



How to secure buyer finance

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How can it help me?

Buyer finance can help exporters compete effectively for contracts by enabling overseas buyers to purchase the exporter's goods or services.

What is it?

Buyer finance is a loan made available to an overseas buyer so that they can purchase a UK exporter's goods or services. The buyer's ability to get a loan – from a financial institution in the UK, their own country or a third country – might be critical to the deal going ahead. Buyer finance loans are often a medium- to long-term financing solution for buyers to buy capital goods or for large projects.

How does it work?

Finance for your overseas buyer can take the form of a direct loan from a bank or other financial institution to the buyer. The loan may cover all or part of the export contract value. At the buyer's direction, the lender may provide funds to the exporter as payments under the export contract. The overseas buyer makes loan repayments to the lender in accordance with the loan agreement.

Sometimes a bank may be unwilling to lend to the overseas buyer – especially in risky or developing markets – unless the bank can either remove or mitigate the default risk (see UKEF overleaf). Once the loan (and associated guarantee) is in place, the lender may advance the loan funds to the exporter as payments under the export contract become due. The overseas buyer then repays the lender in accordance with the loan agreement. This means that the overseas buyer can pay for the goods or services over a longer period of time (typically two years or more).



UK Export Finance support

For loan contracts offering more than two years' credit to the buyer, UKEF can provide support with a buyer credit facility or a line of credit facility. Under these facilities, UKEF provides a guarantee to the bank making a loan to the overseas buyer so that, if the buyer defaults on a loan repayment, the bank can make a claim under UKEF's guarantee. The benefit for the bank is that they transfer the risk of the buyer not repaying the loan to UKEF. The benefit for the exporter is that they can offer competitive credit terms to their buyer.

Where the repayment term is greater than two years, the credit terms which UKEF can support are set out in the OECD Arrangement on Officially Supported Export Credits. This regulates the credit terms in four main areas.

- Minimum payment of 15% on or before the starting point of credit.
- The starting point of credit is the date which defines when the buyer has to start repaying an export credit loan being guaranteed by UKEF.
- The maximum credit period is generally decided according to the buyer's country and the type of business being supported.
- Normally the loan must be repaid in equal instalments payable at least half yearly. The first instalment must be paid within six months from the starting point of credit. Interest on the export credit loan also has to be paid at least semi-annually and is usually paid on the reducing balance of the principal outstanding.

For transactions done under UKEF's buyer credit facility or a line of credit facility, both the bank and UKEF must assess the transaction and deem it acceptable. UKEF can also now provide a loan directly to the buyer either independently or (as is usually the case) in partnership with one or more banks. This is under UKEF's Direct Lending Facility and the access criteria and terms of this facility are set out on UKEF's website.

See page 17 for a summary of all UKEF products.

ICAEW services

Business Advice Service

Being aware of and understanding the necessary aspects of international trade are critical to a successful business looking to export.

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