Chapter 8

Payment and Financing of U.S. Grains

This chapter identifies some of the payment and financing options involved in international grains transactions, and ways companies can help protect themselves against these risks. It also introduces USDA credit guarantee programs traders may use to facilitate sales of U.S. grains and processing equipment to emerging markets.

International grain transactions present both the exporter and importer with a variety of risks. These risks will fall into the broad categories of:

- Contract Performance Risk,
  - a. Quality
  - b. Quantity
  - c. Payment
  - d. Time or Period
  - a. Location or Shipping Port,
- Transportation Risks
- Geo-Political Risk.

The buyer and seller will work together to minimize and mitigate these risks will facilitate the transaction and help build confidence and trust between the parties.

Contract Performance is the most fundamental risk for both the importer and the exporter. The importing company needs to know that the supplier will perform on the contract as agreed. This includes items like the grain that is purchased meets the agreed quality, quantity, specifications, that the cargo is delivered or shipped on time, and stipulated in the contract

Similarly, the exporting company needs to feel secure that it will receive payment according to the terms and timing set out in the contract.

The greater the risk of payment or delivery problems, the greater the chance the exporter may include a **"risk premium"** in the price. The larger the payment risk is to the exporter, the greater the risk "premium" the importer may pay as part of the purchase price. A higher payment risk may also result in the exporter requiring a more secure or "tighter" method of payment.

Different payment methods carry different levels of risk. The level of perceived risk may change over time for a wide variety of reasons. For example, perceived risk may decline as trust grows between the parties. On the other hand, perceived risk may rise due to external factors such as economic or geo-political uncertainties.

Following are summaries of payment and financing methods commonly used in the international grain trade. These include: Letters of Credit, Open Account transactions, the Cash Against Documents payment form, the barter (countertrade) method and other lesser used payment options.

The purpose of this summary is to help importers become familiar with various payment options, and to understand the advantages and disadvantages of each.

LETTERS OF CREDIT

The most generally accepted method of payment for an international grain transaction is by a Confirmed Irrevocable Documentary Letter of Credit, payable at "sight". [iii] This type of payment is very secure and may facilitate several common forms of import financing.

Letters of Credit (often abbreviated as L/C or LC) have been a preferred method of payment in the international grain trade for many decades. Time and experience have proven this payment option to be a reliable way to address the many variables and risks that are inherent in international transactions. These variables and risks include distance, differing laws and regulations among countries, shipping and delivery issues, and any lack of confidence or trust between the buyer and seller.

A Letter of Credit is a financial contract between a bank, a bank's customer (importer) and a beneficiary (exporter). Generally issued by an importer's bank, the letter of credit guarantees the beneficiary (exporter) will be paid once the conditions of the letter of credit have been met.

In other words, a Letter of Credit is a written commitment by a bank to make payment of a defined amount of money to the beneficiary (exporter) according to the terms and conditions specified by the importer (applicant). The Letter of Credit will also establish a time limit for completion and specify which documents are needed to confirm the transaction's fulfillment.

Simply put, Letters of Credit minimize risk in international trade transactions. For example, if you are an importer, using a Letter of Credit can ensure that your company only pays for goods after the supplier has provided evidence that the goods have been shipped.

It is important for both parties to understand that this "documentary Letter of Credit" is a legally binding condition of the contract that covers payment terms of the transaction. It is separate from the original grain contract.

Letter of Credit

For a Letter of Credit to be valid, it must contain the following basic components:

Applicant: The party applying for the Letter of Credit, usually the importer in a grain transaction.

The Issuing Bank: The bank that issues the Letter of Credit and assumes the obligation to make payment to the beneficiary, usually the exporter.

Beneficiary: The party in whose favor the Letter of Credit is issued, usually the exporter in a grain transaction.

Amount: The sum of money, usually expressed as a maximum amount, of the credit defined in a specific currency.

Terms: The requirements, including documents that must be met for the collection of the credit.

Expiry: The final date for the beneficiary to present against the credit.

In addition to the above, a Letter of Credit state terms under which the terms may be amended or cancelled.

