

Knowledge Statement .....	2
Goal .....	2
Learning Objectives .....	2
Introduction .....	2
Ex-Im Bank Programs.....	3
Buyer Credits .....	3
Ex-Im Bank’s Loan Guarantee Program .....	4
Ex-Im Bank’s Finance Lease Guarantee Program .....	4
Ex-Im Bank’s Direct Loan Program.....	4
Other Medium- and Long-Term Financing Programs .....	5
Line of Credit Allocations.....	5
Forfaiting.....	5
Multilateral Organizations .....	5
Multilateral Development Banks.....	5
United Nations Development Program.....	6
Summary .....	6
Resources.....	6

## ***Knowledge Statement***

Knowledge of Forms of Medium- and Long-term Financing: Government-supported Finance, Finance Provided by Banks and Financial Institutions, and Lease Financing

## ***Goal***

The goal in this lesson is to introduce you to sources of medium- and long-term finance for an overseas buyer (internal/external) which can offer a buyer extended payment terms while providing cash payment to the seller without recourse.

## ***Learning Objectives***

You will be able to

- identify providers and sources of medium- and long-term trade financing
- identify medium- and long-term financing tenors
- identify the role and function of the following:
  - export credit agency financing
  - multilateral organizations
  - regional development banks
  - credit insurers
  - private sector financing

## ***Introduction***

Providers of medium- and long-term financing such as Ex-Im Bank's guarantees allow banks to finance buyers who would otherwise be unable to get financing either in the United States or in their home country because of the transaction size, risk, location of the buyer and the debt servicing associated with this type of financing. Medium-term and long-term financing are available for capital goods or services that have a useful life that extends beyond one year. A creditworthy buyer who cannot get financing from a local bank may find more favorable terms through Ex-Im Bank. These programs help make international transactions more attractive for both a buyer and a seller. Ex-Im Bank provides full payment to the seller, and the buyer gets financing that would not be available otherwise, thus allowing a transaction to move forward.

### ***Ex-Im Bank Programs***

Medium- and long-term financing options are the most limited of all of the financing options available. There are many public sector providers, but most rely on the guarantees of the Ex-Im Bank in the United States. The main difference is pricing and the risk level these public sector providers are willing to take as opposed to regular or non-export related bank financing. The definition of medium-term financing can vary by global market. Medium-term and long-term financing are used to finance capital goods and services that have a useful life beyond one year. This type of financing is often used for large transactions involving goods and services from heavy machinery to nuclear power plants. The philosophy behind this type of financing is to benefit the exporter by providing financing options for a buyer. The buyer taking advantage of this option would do so because the transaction cannot be financed in the local market. Having this option available allows the buyer to get an installment loan or lease while the seller receives immediate cash to complete the sale. The risk is with the buyer if his/her company is unable to perform against the loan or lease. The Ex-Im Bank guarantees give comfort to the lender, whether it is a bank or private provider of the financing.

### **Buyer Credits**

Buyer credits provide financing to an importer in the form of a loan where the proceeds from the loan go to pay the seller for the goods or services. This type of financing can be done in the form of a direct loan. Direct loans usually support large capital goods purchases including plant and equipment or turnkey projects. Buyer credits are generally on a non-recourse basis with the exporter depends upon the credit-worthiness of the buyer and the support of an Ex-Im Bank guarantee. Buyer credit programs benefit all the parties involved. The exporter is paid in cash on delivery and acceptance of the product or service. The importer benefits by acquiring funding under favorable conditions that would normally not be available. The financing entity has the firm guarantee from Ex-Im Bank that there will be full payment to the financier should the buyer default. The Ex-Im Bank program benefits the lender because the program can be used for a one-time sale or for a series of shipments from one or more exporters to the same buyer with no first-loss deductible. The program provides coverage of 90% for private sector buyers, 100% for sovereign obligors, and 98% on bulk agricultural products. Financing under these policies can generally extend up to five years (up to seven years in exceptional cases) and for any amount. The

program requires a 15% cash deposit from a buyer, and the seller must meet the normal content requirements.

### **Ex-Im Bank's Loan Guarantee Program**

Ex-Im Bank provides competitive financing for international buyers and assists an exporter by making available a sale that would not be possible without the program. The buyer must be credit-worthy and can be from either the private or public sector. The guarantee is extended to cover purchases of US goods and services. The buyer can obtain competitive financing when financing is otherwise not available for longer terms.

