

WILL YOU GET PAID ...



FOR THAT SALE YOU JUST MADE?



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Agriculture
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FAS
November, 2000

USDA Export Credit Guarantees - *Programs*

- **Agricultural Commodities**

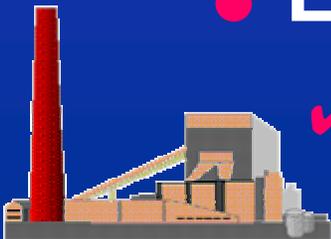
- ✓ **GSM-102 Credit Guarantee Program**

- ✓ **GSM-103 Intermediate Credit Guarantee Program**

- ✓ **Supplier Credit Guarantee Program**

- **Equipment and Services**

- ✓ **Facility Guarantee Program**



USDA Export Credit Guarantees -

Programs:



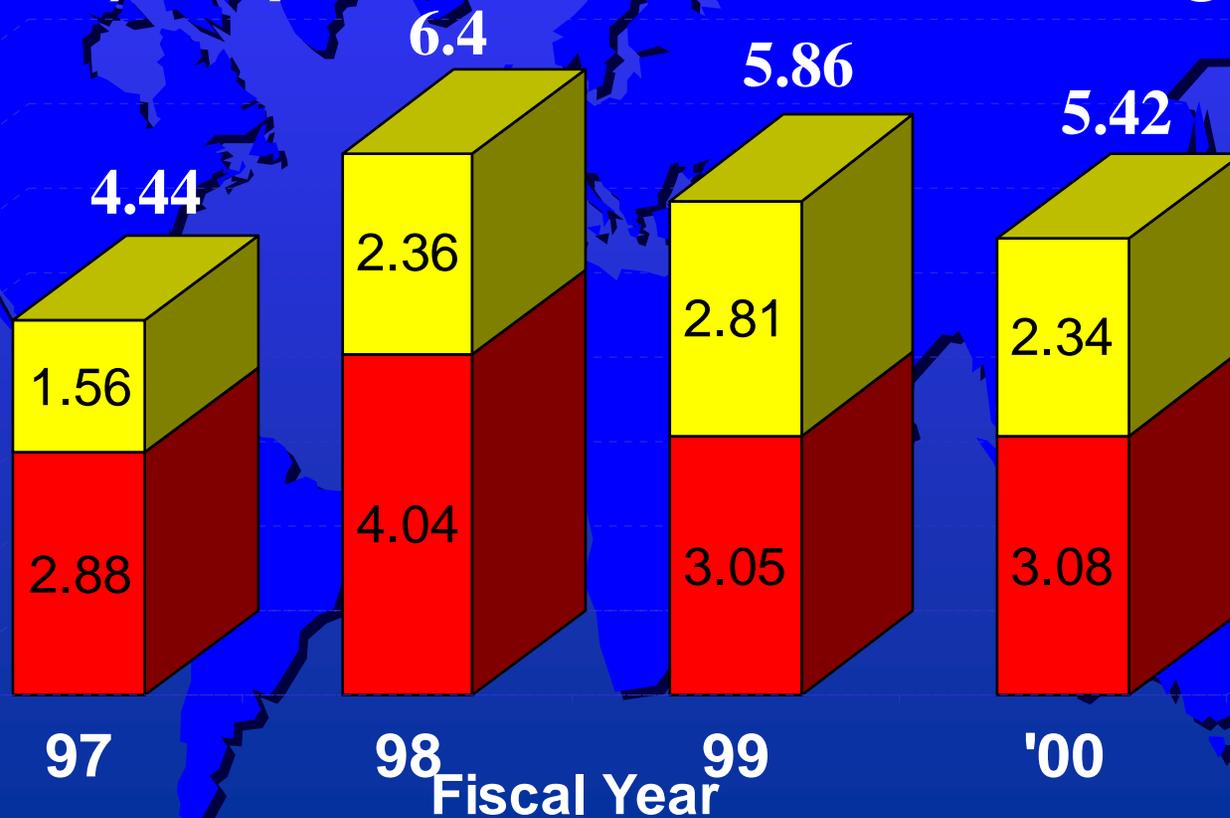
- Financing tools designed to *expand access to credit.*
- *Encourage U.S. banks/exporters to extend financing where they might not otherwise.*
- *Reduce the risk of non-payment by an importer's bank or the importer.*



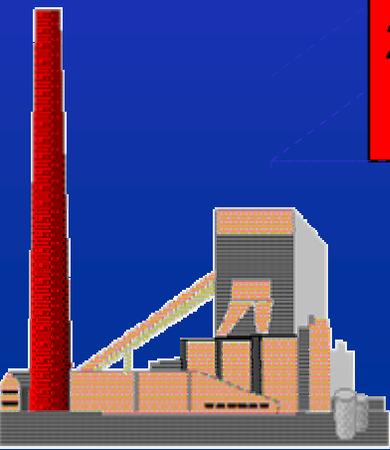
USDA Export Credit Guarantees - Programs:



