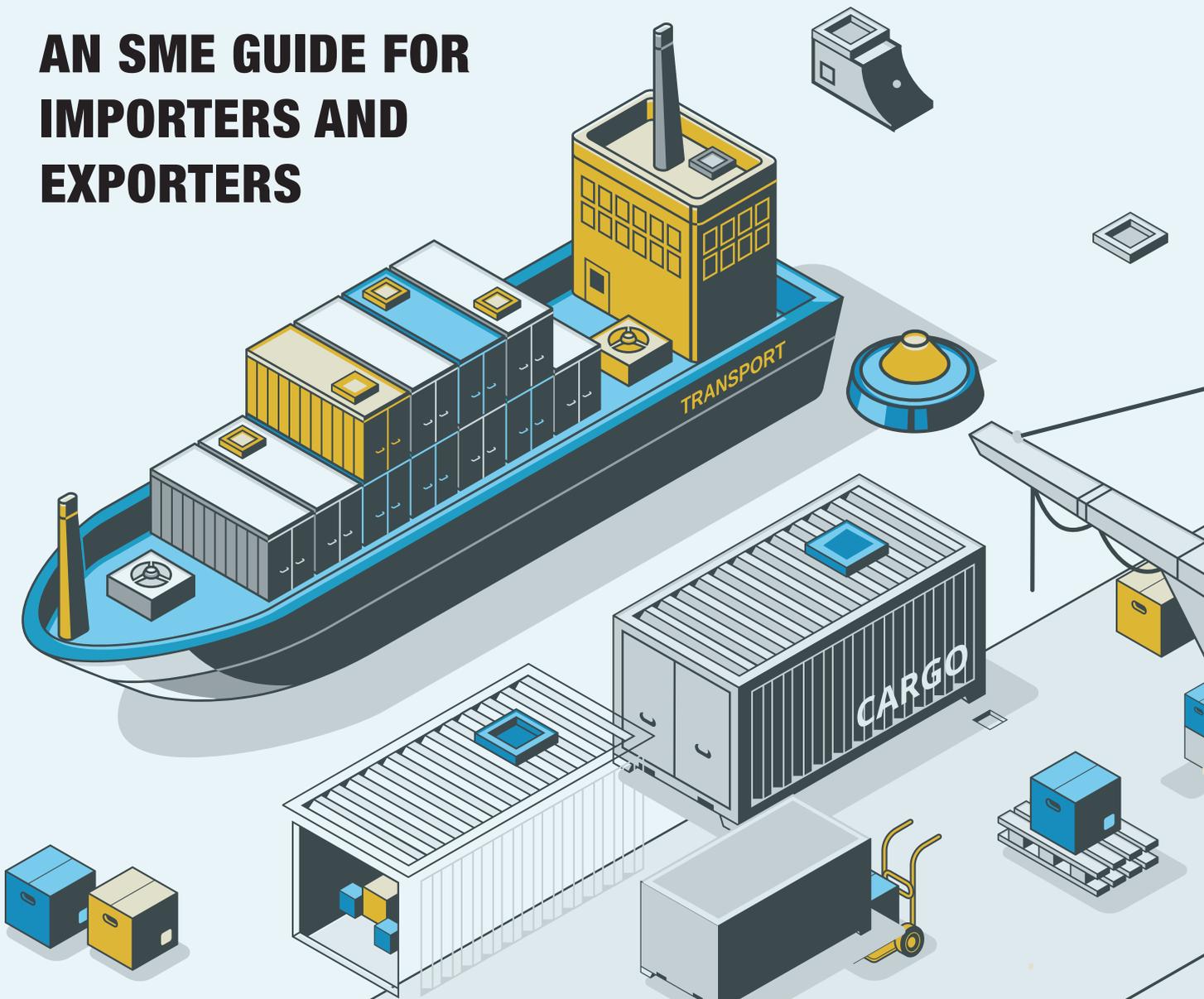


WWW.TRADEFINANCEGLOBAL.COM

TRADE FINANCE EXPLAINED

AN SME GUIDE FOR IMPORTERS AND EXPORTERS



fsb⁰⁸

INSTITUTE
OF EXPORT
& INTERNATIONAL TRADE

International
Trade
Centre

FORUM of
PRIVATE BUSINESS
For our members, not for profit

SME FINANCE
FORUM

TRADE
FINANCE
GLOBAL

**Thanks To**

TFG would like to extend a special thank you to all contributors and the International Trade & Forfeiting Association (ITFA).

Photographs and Illustrations

Freepik Company S.L.
Duarte Pedreira
Charlotte Prior
Nigel Atta-Mensah
Alero Arubi

Address

Trade Finance Global
2nd Floor
201 Haverstock Hill
Belsize Park
London
NW3 4QG

Telephone

+44 (0) 20 3865 3705

Trade Finance Global is owned and produced by TFG Publishing Ltd.

