest for finance pre-despatch (also known as pre-shipment finance) is the organisation that is financing your invoices (receivables). However, banks are rather cautious about arranging finance before despatch. After reading this chapter you may decide that self-help is the answer, in which case Chapter 1 may provide some pointers.

The purpose of pre-shipment finance is to provide working capital where the exporter has been unable to organise progress payments that match cash outflows for bought-in goods and labour. A typical facility allows the exporter to access a portion of the cost of production against evidence of the existence of the contract and a copy of the financial instrument (e.g. letter of credit or loan agreement) or evidence that a credit insurance credit limit is in place. This assumes that a credit insurance policy is valid and covers the pre-credit period for the risk of customer insolvency or political events prior to despatch. Such finance would typically be arranged as an extension of a receivables finance facility – i.e. bringing forward the drawdown of funds to agreed points during the manufacturing period (instead of waiting until despatch).

Pre-despatch finance from a bank

For larger or more involved contracts, you may be able to organise an individual facility for the pre-despatch period. The criteria for such finance is likely to be very tight, including

- Exporter's balance sheet is strong
- The product is reliable
- Exporter has a perfect record of being able to deliver
- Customer is large and in robust financial health
- There is a predictable flow of orders
- Orders are non-cancellable.

For many exporters, these criteria will not be achievable and so alternative finance will be needed.

Overdraft

Overdrafts have the virtue of simplicity and flexibility, and offer the most accessible form of general purpose, short term finance. However, if the new contract will stretch your overdraft limit, you would be wise to consider alternatives. Finance providers will generally be more supportive where they understand, and are comfortable with, the underlying trade transaction, the parties involved, and a track record of successful performance. In other words you are likely to be offered more finance at better terms if you relate it to a trade transaction than if you simply use your overdraft.

In practice, however, **post** shipment trade finance is easier to achieve than pre shipment so overdrafts, therefore, frequently take the strain during manufacture.

Stock finance

Some banks and asset finance companies will provide finance against stocks of finished goods. Stock finance is expensive but it may assist in covering the cash outflows during the time that the goods are manufactured and before you receive cash from your customer or your export finance facility. Generally, stock is difficult to finance because the asset value is often not stable, predictable and auditable. A classic example of stock finance is whisky: it is identifiable, it is stored securely, the price is relatively stable and the product does not deteriorate over time!

Supply chain finance

This arrangement, which is sometimes called '**reverse factoring**', involves a bank or other financial institution inserting itself in the contracts that the exporter is entering into with key suppliers and thereby easing the cash issues before despatch. Whereas these suppliers usually require 30 days from the end of the month for these supplies, the reverse factoring allows the bank to buy invoices from the supplier, making payment on despatch, and extending say 180 days' credit to the exporter. So the supplier gets cash immediately, the exporter does not need to pay for the supplies for 6 months, and this translates into 4+months of extra credit.

The bulk of this finance is advanced against 'approved invoices', i.e. invoices that the exporter has accepted for payment. However, there is also a market for 'pre-approved' invoice finance where the finance starts at a slightly earlier stage. The bank may retain some form of title or lien on the goods and may also require that there is an assignment of the future debt from the export customer. Such security request may be understandable, but the exporter should be careful that it does not conflict with other covenants provided in respect of overdraft lending or trade finance.

Receiving payment from your customer early: pre-export finance

This form of commodity finance involves pre-payment before delivery of a raw material. It could (theoretically) be extended to allow pre-purchase of goods from the UK. It involves a bank advancing funds to enable the customer to receive an agreed quantity and quality of goods at a fixed future date. The bank requires that the exporter signs a bill of exchange with a usance date just after the expected delivery. If the goods are delivered, the bill of exchange is cancelled. If the goods are not delivered, the bill of exchange falls due for payment, allowing the advance to be repaid.

Back-to-back and transferable letters of credit

If you are being paid by letter of credit, you may be able to negotiate with your supplier(s) that, instead of being paid by you before despatch, it will be more secure for your supplier to receive a share of the payment from the letter of credit. This subject is addressed in more detail in Chapter 5

Providers of finance before despatch

The first port of call will be the bank that provides your receivables finance facility: can the arrangement be extended to cater for your needs during the manufacturing period? Does the bank understand your business sufficiently, and does it have the appetite, and capabilities, to provide the support you need?

CHAPTER 3 – Financing invoices

Many companies fund their working capital through finance of portfolios of invoices (receivables), such arrangements being known as Receivables Purchase Facilities (RPF). More popular than discounting particular invoices on a contract-by-contract (transactional trade finance) basis, RPF arrangements provide an exporter (or domestic supplier/seller) with immediate and discounted value of all (or most of) his invoices, thus supplying liquidity for the business. Because trade receivables sit on the balance sheet in “Trade Debtors”, providers sometimes refer to this as ‘turning debtors into cash’.

From a lender’s perspective there are a number of potential advantages of trade finance over simple overdrafts, including:

- Debts involve an obligor so there is a clearly defined source of repayment
- The finance is directly related to a trade sale (free of the uncertainties associated with e.g. financing work-in-progress or stock).
- Trade finance is frequently short term and of a predictable duration (because there is a defined settlement date).

For these reasons the finance provider may be prepared to lend more than would be advanced under alternative forms of finance.

As a rule there need to be a number of characteristics in place before a finance provider is comfortable in providing a facility of this nature. There are also some common risks associated with providing a RPF. These inevitably shape the structures and terms & conditions attached to them. To confuse matters further, a RPF can be structured in a number of ways and go under a wide variety of names!

Banks or finance companies approach these issues differently, according to their appetite for risk and management systems, so they use different terminology and there is not a standard set of documentation. Although the term ‘Receivables Purchase’ correctly identifies that the bank is buying the debts, the bank doesn’t want to get involved in the underlying contract or product liability. The part that it wants is the debt obligation, and it doesn’t always take the risk of non-payment.

The following sections seek to demystify some of this, with the aim of making it easier for you to assess what might be appropriate for your business.

What needs to be in place for a financier to be willing to lend?

In addition to a robust business, and the criteria that define if a borrower (i.e. the exporter) is considered creditworthy, a RPF provider will consider a number of issues.

- The invoices financed need to relate to genuine trade transactions. Providers are sensitive to any regulatory restrictions, or contract clauses (e.g. Retention of Title clauses) on supplies that may unravel the debt.
- The trading relationship usually needs to be ‘arms length’, and this cuts out exports to another company in your same ownership group e.g. parent selling to subsidiary.
- The term of the finance typically reflects the underlying terms of trade

up to a maximum credit period of e.g. 90 - 180 days.

- The proportion of each invoice that is financed, known as the **advance ratio** (e.g. 80% of invoice value) will allow for factors such as expected retentions, credit notes, contra entries etc.
- **Eligibility criteria** set by the financier will ensure that only “suitable” receivables are included in the financing.

Risks the financier is trying to manage

There are common preoccupations that drive bankers’ responses with these types of facility:

1. Credit default – the payment risk of your customer named on the invoice.
2. Performance risk of the seller (can the exporter deliver under its contracts?)
3. Servicing risk of the seller (can the exporter manage the facility?)
4. Fraud
5. Accuracy of information about the receivables being financed.

Financiers will have spent good money on lawyers fees in writing documentation to protect themselves in relation to these aspects of commercial transactions. Many banks will have learnt the hard way, having financed business and not received repayment.

Finance contracts will be written in one of two forms: “with recourse” when the exporter takes the risk of non-payment, and “without recourse”, when it is the bank that takes the risk of bad debt. Notwithstanding this basic division in structure, all trade finance facilities will include measures or clauses that address these five key areas of risk.

1. Credit default

The payment risk of the customer is familiar to everyone in business. While you know your customers and may have dealt with them for many years, your bank may not. You may also have thousands of customers, big and small, about whom the bank may have difficulty obtaining credit information. Your payment experience with your customers will be very important here.

The variant that is also particularly relevant for RPF is the ‘can pay, won’t pay’ situation. A prime example is that of a commercial dispute; if you agree an adjustment (via a credit note) to the invoice with your customer, the bank can only recover what the customer is obliged to pay. The bank will usually require you, the exporter, to make up this shortfall or “dilution” in the debt.

2. Performance risk

The bank will need to be satisfied about the performance risk of the exporter. Has the exporter delivered according to the letter of the underlying contract? For this reason finance providers will be careful about supporting transactions in sectors, or via contractual arrangements, open to disputes. So, standard goods such as vehicles or consumables are attractive to financiers but banks shy away from contracts involving a high proportion of unproven development work. Goods sold “on approval” will not be suitable for export finance.

3. Servicing risk

Depending on the particular RPF structure used, the financier will rely to a

degree on the borrower (the exporter) to help perfect and maintain the integrity of the bank's position. For example, if a customer does not repay to a specific collection account designated for this purpose, but to e.g. the exporter's current account, the exporter helps by advising the finance provider immediately. Most RPF agreements therefore include rigorous obligations on the borrower (the exporter) and rights of recourse to the exporter if these are not fulfilled.

4. Fraud

The bank will have tried to weed out unsuitable transactions through its 'know your customer' regime. However, there will still be a need to include ongoing protection in case of unsuitable transactions.

A number of the more onerous restrictions that apply to RPF facilities are part of the regime finance providers have developed to restrict the opportunities for fraud. Fraud occurs where finance has been obtained that does not truly reflect an underlying trade transaction.

5. Accuracy of information

This is a serious concern for banks, especially since the introduction of new regulations in Basle II relating to "operational risk". The bank relies on the exporter to provide regular reports on the receivables portfolio, and this can be a significant administrative burden. There are now a variety of specialist solutions for this issue.

Financier risk management

Different RPF structures reflect responses to these risks. So for example:

- The use of credit checks and credit insurance is primarily a response to the payment risk of the customer.
- Audits, and requests for evidence of performance, are designed to monitor the performance risk of the exporter.
- The scale of intervention in the collection process, in part reflects the financier's level of comfort with the potential servicing risk.
- A range of measures will be used to obtain early signals of potential fraud.
- Data management systems can track the receivables in your sales ledger and provide reports to the bank and the exporter to aid "visibility" of the constantly changing mix of invoices in the financed portfolio.

