TRADE FINANCE TALKS

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Could export credit agencies be agents for UK exporter confidence?

In focusing on a country's domestic context, ECAs inadvertently end up supporting the SMEs that, conversely, employ most of a country's population but need the most funding - thereby simultaneously fulfilling developmental agendas of government, and trade agendas of treasuries.

A private equity fund has investments in a number of export goods and services from the UK. Its CEO comes to Sullivan and Worcester having just heard of what to them is a novel product: loan support from export credit agencies (ECAs).

A CEO who works with all major UK banks, with relationship managers and fund managers, was only made aware of this option from a radio advertisement by UK Export Finance (UKEF), the UK's ECA.

It's a case for radio as much as it is emblematic of the fundamental opportunity which many UK exporters are missing.

ECAs can support exporters in accessing finance by guaranteeing the underlying borrower: giving a guarantee to a bank, providing insurance for part of a transaction, giving a direct loan, or attracting contracts and managing risks overseas.

Let's boil this down.

Guaranteeing stability

ECAs have different end goals from commercial banks: to either support exporters or reach a wider developmental goal, whether this is supporting SMEs or hitting climate development targets.

These agencies exist to help exporters access finance, but their role extends beyond providing insurance or issuing direct loans - for an exporter to carry out its business, exporting its goods and its services abroad.

ECAs also have great insight and knowledge of various international markets. Market intelligence is perhaps the most undervalued benefit. ECAs know which projects are being tendered in which markets; they know which domestic companies have successfully bid for similar international work; they can connect exporters with opportunities and provide guidance on the bidding process. When approaching a tender with ECA backing, the financing is more assured.

UKEF, for instance, is supporting the construction of hospitals in Ghana, football stadiums in Barcelona, and wind farms in Taiwan.

In the Taiwanese scenario, UKEF provided a €146 million Buyer Credit Guarantee to back the 632MW Greater Changhua 2 phase, enabling overseas financing on the condition that at least 20% of supplies are sourced from the UK. ECAs can come together for developmental goals; in this case, Denmark's EIFO was involved in structuring a financing package for Taiwanese offshore wind farm development in the Greater Changhua 4 project. Such methods can align geopolitical and geographical government strategy with domestic exporting capabilities.

Too good to be true?

If ECAs make access to finance so much easier, why are they so paradoxically underutilised?
The answer: awareness, or a lack thereof.

The private equity CEO who reached out to Sullivan had a relationship from a working capital, leveraged and regular type of facility perspective. His banks weren't focused on or looking at the availability of getting better credit through ECAs. The structure put in place by Sullivan allowed the loan to be made directly to the purchaser of goods; the borrower would be the purchasing entity, with support given by UKEF to the bank to actually give this loan.

This structural difference is key, and the cost of the loan is actually made better because of UKEF involvement. It's a fait accompli: purchase our goods.

Another significant barrier is the assumption that export credit support is only for corporate giants. When people hear about UKEF backing Jaguar Land Rover - the story woven in the radio advert - smaller companies assume they're not in the same league. But headline-grabbing deals create a distorted picture of who actually benefits.

The reality is that ECAs work extensively with medium-sized businesses, accessing export credit to expand internationally and compete more effectively. The support is available, it's just not generating press releases.

Play to your strengths

ECAs hold a characteristically deep understanding of the priorities for domestic exporters. In the UK's case, everyone wants to hear about critical minerals exports, something which UKEF provides supply finance support with (providing a loan or guarantee to overseas projects with UK suppliers). Emerging industries - for which demand is unlikely to slow in the coming years - are funded preemptively.

But there is a simultaneous strong support for the industries which, put bluntly, the UK is good at. A strong services sector, UK intellectual property (IP) exports are of an extremely high calibre; construction companies, too, which can build domestically and abroad.

In focusing on a country's domestic context, ECAs inadvertently end up supporting the small and medium-sized enterprises (SMEs) that, conversely, employ most of a country's population but need the most funding - thereby simultaneously fulfilling developmental agendas of government, and trade agendas of treasuries.

The support mechanisms are there: guarantees, insurance, direct lending, market intelligence, and relationship facilitation. What's often missing, especially for those who think that video killed the radio star, is the initial awareness that these tools exist and the knowledge of where to find them. Don't rely solely on your existing bank contacts. Ask specifically about export credit teams. Consider specialist legal advisors who work in this space regularly.

ECAs often function as a buoy in stormy seas, stable amidst the volatility promised by nearshoring objectives, redrawn alliances in the sand, and the transition towards a cleaner trade system. They have potential to provide crucial support for SMEs, whether on a financial or expertise basis.

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