(\$ Billions) Export Credit Guarantee Program Size



■ Registered Sales ■ Program Allocations



GSM-102 Export Credit Guarantee Program

**Making
Agricultural Trade
Possible**

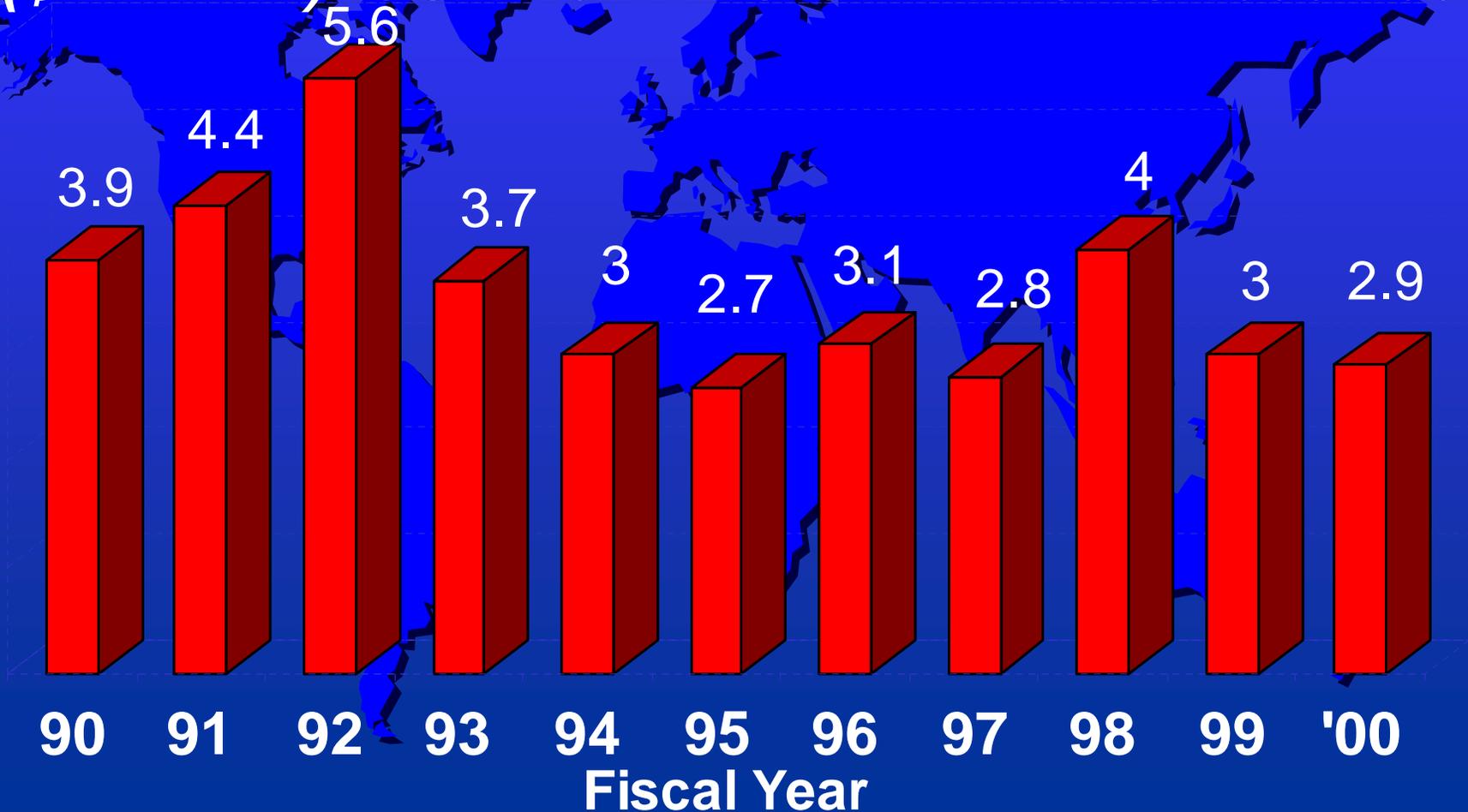


GSM-102 -

Program Description:



(\$ Billions) GSM-102 REGISTRATIONS 1990-2000



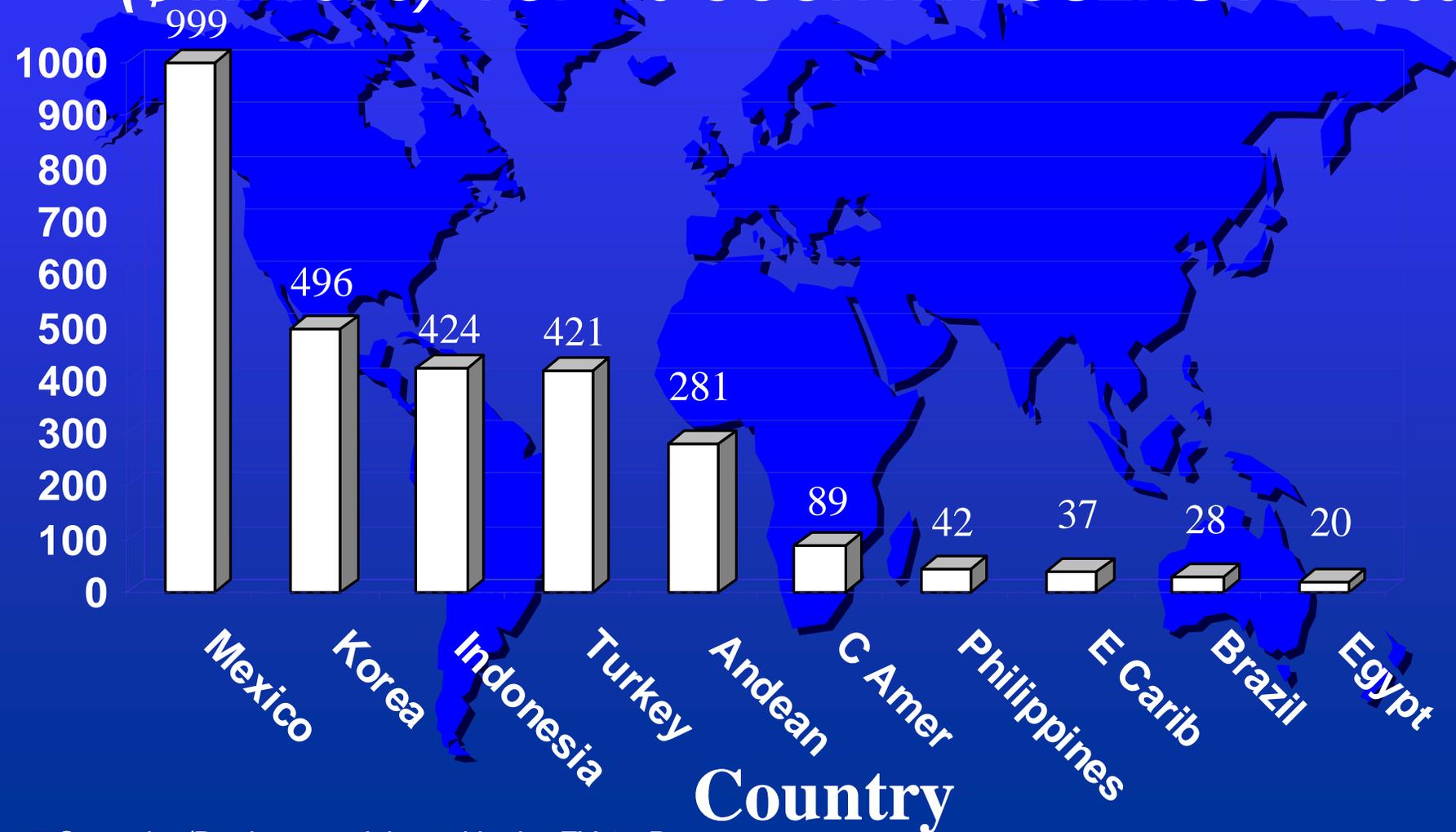
Registrations are expressed in guaranteed values