How to get the best out of your finance providers

- Spread your risk. Even a small exporter that gives pretty much all its business to one bank should still work on a plan B
- Start small and develop your facilities gradually
- Work at your relationship with your bank(s)
- Let your banks get to know you. Be open with information
- Get specialist advice so that you know what options are available and what may suit you.

Types of Receivables Purchase Facilities

Factoring

This term commonly describes the situation where the finance provider (a bank or factor) offers a RPF covering a broad cross-section of approved debtors up to a defined maximum known as an advance ratio, of, say, 70-90% of the invoice value. You get the balance when the customer pays.

Ledger management: A service the factor can provide is to maintain the sales ledger for the exporter, generating and maintaining a detailed profile of the exporter's accounts receivable and pursuing debtors for non-payment. This can be termed "full service factoring". These facilities are more commonly, but not exclusively, used by smaller exporters (for example, owner managed businesses) who are happier to 'outsource' collection in this way, thus allowing more time for the direct management of the business.

Recourse: A factor may provide finance with, or without, recourse to the exporter. Without recourse finance (i.e. where the factor takes the risk of non-payment) is more likely to be available for strong debtors in markets where the legal infrastructure is conducive to collection of such debts. In portfolios that are less strong, the factoring tends to be "with recourse". Thus, in the event that the customer does not pay, the factor exercises recourse to the exporter, i.e. it is the exporter that holds the risk of non-payment and will need to consider how it will protect itself against the risk of bad debt.

Collecting the benefits...

A small precision tool manufacturer successfully used export factoring to finance its export sales. The finance provider took over the collections and credit control. Using its banking network enabled the finance provider to utilise on-the-ground strong collections capability including local language skills in each market. This helped improve the speed of settlement of debts. This was in addition to getting access to cash quicker, because invoices were being discounted.

Invoice Finance

In recent years there has been a shift of business away from factoring towards invoice finance. In this form of RFP, the facility will still cover a broad spread of approved debtors and finance up to an agreed percentage of invoice value, typically with recourse: the key difference is that the finance provider, whilst still insisting that payments are directed to a specific 'collection account', is otherwise less likely to intervene directly in the day-to-day collection process. This can lead to an increased requirement for reconciliation between the borrower (the exporter) and finance provider, but systems for achieving this are getting more streamlined and automated.

Credit insurance often sits behind such arrangements. Providers of export factoring and invoice finance may take out credit insurance themselves, although the exporter will usually pay the associated cost.

Finance that grows with your business...

A manufactured goods exporter was following a fast expansion programme across a range of markets, with customers of strong credit quality. It needed working capital support that kept up with its pace of growth, yet did not want its customers to see that it was overtly raising new finance. An Invoice Finance arrangement was negotiated with its bank that allowed finance to be made available to the value of 85% of invoice value. The finance was more readily accessible than was possible with the overdraft previously used, and increased in value as the sales turnover grew.

Credit insurance backed trade finance

In credit insurance backed trade finance, the exporter typically buys and manages the policy, and this encourages the bank to consider its risk (of non-repayment of the money) as a combination of the exporter's strength plus that of its diverse group of customers, and the addition of the insurer's claims-paying ability.

Finance insured

A long-standing exporter of drinks insures the risk of non-payment by export customers. The company uses its credit insurance policy to raise additional finance from its bank. The bank is named on the policy and receives any claims payments, and provides finance up to 90% of insured invoices.

Where invoice finance is provided alongside a customer's own credit insurance policy there are likely to be additional terms and conditions built in to the facility agreement. For example:

- Additional representations and warranties built into the facility agreement concerning the adherence by the exporter to the terms of the credit insurance policy.
- The opportunity for thorough auditing of the borrower's management of the credit insurance policy.
- Rights of recourse in the event of failure to perform obligations in relation to the policy management.
- The finance provider will also require that its interest is noted on the credit insurance policy.

In its simplest form this noting of interest can take the form of a 'loss payee' endorsement, designed to ensure that if a claim is made under a policy, the bank will receive the proceeds and apply them to the underlying debt. In practice, banks will often seek a fuller, and more formal, assignment of rights, and this can be recognised on the policy as a 'banker's endorsement' to allow the bank certain rights as if it is a joint policyholder (e.g. it can make good premium shortfalls and negotiate claims).

Credit insurance backed trade finance

An engineering exporter prefers financing of insured receivables over overdraft funding

- Borrowing margin is finer
- Exporter retains control over collection of receivables i.e. the finance arrangement does not impact upon its relationships with customers
- Unlike an overdraft, the finance expands and contracts along with the sales pattern of the exporter, so the exporter does not become over-stretched.
- All finance is together, with one bank. There is one system, one report to the bank, and same-day financing.

Invoice discounting

Invoice discounting is a broadly used term that can cover a range of structures covered in this chapter, where immediate and discounted value is provided. It can cover the situation where a finance provider is prepared to provide finance against a single invoice, or a limited number of trade debts. In this format we are moving away from broader working capital facilities towards more individualised and structured trade finance.

By definition, such customised arrangements, will vary considerably in nature. Some will be closely linked to the use of trade instruments, such as bills of exchange and letters of credit. Credit insurance may still feature. Forfaiting is a specialised form of invoice discounting.

More customised structures are more likely to be used where the returns (and possibly risks) are higher, transactions are larger value and there is a high degree of confidence that performance obligations will be met.

Receivables Purchase as a 'take out' for end-to-end transactional finance

There has been an increased trend in recent years for banks to structure finance especially for SMEs, that cover the full 'trade cycle'. This can be illustrated by the scenario of a UK company needing to pay suppliers on letter of credit terms, but being paid by customers against simple invoice on 30 day terms. Banking facilities cover

- the initial letter of credit facilities,
- an intervening import loan on settlement of the letter of credit, and
- a 'take out' of receivables purchase for the resulting sales and exports.

The complete package...

A small consumer electronics company, sourcing from the Far East on letter of credit terms, and selling into major chains in Western Europe, has been able to obtain finance to bridge 'the gap' from when L/Cs are paid to the point when it is paid by end customers. It has been able to do so by working closely with its finance provider to create a scheme that closely matches the flow of goods and settlement terms it uses.

For a structure like this to work the financier will often require to see that a confirmed purchase order from a strong and reliable end customer is in place.

Buyer Driven Programmes

If your customer is deemed a 'major buyer' and can arrange finance facilities for its suppliers, you may be able to tap into this. There is an increased tendency for major buyers in retailing and manufacturing to work with financiers to create programmes that help finance their supply chain. Under these Buyer Driven Programmes the finance provider inserts itself in the purchase contracts so that the supplier is paid at 30 days but the buyer (the customer) receives, say, 180 day terms. The mechanics of this "supply chain finance" involve the bank discounting, and paying the supplier, amounts due under invoices that have been approved by the buyer. If your balance sheet is particularly strong, you may be able to organise a similar facility to improve your cash-flow for supplies.

Purchase of Pooled Receivables

For larger international customers, with strong covenants, and coverage in a number of markets, banks may provide pooled receivables purchase programmes. These will have the essential characteristics of Invoice Finance, although some of the conditions, and rights of recourse, may be less rigorous. For example, there may be less reliance on designated collection accounts, and more reliance on the customer's own servicing and reporting. The appetite for such schemes is likely to be quite restricted at times of recession.

Structured Financing, including Securitisation

For larger portfolios of trade debtors (in excess of £25m), it is possible for your financial adviser to arrange a complete structure that could include the purchase and funding of a portfolio of trade receivables as a 'stand alone' financial transaction. This is because trade receivables can be viewed as an 'asset-class' like any other. They provide a stream of income, which can be sold to a funding source (a bank or investors that buy 'commercial paper') that is not directly concerned about each underlying trade transaction but rather in the reliable stream of the income - the reliability factor is sometimes defined by a credit rating from a ratings agency. The advantage for the exporter is low cost finance of trade receivables.

These facilities are carefully structured so that the investors are well protected through appropriate advance ratios and other features such as eligibility criteria, and receive short term (albeit constantly revolving) corporate debt with interest. The underlying receivables portfolio will usually be 'enhanced' using credit insurance.

The credit crunch has brought a level of caution about risk: corporates (i.e. exporters) can (and do) go bust and banks have lost a lot of their capital in over-optimistic lending and trading activities. Structured finance transactions are now far less frequent, although there is a growing appetite for portfolios of assets where the bank/investor has full visibility of the underlying receivables and payment default probabilities (i.e. the customer names and values and payment histories of individual receivables). To achieve this, new tracking and monitoring systems have become available which vastly extend the practicality of such arrangements and their attractiveness to lenders/investors and borrowers.

Visibility of the invoice portfolio is a key area. Bankers like to know what they are lending against. Without clarity of the underlying assets and their

performance (e.g. being able to see who the customers are, whether the invoices meet the eligibility criteria, and that debts are being paid on time), the layering and structuring of the finance creates an opaque financial product. However, the shortage of liquidity which is a principal result of the banking crisis can, and ultimately will, demand the use of these techniques, so long as the financiers/investors can see and understand what they are financing.

Conclusion: Receivables-backed finance is worth exploring

For exporters, and domestic suppliers alike, their receivables portfolio is often their largest and highest quality asset and the biggest driver of their working capital requirements. Every £1 of receivables backed finance from an external source gives the exporter liquidity and allows it to apply its scarce capital resources in more permanent uses, resulting in better shareholder returns and a more appropriate mix of assets and liabilities.

Summary: Financing portfolios of export invoices	
	Pro's
Factoring	<ul style="list-style-type: none"> • Immediate cash • Additional services e.g. ledger management • Additional benefits in assessing customer creditworthiness • Scope for 'non-recourse' finance i.e. risk of non-payment transferred to bank.
Invoice Finance	<ul style="list-style-type: none"> • Immediate cash • You remain more directly in control of your customer relationships • Can be linked to existing credit insurance arrangements
Facility backed by exporter's credit Insurance	<ul style="list-style-type: none"> • Immediate cash • You remain in control of your customer relationships • Can be more tailored than 'normal' Invoice Finance – this can be arranged for a selection of sales
Invoice Discounting	<ul style="list-style-type: none"> • Covers more customised arrangements including single contracts
'End-to-end' Finance for limited spread of invoices	<ul style="list-style-type: none"> • Supports the full transaction from cash needs for initial supplies to ultimate payment by customer • Designed to mirror closely underlying trading terms • Potentially higher levels of facilities supported • Engages the financing bank in a closer understanding of your trading relationships (so it may be more supportive if things don't go to plan)
Buyer Driven Programmes	<ul style="list-style-type: none"> • Potentially easier to obtain and cheaper for the exporter than alternative forms of RFP
Pooled Receivables	<ul style="list-style-type: none"> • More flexible than most RFPs • Finance for whole export receivables portfolio, not based on individual named debtors
Securitisation	<ul style="list-style-type: none"> • Lower cost finance (since the bank is using limited regulatory capital to provide the finance) • Sophisticated technique for medium to long term bank relationship finance • Can be tailored to exporter's specific needs.