While there are several types of Letters of Credit, a Confirmed Irrevocable Documentary Letter of Credit, payable at "sight"[iii] is the most generally accepted method of payment for international grain transactions. This type of payment is very secure and may facilitate several common forms of import financing.

WHAT IS AN IRREVOCABLE LETTER OF CREDIT?

An Irrevocable Letter of Credit (ILOC) is a guarantee for payment issued by a bank for goods and services purchased, which cannot be cancelled during some specified time period.

An Irrevocable Letter of Credit is most commonly used to facilitate international trade. A Confirmed Irrevocable Letter of Credit offers additional risk protection for the seller by providing a guarantee of payment from both the buyer's bank and the seller's bank.

Letter of Credit

A **revocable** Letter of Credit allows the issuing importer's bank (at the applicant's / importer's request) to amend or cancel the credit at any time without the approval of the beneficiary / exporter. This flexibility creates significant payment risk for the exporter; and as such is seldom used.

By contrast, an **irrevocable** Letter of Credit cannot be amended without the consent of all parties - the issuing bank, the beneficiary / exporter and the applicant / importer.

WHAT IS A CONFIRMED LETTER OF CREDIT?

A Confirmed Letter of Credit refers to an additional guarantee to the original letter of credit from a second bank. Requiring a Confirmed Letter of Credit decreases the risk of default for the exporter.

The exporter's confirming bank guarantees payment if the issuing bank fails to do so. Exporters may be required a confirming bank of their choice if there are concerns about the creditworthiness or domicile of the issuing bank.

HOW DOES A LETTER OF CREDIT WORK?

Once the exporter and importer have concluded the successful negotiation of a contract that calls for payment by Letter of Credit, the importer makes application for a Letter of Credit to be drafted as per terms of the contract, which will issue the credit. This "issuing" bank ultimately pays the exporter once the Letter of Credit's terms are met.

The importer (applicant) will give the issuing bank instructions that cover such items as:

- The full, correct name, address and contact information of the beneficiary, usually the exporter.
- A brief description of the grain involved, including the quantity, quality and unit price.
- The method, place and form of shipment, the location of the final destination and other shipping issues including transshipment, partial shipment and the latest shipping date.
- The full, correct description of the documents required, including the period of time after the documents are issued within which they must be presented for payment. In addition, the credit should specify if payment is to be immediate (at sight) or with some degree of deferment (i.e., four days after acceptance).
- Details of the Letter of Credit itself, including the amount (usually expressed as a maximum), the expiry date, how the credit will be made available and the transferability of the credit.
- The type of credit, the revocable credit, the irrevocable credit or the confirmed irrevocable Letter of Credit.

Letter of Credit

Upon the issuing bank's approval of the credit application, the beneficiary / exporter is advised that the Letter of Credit has been opened. The advisement may be given by the issuing bank to the exporter's confirming bank.

Once the importer and exporter are satisfied that the Letter of Credit has been successfully opened, the exporter ships against the contract and presents the required documents and a draft (the instrument by which the exporter directs the importer to make payment) to the confirming, correspondent or issuing bank.

Upon checking the documents for accuracy, the bank(s) passes the documents to the importer and makes payment against the sight draft[iv] to the exporter. The seller's risk is limited with a sight draft. This is because the importer's bank would not release the documents needed to take possession of the goods before payment is made. At worst, the seller would have to find another buyer or pay to have the goods redirected.

WHAT ARE THE ADVANTAGES / DISADVANTAGES OF A LETTER OF CREDIT?

The confirmed, irrevocable documentary Letter of Credit payable at sight is the most commonly used type of Letter of Credit in international grain transactions. This credit presents the exporter with the least risk.

Letter of Credit

Generally, the importer bears the cost of opening the Letter of Credit. (The cost of confirming the Letter of Credit is an item of negotiation in the original grain contract.)

Letters of Credit can frequently be the highest cost payment alternative for the importer. On the other hand, an importer who agrees to work through a first-class commercial bank to pay by Letter of Credit is less likely to be charged a risk premium.