GSM-102 -

Program Description:



(\$ Millions) TOP 10 COUNTRY USERS FY 2000



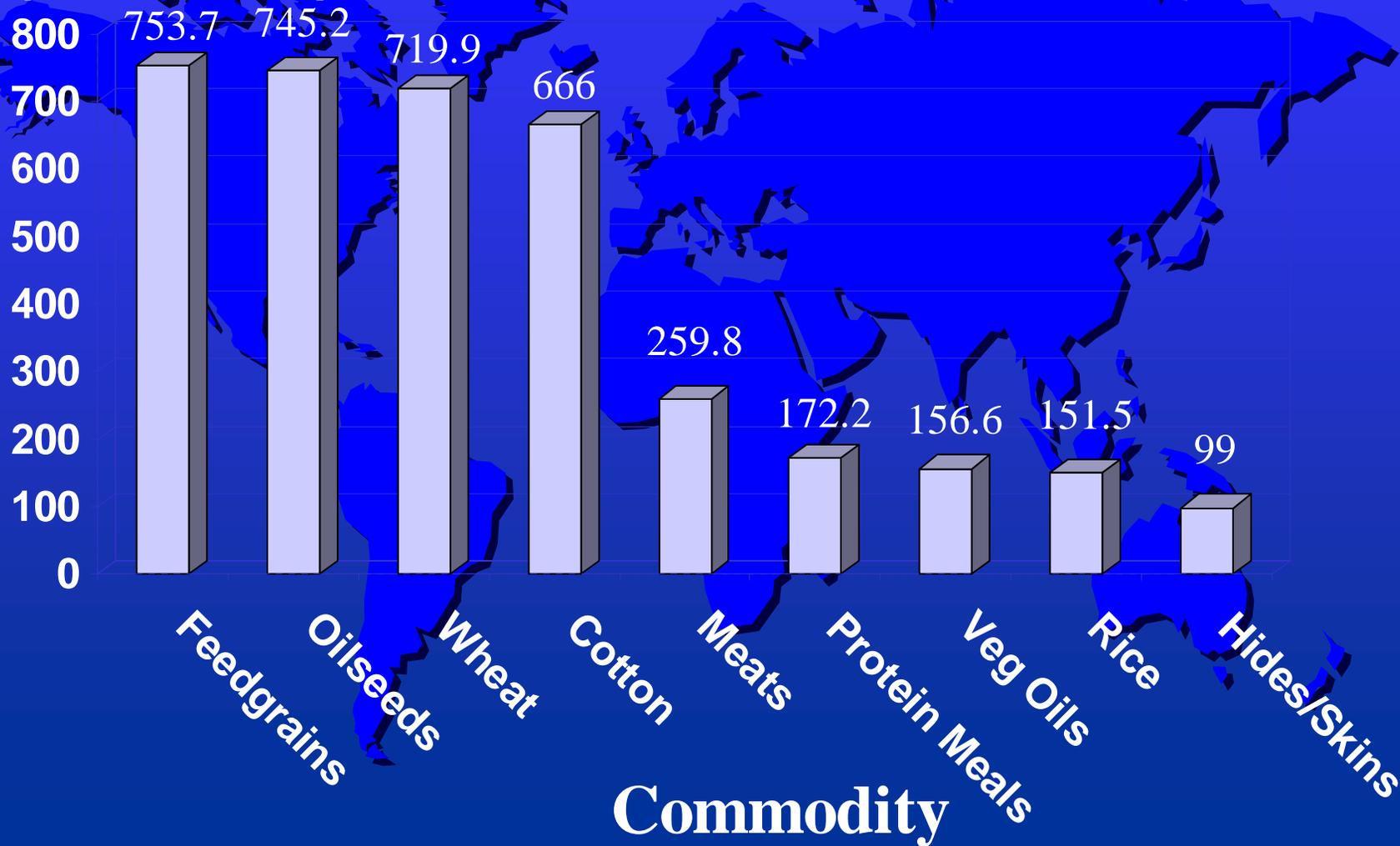
35 Countries/Regions participated in the FY 00 Program