Con's	
	<ul style="list-style-type: none"> • All eggs in one basket • Exporter may not fully develop its own expertise in credit management • Cost, especially for 'non-recourse' finance • 'Advance Ratio' and exclusions: the factor does not finance all of your receivables • Potential loss of some control over your debt collections and customer relationships
	<ul style="list-style-type: none"> • Providers will expect a wide spread of your debtors (to avoid being selected against) • Cost • Rigorous scrutiny of your credit management processes • 'Advance Ratio' and exclusions
	<ul style="list-style-type: none"> • Adherence to policy management is a condition of the finance • Banks may steer new enquiries towards facilities where the bank runs the insurance policy. • Finance providers need to work closely with the credit insurer. • Finance reduces if credit insurer withdraws credit limits.
	<ul style="list-style-type: none"> • By definition rarer, potentially harder to obtain and more onerous in terms of cost and conditions applied
	<ul style="list-style-type: none"> • Suitable for simpler trading models (which can be easily described) • Work required 'up front' to describe trading relations • Requires more communication to assist the bank in monitoring transaction progress and explaining changes to the original terms
	<ul style="list-style-type: none"> • Only particular customers will be suitable, and this may make the rest of your portfolio less attractive. • Potential for conflict with existing lending covenants if agreement is not obtained from your main bank
	<ul style="list-style-type: none"> • Only suitable for larger exporters with strong management and better covenants • Relatively small number of banks with appetite and ability, particularly in adverse markets. • Bank may prefer to finance under an arrangement where it has more control. • Accounting treatment: likely to show finance on balance sheet.
	<ul style="list-style-type: none"> • Suitable for larger and stable portfolios of receivables • Requires a strong track record and considerable groundwork to establish (specialist assistance recommended) • Requires purchase of tracking and monitoring system to handle administrative aspects.

Chapter 4 – Transactional Trade Finance

In this chapter, we examine the range of options if you only want to finance a single export transaction. The tenor of payment can be short or medium term, however there will be a minimum deal value for the financier which, together with the need for additional management time in reviewing options and finance agreements, will mean that transactional trade finance is suitable mainly for larger contract values. The exception to this is using letters of credit (LCs) which, in the main, cover single transactions, and can be used for small value consignments through to projects involving hundreds of millions of pounds. For more information about managing LCs, please refer to BExA’s Guide to Letters of Credit.

Extended credit terms may be suitable where a customer is not willing to pay on delivery, either for budgetary reasons, or because investment is needed before the income flow begins. The options for finance of extended credit terms for UK export contracts include using government support. Chapter 7 is devoted to ECGD ‘s range of Supplier and Buyer credit solutions.

Suitability of technique	Short term*	Medium term typically 2-5 years
Letter of credit	✓	Rare
Silent Confirmation of Letter of credit	✓	Rare
Forfaiting	✓	✓
ECGD Buyer Credit	x	✓
Commercial Buyer Credit	Rare	✓
Project finance	✓	✓

*Short term payment e.g. contracts providing for payment “at sight” or at 30 days or 90 days or 180 days or 720 days from despatch.

Forfaiting

One of the most common finance methods used for financing a specific export transaction is forfaiting. This invoice discounting technique involves a bank buying debts and making payment to the exporter in the same currency as the debt instrument. The term derives from the description that the exporter “forfeits” its right to payment (the spelling is from the French à forfait). A forfaiter may be an arm of a bank or it may be set up only for trade finance.

Forfaiting is suitable for contracts involving payment terms of 90 days up to 7 years. Financing takes place immediately after the seller has performed under the terms of the sale contract.

Forfaiting: Technical description

The term forfaiting is used to describe the sale or purchase of obligations without recourse to the previous holder of the debt obligation. Hence a forfaiter provides an exporter with a facility to sell the debt owed by a foreign customer at a discount, and without recourse. The debt obligations to be purchased under a forfaiting contract need to be evidenced by negotiable / freely transferable debt instruments that provide a forfaiter with an irrevocable and unconditional commitment from the customer to pay a fixed amount of money at a future date.

The main debt instruments purchased by a forfaiter are:

- promissory notes;
- bills of exchange;
- deferred (usance) letters of credit, usually unconfirmed;
- accepted invoices.

In many cases the forfaiter requires that there should be a guarantee of payment from an acceptable third party, unless the forfaiter deems that the customer is an acceptable credit risk (sometimes the forfaiter uses credit insurance to mitigate payment risk). Typically the guarantee would be provided by the customer's bank and would take the form of an 'aval' which is written directly onto the promissory note or bill of exchange and provides an irrevocable and unconditional guarantee to pay. Alternatively, a payment guarantee may be acceptable, subject to wording. An Unconfirmed Irrevocable Letter of credit (so long as it involves documentation that does not need to be signed by the customer) already removes any credit risk on the customer and provides a payment undertaking from the opening bank of the letter of credit.

Eritrea: €3.5m capital goods export

In discussions prior to contract signature, an Eritrean customer requested 2 year payment terms for the purchase of machinery. The exporter contacted a forfaiter and, together, they designed and priced up a facility that involved payment under a deferred payment letter of credit with 4 semi-annual instalments. On shipment, the documents were presented to the advising bank and accepted by the Eritrean issuing bank who confirmed the repayment profile. The exporter assigned the proceeds due under the letter of credit to the forfaiter who discounted them without recourse to the exporter.

In reaching its decision to proceed, a forfaiter will consider the economic and political situation in the customer's country as well as the payment risk of the obligor (the customer or the guaranteeing bank). The forfaiter will then calculate its fee, displayed as an interest rate. Pricing will be different on every transaction since it will be adjusted to take account of the commercial and political risks, the horizon, as well as the perception of stability of underlying interest rates and currency fluctuations.

The net impact of buying a forfaiting solution is that the exporter has cash on despatch and also is protected against the risk of non-payment resulting from:

- Political contract frustration (war, government intervention);

- Commercial / credit risk (insolvency and protracted default);
- Exchange rate and interest rate fluctuations

Austria: Top-up limit for seasonal sales

A farm equipment exporter had used up its credit limit on its Austrian distributor yet the distributor still wanted more product in time for the peak harvesting season. An extra facility was negotiated with a forfaiter involving a change from simple invoice to bill of exchange terms. The credit terms were up to 120 days, depending on the product, and the forfaiter was happy to take the risk on the corporate without requiring further security. The credit insurer was informed to avoid any confusion with allocation of payments.

On despatch, accepted bills of exchange were presented to the forfaiter and discounted without recourse. The net impact was that the exporter could satisfy its customer's requirement, despite the restriction of the credit insurer's limit, and still receive protection and finance from despatch.

Forfaiting offers exporters the ability to offer deferred terms without impacting on cash flow. It has the advantage over ECA-supported funding that there are no restrictions on the origin and eligibility of goods and services, the structure/frequency of payment, and it is very quick to organize (forfaiting can be put in place in a matter of days). It does not provide protection during the pre-credit phase.

In essence, an exporter can make a bid that includes some attractive finance or accept a request for extended credit terms from its customers, but receive fast risk free payment, by selling the debt for cash.

How forfaiting works

All forfaiting transactions

The forfaiter will need to be satisfied that any documentation / debt instruments have been entered into by authorised signatories, and will require bank certification to this effect.

Sale and Purchase of a Bill of Exchange

A bill of exchange is drawn by the exporter to be accepted by the customer either on evidence of shipment or on receipt of goods (as per the commercial contract of sale). The bill of exchange will fix the date for payment. There will usually also be a need for a bank aval.

The bill of exchange is sold to the forfaiter for a discounted price. Thus, the ownership of the customer's debt obligation is transferred to the forfaiter. This is achieved through the exporter's written endorsement of the bill of exchange.

Sale and Purchase of a Promissory Note

The customer issues a promissory note in favour of the exporter to pay an agreed amount on a future date. A bank aval will also usually be required. The promissory note is sold to (i.e. it is endorsed by the exporter in favour of) the forfaiter for a discounted price. This transfers the ownership of the debt obligation to the forfaiter.

Sale and Purchase of an Unconfirmed Irrevocable Letter of Credit

A letter of Credit is an unconditional payment obligation issued at the request of the customer by his bank in favour of the exporter. The LC is usually advised via a bank in the exporter's country. Payment can be drawn from the LC on presentation of specified documents.

The required documents will be set out in the text of the LC, and may include, for a deferred payment LC, that a bill of exchange (here termed a 'draft') is drawn up, to be accepted by the bank, to evidence the maturity date.

If the LC is payable on deferred terms, the issuing bank will agree to pay at that future date subject to strict compliance with the documentary requirements as set out.

Once documents are presented to the advising bank and accepted as correct (conforming), the advising bank will notify and confirm the amount payable on the agreed date. The receivable due under the LC is sold to the forfaiter for a discounted price, by a letter of assignment which the forfaiter will send to the advising bank for its formal acknowledgement.

Discounting of tenor letter of credit

It is possible to discount a letter of credit that is payable at 360 days so that you do not have to wait for your money. This discounting can happen once the bank has accepted your (conforming) documents. The discounting is usually without recourse: it effectively provides a confirmation and risk-free cash payment.

Silent Confirmation of sight letter of credit

On shipment, the exporter presents the documents required under the LC to the negotiating bank in the normal way. Providing the documents are compliant, the forfaiter gives an undertaking to the exporter that if the issuing bank does not pay within an agreed period (e.g. 15 days), the forfaiter will pay. The exporter then assigns the proceeds of the LC to the forfaiter.