© Trade Finance Global 2020. All Rights Reserved. No part of this publication may be reproduced in whole or part without permission from the publisher. The views expressed in Trade Finance Global are those of the respective contributors and are not necessarily shared by Trade Finance Global.

Although Trade Finance Global has made every effort to ensure the accuracy of this publication, neither it nor any contributor can accept any legal responsibility whatsoever for the consequences that may arise from any opinions or advice given. This publication is not a substitute for any professional advice.

CONTENTS

Trade Finance & International Trade	4
Why is trade finance necessary?	5
Who benefits from trade finance?	5
What are the main benefits of trade finance?	6
Types of Trade Finance	7
Trade Credit	8
Cash Advances	8
Purchase Order (PO) Finance	8
Receivables Discounting	8
Term Loans	9
Other types of Business Finance	9
Methods of Payment in Trade Finance	10
Cash Advance	11
Letters of Credit (LCs)	12
Documentary Collections (DCs)	13
Open Account	13
Pre-shipment, Post-shipment and Supply Chain Finance	14
Pre-shipment finance	15
Post-shipment finance	16
Supply Chain Finance (SCF)	17
Risks and Challenges in Trade Finance	18
Product risks	19
Manufacturing risks	19
Transport risks	19
Currency risks	20
Types of Trade Finance Lenders	21
Corporate & Commercial Banks	22
Alternative Finance Providers & Non-Bank Lenders	22
Development Finance Institutions (DFIs)	23
Export Credit Agencies (ECAs)	23
How to Secure Trade Finance	24
How to apply for a trade finance facility	25
1. Application	25
2. Evaluating the Application	26
3. Negotiation	27
4. The Approval Process and Documentation of a Loan	28
Repaying trade finance facilities	29
About the Partners	30

TRADE FINANCE & INTERNATIONAL TRADE

Trade Finance is the financing of goods or services in a trade or transaction, from a supplier through to the end buyer. It accounts for 3% of global trade, worth some \$3tn annually.

'Trade Finance' is an umbrella term, which includes a variety of financial instruments that can be used by an importer or exporter.

These include: Purchase Order Finance, Stock Finance, Structured Commodity Finance, Invoice Finance (Discounting & Factoring), Supply Chain Finance, Letters of Credit (LCs) and Bonds & Guarantees.

The terms Import Finance and Export Finance are used interchangeably with Trade Finance.

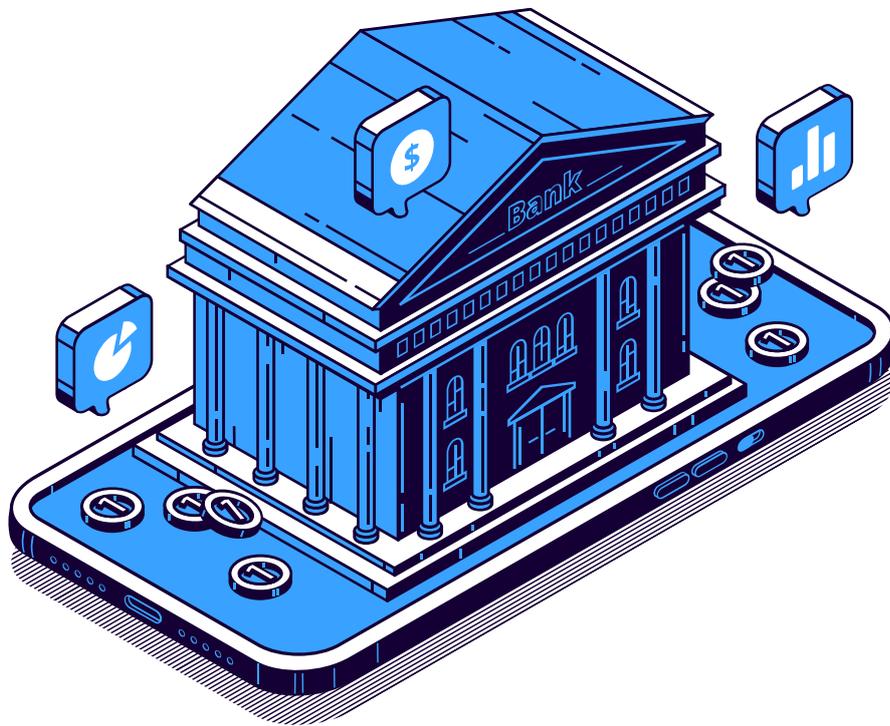
In order to address some of the common issues and misunderstandings around Trade Finance, we have put together this short guide.

Why Is Trade Finance Necessary?

