Improvements in export finance

In July this year the Export Credits Guarantee Department announced the introduction of a scheme for extending their unconditional bank guarantees to the finance of short-term export transactions on 'open account'.[1] It supplements the bill scheme,[2] introduced in March 1966, for guarantees to banks in respect of export credit secured by buyer's bills or promissory notes with a tenor of between thirty days and two years.

The new scheme, which has been agreed with the London clearing banks, the Scottish banks and the Northern Ireland banks, is designed to help exporters of goods from the United Kingdom to finance, at favourable rates of interest, sales on short-term credit on open account or on terms of cash against documents overseas. Its introduction means that guarantees to banks are now available for the financing of virtually all insured exports from the United Kingdom.

The scheme will operate as follows. E.C.G.D. will agree a borrowing limit with the exporter's bank within which guaranteed advances may be made, and will guarantee the bank unconditionally against failure by the exporter to repay such advances, together with the interest on them. There will also be a recourse agreement between E.C.G.D. and the exporter. The exporter will present to his bank a warranty that the goods have been shipped and that the transaction is insured with E.C.G.D., together with a copy invoice showing the terms of payment and acceptable evidence of shipment. The eligible terms of payment range from cash against documents overseas to 180 days' credit from receipt of the goods. Subject to these conditions, the bank will make an advance for 90% of the invoice value (which excludes for this purpose any interest charge and is after deduction of any advance payments by the buyer and of any allowance). As with the bill scheme, the interest rate will be the current Bank rate, with a minimum of $4\frac{1}{2}$%, and not (as in the case of longer-term export finance) a rate fixed for the whole term of the advance. Against each drawing, the exporter will give the bank a promissory note for repayment on the last day of the month in which payment by the buyer is due, allowing a maximum of one month for the period of shipment where terms are cash against documents or where credit runs from arrival of goods. Advances due for repayment within the same calendar month may be covered by a single promissory note.

The exporter's obligation to repay his bank is independent of the actual date on which he may receive payment from the overseas buyer. If the exporter fails to honour his promissory note on demand, or fails to pay the due interest, the bank may claim on E.C.G.D. one month after presentation to the exporter of the note or demand for interest; the claim on E.C.G.D. must be made within three months of such presentation or demand being due. When E.C.G.D. pay a bank's claim, the bank will relinquish in favour of E.C.G.D. its rights in the defaulted note. E.C.G.D., under the terms of the recourse agreement with the exporter, will immediately claim from him the amount paid to his bank irrespective of any claim which the exporter may have on E.C.G.D. under his policy.

E.C.G.D. must be satisfied that the exporter can meet his obligation to his bank before they will give their guarantee to the bank that the sums borrowed will be repaid; but all exporters who have

1 Open account transactions in this context mean business conducted without buyer's bills or promissory notes.
2 Described in the June 1966 *Bulletin*.

been policyholders with E.C.G.D. for twelve months are eligible to be considered for admission to the scheme. The scheme is being introduced by stages, beginning with those exporters having the largest value of insured business.

The premium payable to E.C.G.D. by the exporter using this scheme will be at the rate of $\frac{1}{8}$% per annum on the amount of his agreed borrowing limit. The banks will charge 10*s.* for handling each promissory note, in addition to the interest charge.

Promissory notes drawn under these arrangements with a tenor of six months or less may be counted by banks as liquid assets for the purpose of calculating their liquidity ratio. As with the bill scheme, there will be no refinancing facility with the Bank of England.