Commercial Buyer Credits

Commercial buyer credits work in a similar way to ECGD-supported buyer credits: the contract is sizeable (to be worth the set up fees), term of the loan is typically 5 to 7 years (sometimes as short as 3), and the loan is granted to the overseas borrower - typically a Ministry of Finance that is organising an infrastructure project. An insurer or syndication of insurers in the London Market covers the risk of non-payment by the borrower as well as the risk of frustration of the contract by the overseas government, plus war and foreign currency shortage. The borrower pays for the cost of insurance protection along with the interest on the loan. The policyholder for the political risk protection is the bank (or the lead bank of a syndication).

Project Finance

This is different to a commercial buyer credit in that the bank is taking a risk primarily on the project rather than the obligor. This is partly because the obligor is commercial, but mostly because the obligor is likely to have been set up as a new company/joint venture for the project. In project finance, the bank reviews the viability of the project, including the income streams,

the risks and the downside. Political risk insurance is often purchased to cover the risk of political contract frustration including government intervention, war, and foreign currency shortage. A key component of this cover might be for “licence cancellation”, if a licence is needed to operate, e.g. for extraction in mining or the oil industry, or in order to levy charges such as for electricity or tolls on a bridge.

Eligible destination countries

Medium term finance can be organised for countries (typically developing countries) where there is a good business framework, a history of successful commercially funded projects, and where repayment is linked to natural resources such as oil.

Procedures

1. At an early stage, find out what your customer may need or want and what is available.
2. Establish if your customer is deemed sufficiently credit-worthy as a risk for the insurer/forfeiter/bank, or if a guarantee is required.
3. Can these financial institutions take on the terms that your customer is asking for, or that you feel you must offer in order to be competitive?
4. Seek indicative pricing. N.B. unless you pay a commitment fee, pricing and appetite can change over time. So, build in a margin, and do not offer commitment until you have a commitment from the risk-taker/financier. And don't assume that contract performance will go exactly to plan. Add a margin in relation to the start date of credit. Banking days of grace are usually included by the bank in the calculation to allow for the expected time delay in receiving funds from the overseas country. There are various methods of calculating the interest which can be discussed with the forfeiter/project financier.
5. Work these costs into your final sales price.
6. Begin drafting contractual documentation that dovetails with the financial paperwork.
7. Keep the financial institution(s) informed of the progress of your bid
8. If you are invited to negotiate, consider whether to start paying commitment fees to secure risk transfer and finance, including in relation to exchange rates if you bid in another currency.
9. As and when an order is received and you have obligations to suppliers, lock the various providers into the finance terms e.g. by means of a commitment fee.
10. Raise appropriate paperwork in accordance with the contract of sale and your finance agreement and/or export credit insurance.
11. Sell the debt obligations to the financier. In most cases this will be without recourse, less discount charges, being the cost of funds plus a margin and applicable fees.

Chapter 5 – Back to Back and Transferable Letters of Credit

Where payment is to be by letter of credit (LC), an exporter who is trading or acting as a main contractor on a project may, with careful planning and preparation, organise the letter of credit to finance back-to-back purchases from suppliers. The net result will be to be able to avoid the cash disadvantage of needing to pay suppliers before drawing down from the LC.

This technique is particularly useful if it is your supplier that is demanding LC payment terms from you. This chapter deals with the problem of how an exporter can arrange that his supplier is paid by LC without having to resort to using his own bank lines of credit. This will take very careful negotiation on the documentation called for under the credit, and a very helpful bank!

Every company no matter how big or small will run into a situation where raising a letter of credit will severely impact on the bank lines available to the company. This is a problem encountered in particular by middlemen who win large contracts to supply goods manufactured in one country and delivered into another. These traders may never get to see the goods whose transit and delivery they organise.

This will only work if both the exporter and the supplier have the same delivery terms – if the LC from your customer specifies FOB then both sets of supply must be FOB from the appropriate port, not CIF or FCA. Of course the disadvantage of this arrangement is the risk that the supplier develops a relationship with the customer such that the exporter is cut out of follow-on contracts.

Back to Back Letters of Credit

When negotiating with your customer, ask him to open a letter of credit in your favour but negotiable and payable at the counters of your bank in the UK. With this 'security' you can then approach your bank and ask it to open an LC in favour of your supplier, also payable and negotiable at the counters of your bank in the UK. I.e. both sets of 'conforming documents' (necessary for draw-down under the letter of credit) are presented to, and negotiated by, your bank.

The negotiating and ultimately the deciding banker as regards the acceptability of the documents presented will be the same bank under both LCs. The intention is that a set of documents acceptable under one letter of credit, should also be acceptable under the other.

However, you must ensure that all the documents (apart from the invoice) will be able to flow through one LC to the other without substitution. The fewer documents the better because there is less likelihood of discrepancies. So, the set of documents presented by the supplier will, apart from the invoice, be the same set of documents that you present in respect of your contract. You don't want the first LC (in favour of your supplier) to pay out if you can't draw down from the second.

- Bill of Lading must be 'to order' and for the complete transportation to the customer's destination.
- Insurance documents need to be for at least the value of the final invoice otherwise the goods may be considered under-insured.

Avoid extra documentation that might contain reference to the supplier's name. This would enable the customer to find out who supplied the goods

and enables him to deal direct in future.

If everything is in order then all that is needed for you as the middleman to do is to substitute your own invoices for the invoices of the supplier when the set of documents arrive at your bankers for negotiation and payment.

Transferable Letters of Credit

This is a more secure form than back-to-back letters of credit in that the LC issued in favour of the supplier is part of the LC issued on behalf of your customer.

As the middleman you will need to ask your customer to procure the issue of a transferable letter of credit negotiable and payable at the counters of your bank in the UK.

The transferable description allows the negotiating bank (your bank) to transfer all or some of the value to your suppliers. The LC can be transferred to any number of suppliers but can only be transferred on one day. So any transferred part of the LC cannot be transferred again. It is particularly useful with multiple suppliers such as if you are acting as the consolidator, putting all the different elements together and shipping out the final product having done nothing apart from getting the various items of cargo together in one place.

The danger for the bank is that the exporter does not get all the pieces together by the deadline, by which time, the bank has paid out to some of the suppliers but the whole consignment cannot be shipped because it is missing a component.

From a practical perspective, therefore it is sensible to try and limit these transferable credits to one supplier and a single customer.

- All Bills of Lading should be 'to order'
- Insurance documents should be adequate to demonstrate cover for the value of the final shipment.

The middleman replaces the supplier's invoices with his own for the payment to all parties to occur.

Chapter 6 – Bond issue support

Many larger contracts, including those with down payments, will include a requirement from the customer for provision of on-demand bank bonds to guarantee performance. No bank is going to volunteer to issue a bond on your behalf unless it is paid to do so, and also feels secure about the risk. The risk for your bank is your solvency, even though this will only become critical if the beneficiary calls the bond AND you, the exporter, become insolvent.

What is an on-demand contract bond?

An on-demand contract bond is a payment undertaking generally issued by a bank at the request of the exporter to the customer (beneficiary) and which is independent of the exporter's contractual obligations.

It is 'on demand' because the issuing bank undertakes to pay the beneficiary upon receiving a simple demand for payment, i.e. the beneficiary does not need to prove non-performance.

The bank will charge a fee for the time that the bond is outstanding. This is usually payable quarterly. In addition, the bank will require some form of security, perhaps an allocation from your overall borrowing line, or, for example, where it is an Advance Payment Guarantee, the bank might require that it holds the advance payment for the duration of the time when the bond is outstanding (which rather defeats the benefit of having a cash advance).

Where an exporter is likely to have a bond requirement, it should prepare by setting up bonding lines with one or more banks. If possible, it is best to have several lines in place because, although it may be possible to agree the same terms and conditions for bonds, each bank will have differing pricing according to its appetite for you the exporter and also the destination country.

When agreeing your bonding lines with banks, make sure that you do not have conflicts with covenants you have given in respect of other lending. For example, if you have an unsecured general borrowing facility, you will probably have had to agree that you will not agree to give better terms (i.e. more security) to less important (subordinate) borrowings.

BExA's Guide to On-demand Contract Bonds is a useful source of information.

BExA continues to lobby for the government to assist exporters in the area of bond issue support. The difficulty of raising bonds for export contracts is one that affects exporters of all sizes. Exporters in many other countries enjoy the support of their governments in helping them to procure the issue of on-demand bonds by their banks and the continued success of the UK as an exporting nation will depend, in small part, on the government's support in this area.

Chapter 7 – ECGD-supported medium term finance

The common definition of medium term finance is that payments are spread over 2 or more years, for example a power plant upgrade involving 5 years credit starting from commissioning, or an aircraft where payment is spread over 10-12 years from delivery. The definition of medium term being 2 years or more also fits with what government supported Export Credit Agencies (ECAs) are allowed to support under both OECD rules and EU rules in relation to the export of capital goods.

Whereas for the purpose of this guide we will simply consider ‘medium term’ to be 2+ years, we should mention that some export professionals consider that any contract with a risk horizon of longer than 2 years is ‘medium term’, even if this horizon is for longer delivery rather than longer credit.

Requirement

Medium term credit will be required in instances where the customer wishes to purchase equipment, but the customer’s budget allocations for the programme do not coincide with the cash requirements of the exporter in performing the contract. In effect the customer is looking for a ‘buy now, pay later’ solution.

ECGD-supported medium term finance

The UK’s ECA is the Export Credits Guarantee Department (ECGD). Based in London’s Docklands, ECGD concentrates on providing support for the export of capital or semi-capital goods. A range of private sector ‘London Market’ insurers and forfaiting companies (and combinations of these two) provide similar cover, but these will be without the valuable government guarantee which enables companies to access almost zero-weighted finance. Commercial solutions for medium term finance are described in more detail in Chapter 4.

Regulatory framework

1. OECD Consensus

The UK is a member of the OECD which has issued guidelines on 2+ years credit, known as the ‘Consensus’ to discourage member countries from over-providing subsidies that could result in a ‘credit race’. Without the consensus, member ECAs would be able to support inappropriate terms and subsidise cover and interest rates and allow very long payment terms, which could encourage overseas customers to choose to buy goods from companies offering the best financial terms rather than because of the quality and price of the product or service.