Trade Finance (also known as Supply Chain Finance and Import & Export Finance) is a massive driver of economic development and helps maintain the flow of credit in supply chains. It is estimated that 80–90% of global trade, worth \$10 trillion per year, is reliant on trade and supply chain finance.

Who Benefits From Trade Finance?

- ❑ Trade Finance has many beneficiaries, from Corporates to Small & Medium Enterprises (SMEs), and countries/ governments.
- ❑ Companies use Trade Finance to increase the volumes of goods and services which they trade, fulfil large contracts, and scale operations internationally.
- ❑ Governments also assist with guaranteeing trade finance, as they aim to increase the trade of goods and services.



What Are the Main Benefits of Trade Finance?

- ❑ Trade finance facilitates the growth of a business.
- ❑ Managing cash and working capital are critical to the success of any business. Trade finance is a tool which is used to unlock capital from a company's existing stock or receivables.
- ❑ Why does this help? This may allow you to offer more competitive terms to both suppliers and customers, by reducing payment gaps in your trade cycle. It is beneficial for supply chain relationships and growth.
- ❑ Trade finance is a solution for short to medium-term working capital, and uses the underlying products or services being imported/ exported as security/ collateral. It increases the revenue potential of a company, and earlier payments may allow for higher margins.
- ❑ Trade finance allows companies to request higher volumes of stock or place larger orders with suppliers, leading to economies of scale and bulk discounts.
- ❑ Trade finance can also help strengthen the relationship between buyers and sellers, increasing profit margins. It allows a company to be more competitive.
- ❑ Managing the supply chain is critical for any business. Trade and supply chain finance helps ease out cash constraints or liquidity gaps - for suppliers, customers, third parties, employees or providers. Earlier payments also mitigates risk for suppliers.
- ❑ It is important to note that trade finance focuses more on the trade than the underlying borrower, i.e. it is not balance sheet led. Therefore, small businesses with weaker balance sheets can use trade finance to trade significantly larger volumes of goods or services and work with stronger end customers.
- ❑ Trade finance lending instruments have embedded risk mitigants which may allow a trading company to access a more diverse supplier base. A more diverse supplier network increases competition and efficiency in markets and supply chains.
- ❑ Companies can also mitigate business risks by using appropriate trade finance structures. Late payments from debtors, bad debts, excess stock and demanding creditors can have detrimental effects on a business. External financing or revolving credit facilities can ease this pressure by effectively financing trade flows.



TYPES OF TRADE FINANCE

'Trade Finance' is a catch-all term for the financing of international trade. Below, we have briefly summarised the main trade finance products which are available to businesses.



Trade Credit

Usually, the seller of goods or services requires payment by the buyer within 30, 60 or 90 days after the product is shipped (post-shipment). Trade credit is the easiest and cheapest arrangement for the buyer. It is based mostly on trust directly between the buyer and the seller. Insurance cover is usually taken by the seller on the buyer, due to the risk of non-payment.



Cash Advances

A cash advance is a payment of funds (unsecured) to the exporting business prior to the shipment of goods. It is often based on trust; a cash advance is usually favourable and sought by the exporters so that they can manufacture or produce goods following an order. However, it is a high-risk financing structure for the buyer, as there may be delays on sending product or non-delivery.



Purchase Order (PO) Finance

Purchase Order (PO) finance is commonly used for trading businesses – who buy and sell; having suppliers and end buyers. Financing is on the basis of purchase orders that allow a shot of finance into a growing company – this type of facility is sometimes used or not known about by many companies and is at many times an alternative to investment. It also provides huge advantages when negotiating with suppliers and end buyers – gaining credibility within the transaction chain.

PO finance usually goes hand in hand with invoice finance, as purchase order financier is paid back by an invoice finance lender when goods are received by the customer.



Receivables Discounting

Invoices, post-dated checks or bills of exchange can be immediately sold on the market at a reduced rate, to the invoice value. Receivables are mainly commercial and financial documents, and banks, finance houses and marketplaces allow such documents to be sold at discounted prices in return for immediate payment. The discount rate, which may be relatively high and can be costly for SMEs is calculated based on the risk of default, the creditworthiness of the seller or buyer and whether the transaction is international or domestic.



Term Loans

Longer-term debt (including term loans and overdraft facilities) can be more sustainable sources of funding. They are often backed by security or guarantees. Often in the world of international trade and finance, securing against assets owned by business owners in differing countries is difficult.

Other Types of Business Finance

There are other types of trade finance which we think would be useful for SMEs to know about, which aren't strictly 'trade finance' as we define it, but they're worth considering.



