The Big Picture

A Program for Modern Trade: USDA's Supplier Credit Guarantee Program

30002

By Michael Conlon

Since 1981, USDA has been promoting U.S. agricultural trade through the Export Credit Guarantee Programs (GSM-102 and GSM-103), and more recently through the Supplier Credit Guarantee Program (SCGP). These initiatives have proven a powerful and cost-effective means to promote U.S. agricultural exports.

Since their inception, the programs have supported exports of more than 50 agricultural commodities and products to over 60 countries. The export credit guarantee programs are the largest export assistance programs FAS administers. Over the last 20 years, they have supported over $67 billion in exports–or about 8 percent of all U.S. agricultural exports.

Export credit guarantees fostered a private-public partnership that has helped U.S. companies compete against aggressive foreign suppliers and maintain or increase exports to countries where financing would likely not be available without USDA guarantees. An example of note is Indonesia, where usage of the GSM-102 program increased by almost 500 percent in fiscal 2001 to $717.6 million, helping protect U.S. agricultural exports during a time of severe political and economic instability in that country.

Flexibility has always been a hallmark of the export credit guarantee programs. In fiscal 1997, FAS began implementing the SCGP to adapt to fundamental changes in agricultural trade and corresponding changes in the financial mechanisms used to pay for agricultural products. Many foreign markets have shifted from being predominantly state trading monopolies to private sector buyers with a range of specialized financing requirements.

In addition, the rapid adoption and widespread use of shipping containers for transporting agricultural commodities to foreign markets allowed importers to buy smaller volumes, with more frequent deliveries to match their sales and distribution patterns. Bulk commodity exports have slowed, while export market growth is increasingly concentrated in high-value or consumer-oriented products. Consumer-oriented exports rose from 10 percent of total U.S. agricultural exports in 1975 to 43 percent by fiscal 2001. Conversely, bulk commodity exports dropped from 76 percent of total U.S. agricultural exports in 1975 to 35 percent by fiscal 2001.

These export trends have prompted changes in the financial mechanisms used to pay for agricultural products. In the 1980s, bank letters of credit were frequently used to finance agricultural imports. However, as containerized transport and the shift toward high-value products resulted in smaller, more frequent shipments, opening international letters of credit became increasingly expensive relative to revenues from sales transactions. For smaller transactions, such as those under $150,000, buyers need a lower-cost payment mechanism.

Open account sales terms, through which exporters provide direct financing, presented a means of lowering both costs and risks for the importer. Competition in export markets allowed importers to demand more attractive payment terms from suppliers. To keep their customers, exporters frequently had to offer short-term credit by establishing open account sales for importers. However, this procedure exposed exporters to considerable financial risk, sometimes higher than they could accept. This situation curtailed exporters' ability to do business.

These shifting trends in agricultural trade and financing are reflected in the SCGP. While the traditional GSM-102 and GSM-103 programs are driven by bank letters of credit, SCGP is designed to provide payment guarantees for exporters and importers trading on open accounts. In place of a letter of credit, an SCGP transaction relies upon a promissory note issued by the importer to the exporter. USDA guarantees payment of the note for up to 180 days.

The SCGP is unlike any other credit guarantee or insurance program. Because of the fast-paced nature of agricultural commodity trade, USDA recognized that it could not perform a credit analysis of the importer in a timely fashion. Such financial analysis is time-consuming, and information is difficult to confirm in many emerging markets. By the time a decision could be made on the importer's ability to repay the debt, the sale would likely be lost to a competitor.

Thus, the SCGP operates on a risk-sharing basis. USDA offers a 65-percent guarantee of the value of the export, including freight coverage, with the exporter retaining the other 35 percent of the risk of default. Because the U.S. exporter bears 35 percent of the risk, the exporter is motivated to assess the credit risk posed by the importer. The exporter probably knows the importer best, and the two firms may have a business history.

THE SCGP HAS BEEN USED TO SUPPORT EXPORTS OF DOZENS OF HIGH-VALUE PRODUCTS, LITERALLY FROM DEHYDRATED SOUP MIXES TO NUTS.

Through the SCGP, U.S. exporters can extend longer credit terms to foreign buyers or increase the amount of credit available–without increasing their own risk of nonpayment. The program can be of particular benefit to smaller U.S. exporters that may not have sufficient sales volume to qualify for private insurance to mitigate their risk and leverage credit resources.

Sales under the SCGP have grown significantly since its implementation. In fiscal 1997, U.S. products exported under the SCGP totaled about $7.4 million to seven countries or regions. By fiscal 2001, U.S. products exported under the program had surged to $347.66 million to 24 countries or regions. For the first half of fiscal 2002, sales reached $355.38 million, already exceeding the fiscal 2001 total. If this trend continues, sales under this program will double in fiscal 2002.

5019

Contacts

For more information on the SCGP and related programs and services, contact FAS' Export Credits area, Program Administration Division:

Tel.: (202) 720-3573
Fax: (202) 690-1595
E-mail: askec@fas.usda.gov
Web site: www.fas.usda.gov/excredits/

The SCGP has been used to support exports of dozens of high-value agricultural products, literally from dehydrated soup mixes to nuts. Frozen foods, including vegetables and potatoes, are included in the program. But SCGP is also facilitating sales of bulk commodities, because exporters and importers have found the program to be a cheaper, faster means of obtaining financing guarantees.

The SCGP has been a tremendous success. FAS is continuing to seek new markets in which to expand U.S. agricultural exports through the SCGP. Because of its flexibility, the program will continue to evolve to support the dynamic export market for agricultural commodities and food products. ■

The author, outreach coordinator with FAS' Export Credit area, is currently serving as agricultural attaché in the Office of Agricultural Affairs, Santiago, Chile. Tel.: (011-56-2) 330-3313; Fax: (011-56-2) 330-3203; E-mail: usfas@rdc.cl