THE TIME OF ACCEPTANCE LETTER OF CREDIT

The "time of acceptance" Letter of Credit is similar to a "sight" Letter of Credit except that the exporter agrees to receive payment at some later date, usually a term of 180 days or less.

The exporter, as beneficiary of the Letter of Credit, may present a draft drawn from his bank or other negotiating bank and discount the proceeds; that is, receive immediate payment less some fee that the bank charges for the time value of money and the payment credit risk.

HOW DOES THE TIME OF ACCEPTANCE LETTER OF CREDIT WORK?

An importer/exporter follows the same steps as in the Letter of Credit payment. The importer's bank opens a Letter of Credit at the request of the importer. The importer's bank informs the exporter's bank of the credit. The exporter's bank advises the exporter of the credit. Shipment occurs, and the documents are presented to the exporter's bank. These are documents that include a draft calling for payment at the agreed date - a time draft. Assuming the documents are in order, the exporter's bank may add its acceptance to the time draft and discount the time draft, making payment to the exporter. The importer's bank then receives the documents and releases them to the importer, who makes payment for the grain on the agreed date.

Deferred Payment Letter of Credit

WHAT ARE THE ADVANTAGES / DISADVANTAGES OF A TIME OF ACCEPTANCE LETTER OF CREDIT?

An importer involved in the processing of feed grains finds this form of financing advantageous, as it allows the importer the time necessary to process and/or market the resulting products and use the funds generated to pay the exporter. Additionally, the exporter may be able to make sales to importers otherwise not possible without the financing arrangement. However, these benefits must be weighed against the premium the exporter may build into the exporter's price representing the cost of discounting the draft.

DEFERRED PAYMENT LETTER OF CREDIT

A "deferred payment" Letter of Credit differs from a "time of acceptance" Letter of Credit in two very important ways.

First, the "deferred payment" Letter of Credit can postpone payment by the importer for a longer time period, usually up to 360 days.

Secondly, this type of financing does not provide the exporter with the ability to discount the draft since the exporter cannot present the draft until the future date specified in the Letter of Credit.

HOW DOES THE DEFERRED PAYMENT LETTER OF CREDIT WORK?

The "deferred payment" Letter of Credit operates just like a "sight" Letter of Credit payment with the only procedural difference being that the exporter receives the payment from his bank at the agreed upon future date, rather than on sight.

WHAT ARE THE ADVANTAGES / DISADVANTAGES OF A DEFERRED PAYMENT LETTER OF CREDIT?

A "deferred payment" Letter of Credit postpones payment for the importer. However, the exporter may charge a premium for this deferment. As such, importers who wish to delay payment may want to investigate other financing alternatives (e.g. GSM-102) which may be less expensive.

PAYMENT AGAINST DOCUMENTS

The Cash Against Documents or Documentary Collection is a payment method used in international transactions between an exporter and an importer. Documentary collection is less common than other forms of trade finance, such as letters of credit and advance payment.

Documentary collection is so-called because the exporter receives payment from the importer in exchange for the shipping documents. Shipping documents are required for the buyer to clear the goods through customs and take delivery. They include a commercial invoice, certificate of origin, insurance certificate, and packing list.

A key document in a documentary collection is the Bill of Exchange or Draft, which is a formal demand for payment from the exporter to importer.

Typically, Cash Against Document is when an exporter instructs his bank or agent to release shipping documents to the importer upon the full payment of shipment. After the payment is received, the importer receives the documents. This method is beneficial to both parties. For the exporter, it guarantees the payment of goods. In the case of the importer, it ensures that the precise products paid for are received.

HOW DOES A PAYMENT AGAINST DOCUMENTS WORK?

Under the original grain contract, the exporter makes shipment and sends the shipping documents to the exporter's bank for collection. The exporter's bank then sends the shipping documents, along with a collection letter, to the importer's bank, which then sends a collection notice to the importer.

Payment Against Documents

The importer then: 1) makes payment upon receiving the notice at sight and prior to possessing the shipping documents; 2) makes a Cash Against Documents arrangement; or 3) the importer accepts a time draft obligating the importer to pay at a future date (i.e., a documents against acceptance arrangement).