- Minimum payment of 15% on or before the start date of the credit period (typically delivery or commissioning)
- Maximum credit terms – 5 years for services and smaller value contracts, longer for aircraft, ships and projects. There are specific rules about the eligibility of credit for different types of goods/project and destination country.
- Maximum proportion of finance is normally 85% of contract value. Foreign content rules have been relaxed in the UK and a contract which has only 20% UK element could potentially be financed.

However, decisions are made on a case-by-case basis and it is better to check with ECGD on eligibility prior to making any commitments.

- Repayment is by semi-annual (or more frequent) instalments that are usually equal as to principal and with interest on the reducing balance.
- The OECD sets minimum premium rates, but some ECAs may charge more depending on the risks of the particular transaction.
- The Consensus does not apply to certain sectors such as defence equipment but ECGD chooses to apply similar terms to its support for such exports.

2. Berne Union

ECGD's membership of the International Union of Credit and Investment Insurers (known as the Berne Union) means that it abides by rules concerning the length of credit:

- Credit terms for goods – e.g. that if the goods are usable and revenue-earning immediately, then the credit period should match this earning ability.
- The starting point for credit needs to be appropriate – for example individually operating vehicles should involve credit commencing on each delivery not on delivery of the final item.

Other ECGD essentials

- ECGD's role is to benefit the UK economy by helping UK exporters to win business. Begin your discussions with ECGD early in the process, ideally in conjunction with a bank. You would be wise to ask for the bank's help with the documentation if it is your first medium term export.
- **Non-UK content** can be up to 80% - ECGD recognises that UK exports can involve a considerable proportion of bought-in goods
- **Force majeure.** Put into your export contract some definitions of circumstances when the contract might be terminated because of factors that are too big for either party such as 'Acts of God' (typically natural disasters) or war. Export licence cancellation may not be accepted by your customer as being a force majeure event since it is the action by the UK government. Just saying "in the event of force majeure..." is not enough. You need to define what you mean by force majeure.
- **Termination account.** In the event that the contract is terminated, you need the right to invoice the customer for your costs of production to that date.
- **Arbitration:** make sure you have adequate arbitration provision.
- **Bribery and Corruption declarations.** You will need to make declarations to ECGD that you, your agents and any joint venture partners are not engaging in corrupt activity or undertaking any illegal acts.
- **Impact Assessments.** You may be required to provide a detailed impact assessment to demonstrate the environmental and social implications of your potential export.
- **Freedom of Information.** Be aware of the impact of the Freedom of Information Act 2000. ECGD, as with other public bodies, is obliged to release information if it is in the public interest to do so. Information is

not necessarily commercially confidential just because an exporter says it is. However, before ECGD releases information its practice is to take into account the views of the information provider to help determine whether or not to release it

- As ECGD is taking the risk of non-payment, and public money is involved, there has to be a certain amount of due diligence carried out and this may take some time. So, have realistic expectations of when the application process must start, and what you may be able to achieve.

Issues for exporter

1. Getting paid

The key issue for the exporter is to be paid as it manufactures, performs and delivers equipment, and performs services under the contract, as if it was a cash deal.

2. Recourse

A further issue is the recourse: ECGD will want the finance agreement to be independent from the exporter's performance, so there will be a recourse arrangement allowing ECGD to claw back any claims it pays in the event of a default by the borrower due to non-performance of the contract by the exporter. There is a limit on the amount of recourse that ECGD will take (usually 10% of the maximum liability) and there is provision for the exporter to apply to be released from recourse when its contractual obligations are completed.

Issues for customer

The key issues for the customer are that:

1. The equipment is contracted for and delivered in a timescale to match his operational need, and
2. Payment commitments match budget allocations for the programme

How is this achieved?

These seemingly opposing requirements are resolved by the introduction of a bank which lends the necessary funding to the customer under a structure which permits the exporter to draw cash from the financing facility as performance under the contract is achieved.

Types of Medium Term Credit

The two main types of medium term finance are **buyer credit** and **supplier credit**. Both are suitable for 2-5 year repayments, but larger and longer contracts tend to be arranged on a buyer credit basis.

A **buyer credit** will need a cash contract (not credit) with cash drawn from the loan but to come from the customer in the event that the loan is not available.

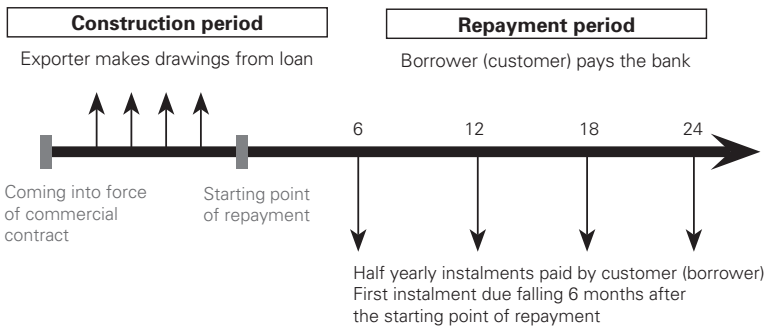
In contrast, a **supplier credit** contract will be written as a credit contract, with the customer making payment e.g. by means of 10 half yearly bills or notes.

Buyer Credit

Buyer credits are typically used for large projects. In a buyer credit, the contract is concluded on cash terms and the customer (the buyer) makes some of the payments from a loan made available by a bank acceptable to ECGD. The exporter has the security of being able to draw funds from the loan by presenting appropriate documentation (e.g. shipping documents) to the bank. Thus, the exporter's cash needs are drawn from the financing and the customer repays over a deferred period. The schematic below illustrates the drawdowns from a Buyer Credit.

BUYER CREDIT

Showing drawdowns by exporter and payments by borrower (customer)



The exporter has the security of being able to draw funds from the loan by presenting appropriate documentation (e.g. shipping documents) to a bank in the UK. The bank is left with the risk of the loan not being repaid, and so it would usually ask for a 100% unconditional guarantee from ECGD. Before giving its guarantee, ECGD will need to be satisfied that the borrower is creditworthy for the sums involved. The borrower could be

- the customer itself,
- the Ministry of Finance (if the customer is public sector),
- a local bank,
- an SPC set up for a project or individual aircraft or ship financing.

ECGD's premium for the buyer credit guarantee will usually be payable by the borrower in the form of a finance charge.

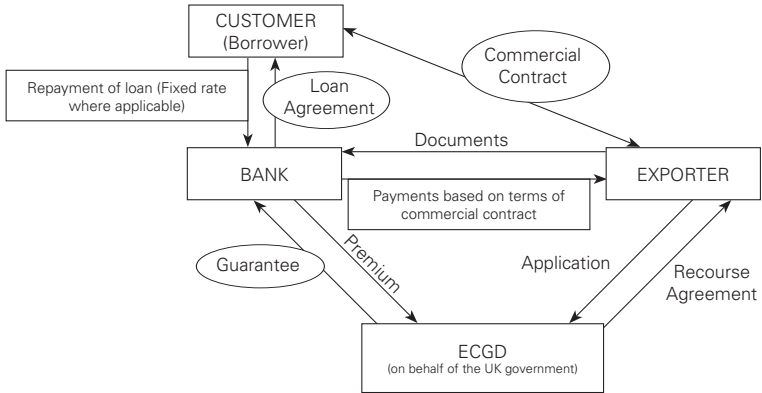
ECGD usually reserves the right to take recourse to the exporter if the exporter has failed to perform under the supply contract at the same time as there is a loan default.

A buyer credit will not automatically cover the manufacturing period. If you are making goods to order, you should consider protecting yourself against the risk of the contract being frustrated before delivery of the goods, perhaps by buying also a specific pre-credit coverage (such as ECGD's Export Insurance Policy or a commercial alternative, mentioning that payment is to be drawn from a 'simple buyer credit') or ask for the loan also to finance termination settlements or arbitration awards (known as a complex buyer credit).

Although the supply contract is concluded on cash payment terms, the wording has to provide for certain defined payments to be drawn from the loan in carefully described circumstances. The following diagram shows, in its simplest form, the documents required for a buyer credit.

BUYER CREDIT

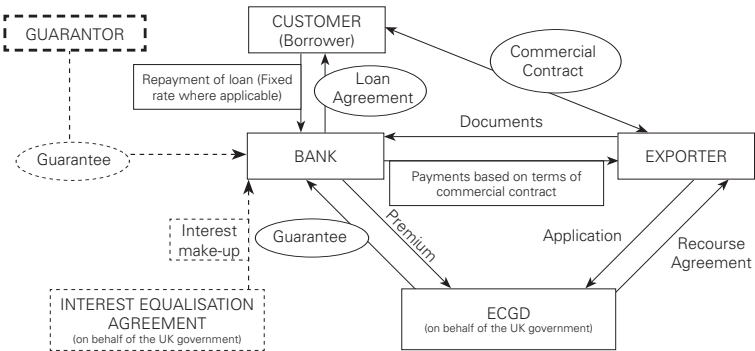
Where ECGD is happy with the credit risk on the customer, so there is no need for a guarantee of payment. Interest rate is commercial.



If ECGD is **not** happy to accept the payment risk on the customer (borrower) without a guarantee, a guarantee from a highly rated bank will usually be required. The following diagram demonstrates that there is also ECGD support for fixed rate finance.

BUYER CREDIT

ECGD requiring a guarantee of payment.
ECGD supporting fixed interest rate.



Supplier Credit

If, instead of paying at 30 or 90 days, your prospective customer wants credit terms such as 2-5 years to pay, you can allow, within the supply contract, your customer to pay by a series of instalments after the goods have been delivered. ECGD's supplier credit facility allows you to avoid the wait for those payments.

A credit contract would normally provide for an advance payment (at least 15%) and the balance of the principal value by half-yearly (or more frequent) instalments with interest on the reducing balance. These principal instalments and interest payments will normally need to be secured by bills of exchange or promissory notes. These bills or notes would be issued (and may also need to be accepted) in advance by the customer and held in trust by a bank acceptable to ECGD until the exporter presents appropriate documentation, such as shipping documents, to demonstrate that the contract has been performed. At this point, the bank will release the bills or notes to the exporter and immediately purchase them from the exporter at full principal value. Thus the exporter is assured of receiving full payment from a bank in a similar way to drawing from a letter of credit.

