



Supplier Credit Finance Facility

When exporting capital goods or services you as a supplier have two main worries:

- Credit - Buyers usually want extended credit and so you the supplier may have to wait for your money.
- Default - How to cope if payment is not received, for whatever reason.

ECGD's Supplier Credit Finance facility (SCF) provides a streamlined, efficient approach designed to help allay these concerns.

The SCF allows you, the supplier, to pass the payment risk to your bank. It also allows access to finance for capital goods or services contracts at officially supported fixed interest rates for amounts not exceeding a certain threshold according to the financing currency, or at commercial floating/fixed interest rates. Your buyer gets at least two years credit (depending on the contract value) and you get paid in cash. One benefit of this scheme to you is that finance can be made available in many cases without recourse. If the buyer defaults on the credit, the risk lies with your bank, and ultimately ECGD as it provides the bank with guarantee of payment.

How the Supplier Credit Finance Facility works

Under the SCF, you can sell to your bank bills of exchange or promissory notes (negotiable instruments) given by the buyer, as soon as you have shipped goods or performed services and the buyer has accepted the bills. You, the supplier, receive the full principal value of the negotiable instruments in return for signing over and endorsing the instruments to the bank. You, the supplier, no longer have to worry about the risk that the buyer will not pay during the agreed credit period. This risk passes to the financing bank when it buys the bills or notes. ECGD provides a 100 per cent guarantee to the bank under the SCF to cover any payment default that may arise after the bank has bought the bills or notes. It is also possible for UK banks to set up a loan contract for a one-off transaction or a Line of Credit directly with an overseas bank to finance the sale of UK goods and services, leaving it to the overseas bank to sort out its own credit arrangements with the buyers. For these bank-to-bank arrangements, it is not necessary to have bills or notes.

Suppliers may find this route preferable for some types of business and should discuss this with a bank participating in the SCF scheme. SCF cover is given to banks by means of a Master Guarantee Agreement (MGA), which ECGD issues to banks taking part in the scheme (a [list of banks that hold MGAs](#) can be obtained from this website and our Helpline on: (+44) (0) 20 7512 7887).

However, the MGA is only an umbrella document, which sets out the principal terms and conditions on which ECGD will guarantee payment to banks who make finance available under the facility. ECGD sets out the terms and conditions for cover of individual transactions when making an offer of support for a particular contract. Once ECGD has acknowledged receipt of the acceptance and premium due in respect of the offer, a bank is able to purchase negotiable instruments from you in the knowledge that ECGD will hold them covered under the MGA.

Procedures for obtaining finance

You should complete and sign an SCF Proposal Form and pass it on to the bank you have chosen to provide finance in respect of your contract. The bank will complete the details of the finance to be provided and send the Proposal to ECGD. If the Proposal is acceptable to us, ECGD will issue an offer of cover to the bank following an award of the contract to you.

The bank will discuss the offer with you, providing copies of the relevant offer documentation and, if a decision is made to accept the offer, the bank will then send an acceptance to ECGD along with the premium due (which will normally be obtained from you). ECGD's acknowledgement of these will mean that the support is effective and the bank will inform you of this.

You can then obtain payments due under the credit arrangements set out in your contract by presenting to your bank:

- Bills of exchange or promissory notes;
- Evidence that goods have been delivered or services performed;
- A standard warranty confirming that certain details are in order; and
- Any documentation required by the bank's facility letter.

The bank will check whether the documents presented are in order. If they are, it will then buy the bills or notes, for their full principal value, and pay you. Once a bank has bought the bills or notes, neither you nor the bank need worry about the repayment risk during the credit period. The risk passes from you when the bank buys the bills or notes and the bank will be 100 per cent covered for any amounts guaranteed by us which for any reason are not paid when due by the buyer.

Method of payment and security

ECGD normally requires bills and notes given by a private sector buyer under the contract to be unconditionally guaranteed by an acceptable third party (the surety). Apart from securing the payment risk, the surety's involvement will ensure that the obligation to pay will not be affected by any disputes over contract performance. This is central to the concept of providing non-recourse finance whenever possible.



Guarantees may also be required for sovereign and public sector buyers, but this will depend on the individual circumstances. The guarantee can take a variety of forms: a commercial bank aval or an endorsement on bills of exchange/promissory notes, or a standby letter of credit may be required for private or corporate buyers. For public sector or sovereign buyers, backing may be needed, for example, from the Ministry of Finance, by means of an endorsement on bills or a third party guarantee of payment.

In exceptional cases ECGD will consider underwriting buyers without a guarantee from a third party, if it is satisfied that the quality of risk is acceptable.

The essential point about bills and notes is they must be freely negotiable. This allows the rights and benefits accruing under those bills and notes to be passed to the financing bank. Legally, the bank takes your place and it can therefore, if necessary, take action against a defaulting buyer in its own name without involving you the supplier.