Only after the exporter receives payment or acceptance of a time draft does the importer receive the original shipping documents.

WHAT ARE THE ADVANTAGES / DISADVANTAGES OF PAYMENT AGAINST DOCUMENTS?

The major advantage of the use of a Cash Against Documents payment is that it is less expensive than using a Letter of Credit. Also, the exporter can receive full payment prior to releasing control of the documents.

However, this advantage is offset by greater risk for the exporter, in that the importer could reject the documents. In addition, since the grain cargo would already be loaded (to generate the documents), the exporter has little recourse against the importer in cases of non-payment.

For this reason, contracts with Payment Against Documents terms are generally limited to transactions between parties who have developed trust or are located in countries with strong legal systems and contract enforcement.

COUNTERTRADE

One of the oldest methods of payment in international trade is the countertrade arrangement. The term covers a wide range of business arrangements where payment is received in forms other than cash.

The various types of business arrangements commonly called countertrade and used in the international grain trade can be divided into the following categories: barter, counter-purchase and compensation.

WHEN AND WHY IS COUNTERTRADE USED?

The use of countertrade arrangements by importers has increased recently, due in part to poor demand for some countries' large amounts of base commodities, the lack of convertible currencies and/or a desire to help stimulate or comply with regulations of importing countries' economies. Countertrade is most often used by importers operating in a planned economy.

Countertrade

Also, countertrade arrangements are complex, usually involving three or more separate contracts or protocols, often necessitating parties other than the importer and exporter, and call for additional payment and finance terms as part of the transaction. Great care should be exercised when utilizing a countertrade arrangement.

WHAT FORMS OF COUNTERTRADE EXIST?
WHAT ARE THE ADVANTAGES / DISADVANTAGES OF EACH FORM?

Barter: This oldest form of countertrade involves the direct exchange of goods having equal or offsetting value with no exchange of cash between the two parties involved, the importer and the exporter. Barters are transaction specific and handled under one contract that calls for an exchange of specified goods - without assigning a value to them - within a short time period. The exchange of goods takes place directly between importer and exporter without the need for a third party, such as a bank.

The use of barter involves considerable risk to the exporter and the importer as goods are shipped and documents exchanged directly, often with one party executing an obligation prior to the other party taking an action. This risk can be reduced by the posting of standby bank letters of guarantee on behalf of the parties. While barter can be potentially advantageous to the importer, as the importer receives the commodity without any outlay of foreign exchange, not all exporters find the risk acceptable or have the expertise to handle the goods received from the importer.

Counter-purchase: This most frequently used form of countertrade involves the use of two separate contracts - the commodity sales contract between the exporter and the importer, and a separate, although technically related, contract between the importer and the exporter that obligates the exporter to buy a defined value of goods (or services) from the importer's country over a fixed time period. As opposed to barter, counter-purchase arrangements call for each transaction to be independent of the other. Thus, an exporter would ship grain to the importer and invoice for the commodity under a normal Letter of Credit, while the exporter might then arrange to handle a cargo of the importer country's goods, such as coffee, under a separate commitment to pay, thus satisfying the counter-purchase obligation. This may involve the need for a third party, such as the coffee exporter, in addition to the use of one or more commercial banks.

Countertrade

As opposed to a standard trade contract, a counter-purchase arrangement is really two trade contracts, each with its own payment term. That makes this form of countertrade quite cumbersome and subject to long delays. In fact, the transaction may not be completed for a period of months or years.

An additional disadvantage is the need for the importer to use foreign exchange, although this is offset with the revenue from the counter-purchase.

Although it is cumbersome, counter-purchase trade appeals to many importing countries as a means of assuring a more positive trade balance, and many countries require its use in some form.

Compensation: This type of countertrade involves payment for the imported commodity by delivering a resultant or related product. For example, an importer would pay for a shipment of corn with a previously agreed upon amount of compound feed. Like counter-purchase, compensation arrangements involve two separate, independent contracts and are usually tied to a long-term industrial development or facility. Once again, payment by the importer to the exporter normally is handled under a Letter of Credit or similar method.