The bank takes the risk that the bills or notes will not be paid when they fall due, and for this it will need a 100% unconditional guarantee from ECGD. ECGD will only give this guarantee if it is satisfied with the risk on the customer – a guarantee of payment may be required.

Unlike a buyer credit, however, ECGD will not examine the loan documentation under a supplier credit (or, for that matter, the bills or notes). The bank may therefore be able to put straightforward loan documentation in place rather quicker than can be achieved for buyer credits. The bank may also be able to set up a loan without the need for bills or notes.

Premium is payable to ECGD by the bank on acceptance of an offer of cover. The bank will recoup this charge either from the exporter or from the customer as a first drawing under the loan. The exporter will also need to pay an arrangement fee to the bank and will be charged a margin on the interest that is charged to the customer. This may be a fixed rate, with ECGD support, or it may be a floating rate.

Supplier credit facilities do not cover the manufacturing period. If you are making goods to order, it will be necessary to buy additional pre-credit cover from ECGD or from a commercial credit insurer to cover risk during the build phase. A commercial credit insurer will include a clause to say that if the ECGD-supported finance is no longer available – which may be because of the actions of ECGD or of the bank – then that will not be a valid reason to claim from the pre-credit cover. So, be sure that ECGD and your bank are committed to provide the facility.

Line of Credit

A variation on a buyer credit which can be very useful for medium term finance of individual lower value transactions is an ECGD-supported line of credit. This involves ECGD covering a bank-to-bank loan for a developing country under which many contracts can be financed. A line of credit may be set up on a "General Purpose" basis or it can be specific to a project, so, for example, all UK suppliers to a hospital new-build could be paid on delivery FOB while the customer, under the terms of the line of credit, is extended a loan with 5 year re-payment.

Banker's view

Check with your bank that your project is 'bankable' before you sign your contract. Choose a bank that has experience of and a local presence in your customer's country.

Preparation

An engineering exporter came to a specialist trade finance bank saying that he had the best deal of the century: a sizeable natural resources development project for an Eastern European country, including an indication of support from ECGD and a signed contract. A member of the exporter's commercial team had even rented a flat in country, such had been the investment in winning the bid.

However, this was not an attractive deal for the bank. The destination country was on the bank's watch list, and the bank had no appetite for the customer. The commercial contract was unworkable against a buyer credit, and the customer was unwilling to amend any of the contract terms.

The main role of the bank is to assist and advise the exporter. Once the bank has been mandated, the bank can take over the lead in relation to liaison with the customer.

Exporter's view

Don't be shy of talking about medium term finance – an innovative finance solution can be a useful tool in selling, especially if your competitors have not demonstrated that they have considered the cash flow and budgeting issues of your customer. Get the issue on the agenda early in discussions. Ask your customer for his preferred payment terms. Make sure you know about significant future events such as an election or international sporting fixture and find out if this will have an impact on his finances. By aligning payment dates and amounts with the prospective customer's cashflow, you may be able to demonstrate that your product is in fact very affordable and manageable. If you are selling to a government department, you may need also to add an off-set proposal whereby you will source certain components locally or make an investment or encourage an investment to be made in the country.

Draw a diagram for the prospective client to show how the finance will work. Do not rely on your marketing department to mention medium term finance. Many customers, public sector and private sector, may not understand finance – one exporter reports that its team had spent weeks on a bid to a government customer, won through the selection process, and was negotiating the contract when the Ministry of Finance asked the customer the equivalent of "where is your budget for that?"

Ask which banks your customer likes and dislikes (you do not want to propose a solution with the wrong bank!). Put the finance out to tender. Obtain terms from three banks, and put forward all of them to your prospective customer since this will demonstrate competitiveness, and give the customer the opportunity to choose his preferred bank.

It is sensible to have a logical and transparent selection process for choosing banking partners, including asking all the banks to respond to the same set of questions relating to the finance bid. Banks will not want to be continually invited to bid to make up numbers for your presentation, so demonstrate your fairness by being open about the process. Manage your bank relationships. Share your marketing plans and lists of opportunities with this group of banks.

Commercial Buyer Credits

Exporters of capital and semi-capital goods would be wise to establish if there is a commercial alternative to ECGD-supported medium term finance such as is described in Chapter 4. The advantages of this are that the exporter and its bank do not need to comply with the restrictions necessarily imposed by ECGD (or other ECAs) in relation to the domicile of the exporter, the credit terms and start date of credit, and origin of goods, or undertake forms and formalities and impact assessments required by ECGD

Chapter 8 – Leasing

Leasing is a form of finance supporting arrangements that separate the legal ownership of an asset from the right to use it. Leasing is often used in export of capital goods such as containers, trucks, ships, aircraft, locomotives, rolling stock and also aircraft simulators, power plants, machine tools and telecoms equipment.

The entity financing the acquisition (the lessor – e.g. the exporter or a company acting on the exporter's behalf) remains the legal owner, while the entity making payments in accordance with the lease (the lessee, the customer) has the use of the asset. The lessee may, subject to the terms of the lease, become the owner at the end of the lease. This structure reduces the risk for the lessor, who may repossess and resell the asset in the event that the lessee fails to make payments. It is attractive to the lessee who can treat such lease payments as an expense for tax purposes, i.e. a cost of doing business, rather than a capital investment.

Typically the lease payments will consist of a down-payment, periodic payments (usually fixed in value), often monthly, over the lease period, and a final payment if the asset is transferred into the ownership of the lessee at the end of the lease.

The lessor's risks include non-payment, non-return of assets and return in an acceptable condition. Added security may be required, such as a guarantee, or a charge on the customer's physical assets such as real estate.

The lessor of an item will be responsible for its maintenance and insurance, unless specifically arranged otherwise.

The leasing company or lessor could be the manufacturer/exporter of the equipment, but most likely the manufacturer has passed the payment risk and cash-flow issues to a specialized finance provider – a bank or leasing company. The lessor might be in the UK, the customer's country, or even a third country, possibly a tax haven such as the Cayman Islands, with the equipment owner being a special purpose vehicle (SPV) set up purely to hold these goods. After the lease ends, such SPV is wound up.

It is preferable for the lease contract to be organised from within the user's country since a leasing company that is local to the obligor (the lessee, i.e. the customer) will understand the legal, accounting, environmental and tax issues and can handle logistics and servicing and will be able to repossess the goods if needed. With the leasing company being overseas (e.g. in the lessee's country), the arrangement has the advantage that the exporter is making a cross-border sale to the leasing company. This arrangement can also be set up with the exporter's customer buying the goods and simultaneously selling them to a local leasing company to arrange the lease.

Leasing is not so well established in emerging markets. Here capital goods are generally imported on contracts of sale, despite the efforts of the European Bank for Reconstruction and Development (EBRD) and International Finance Corporation (IFC) in establishing leasing companies in some of these countries.

Types of lease

Leases are described as 'financial' or 'operating'. This classification is necessary for current International Accounting Standards (IAS).

- A **financial lease** is one whose essence is the financing of the (eventual) acquisition of an asset by the lessee. In a financial lease, the lessee (i.e. the customer) receives from day one the risks and rewards attaching to ownership of the asset, including title.
- An **operating lease** does not involve transfer of ownership. Hence the asset stays on the balance sheet of the lessor. There can be an option (for the customer, the lessee) to purchase the asset at the end of an operating lease.

Benefits of leasing

Benefit to the Lessor (exporter)	Benefits to the Lessee (the customer)
Satisfied customer Increase of turnover Retain customer control Less focus on price Control over second hand market Risk management Funding relief Almost every type of business equipment can be leased.	One stop shopping for equipment and finance 100% financing for product Fixed payments – easier to budget Small initial capital outlay, pay as you earn from the equipment Use the asset without risk of obsolescence and with no residual value/resale risk

With leasing, the value comes in use, not ownership. Obsolescence risk is avoided. Depreciation is not an issue. Because there is no capital purchase, there might be no need for board approval, or to distort the balance sheet ratios with high cash flow. The leasing arrangement enables your customer to focus on its core business, not on finance.

One issue for the exporter is if the customer does not pay. A credit insurance protection can be purchased to cover non-payment of individual invoices once they are raised. It is possible, for 'undoubted' obligors, to arrange cover for 'acceleration' i.e. on non-payment of one invoice, all future invoices fall due. A very real issue for the exporter is loss of the budgeted income stream from future lease payments.

Advantages and disadvantages to customer/lessee of leasing versus sale

Advantages	Disadvantages
No large outlay: the cost is spread over a number of years, and this helps cash flow. Plus a higher specification product can be chosen than would have been afforded in a direct purchase.	User does not own the asset; it remains the property of the leasing company. If no longer needed, the asset cannot be sold, and the lease contract must continue to run unless termination can be negotiated.
Security requirements may be lower than for a capital purchase	Leasing often works out as considerably more expensive than a purchase.

<p>Tax advantages: most lease rentals are treated as an operating cost so they are treated as an expense. If the business pays no or minimal taxes, some leasing companies will claim the capital allowance on the lessor's behalf and lower the lease costs accordingly.</p>	<p>Although the equipment is not owned, the lessor will be obliged to maintain and repair it.</p>
<p>Budgeting: a lease agreement is usually a fixed contract so budgeting and forecasting are simple. In the event of upgrading the asset, this can be done quickly and with a minor adjustment to the monthly payment, and thus have a minor impact on cash flow.</p>	

Leasing allows a customer to spread the cost of expensive equipment over a number of years, allowing better cash flow planning and budgeting. However it costs more in the long run, and the equipment is not owned.

At the end of the lease, the customer may negotiate to carry on paying a much smaller monthly charge (a peppercorn rent).

Leasing has some tax advantages over buying outright, although these vary depending on the product, the cost and the taxation regime. Taxation of leasing is specific to each destination country. The differentiation between operating leases and financial leases may become insignificant if proposed changes from the International Accounting Standards Board are implemented. Generally, payments under a financial lease are treated as a running cost in the lessee's accounts. VAT may be payable locally on the lease payments.

Operating leases allow your customer to use the equipment without needing to commit to pay its entire cost. This is particularly beneficial if your customer upgrades regularly or only needs a product for a limited time.

Sale and leaseback allows your customer to raise cash by selling existing equipment and leasing it back. This can help cash-flow problems. However, not all sale and leaseback agreements return ownership of the product at the end of the lease.