GSM-102 -

Program Description:



(\$ Millions) TOP 10 COMMODITIES FY 1998



GSM-102 - *Program Description* **(Eligible Commodities):**



- **US Agricultural Commodities entirely produced in the US; or**
- **A product of an agricultural commodity:**
 - ✓ **Determined to be high value, and**
 - ✓ **90 or more by weight (excluding water and packaging) entirely produced in the US**

For example, canned fruit, peanut butter and processed meat

GSM-102 -

Program Design:



- CCC covers risk of *foreign bank* default
- Credit is extended by US bank/exporter and secured by foreign buyer's bank
- Foreign bank must open an *Irrevocable Letter of Credit (L/C) in \$US*
- CCC provides credit terms coverage of *6 months to 3 years* from date of export

GSM-102 -

Program Design:



- **Guarantees 98% of the principal**
 - ✓ Portion of interest (55% of T-bill rate)
 - ✓ 95% of principal for non-interest bearing L/C (maximum 1 year term)
- **Exporter pays an exposure guarantee fee**
 - ✓ 15.3 cents to 66.3 cents per \$100 of coverage

GSM-102 -

Who can Participate?:



- CCC must approve

- ✓ US Exporter

- ✓ US Bank

- ✓ Foreign Bank
(with \$ limits)

- No approval for

- ✓ Importers



GSM-102 - *Program Design* *(Interest Rates):*



- Negotiated between foreign and US bank



- Typically LIBOR plus a fraction



GSM-102 - *Process*

(Approval and Guarantee):



- Determine if CCC coverage is available for country and product of interest
- Identify approved US and foreign banks
- Exporter and importer enter into credit sales transaction
- Exporter applies to CCC for a payment guarantee and pays fee

GSM-102 - *Process*

(The Letter of Credit [L/C]):



- Foreign bank opens Letter of Credit (L/C) in favor of the exporter
- US bank confirms or advises L/C
- Exporter ships the product
- Exporter assigns guarantee to US bank; submits export documents
- Exporter submits evidence of export

GSM-102 - *Process*

(Payment):



- U.S. bank pays the Exporter
- Foreign bank pays the US bank (principal and interest)
- Importer pays the foreign bank



GSM-102 - *Process*



(Default):

- In case of non-payment, US bank notifies CCC within 10 days from date payment due
- If payment not received from defaulting bank, claim must be filed with CCC within 6 months
- CCC reviews claim documents and pays US bank immediately (if documents are correct)
- CCC attempts collection from foreign bank
- Any monies recovered are shared pro-rata with the US bank

GSM-103

**SAME PROCEDURE AS
FOR GSM-102**



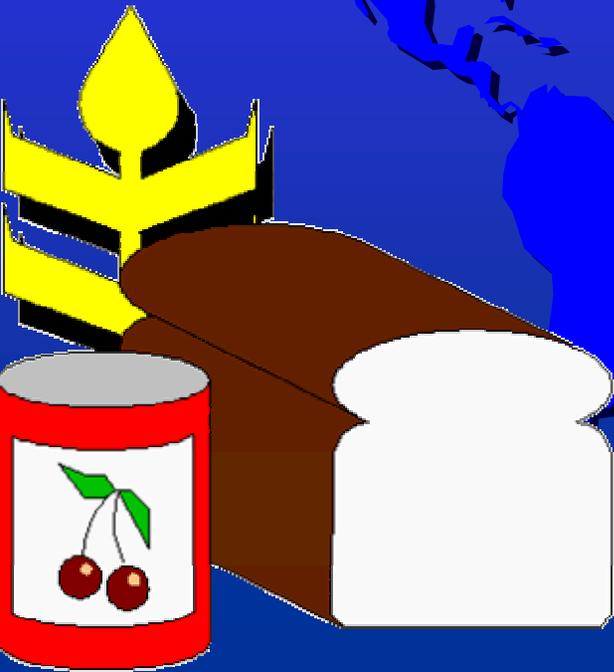
How is GSM-103 Different from GSM-102?

- GSM-103 provides coverage on credit terms extended -- 3 years to 10 years.
- Generally livestock and genetics
- Covers 98% of Principal and about 75% of the Interest Exposure (80% of 52-week T-Bill Rate).
- Usually covers CFR (C&F) value.
- Fees - \$1.17 to \$5.00 per \$100 of coverage.

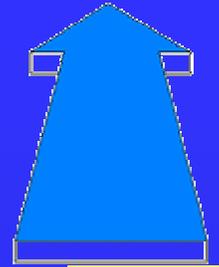
Supplier Credit Guarantee Program (SCGP)



**SHARING
IMPORTER
RISK**



Supplier Credit Guarantee - *Trends and Description:*

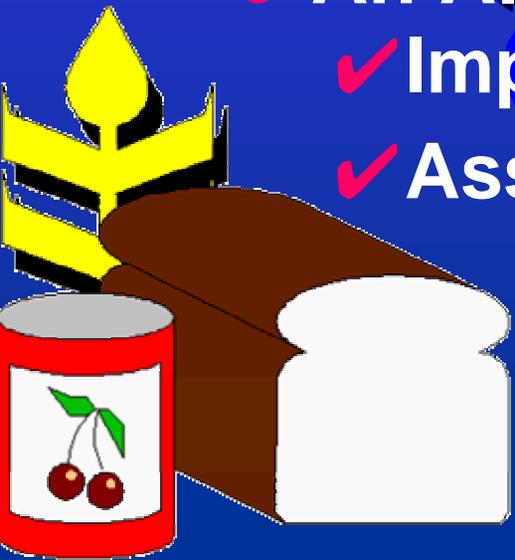


- Letters of Credit (L/C) Decline in Use;
- Smaller Transactions;
- Increase in Container Size Movements;
- Increase in High-Value, Consumer-Ready Exports;
- More Private Sector Importers.