While compensation has many of the same advantages and disadvantages as counter-purchase, compensation arrangements can help favorably influence a lending institution to provide financing to establish a proposed industrial complex by providing the importer with a steady source of supply and a fixed buyer of output.

Another advantage of a compensation agreement worth noting is that it may help achieve financing from lenders to construct or establish an industrial complex. This results from the capacity it provides the importer with a steady source of supply and provides the exporter with a fixed buyer.

OTHER PAYMENT METHODS

Consignment: Under this method of payment, an exporter usually ships and stores grain in a bonded warehouse in the importer's country. While the commodity is consigned to the importer, the exporter retains title to the goods until local sales are made. Often under consignment arrangements, a private or government bonded warehouse company or commercial bank serves as "custodian" of the goods and handles the administrative details. As this type of payment arrangement involves a great deal of administrative and managerial time and effort, while also presenting the exporter with a high level of payment risk, most exporters enter into a consignment sale only with an overseas subsidiary, joint venture company or an importer very well-known to the exporter.

Open Account: While this payment term involves the fewest restrictions and the lowest cost for the importer, it also presents the exporter with the highest degree of payment risk and is only employed between an importer and an exporter who have a long-term relationship involving a great level of mutual trust. Upon shipment under the original export grain contract (usually on FOB terms), the exporter prepares the normal documents, such as bills of lading and original invoices, as well as weight and grade certificates. The exporter presents these to the importer directly, thus avoiding the involvement of a commercial bank. The importer then pays the exporter directly, usually via wire transfer, upon receipt of the documents. Under an Open Account payment method, title to the grain passes from the exporter to the importer prior to payment and subjects the exporter to default risk. Furthermore, there is a time delay in payment, depending on how quickly documents are exchanged between exporter and importer.

Other Payment Methods

Cash in Advance: This payment method is virtually the opposite of the Open Account option. The importer, after purchasing the commodity under the original grain contract, sends the exporter a cash advance or prepayment for either the entire shipment or a portion of the shipment. The exporter, upon receipt of the cash advance, makes shipment to the importer and provides all the necessary shipping documents. While this method of payment involves direct importer/exporter contact without direct commercial bank involvement and is therefore inexpensive, the importer faces a very high degree of payment risk under a cash in advance payment, while retaining little recourse against the exporter for poor quality goods or incorrect or incomplete documentation.

FINANCING OPTIONS AND METHODS

In its simplest form a transaction for the importation of grain, the importer would purchase the commodity desired from the exporter and, upon shipment of the cargo, would immediately make cash payment in full. However, some importers want (or need) to make payment at a later date, or over an extended period. It is in these situations that the importer will need to understand the various financing options available. In the following section we take a closer look at other financing options.

Just as various options were discussed in the previous payment section involving a Letters of Credit, with various levels of payment risk and ways to manage this risk, other financing methods can also address the risks presented by payment at a deferred point in time.

Financing the importation of grain can occur by methods that do not involve a Letter of Credit. The exporter may agree to accept terms with the importer using an Open Account arrangement with the additional stipulation of payment at a future date, creating a receivable for the exporter.

Similar to the "time of acceptance" Letter of Credit, the exporter can then discount the draft with a bank willing to accept the receivable and the inherent credit risk. The discounting can occur on a non-recourse basis, where the exporter accepts no responsibility for repayment, or on a recourse basis, where the discounting bank can make a claim against the exporter in the event the importer does not pay. While this method allows the exporter to receive immediate payment for the feed grain, the payment risk to the exporter (or to the discounting bank in the case of non-recourse discounting) is very high and may cause the exporter to include a large risk premium in the exporter's price.

Finance Options and Methods

Finally, there are a variety of conditions under which the importer's bank may agree to refinance. For example, the importer may have a revolving credit arrangement used to finance inventories. While simply another form of draft or receivable discounting, the payment risk is normally transferred from the exporter to the exporter's bank.

USDA EXPORT CREDIT GUARANTEE PROGRAMS

In order to better facilitate grain and commodity exports, the U.S. government also recognizes the need to minimize payment risks to exporters.