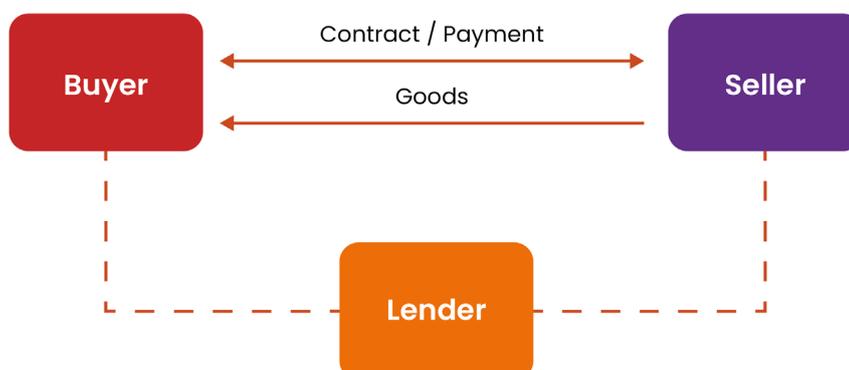
Equity finance includes seed funding, angel investment, crowdfunding, venture capital (VC) funding and flotation. The principles however are the same. Generally, a business owner will give a proportion of his or her shares to an investor and if the company grows and shares become more valuable, they will sell their shares in the business (exit) and make a return on their initial investment.



Leasing and asset-backed finance involves the borrowing of funds against assets such as machinery, vehicles and equipment. There are several finance mechanisms which allow SMEs to have access to assets which are repaid in smaller contractual, tax-deductible repayments.



Asset finance allows SMEs to purchase equipment or assets over a period of time, and this method of machinery use is favourable for tax treatment in many markets. There are different types of leasing/ asset finance, including finance leases, hire purchase and operating leases.



METHODS OF PAYMENT IN TRADE FINANCE

In trade transactions, payments need to be made in a secure and timely manner. When establishing a new relationship, buyers and sellers usually use intermediaries, such as banks, to limit risk. The intermediaries can guarantee that payments are made on schedule. As trust develops between a buyer and seller, businesses may switch to cash advances or providing trade credit on open account terms.

Payments in trade finance have varying types of risk: for the importer and the exporter. In this section, we may consider the importer as the buyer and the exporter as the seller.

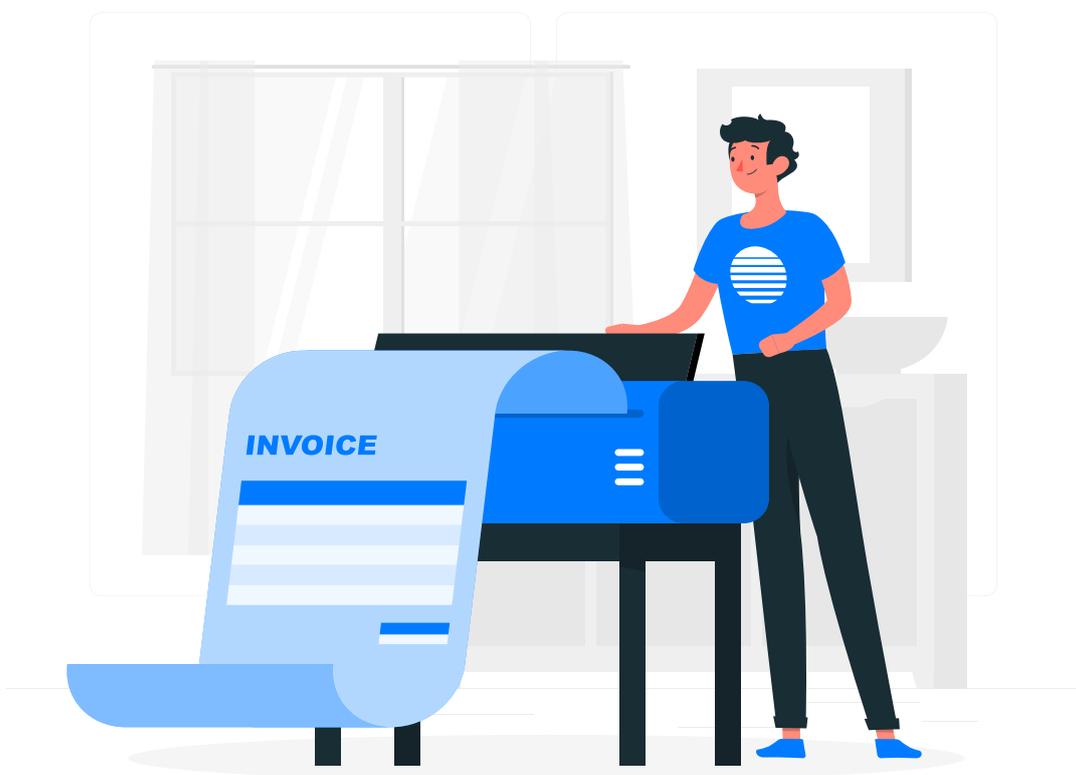
Here we cover 4 types of payment methods: cash advances, Letters of Credit (LCs), Documentary Collections (DCs) and open account sales. As a business owner, it is important to understand the different risks for each type of payment method, to see which one is most favourable and suitable for your business requirements.