The feasibility of leasing is based on the assessment of two fundamentals:

- a) Quality of the asset and how its future value may develop
 - Make, model, good working state, reputation, second hand value
- b) Quality of the lessee
 - Company history, financial performance and track record, outlook, expected usage of the asset, management experience.

Summary

Leasing as a way of financing exports is a minority sport, but it can be very useful. The costs and management time involved mean that it tends to be used either for big ticket items or for repeat supply of capital goods to a particular customer or country . It is unlikely to be suitable for trade in

countries with higher political risk where there is a risk of currency shortage or that the asset becomes 'requisitioned' by the overseas government. It is well worth considering for customers in richer OECD countries.

TERM	BRIEF DESCRIPTION (IN THE CONTEXT OF TRADE FINANCE)
Acceleration	Term frequently used to describe the situation where an event happens earlier than would otherwise be the case e.g. acceleration of cash = getting paid earlier.
Acceleration clause	A clause in an agreement (typically relating to payment in instalments) that has the effect, once payment is overdue, of making all subsequent instalments due immediately.
Accept (as in 'accept a bill of exchange')	A binding commitment, created by the act of signing (accepting) a bill of exchange by the party on whom the bill is drawn, thereby creating an unconditional obligation to pay at maturity.
Advance	A trade loan made available to the exporter (typically by a bank) earlier than the due settlement date of a trade debt - potentially secured by the underlying trade debt.
Advance ratio	Expresses the amount of the advance as a percentage of the appraised value of the security or relevant benchmark.
Aval	Where a guarantor, often a bank, issues its guarantee directly on an accepted Bill of Exchange or other financial instrument.
Bank Guarantee	An unconditional undertaking by a bank, on behalf of the principal to pay a certain amount in money to the beneficiary under certain conditions.
Beneficiary	The person or organisation that receives the benefits. For example, the organisation to whom a claim is paid under an insurance policy, or that receives payment under a letter of credit.
Berne Union	A leading association for export credit and investment insurance that maintains guiding principles upon which its members conduct these activities.
Bill of exchange (B/e)	A written acceptance of a debt, signed by the person giving it, and specifying the amount and due date of payment. Capable of being sold by one party to another (at a 'discount') and accepted generally in law as evidence of debt.
Bill of lading	Transport document for sea transit. Acts as a contract of carriage, a receipt for goods loaded on board and a document of title.
Bond	An undertaking given by one party to a second in relation to the obligations of a third. Commonly issued by a bank in support of an exporter's obligations under a contract or bid.

Borrower	The organisation, frequently the customer, responsible for making repayments (e.g. under a loan).
Buyer Credit	Medium term finance provided, typically with ECGD support. Finance is supplied under a separate loan agreement with the borrower (the customer).
CILC	A confirmed irrevocable letter of credit, which carries the 'confirmation' of a second bank. This provides an additional guarantee of payment, subject to the terms of the letter of credit.
CIRR	Commercial Interest Reference Rate - the rate of interest at which ECAs are able to support fixed rate finance under the terms of the Consensus.
Confirmation	See CILC
Consensus	The OECD Consensus. The rules which guide member Governments on the ways they can support exporters through their Export Credit Agencies. Designed to prevent unfair competition.
Counter-indemnity	In asking a bank to provide an undertaking, such as a Bond, the exporter will be asked to provide the Bank with compensation for any resulting payment.
Covenants	In Trade Finance. Clauses in loan agreements, representing commitments on the part of the borrower, often designed to protect the lender's position.
Credit Limit	A limit set (e.g. by a credit manager or credit insurer) to restrict the overall exposure to a customer.
Credit Risk	The risk that credit extended will not be repaid when due.
Debt instrument	Paperwork evidencing debt, e.g. B/e, P/n, LC or invoice
Days of grace	The period of 'grace' (measured in days) before a penalty will be imposed for failure to meet an obligation.
Dilution	The situation where the value of security for a trade loan is reduced, for example by returns or contra entries.
Documentary	Where documents form a key part of a transaction e.g. a Documentary letter of credit, or Documentary Collection, that calls for presentation of specified documents.
Drafts	Synonymous with bill of exchange.

ECA	Export Credit Agency, typically Government supported e.g. ECGD.
ECGD	UK's ECA - the Export Credits Guarantee Department.
Eligibility Criteria	A set of requirements for a receivable, or a portfolio of receivable, to be regarded as "suitable" for financing.
Export Finance	An umbrella term to cover a range of finance schemes that provide support for exporters.
Financial Lease	A lease whose essence is the financing of the (eventual) acquisition of an asset by the lessee.
Force majeure	Clause in a contract to free both parties from their obligations on the happening of an event outside their control. There is no standard definition of force majeure. See also Termination Account and Chapter 7.
Forfaiting	Purchase of negotiable trade financial instruments, mostly avalised Bills of Exchange, without recourse to the seller.
Issuing bank	The bank that opens a letter of credit
Letter of credit (LC)	A method of payment whereby an Issuing Bank, upon instruction from the customer, authorises the seller to draw a specified amount of money against presentation of compliant documents within a specified time period. Often called a Documentary Credit or Documentary Letter of Credit.
LIBOR	London inter bank rate (of interest). Used as a reference point for pricing loans.
Liquidity	A business' ability to meet its payment obligations, in terms of possessing sufficient assets that can be converted to cash.
Loan agreement	Agreement that captures the terms of lending.
Loss Payee	A clause in a contract of insurance, which provides that in the event of payment being made under the policy, in relation to the insured risk, such payment is made to a third party (for example, a bank providing trade finance) rather than to the insured beneficiary under the policy.
Margin	Typically the charge for supply of finance is added to the underlying interest rate as a "margin".
Medium Term	Refers to trade finance where payments are spread over 2 or more years.
Non-recourse	Where the right of recourse of a bank is limited (for example to realisation of the underlying security for an advance) and it does not have direct recourse to the borrower.

Obligor	The individual or entity who enters into a legal obligation.
OECD	The Organisation for Economic Co-operation and Development (OECD).
Off-balance sheet	Where an asset, or debt financing activity, is not reflected on a company's balance sheet. This could, for example, involve a lease, a separate subsidiary, or a contingent liability such as a letter of credit.
Offset	Agreement by which an exporter undertakes to buy goods or invest in the country of purchase.
On-balance sheet	Where an asset, or debt financing activity, is reflected on a company's balance sheet.
Open account	Payment by simple invoice, without supporting security, guarantee or controls.
Operating Lease	A lease that does not involve the transfer of ownership to the lessee and stays on the balance sheet of the lessor.
Post-shipment finance	Finance earmarked for those elements (notably the provision of buyer credit) of an export transaction after the point of shipment (or despatch).
Pre-shipment or pre-credit	The period between effective date of contract and despatch, assuming that a debt is created on despatch
Pre-shipment finance	Finance earmarked for manufacturing, supply or other costs for an export transaction up to the point of shipment (or despatch). It is often based on the structure of the sales contract and/or supported by the chosen method of payment.
Promissory Note (P/n)	A form of financial instrument in international trade, and mostly more detailed than a Bill of Exchange, where the buyer irrevocably promises to pay to the seller on a fixed date or dates.
Receivable	A trade debt, typically evidenced by an invoice.
Recourse	The ability, typically of an insurer or bank, to require the exporter to repay money drawn under a finance facility, typically on non-payment by a customer or on non-performance of the exporter.
Securitisation	A form of finance that involves the repackaging of cashflow from financial assets into a form that can be sold to investors. In the context of trade finance the repackaging typically relates to a portfolio of trade debts.
Sharia Finance	Finance provided that is consistent/compliant with Islamic religious law.

Sight (at sight)	A notation on a draft (Bill of Exchange), indicating that it should be paid upon presentation. Often used in collections and Letters of Credit.
SPC (SPV)	Special Purpose Company (Vehicle) e.g. set up for a project.
Supplier Credit	Credit terms provided within a supply contract.
Tenor	Defines the term of a loan, advance or credit period extended e.g. 120 days. Often used in the context of extended terms of payment under bill of exchange or promissory note.
Termination Account	In the event of contract cancellation, e.g. on the occurrence of a force majeure event, it is wise to have the right to submit a termination account for the costs you have incurred until that time.
Trade Debtors	Customers who owe a business money, typically as a result of buying goods and services on deferred terms of settlement.
Trade Finance	Finance provided in support of trade. Typically, structured in a form that is aligned to the underlying transactions.
Transactional Trade Finance	Finance for single export or trade transactions.
Trustee Letter	The agreement between the customer and the bank that governs the conditions under which the bank can release to the supplier the bills of exchange or promissory note.
UCP 600	Uniform Customs and Practice for Documentary Credits, a set of rules governing letters of credit provided by the International Chamber of Commerce.
Usance	An expression sometimes used for a Bill of Exchange or Letter of Credit with a future payment date, which extends to the customer a specified period of credit.
Working Capital	The financial measure of current assets minus current liabilities.
Zero-weighted	Capital Adequacy requirements for banks are calculated in prescribed ways. Some risks attract a lower 'weighting', which will result in a lower requirement for capital. 'Zero weightings' can apply in a variety of situations and may improve the availability and the finance cost for the borrower.



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ABC is one of the leading banking groups in the Middle East and North Africa (MENA) region, enjoying strong support from major shareholders including the Abu Dhabi Investment Authority, the Central Bank of Libya and Kuwait Investment Authority. Headquartered in Bahrain, the group operates from its twin hubs of Arab Banking Corporation B.S.C. (Bahrain) and its wholly-owned UK subsidiary, ABC International Bank plc (London). ABC Bahrain's unrivalled regional network (Algeria, Libya, Lebanon, Tunisia, Egypt, Jordan, Iran, Iraq and UAE) together with its international presence in New York, Singapore and São Paulo is further complemented by ABCIB's pan-European branch operations (in Paris, Milan and Frankfurt) and representative and marketing offices (in the north of England, Stockholm, Madrid and Istanbul).

PRODUCTS & SERVICES

Trade Finance continues to be a core product area for the ABC group, which provides a wide range of solutions to meet clients' trade financing needs – from traditional documentary credits, guarantees and ECA credit facilities through a range of more tailored products such as pre-export financing, forfaiting and receivables financing to innovative and cutting-edge Islamic structures. Such activities are fully complemented by the group's activities in its other major product areas including structured and project finance, Treasury and Islamic banking services.