The U.S. Department of Agriculture administers two credit guarantee programs (GSM-102 and Facilities Guarantee Program) whose purpose is to facilitate exports of U.S. grain agricultural products to emerging markets.

The GSM-102 program provides USDA credit guarantees for approved U.S. Dollar-denominated Letter of Credit contracts to approved markets. In case of payment default, the U.S. Commodity Credit Corporation will pay the creditor (exporter or exporters' bank) up to 98% of the contract price. This 98% guarantee significantly reduces lending risk for the exporter and may create new and expanded markets for U.S. exporters.

Because the loans are guaranteed by the U.S. Government, banks can make loans to the importer's bank (foreign financial institution or "FFI") at very favorable rates. This allows (but does not guarantee) that the FFI will pass on some of these benefits to the importer.

Below is a general description of the program taken from USDA's website:

https://www.fas.usda.gov/programs/export-credit-gurantee-program-gsm-102/about-export-credit-guarantee-program-gsm-102

About the Export Credit Guarantee Program (GSM-102)

The U.S. Department of Agriculture's (USDA) Export Credit Guarantee Program (GSM-102) provides credit guarantees to encourage financing of commercial exports of U.S. agricultural commodities. By reducing financial risk to lenders, credit guarantees encourage exports to importers in countries, (mainly developing countries) that have sufficient financial strength to have foreign exchange available for scheduled payments.

GSM Financing

The GSM-102 program guarantees credit extended by the private financial sector in the United States (or, less commonly, by the U.S. exporter) to approved foreign financial institutions using dollar-denominated, irrevocable letters of credit for purchases of U.S. food and agricultural products by foreign importers. USDA's Foreign Agricultural Service (FAS) administers the program on behalf of the Commodity Credit Corporation (CCC), which issues the credit guarantees. GSM-102 covers credit terms of up to 18 months; maximum terms may vary by country.

The CCC guarantees payments due from approved foreign financial institutions to exporters or financial institutions in the United States. However, the financing must be obtained through normal commercial sources. Typically, 98 percent of principal and a portion of interest are covered by a guarantee. Any follow-on credit arrangements between the foreign financial institution and the importer are negotiated separately and are not covered by the CCC guarantee. The FAS website provides information on specific country and commodity allocations and other program information and requirements.

Eligible Countries or Regions

Interested parties, including U.S. exporters, foreign importers, and financial institutions, may request that CCC establish a GSM-102 program for a country or region. Prior to announcing the availability of guarantees, CCC evaluates the ability of each country and foreign financial institution to service CCC-guaranteed debt. New financial institutions may be added, or levels of approval for others may be increased or decreased, as information becomes available.

Eligible Commodities

CCC selects agricultural commodities and products according to market potential and eligibility based on applicable legislative and regulatory requirements.

Participation

CCC must qualify exporters for participation before accepting guarantee applications. Financial institutions must meet established criteria and be approved by CCC. CCC sets limits and advises each approved foreign financial institution on the maximum amount CCC will guarantee for that bank. Requirements for exporter and U.S. and foreign financial institution participation are available in the program regulation and on the FAS website.

GSM Financing

Once approved to participate, the exporter negotiates terms of the export sale with the importer.

Once a firm export sale exists, the qualified U.S. exporter must apply for a payment guarantee before the date of export. The exporter pays a fee calculated on the dollar amount guaranteed. Fee rates are currently based on the country risk that CCC is undertaking, including country-specific macroeconomic variables; risk of the foreign obligor (bank); the repayment term (tenor); and repayment frequency under the guarantee.

Financing

The CCC-approved foreign financial institution issues a dollar-denominated, irrevocable Letter of Credit in favor of the U.S. exporter, ordinarily advised, or confirmed by the financial institution in the U.S. agreeing to extend credit to the foreign financial institution.

The U.S. exporter may negotiate an arrangement to be paid as exports occur by assigning to an approved U.S. financial institution the right to proceeds that may become payable under the CCC's guarantee.

The exporter is required to provide a report of export to CCC for each shipment that occurs under the payment guarantee. If the exporter has assigned the payment guarantee to a U.S. financial institution, the exporter would provide these export reports and other transaction-related documents required by the U.S. financial institution.