Cash Advance

A cash advance requires payment from the buyer (importer) to the seller (exporter) before the goods have been shipped. Therefore, the buyer assumes all the risk.

Cash advances are common with low-value orders. For example, when purchasing from online retailers.

For a seller, a cash advance is by far the least risky payment method. It provides a seller with upfront working capital to produce and ship the goods, as well as security (there is no risk of late or non-payment). Conversely, as a buyer, a cash advance is the least favourable payment method. It may lead to cash flow issues for the buyer and increases exposure/ risk to the seller. It can also be problematic if the delivered goods aren't up to standard, faulty, or not delivered on time.



Letters of Credit (LCs)

Letters of credit (LCs) are financial, legally binding instruments, issued by banks or specialist trade finance institutions. An LC guarantees that the seller will be paid on behalf of the buyer, if the terms specified in the LC are fulfilled.

An LC requires an importer and an exporter, with an issuing bank and potentially a confirming (or advising) bank respectively. The financiers and their creditworthiness are crucial for this type of trade finance. The issuing and confirming bank effectively replace the guarantee of payment from the buyer, reducing the risk to the supplier. This is called credit enhancement.

An LC Transaction Generally Happens as Follows

- ❑ An importer agrees to buy goods from an exporter – a purchase order (PO) is issued
- ❑ The importer will approach an issuing bank (trade financier) which will issue an LC if the company fulfils the bank's criteria (e.g. they are creditworthy)
- ❑ The exporter will work with a confirming bank, who will request that the LC documents be checked from the issuing bank (of the importer)
- ❑ The confirming bank will then check the LC and, if the terms are agreeable, the exporter will ship the goods
- ❑ The exporter then sends the relevant shipping documents to the confirming bank
- ❑ Once the confirming bank has examined the shipping documents in strict compliance against the LC terms from the issuing bank, they will forward these documents on to the issuing bank
- ❑ Payment is made according to the agreed terms; guaranteed by the issuing bank
- ❑ The issuing bank then releases the shipping documents so that the importer can claim the goods that were shipped
- ❑ Depending on the terms agreed, the issuing bank then transfers money to the confirming bank who will then transfer the funds onto the exporter.

LCs are flexible and versatile instruments. An LC is universally governed by a set of guidelines known as the Uniform Customs and Practice (UCP 600), which was first produced in the 1930s by the International Chamber of Commerce (ICC).

Demystifying the Letter of Credit

The beauty of an LC is that it can meet a variety of needs, that benefit both the buyer and the seller. For this reason, the terms in an LC are important to understand.

Documentary Collections (DCs)

A Documentary Collection (DC) differs from a Letter of Credit (LC).

In the case of a DC, the seller (exporter) will request payment by presenting its shipping and collection documents to their remitting bank. The remitting bank will then forward these documents on to the bank of the importer. The importers bank will then pay the exporters bank, which will credit those funds to the exporter.

The role of banks in a Documentary Collection is limited. They do not verify the documents, take credit or country risks, or guarantee payment. The banks just control the flow of the documents.

DCs are more convenient and more cost-effective than Letters of Credit, and can be useful if the exporter and importer have a good relationship.

DCs are often used if the importer is situated in a politically and economically stable market.

Open Account

In an open account transaction, the buyer pays the seller after the goods have arrived (typically 30–90 days after). This is obviously advantageous to the buyer and carries substantial risk for the seller. It often occurs if the relationship and trust between the two parties is strong.

Open account trade helps to increase competitiveness in export markets, and buyers often push for sellers to trade on open account terms. As a result, sellers are more likely to seek trade finance to fund working capital while waiting for the payment.

Trade credit insurance may be used to reduce the risk of commercial losses, which could result from the default, insolvency or bankruptcy of a buyer.