Supplier Credit Guarantee - Program Description:

- Supports *Direct Buyer & US Exporter* Trading on Short-Term, Open Accounts.
- Covers Consumer-Ready and Bulk Agricultural Commodities.
- An Alternative to L/C Transactions.
 - ✓ Importer signs *\$US Promissory Note*.
 - ✓ Assignable by Exporter to US Bank.



***Helping Buyers and
Sellers Achieve
Their Financial Goals!***



Supplier Credit Guarantee - Program Design:



- Covers 65% of sale (including freight)
- Guarantees credit up to 180 days
- No interest coverage
- Exporter Guarantee Fee
 - ✓ 45 cents per \$100 (90 days or less)
 - ✓ 90 cents per \$100 (>90 to 180 days)



Supplier Credit Guarantee - Program Design (cont.):



Why a 65% Guarantee? - Risk Sharing

- USDA shares risk with US exporter;
- No routine credit analysis if importers;
- In most cases, US exporter has a developed trading relationship with the importer.



Trust

Supplier Credit Guarantee - Program Design (Benefits):



IMPORTER

★ *Increases Buying Power!*

✓ Access to Quality US Products.

★ *Improved Credit Terms!*

✓ Lower *interest rates*;

✓ Longer *tenor*

(30 → 60 → 90 → 180 days).

★ *Eliminate Costs & Delays of L/Cs.*



Supplier Credit Guarantee - Program Design (Benefits):



EXPORTER

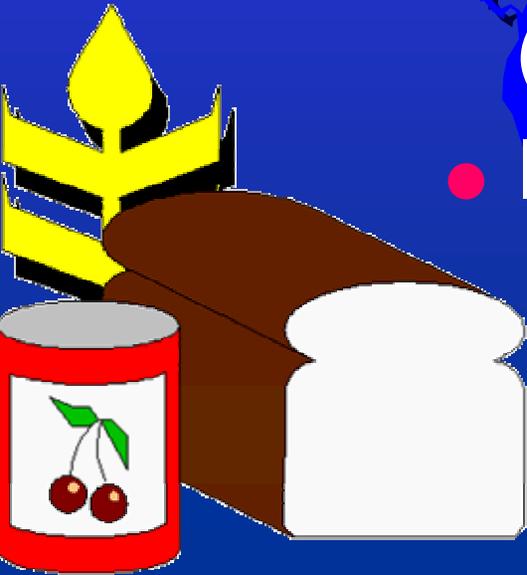
- ★ *Entry to new markets.*
- ★ *Leverage (improve) risk exposure.*
 - ✓ \$35,000 Credit Line Becomes \$100,000!
- ★ *Be more competitive -*
- by offering competitive rates.
- ★ *Eliminate Costs & Delays of L/Cs.*



Supplier Credit Guarantee - *Who can Participate?*



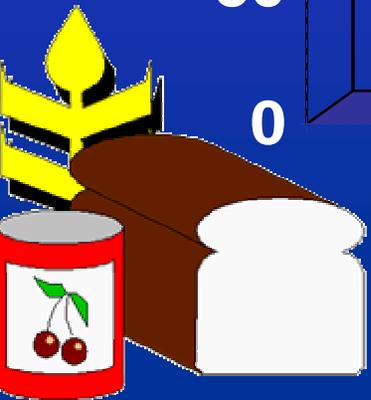
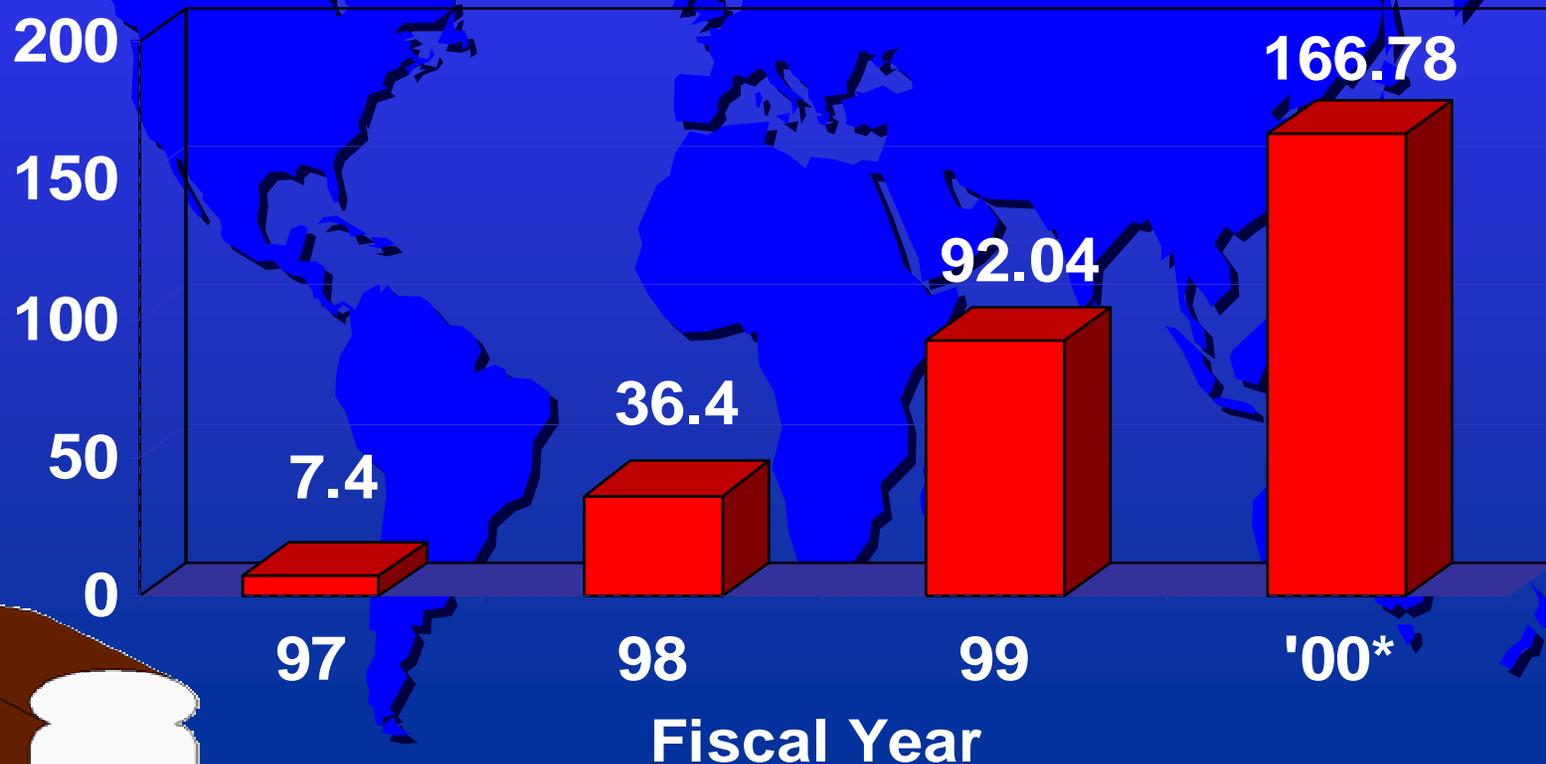
- Approved US exporters;
- Approved US banks;
- Foreign banks *can* participate (but need not);
- Importers do **not** need approval.