Recourse

The SCF will often be a “without recourse” arrangement although ECGD may require you the supplier to enter into a recourse obligation similar to that under a Buyer Credit.

Supplementary Cover under an Export Insurance Policy

In the pre-finance period between contract signature and the financing bank’s purchase of bills or notes, you may be exposed to risk until either you receive payment from your Buyer or are able to draw upon finance under the SCF arrangements. For example, the contract may be frustrated if the buyer/surety becomes insolvent, or because of political events, leaving you with costs which you cannot then recoup. To protect yourself against these risks you may wish to take out insurance cover under an Export Insurance Policy (EXIP). The EXIP applies to both the element of the contract being financed under the SCF, and to any element which is not eligible for SCF finance.

Security under a Supplemental Export Insurance Policy

For contracts with private or corporate buyers, if ECGD has stipulated security for payments covered under the SCF, then equivalent security will apply if you as Supplier want to cover buyer default under the EXIP. If insolvency cover is required, ECGD may stipulate that the approved surety must indicate in writing that it is willing to provide security for amounts due under the contract.

For contracts with some public buyers, ECGD may stipulate that security should be provided on direct payments (i.e. those which are not being financed under the SCF). The nature of the security required may take a number of forms for example by a Ministry of Finance guarantee for those payments or an Irrevocable Letter of Credit.

Eligibility

Any bank may apply for SCF cover. However, only you as a supplier may apply for EXIP cover (which can include an application for EXIP cover in connection with a bank's application for cover on a Loan Contract or Line of Credit under the SCF).

Minimum and maximum value

The minimum contract value under the scheme is £25,000 (or the foreign currency equivalent). There is no maximum value for cases taken under the SCF but ECGD underwriters will consider the relative complexity of cases and decide whether to offer SCF cover or another product such as a Buyer Credit. For example, where contractual and financial arrangements are complex (as is usually the case for major projects or where a large proportion of the value is added overseas, or in Project Financing or Asset Based Financing cases), Buyer Credit arrangements would be more appropriate.

Credit terms

You as a supplier will be able to offer buyers credit for up to 85 per cent of the contract price with payment periods from two years to five years (and in some cases exceeding five years) depending on the type and mix of UK and foreign goods, and the value of the contract.

Currencies and fixed interest rate support

ECGD supports export contracts denominated in a range of currencies, including most internationally traded currencies, and you may be able to offer your buyer fixed interest rates.

Premium

Premium rates are determined case by case, and will vary according to ECGD's assessment of the risks associated with the particular buyer, the buyer's country and on the length of time ECGD is 'at risk'. ECGD premium is charged on the loan value or the total value of the bills or notes it is covering.



Summary of Procedures

SCF procedures are summarised in steps 1 to 8 below. Please note you may make an initial approach to a bank before approaching us for an indication: this is not mandatory but it may be prudent to approach a bank early to discuss how to structure the deal. As SCF offers can only be made to banks, you will have to select a bank to provide finance before completing an SCF Proposal Form.

1. You, your banker, or your broker approaches ECGD for a preliminary indication of premium and possible terms of cover for a particular contract. This can be given at an early stage, without commitment from any of the parties.
2. When you have been awarded the contract you complete part A of the SCF Proposal Form ("Export Contract Information") and send it to the financing bank. The bank will complete details of the support to be provided before forwarding the whole Proposal to ECGD.
3. Provided the Proposal is acceptable to us, ECGD will send the bank a formal offer setting out the precise terms on which cover is available. The bank will discuss the offer with you and provide copies of the documentation.
4. Your bank accepts the offer by filling in the Declaration and Acceptance and returning it to ECGD with the premium due (which will normally have been obtained from you).
5. ECGD will send an acknowledgement of these to the bank, and the bank will inform you that SCF support is now effective.
6. You obtain the necessary security, perform the contract, and present a warranty and evidence of the goods delivered and/or services performed in respect of each drawing to your bank together with, where your export contract is not to be financed under a loan contract, the accepted bills of exchange or promissory notes.
7. Your bank checks that the documents are in order, then purchases the bills or notes, where appropriate, and pays you.
8. If the buyer defaults, your bank can claim recompense under our payment guarantee.

Conclusion

- The scheme allows you to devote more time to seeking exports without having to worry about being paid.
- In many cases the “without recourse” nature of the scheme will mean that primarily ECGD is concerned with non-payment.
- Premium is calculated on a case-by-case basis to match the quality of risk covered.
- Contracts may be in a variety of currencies, on payment terms normally of up to five years, and sometimes beyond.
- You can insure risks arising in the period before finance is made available under the Export Insurance Policy.

Next Steps

Supplier Credit guarantees and the associated documentation are tailored to meet the needs of individual projects. It is therefore important that you contact ECGD as soon as possible. If you have a specific contract in mind you should contact the relevant underwriter, or our Helpline on: (+44) (0) 20 7512 7887.