PRE-SHIPMENT, POST-SHIPMENT AND SUPPLY CHAIN FINANCE

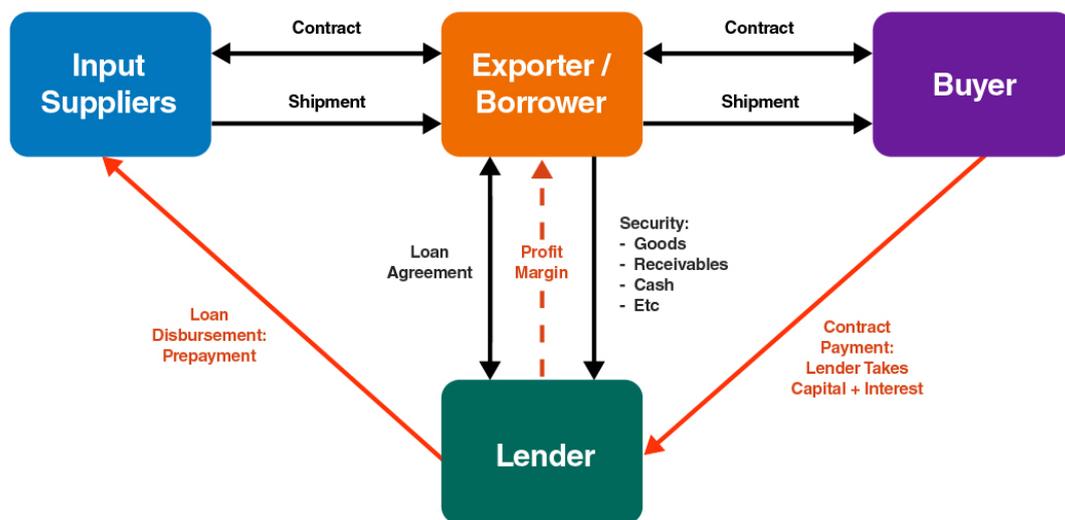
When does a small business actually use trade finance? We can categorise trade-financing options into: pre-shipment finance, post-shipment finance and supply chain finance (SCF).

Pre-shipment finance

Pre-shipment finance includes any finance that an exporter can access before they send goods to a buyer.

Once the business receives a confirmed order from a buyer, it has an obligation to deliver the finished goods. This may involve manufacturing or procurement, and working capital finance is often required to fund wages, production costs and buying raw materials.

Exporters can access different types of working capital finance.

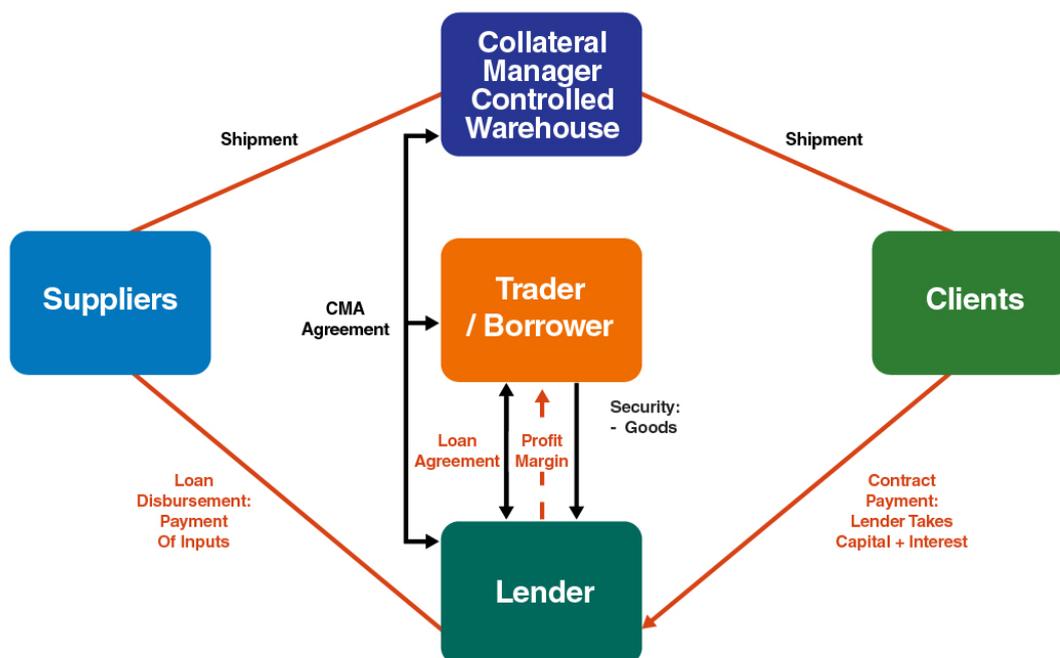


Trade Finance:

Trade finance (or import/ export finance) is essentially a loan, where the goods exported are the main form of security/ collateral. In the case of a default, the lender can seize the goods. Lenders will often fund up to 80% of the total value of the goods, but this can vary depending on the lender and the risks involved with exporting the goods. For example, if there is low demand for the goods (bespoke furniture, specialist circuits, etc) or a short shelf life (perishable fruit, vegetables, etc), a lender may not be able to resell them. Therefore, the risk to the lender is higher and they may only be willing to finance a small percentage of the value.