The benefits enable foreign buyers to get competitive term financing from a US source that would not be available from a local source in their country. The guarantee covers 100% of commercial and political risks. There are several financing options and repayment terms. The major factor that benefits both a buyer and the seller is that there are no transaction size limits and both medium-term and long-term financing are available.

The credit standards required to qualify can vary depending on the size of the transaction. A buyer must meet these standards in order to qualify, but the use of guarantors or other credit enhancements can be used in order to qualify.

Eligibility requirements involve more than just the credit quality of the buyer. Financing is available for refurbished equipment, software, certain local costs, banking and legal fees. Military or defense items are generally not eligible nor are sales to military buyers (with certain exceptions). There are limitations on foreign content that must be evaluated against each project. The goods must be shipped from the United States to an international buyer that is covered under Ex-Im Bank's country limitation schedule. Prior to approval Ex-Im Bank will evaluate the economic and environmental impact of the project.

### **Ex-Im Bank's Finance Lease Guarantee Program**

Ex-Im Bank supports competitive medium-term financing structured as finance leases under similar conditions as the loan guarantee programs. Only finance leases as defined by the International Accounting Standards qualify. Finance leases are defined as the substantial transfer of all risks and benefits of ownership to the lessee with full amortization and no residual value at the end of the lease.

### **Ex-Im Bank's Direct Loan Program**

Ex-Im Bank assists exporters by providing fixed-rate loans to creditworthy international buyers under similar conditions as the loan guarantee programs.

## ***Other Medium- and Long-Term Financing Programs***

### **Line of Credit Allocations**

International banks with overseas subsidiaries may finance a subsidiary of a multinational company by utilizing the credit facility of the parent company as collateral for the foreign subsidiary. The international bank will transfer an exposure limit to its foreign subsidiary in order to accommodate the credit facility. This process is difficult and assumes the bank of the parent company has a subsidiary branch in the country where the financing is required.

### **Forfaiting**

Forfaiting is defined as the discounting of medium-term promissory notes or drafts issued by a foreign buyer. Banks forfeit larger transactions over a longer period of time backed by maturing promissory notes. Banks also prefer that the drafts or promissory notes be avalized by the issuing bank, thus providing a guarantee from the avalizing bank. The benefit to the importer is the receipt of a discounted cash payment for the sale with the bank assuming responsibility for the collection of the promissory notes or drafts. Forfaiting is mainly used to finance equipment and relates to specific transactions.

### ***Multilateral Organizations***

Multilateralism is a term defined by Webster's Collegiate Dictionary (11th edition) as "involving or participated in by more than two nations or parties (such as agreements)." Most international organizations, such as the United Nations and the World Trade Organization, are multilateral in nature.

### **Multilateral Development Banks**

Multilateral development banks were established to stimulate and foster international economic activity by financing strategic projects around the world. Some examples include:

- the World Bank
- the Inter-American Development Bank
- the Asian Development Bank
- the Caribbean Development Bank
- the African Development Bank
- the European Bank for Reconstruction and Development

All have a specific regional focus with the exception of the World Bank. The banks operate with funds contributed by the member countries and distribute the funds for specific developmental projects. Each year project priorities and funding programs are established by the banks. Once established, companies and/or other government agencies are encouraged to submit proposals for funding.

### **United Nations Development Program**

The United Nations Development Program (UNDP) is affiliated with the United Nations (UN) to provide multilateral development. One hundred thirty countries are contributors to the program which provides a network of specialized international agencies that give technical assistance and financing support to underdeveloped countries. A developing country will review offers or bids from companies interested in providing the services needed and award contracts accordingly with funding the UNDP. The suppliers must keep in close contact with the UNDP and its affiliated executing agencies in order to know what contracts are coming up for bid.

### **Summary**

Remember that financing organizations change their programs regularly. As an international manager, you should be aware of the organizations that offer medium- and long-term financing. Most importantly, you must know how to contact them to identify their current programs. Knowing that this type of financing is available for international transactions will allow you to negotiate from a strong position and encourage the companies involved to engage in international transactions.

### **Resources**

Export Import Bank of the United States - [www.exim.gov](http://www.exim.gov) (click on U.S. Exporters)

[FITT Skills International Trade Finance Participants Manual](#), Forum for International Trade Training (FITT)

[The Global Entrepreneur](#), James Foley, 2nd Edition, Jamric Press, 2004.