Defaults and Claims

If the foreign financial institution fails to make any payment covered by the GSM-102 guarantee, the holder of the payment guarantee must submit a notice of default to CCC within the timeframe required by the program regulations. A claim for default also may be filed within the required timeframe, and CCC will pay claims found to be in good order.

For CCC audit purposes, the U.S. exporter must obtain documentation to show that the commodity arrived in the eligible country or region, and the exporter and the assignee must maintain all transaction documents for five years from the date of completion of all payments.

Additional Information

GSM Financing

As details of this program change over time, (e.g., the list of eligible countries, approved banks, and available credit) importers may want to consult the below website for the latest information.

For more information, contact:
Credit Programs Division, Global Programs, FAS/USDA
Stop 1025, 1400 Independence Ave. SW, Washington, DC 20250-1025
Tel.: (202) 720-6211; Fax: (202) 720-2495.

Export credit guarantee program information, such as country and regional allocations, fee rates, and commodities eligible for coverage, is available on the FAS Web site:
www.fas.usda.gov/programs/export-credit-guarantee-program-gsm-102

General information about FAS programs, resources, and services can be found at: www.fas.usda.gov

WHAT ARE THE ADVANTAGES / DISADVANTAGES OF EXPORT GUARANTEE PROGRAM?

The use of the GSM-102 financing programs can reduce risks for the exporter and may reduce the selling price to the importer as the seller's risk exposure is reduced.

In addition, the ability for the exporter to secure a guarantee make increase the possibility of completing business.

However, the use of the GSM-102 financing programs can be slightly more costly to the importer than a contract calling for a sight Letter of Credit payment due to the number of parties involved and the need for a guarantee fee.

FACILITY GUARANTEE PROGRAM

The U.S. Department of Agriculture's Facility Guarantee Program (FGP) provides payment guarantees to aid the financing of agricultural-related equipment and services exported from the United States to improve or establish agriculture-related facilities in emerging markets.

FGP Program

The FGP is designed to expand sales of U.S. agricultural products to emerging markets where projected demand for these products would grow as a result of improvements to emerging market food and feed infrastructure. This includes equipment and services that strengthen any aspect of agriculture sector logistics from port facilities and storage to processing and distribution.

Like GSM-102, the FGP is a USDA Commodity Credit Corporation (CCC) credit guarantee program administered by the Foreign Agricultural Service (FAS). FGP regulations are a subpart of the Export Credit Guarantee Program (GSM-102).

Details and latest program announcements (including available credit) or changes may be found on the USDA website:
https://www.fas.usda.gov/programs/facility-guarantee-program.

OTHER U.S. GOVERNMENT PROGRAMS

Export-Import Bank of the United States

The Export-Import Bank of the United States (EXIMBANK) also offers programs which may be utilized for U.S. agricultural commodity exports. Most of these programs are insurance policies which the exporter or the U.S. bank takes on to reduce their financial exposure. This coverage protects against both political and commercial risk and may cover either single or multiple shipments under the same contract. EXIMBANK also occasionally offers credits or credit guarantees to selected countries or regions. Most exporters will know which EXIMBANK programs could potentially apply to a given situation and should be utilized as a resource when investigating financing options.

In addition to USDA credit guarantee programs, other government, NGO, or international organization programs to facilitate grain imports may be available. For the latest information, please contact the Grains Council office in your country, or the Foreign Agricultural Service office at the U.S. Embassy.

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[i] At sight is a payment due on demand where the party receiving the good or service is required to pay a certain sum immediately upon being presented with the bill of exchange. This type of payment is also known as a "sight draft" or a "sight bill."

[iii] At sight is a payment due on demand where the party receiving the good or service is required to pay a certain sum immediately upon being presented with the bill of exchange. This type of payment is also known as a "sight draft" or a "sight bill."

[iv] A Sight Draft is a written demand requesting payment under a letter of credit presented by the beneficiary of the letter of credit to the issuing bank. When a beneficiary presents a sight draft, it is paid immediately after processing by the issuing bank.