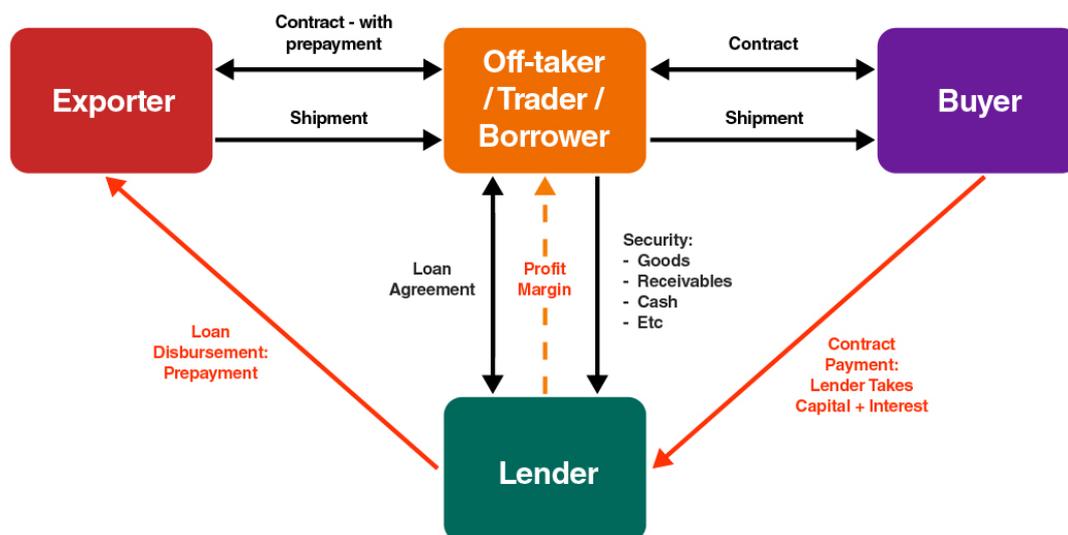
Inventory or Warehouse Finance:

Often lenders require the finished goods to be kept in a warehouse or other secure location (or on the borrower's premises but controlled by a third party). The inventory can then be used by the business as collateral. A lender will provide short term working capital or loans against the collateral (minus a percentage of its value). Warehouse or inventory financing is often used to top-up existing credit lines.



Pre-payment Finance:

Pre-payment finance is subtly different to trade finance (or import finance). In this case, the buyer will take out a loan specifically for the purpose of paying the seller, in advance of the goods being shipped. The finance contract usually states that the buyer will pay back the loan once the goods have been received and sold on. This process ensures quick re-payment and allows a lender to clearly link their funding to the trade cycles.



Post-shipment finance

Post-shipment finance includes any finance that an exporter can access after they send goods to a buyer.

Without finance, the exporter would wait for the goods to arrive, an invoice to be raised and the payment terms period (typically 30, 60 or 90 additional days).

A financier can accelerate the payment to the exporter, so that payment is received as the goods are sent (typically loaded onto the ship).

Post-shipment finance can operate in a number of ways, through:

- ❑ A Letter of Credit (LC)
- ❑ A Trade Loan
- ❑ Invoice Factoring or Receivables Discounting: selling the invoice or receivables document

Supply Chain Finance (SCF)/ Payables Finance

Both large corporations and small businesses need to import or export goods as part of their end-to-end supply chain. As a result of globalisation, supply chains have become increasingly complex. They are also regularly being extended as a result of competition, increased efficiency, and for risk diversification (i.e. purchasing one product from many suppliers).

Supply Chain Finance has recently been defined as a much broader category of trade financing, encompassing all the financing opportunities across a supply chain. This technique is sometimes called reverse factoring or payables finance.

Supply Chain Finance (SCF, also known as Global SCF, GSCF or supplier finance) is a cash flow solution which helps businesses to free up working capital, which is trapped in global supply chains.

This benefits both suppliers and buyers; suppliers get paid early and buyers can extend their payment terms.

Process

- ❑ A Supply Chain Finance facility is entered by the buyer, financier and supplier
- ❑ Goods are shipped and sales invoice is raised on the buyer by the supplier
- ❑ Supplier submits invoice to financier's supply chain finance platform
- ❑ Buyer approves the invoice on the financier's supply chain finance platform
- ❑ The financier pays the supplier, excluding interest and fees.
- ❑ The financier debits the account of the buyer on the maturity of the invoice

RISK AND CHALLENGES IN TRADE FINANCE

Understanding the dynamics and complexities of international trade is important for buyers, sellers and lenders. Managing risks is key to growing a successful trading business, either internationally or domestically. This can be done by using specific types and structures of trade finance products. International trade carries substantially more risks than domestic transactions, due to differences in language, culture, politics, legislation and currency. We have summarized the main types of risk under the headings below: product, manufacturing, transport and currency.

Product Risks

Product-related risks are those which the seller automatically has to accept. As an integral part of their commitment, for example, they usually have to provide specified performance warranties, agreed maintenance or service obligations.