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AIG Trade Finance provides specialist analytical, structuring and support services for all kinds of receivables-backed financing.

AIG TF has extensive experience and uses AIG's unique Global Limits Manager platform to analyse, track and report on receivables and buyers history and performance.

AIG TF can act as a "hot" back-up or standby servicer of receivables in addition to its normal reporting and support functions, easing the administration for companies and banks.

AIG TF services link in seamlessly with credit insurance facilities from AIG which writes excess of loss cover with non-cancellable buyer limits that provide effective support for bank financing of trade receivables in the current credit environment.

For further information please contact Neil Ross, David Bonsall and Alastair Malcolm.

AIG Trade Finance and AIG general insurance businesses are rebranding to Chartis



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ANZ is an Australian based “Super Regional” Asian bank with ANZ’s London Branch being a core part of the Bank’s Asia Pacific, Europe and America division. We remain one of the strongest banks in the world.

The primary focus of our London based relationship management and product teams is to support trade and investment flows between clients in the UK and Europe with Australia, New Zealand and Asia.

Trade and Supply Chain

Our aim is to accelerate cashflows, mitigate transactional risks and help build the flows of management information. We develop solutions involving the management of payment flows, intermediation of supply chains and purchase or sale of transactional risk.

Our team of specialists in London works as part of a global Trade and Supply Chain team. Our global representation spans 30 countries with a longstanding presence in Asia and a deep understanding of trade flows and industry needs.

Our structured commodity finance specialists provide medium term funding, particularly for clients with limited access to capital markets.

Product and Services

- Trade Processing Services
- Vanilla Trade Finance
- Supply Chain Finance
- Structured Trade Finance
- Structured Commodity Finance

Structured Export Finance (SEF)

Head-quartered in Sydney with hubs in Singapore (Asia) and London (Europe and America), SEF comprises experienced professionals with regional specialisation and in-depth knowledge of Export Credit Agencies.

We focus on supporting “buyer”/“investor” clients procuring capital equipment and services (particularly in Australasia) and “supplier” clients exporting their products to end users in Australasia.

The team prides itself on developing market-leading export credit financing solutions that meet our customers’ needs regarding availability, tenor and certainty of financing. SEF can also assist with local currency, interest rate and withholding tax solutions for a wide range of financing structures.



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Aon's specialist trade credit team works with you to design specific trade receivable solutions to meet your strategic business needs.

Our dedicated team offers advice to support businesses, including exporters, to protect and finance their sales. We specialise in a range of products including:

- credit insurance;
- trade finance;
- business information; and
- credit risk diagnostic tools.

Our business segment teams have been created to support your company whether you are an SME, a large UK corporate, or a multinational business. We recognise that every company is different and focus on creating distinctive value for you based on a deep understanding of your business and risk issues, insightful analysis and powerful execution.

To complement this, our dedicated sector teams have the expertise and knowledge to understand and resolve industry specific issues pertinent to your business. Aon Trade Credit is an international organisation with local access to the best markets in the world and we are always looking for ways to bring innovative and cost effective solutions to our clients.

Aon's technical expertise is exemplary in its industry and we continue to invest in the people that will offer you industry-leading service wherever you need it. Your business is allocated a named Account Manager who acts as your technical resource on contract, policy wording and claims issues.

FP ref: 5865



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Barclays is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. We have an extensive international presence in Europe, the Americas, Africa and Asia, employing over 155,000 people across 5,000 distribution points to serve 55 million customers and clients worldwide.

A key element of our portfolio is our cash management and trade finance business. Barclays Commercial Bank's expertise in this area, coupled with our global reach and innovative approach will assist you in meeting your business goals.

We provide local and international commercial banking services through our extensive branch network across 23 countries in Europe, Africa, Middle East and Asia to over 260,000 businesses and organisations. Our approach centres on understanding our customers' needs, enabling us to provide bespoke and holistic working capital solutions covering cash management, trade and liquidity.

Our team of trade finance specialists continues to uphold a reputation as a market-leader in terms of customer relationship building and high quality, innovative advice and deal execution. We offer the entire range of Transactional Trade Products to support our customers' trading needs, from documentary trade services to trade finance solutions including Structured Trade & Commodity Finance. Barclays also continues to develop its Supply Chain services, extending our reach beyond traditional 'financial' trade services to enable our customers to link their physical and financial supply chain.



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Calyon is the Corporate and Investment Banking arm of the Crédit Agricole Group, the world's ninth-largest and Europe's third largest bank on the basis of Tier 1 capital (The Banker - July 2009). With more than 13,000 professionals comprised in more than 50 countries, Calyon specialises in the businesses of capital markets and investment and corporate banking.

Calyon is a strong player within the export & trade market place and continues to be ranked amongst the top five providers of these products worldwide.

Export & Trade Finance has a significant counterparty risk taking capacity on both corporate groups and financial institutions which enables Calyon to manage and underwrite large transactions:

- issuance and re-issuance of guarantees,
- confirmation of letters of credit,
- discounting of trade receivables,
- Export Credit Agency (ECA) and / or Private Insurance (PRI) covered financing,
- export credit master agreements, etc.

Calyon maintains teams of recognised professionals. It has developed an appreciated advisory capability in international trade operations.



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Coface is one of the world's leading providers of credit management solutions.

By providing a **complete business to business trade credit solution**, Coface's holistic approach to credit management offers our clients greater flexibility, security and ultimately peace of mind when trading with companies abroad or at home.

- Protection and finance – a unique combination. Coface offers a unique proposition to the market place, enabling our clients to trade more safely during turbulent economic times.
- Protection against bad debts or insolvency – Coface offers a variety of credit insurance packages to suit the different cover requirements of most businesses. These include whole turnover and political risk cover in export markets and domestically.
- Flexible financing to boost cash flow - when obtaining funds is difficult, Coface can support businesses with a range of receivables finance services. Financing exports is a particular area of Coface expertise.
- Business ratings and information - Coface provides information on over 50 million companies in 150 countries, allowing clients to make informed business decisions.
- Receivables management services to collect outstanding payments. Coface offers a suite of international multi-lingual debt collection services. Our team of multi-lingual collectors liaise with colleagues around the world.

Our credit management service offer for UK businesses operating in overseas markets is unique.



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DF Deutsche Forfait AG is highly specialised in the forfaiting business, the non-recourse purchase of foreign trade receivables. We have many years of experience in financing and securing exports, especially those destined for higher risk emerging market countries. Our clients include exporters as well as many domestic and international banks.

DF Deutsche Forfait AG purchases many forms of trade receivable, without recourse. Our services include the discounting of:

- Promissory notes and bills of exchange
- Accounts receivable
- Letters of credit
- Lease receivables

We also provide Silent Confirmation of sight payment Letters of Credit.

Credit insured transactions can be discounted, using the insurance cover as a risk mitigant to enhance the financing of the transaction.

We help secure you against commercial and political risks worldwide. We are able to tailor our services to your precise needs and provide you with a firm commitment, in writing, to purchase or secure your receivables, explaining all the associated costs at the outset.

Tying up your next export contract? Wanting to evaluate a country-specific risk? Looking to sell your receivables without recourse?

Contact our team of dedicated experts. We will provide you with the best financing options available.



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At Ducroire | Delcredere our mission is to cover our clients against the short-term payment risks attached to domestic and international business and thus support economic growth and the financing of global trade. Our aim is to do this by providing a bespoke service, adapted to the needs and the distinctive business strategy of each client, large or small.

Ducroire | Delcredere S.A. N.V. provides insurance and reinsurance cover against the political and commercial risks attached to trade. We seek to cater for the needs of British exporters, delivering the risk protection that will allow them to do business with confidence both at home and in markets around the world.

Ducroire | Delcredere has the expertise and risk appetite to strongly support trade with a wide range of developing and emerging economies. We have a deep-rooted understanding of local conditions in countries on all continents, and the political and economic factors that affect the functioning of trade and levels of payment risk. We closely monitor the business climate, sector by sector, and the performance of individual companies. This knowledge enables us to measure the risks our clients face, so that we can adapt our service and levels of cover to support them effectively. Never take emerging markets at face value: always check at www.ducroiredelcredere.co.uk.



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This year marks the 90th anniversary of ECGD's foundation as the world's first export credit agency. It was created to help British exporters in the financial instability following the First World War. It has maintained that supporting role through many changes in economic outlook and continues to do so in the current downturn.

The severe financial instability of late 2008 and early 2009 raised significant challenges for British exporters. As private providers reduced, and in some cases removed, their cover, so many more came to ECGD. Enquiries and business levels rose significantly: for example, ECGD supported 88% more aircraft in the second half of 2008-09 compared to the same period in 2007-08.

ECGD has maintained its traditional role of supporting exporters in difficult times. It has strengthened its engagement with business, visiting companies, attending events and developing closer links with UK Trade and Investment and the British Chambers of Commerce, reflecting the larger number of smaller exporters expressing interest in its support. It has worked with the Department for Business, Innovation and Skills to identify how Government could help exporters, and business in general, to weather the current storm and emerge strong and able to take the opportunities that recovery will offer.

In the 90 years that ECGD has been in business, it has helped thousands of British companies to export – and employ - with confidence. ECGD will continue its mission to help Britain's business and economy into and beyond its ninth decade.

For more information about ECGD's products go to www.ecgd.gov.uk or call +44 20 7512 7887.



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Since formation in 1984 London Forfaiting Company (LFC) has established a proven reputation for providing fast, efficient, tailor made, non-recourse finance solutions to importers and exporters.

LFC can finance a wide range of goods and services including Commodities, Technology, Consumer and Capital equipment and even Turn Key Projects for periods from 6 months to 10 years.

Our extensive experience and risk appetite enables us to support exporters in markets which they might otherwise perceive as an unacceptable risk. We strongly recommend contacting us during the early stages of contract/finance negotiations, when we can advise on the availability and costs of finance, credit periods, types of documentation, requirement for bank guarantees etc

Indications are easily obtained through our office and we pride ourselves in being able to give rapid responses including, where applicable, issuance of firm offers. The extensive list of Countries that LFC can currently consider is available by contacting us or via our website www.forfaiting.com.

LFC is a wholly-owned subsidiary of FIMBank p.l.c. Malta

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