



## **Buyer Credit: Flexible Finance for Project Exports**

Overseas buyers rarely want to pay in cash for major projects or imports of high value capital goods and services. Few exporters can cope with the cashflow difficulties or the risks of extending long-term credit for these contracts. Banks may only be willing to lend such large amounts with the backing of the British Government through ECGD.

ECGD's Buyer Credit benefits all the parties involved. You, the exporter, are paid as though you have a cash contract with your buyer. Your buyer has time to pay and can borrow at favourable fixed or floating rates. Loans can be denominated in a wide range of currencies. The lending bank will also benefit since we can guarantee both full repayment of the loan and a reasonable return on its funds.

An explanation of how Buyer Credits work and how they can help you to win worthwhile project business and to export with confidence is given below. For convenience, ECGD refers to "the buyer" but, in practice, loans are often made to a third party, such as a major bank in the buyer's country. Similarly, although most references are to goods being delivered it is important to remember that Buyer Credits can also be used to finance the provision of services, such as construction or consultancy contracts.

### **How the Buyer Credit Works**

Early on in the tendering process or contract negotiations, you should apply to ECGD for Buyer Credit cover and nominate a bank to act as lender. It is important that the application be made before the contract is signed and in all circumstances ECGD would welcome an approach as early as possible in the process. The loan and your contract are usually negotiated in parallel, though the loan is generally not signed until after the contract has been signed. Once both the contract and the loan are effective, you will be paid from the loan as you fulfil the terms of the contract with your buyer. If the buyer fails to repay the loan or the interest on it, ECGD will pay the bank any amounts outstanding 90 days after payment was originally due from the buyer.

## Terms and Conditions

The most important conditions relating to Buyer Credit loans are:

- The loan must normally be made in support of a contract with a value of at least £5 million, or the equivalent in foreign currency. (If your contract's value is less than £5 million, ECGD could consider providing support either, exceptionally, on a Buyer Credit basis or, preferably, under its Supplier Credit Financing Facility);
- The credit, or repayment, period must be at least two years;
- A minimum of 15 per cent of the contract value must be paid to you directly by the buyer prior to the start of the credit period. Thus a buyer credit loan can finance up to 85 per cent of the contract value;
- The bank (or banks) chosen to provide the loan must be acceptable to ECGD.

## The Documents

### Supply Contract

The supply contract between you and your buyer should, inter alia, provide for direct payments to be made, set out the terms on which payments are to be made from the loan during the contractual period, and provide for an alternative means of payment in the event that the loan is withdrawn. For some Buyer Credits involving project finance and occasionally for other cover, ECGD will need to be satisfied with the contractual terms. It is important therefore that you approach ECGD as early as possible and before the contractual negotiations are too far advanced.

### Premium Agreement

The Premium Agreement is your agreement with ECGD under which you agree to pay ECGD premium and to act in accordance with its requirements. This agreement includes the recourse provisions which are explained in the section on [Recourse](#).

### Support Agreement

The Support Agreement contains our guarantee of repayment to the lending bank(s) in the UK and places certain responsibilities on the bank(s) to operate the loan in accordance with ECGD's instructions.

ECGD guarantees that the lending bank will receive the principal and any interest due to it under the loan. If the buyer fails to repay any instalment in full or to pay any interest due, ECGD pays the bank 90 days after the date on which the buyer was due to pay. ECGD will also pay interest on the defaulted amount for the 90 days the bank has to wait for its payment.

ECGD's guarantees are normally for 100 per cent of loan value. However, if the financing bank agrees, ECGD will guarantee a lower percentage. Guarantees for less than 100 per cent of loan value will result in a reduction in the premium payable, but you will need to determine the impact of such reduced cover on the overall cost of finance before entering into any commitment.



## **Loan Agreement**

The Loan Agreement is between the lending bank(s) in the UK and the overseas buyer. It sets out the terms on which the money is being lent, when it has to be repaid and at what interest rate. It will also contain certain conditions which have to be fulfilled before any money can be drawn from the loan. These preconditions include amongst other things requirements such as confirmation from you, the exporter, that you have received the direct payments from the buyer, any guarantees required have been obtained and that satisfactory legal opinions as to the validity of the contractual arrangements have been provided.

## **Payments to the Exporter**

Usually, Buyer Credit loans operate on a disbursement basis. When you, the exporter, make a shipment, or deliver goods or services under the contract, or reach a certain stage of work, you present a qualifying certificate (QC) to the bank certifying that you have fulfilled that part of your contract with the buyer. The QC must be supported by evidence that you have shipped or delivered the goods, and may need to be countersigned by the buyer. Provided that the bank is satisfied that the QC is valid and payment is due, you will be paid the relevant sum.

QCs are submitted throughout the contractual programme as work progresses. There may be different QCs for different obligations for example delivery of goods, installation of plant or completion of training. The QCs will also differentiate between UK and foreign content.

An alternative method of payment is reimbursement, where, after the initial down-payment, the buyer also pays all other sums direct to you. The buyer may then draw the loan moneys. The bank will make payment to the buyer when the latter presents a reimbursement certificate supported by a receipt of payment from you, the exporter.