Supplier Credit Guarantee - Participating Countries:



*(\$ Millions) Expanding Sales Value FY 1997-2000**

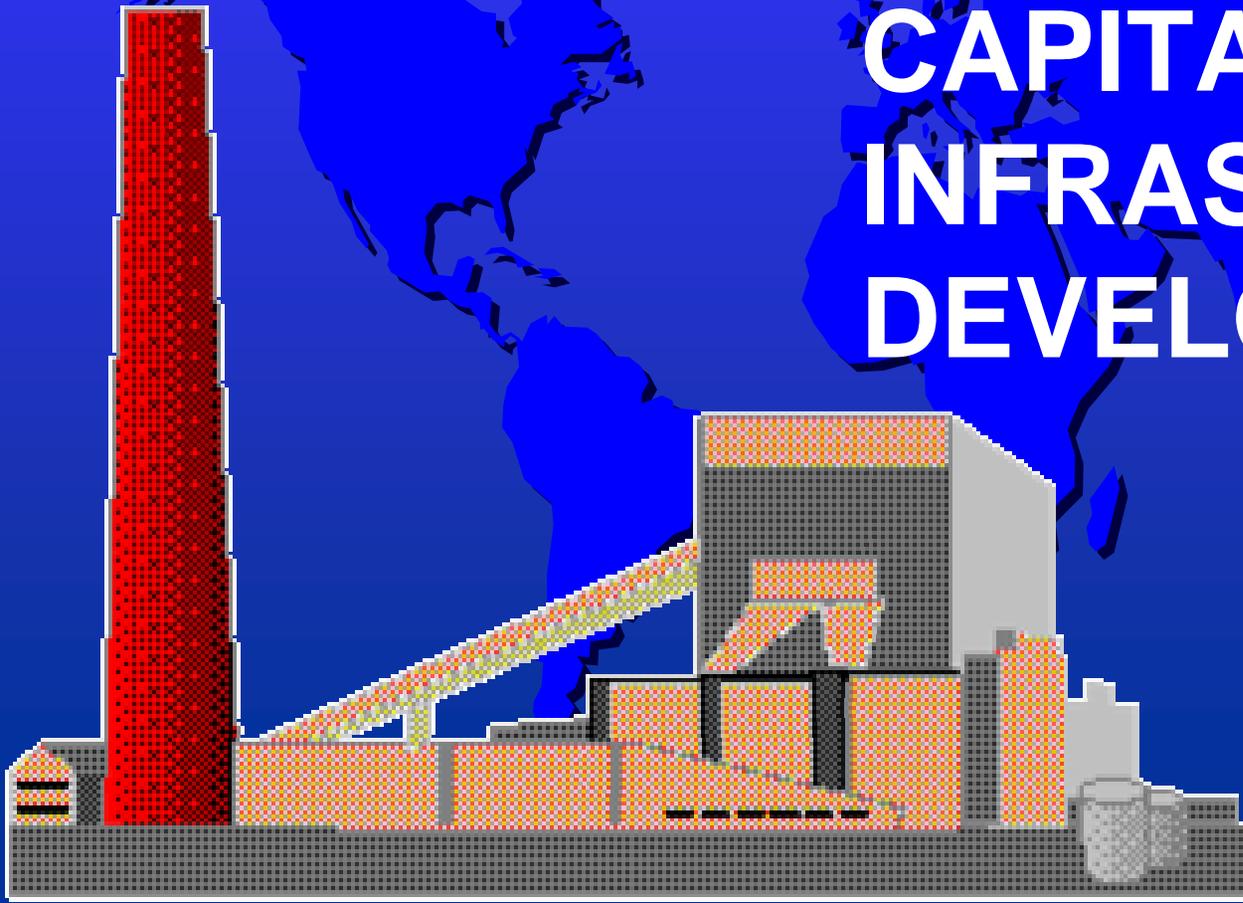


*As of 8 September, 2000

Facility Guarantee Program (FGP)