## **Simple and Complex Cover**

### **Simple Cover**

Simple cover provides for loan funds to be available for payments due only in respect of goods supplied and/or services rendered in accordance with the terms of the contract. Any other sums due for example in the event of an arbitration award would have to be claimed directly from the buyer. Supplemental credit insurance is available under the Export Insurance Policy (EXIP) for the risks you are exposed to prior to making drawings and in respect of elements not financed from the loan.

### **Complex Cover**

Complex cover enables termination or arbitration moneys to be advanced from the loan to meet payments due to you under the terms of a termination settlement or arbitration award.

Providing that there are sufficient funds remaining, up to 100 per cent of an award given in your favour, relating to eligible goods and services, can be advanced from the loan in this way. However, if there is not enough money in the loan to cover the full value of the award, you will have to look to the buyer under your contract for a direct payment to cover any shortfall. Supplemental credit insurance under the EXIP is available in respect of elements not financed under the loan.



## **Project Financing**

An increasingly popular method of financing the construction of major projects is Project Financing, whereby the loan is primarily repaid out of the revenues generated by the project.

ECGD uses a variant of the Buyer Credit facility to provide support for Project Financing. However, such cases are very complex, and it is simpler and quicker to enter into conventional financing arrangements with a creditworthy borrower where that is possible.

## **Supplemental Export Insurance Policy (EXIP): Added Protection**

EXIPs are insurance policies taken out by exporters against non-payment by the buyer. They can be used with Buyer Credits to provide you with protection before shipment or completion of a service or in respect of direct payment risks.

For further details and an explanation of how the EXIP can provide additional protection in conjunction with a Buyer Credit, please refer to the section on the EXIP.

## **Officially Supported Fixed Interest Rates or Commercial Floating/Fixed Interest Rates for Buyers**

### **Officially Supported Fixed Interest Rates**

An advantage of an ECGD Buyer Credit is the ability to offer credit to a buyer at a fixed rate of interest for loans with a value not exceeding a certain threshold according to the currency of the loan, please see section on Cover & Interest Rates. This offers the buyer the benefit of knowing in advance what his liabilities will be throughout the life of the loan. The fixed rate payable by the buyer will depend on the length of credit and the currency of the loan.

Although the buyer pays a fixed rate, the lending bank will normally have to fund the loan through the shorter-term money markets. Its cost of funds may therefore fluctuate over the life of the loan. However, ECGD's Fixed Rate Export Finance (FREF) scheme enables the bank to lend to the buyer at a fixed rate of interest but still cover its own variable funding costs. The FREF scheme provides an interest equalisation mechanism known as Interest Make Up (IMU) under which ECGD makes up any shortfall between the banks cost of funds, plus a margin (the "agreed return"), and the interest payable by the buyer at the fixed rate. Where the interest payable by the buyer at the fixed rate is greater than the agreed return the difference is payable to ECGD by the bank. The margin payable to the bank will vary according to the currency and the overall horizon of the loan in accordance with a matrix agreed between ourselves and the banking associations.



## **Commercial Floating or Fixed Interest Rates**

For some buyers, a commercial floating or fixed interest rate may be more attractive. In addition, where an officially supported fixed interest rate cannot be considered by ECGD because the loan value exceeds the relevant threshold for the currency of the loan under its FREF scheme, ECGD Buyer Credit cover can only be considered on this basis. ECGD's guarantee in respect of loans at commercial floating or fixed interest rates operates in essentially the same way as an officially supported fixed interest rate Buyer Credit. However, there are no IMU arrangements, and ECGD does not pay a margin to the bank. This type of cover is often referred to as "pure cover".

### **Premium Payable by the Exporter**

Since you, the exporter, are the real beneficiary of ECGD Buyer Credit support, you are normally responsible for paying ECGD's premium, and you should build this into your contract price. The premium is usually payable on signature of the Premium Agreement but, for larger contracts, it can be paid by instalments, subject to an additional charge. However, the financing can also be arranged so that ECGD's premium is paid by the buyer as a first drawing from the loan. Where such an arrangement can be negotiated you would not need to build the amount of premium into your contract price. Premium is charged as a percentage of the loan value and can, at your option, be paid in the currency of the loan.

The rate at which premium is charged will vary according to our assessment of the risks associated with the buyer, the buyer's country and the length of time during which ECGD will be 'at risk' of non-payment of the loan by the buyer. The premium includes an administration fee which is not refundable in any event, even if the loan does not become effective. For a specific premium quote, please contact the appropriate underwriter.

### **Recourse to the Exporter**

If you, the exporter, fail to perform your obligations under the contract, there is an increased risk that the buyer will refuse to repay the loan. ECGD therefore reserves the right to take recourse to you in such circumstances where it has paid a claim to the bank under the related support agreement at a time when you the exporter has failed to meet any of the conditions of your contract except when that failure is neither material nor substantial or has been caused by certain specified circumstances outside of your control. This means that ECGD can claim from you some or all of the money it has paid to the bank. For further details, see the section on [Recourse](#).

### **Next Steps**

Buyer Credit guarantees and the associated loan documentation are tailored to meet the needs of individual projects, and so take time to prepare. It is therefore important that you contact ECGD as soon as possible. If you have a specific contract in mind you should contact the appropriate underwriter, or contact our [Helpline](#).