**PROMOTING
CAPITAL
INFRASTRUCTURE
DEVELOPMENT**



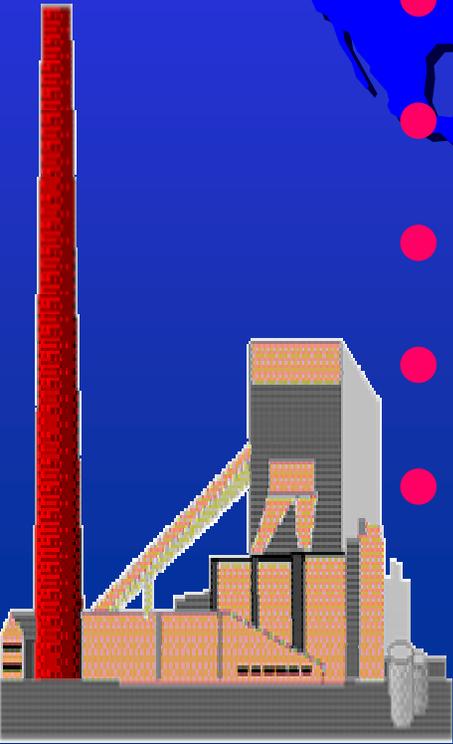
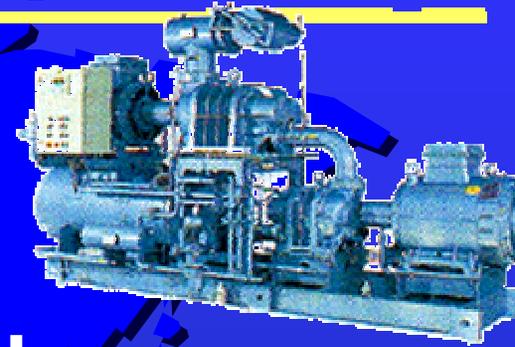
Facility Guarantee Program - Program Description:

- Through the provision of credit guarantees -
 - ✓ Facilitates the extension of credit to foreign banks
 - ✓ To finance the export of US manufactured goods and services sold to foreign buyers
 - ✓ To establish or improve agricultural-related facilities in emerging markets



Facility Guarantee Program - *Infrastructure Constraints:*

- Poor Refrigeration
- Port Congestion
- Old Processing Methods
- Crude Packaging
- Inadequate Storage
- Inefficient Handling
- Limited Distribution



Facility Guarantee Program - Key Program Criteria:



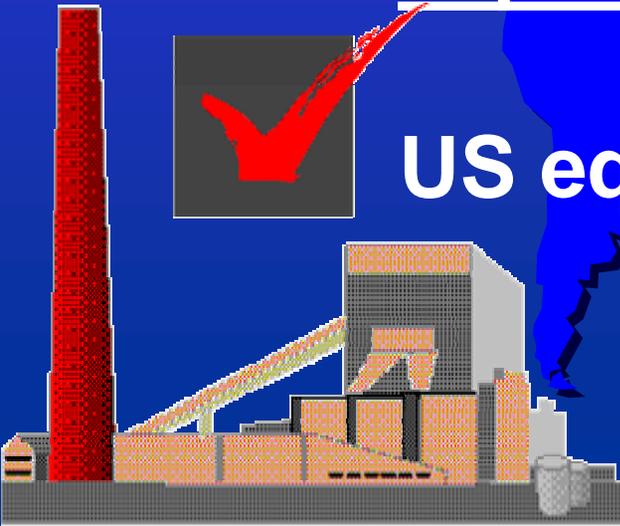
Facilitate the sales of goods and services to “*emerging markets.*”



Facilities must “*benefit primarily*” exports of US agricultural goods.



US equipment at least 50% US origin.



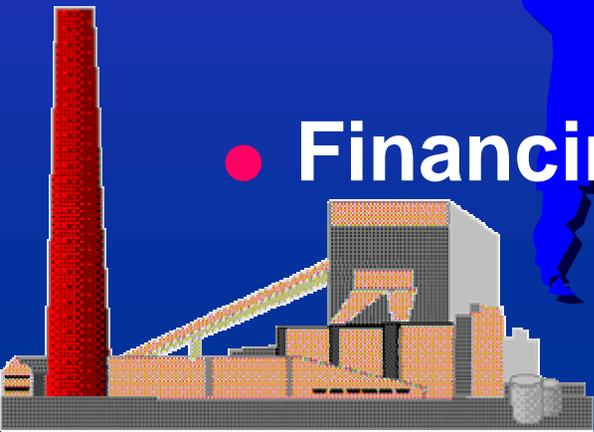
Facility Guarantee Program - Program Design:

- Eligible Foreign Components - foreign produced components that are **value-added** in the U.S. (at < 50% of contract value);
- Eligible Foreign Services - foreign freight, marine insurance and approved freight services (at < 50% of contract value).



Facility Guarantee Program - Program Design (cont.):

- USDA takes *foreign bank risk*, not project risk.
- Guarantees payment under *\$US Letter of Credit* issued by importer's bank.
- \$10 million project limit.
- Financing terms up to 8 years.



Facility Guarantee Program - Program Design (cont.):

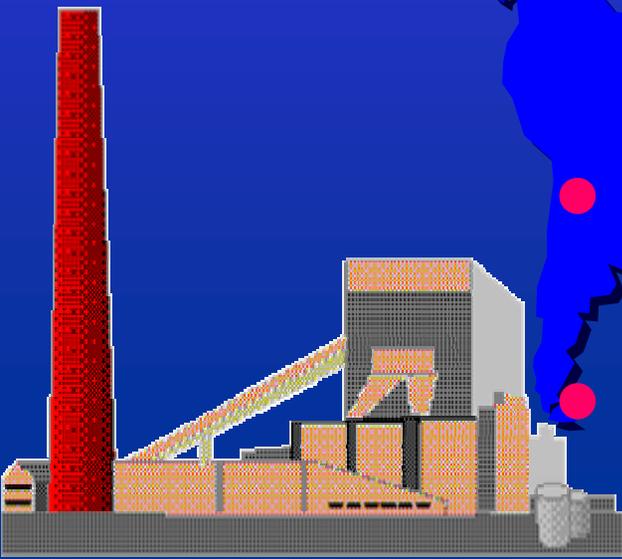


- Guarantees 95% of the principal
- Interest coverage is about 65%
- Importer pays an initial payment of 15% of net contract value
- Exporter pays an exposure guarantee fee



Facility Guarantee Program - Program Design (Exposure Fee):

- A risk-based fee determined country-by-country;
- Paid to CCC before issuing the payment guarantee;
- Same fee as US EXIM Bank;
- Ordinarily nonrefundable.



Facility Guarantee Program - Application and Approval:

- Preliminary Approval

- ✓ Country program announced;
- ✓ US exporters pay \$200 fee;
- ✓ US exporters submit application, including statement of interest from US/foreign banks;
- ✓ USDA evaluates proposal and ***impact on U.S. agricultural exports.***



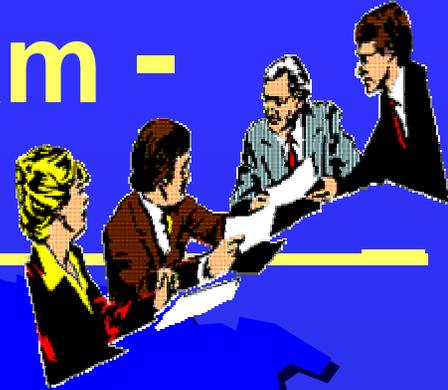
Facility Guarantee Program - Application and Approval (cont.):

● Final Commitment:

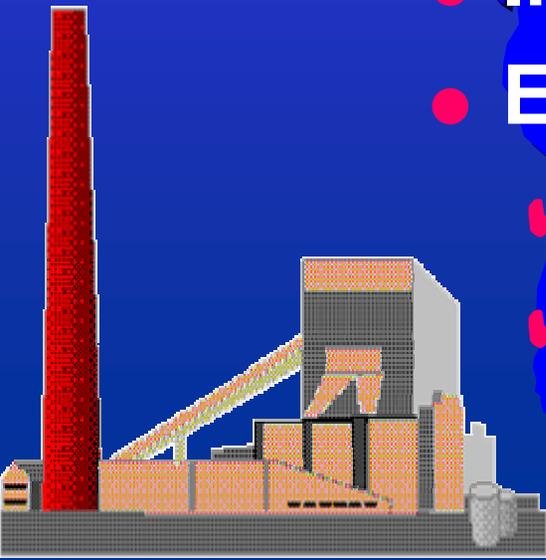
- ✓ If approved, exporter pays Exposure Fee;
- ✓ USDA issues payment guarantee;
- ✓ Exporter ships goods and may assign guarantee to US bank for immediate payment.



Facility Guarantee Program - *Who can Participate?*



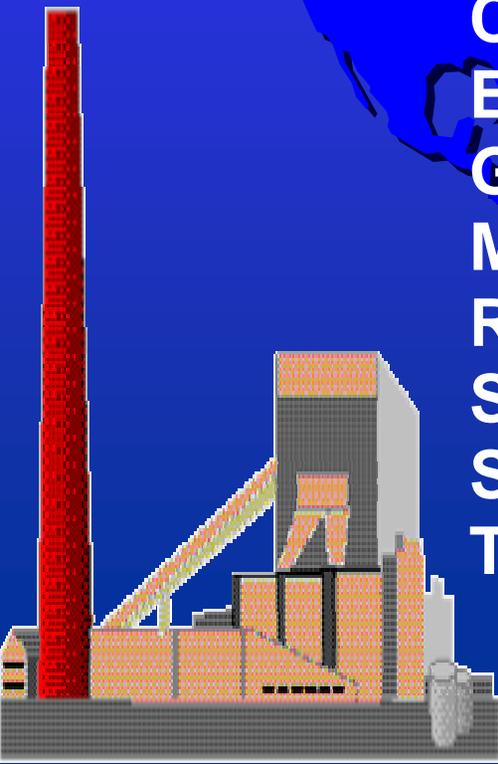
- Approved US exporters;
- Approved US banks;
- Approved Foreign banks;
- Importers do **not** need approval;
- Eligible countries.
 - ✓ Creditworthiness analysis;
 - ✓ Emerging markets.



Facility Guarantee Program - *Participating Countries:*



	(\$ Millions) (Years)	
Andean Region	20	5
Baltic Region	10	5
Caribbean Region	20	5
Central American Region	30	8
East Africa Region	10	3
Ghana	10	3
Mexico	50	8
Romania	5	5
Southeast Asia Region	50	8
Southern Africa Region	10	8
Turkey	10	5
TOTAL	225	



SUMMARY

GSM-102

Letter of Credit, 95% principal, Up to 3 yrs

GSM-103

Same as 102, 98% principal, 3-7 yrs

Suppliers Credit

Promissory Note, 65%, Up to 180 days

Facilities Guarantee

L/C, Equipment, Goods, Services, 95% principal, Up to 8 Years

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