The buyer must consider how external factors such as how negligence during production, or extreme weather during shipping could affect their product.

These matters could well lead to disputes between the parties, even after contracts are signed. It is important for the seller that the contract is worded correctly, so that any changes which could affect the product are covered, with clear outcomes provided.

Manufacturing Risks

Manufacturing risks are particularly common for products which are tailor-made or have unique specifications. Often the seller would be required to cover costs of any readjustments of the product until the buyer sees fit, because the product can't be resold to other buyers. Such risks can be addressed as early as the product planning phase, which often means the buyer has to enter payment obligations at a much earlier stage of the transaction.

To mitigate the risks for both the buyer and the seller (especially for bespoke products), the terms of payment may be part-payments and separate guarantees throughout the design, production and delivery of the product.

Transport Risks

Cargo and transport risks can be reduced through cargo insurance, which is usually defined by standard international policy wordings (issued by the Institute of London Underwriters or the American Institute of Marine Underwriters). The agreed terms of delivery will usually state who is responsible for arranging insurance (the buyer or seller).

If the buyer fails to insure (where it is his responsibility) the cargo shipment in a proper way, the insurance could be invalid if, for example, the port or transport route changes and the items arrive in a damaged condition.

Currency Risks

Currency risk management is often misunderstood or neglected by businesses. Any business which purchases and sells products (or services) in multiple currencies should consider options to mitigate foreign exchange (FX) rate volatility.

Changes in exchange rates will impact the profit margin on international contracts, as well as the value of any assets, liabilities and cash flows which are denominated in a foreign currency.

There are a range of financial instruments available to manage FX risk. Due to the increasing volatility seen in the market and the need to operate in various currencies, policies need to be flexible and cater accordingly.

Prior to developing a strategy, a company should look at what proportion of their business relates to imports or exports, the currencies that are being used, when payments are to be made, and what currency is used for supplier payments and invoices.

Various strategies are used to manage currency risk and these usually involve using spot contracts, options, and forwards.



TYPES OF TRADE FINANCE LENDERS

There are different types of trade service providers. When accessing trade finance, it is crucial that business owners choose a suitable lender. Trade finance providers can generally be split into banks and non-bank lenders (funds and alternative financial institutions).

Corporate & Commercial Banks

Banks take deposits. They are therefore able to offer a relatively low cost of finance to businesses, compared to alternative lenders. However, a bank is usually under heightened regulatory pressure, so there are longer decision timeframes and less flexibility.

The main difference between corporate and commercial banking is the size of the clients. In general, Corporate & Investment Banks (CIB) service larger clients and larger transactions, whereas Commercial Banks cater to a wider range of smaller clients.

Banks account for the majority of financial institutions globally, although they range in size from small regional operators to large multinationals.

Larger banks typically have a stronger international reputation, so can provide cross-border services at a lower cost than smaller banks e.g. LC confirmation. However, smaller banks are usually able to offer flexibility and tailored products. Smaller domestic banks can also be advantageous to SMEs too – being niche, it can be easier to accommodate the specific (albeit riskier) needs of SMEs.

The banking services offered by trade finance banks include: issuing letters of credit (LCs), accepting drafts and negotiating notes, bills of exchange and documentary collections (DCs).

Some larger commercial banks have specialised trade finance divisions, which offer trade services and debt facilities to businesses.

Alternative Finance Providers & Non-Bank Lenders

These types of financial institutions do not take deposits. Instead, they obtain funding from other sources – including public markets, private investment and crowd-funded (pooled) investment. Many raise finance from banks and funds. As a result, the cost of finance they offer can be significantly higher than a bank.

Since the 2008 economic crisis, the regulatory burden on banks has increased. As a result, many have decreased their risk appetite and scaled back their activities with SMEs (which are seen as high-risk clients). This has created a gap in SME banking services, which many other market players are trying to fill.

Non-bank lenders are typically unregulated, with higher risk appetite, faster processes driven by technology, but with a higher-cost of debt.

New technologies and platforms have been developed to disrupt the traditional lengthy application processes for trade finance products – including risk assessment, documentation to importers and exporters and supply credit.

Development Finance Institutions (DFIs)

Development Finance Institutions (DFIs), also known as development banks or Development Finance Companies (DFCs), help to provide trade finance to businesses in order to promote economic development.

DFIs are often directly or indirectly funded by governments, and therefore tend to be country or region-specific. DFIs usually operate as joint ventures in emerging markets, where they provide insurance and guarantees against political and socio-economic risks to encourage investment. DFIs can also provide standby letters of credit (SBLCs), invoice discounting facilities and project finance.

The products offered typically targets particular types of mid-term to long-term trade finance for projects – for example, in the agricultural or mining sectors.

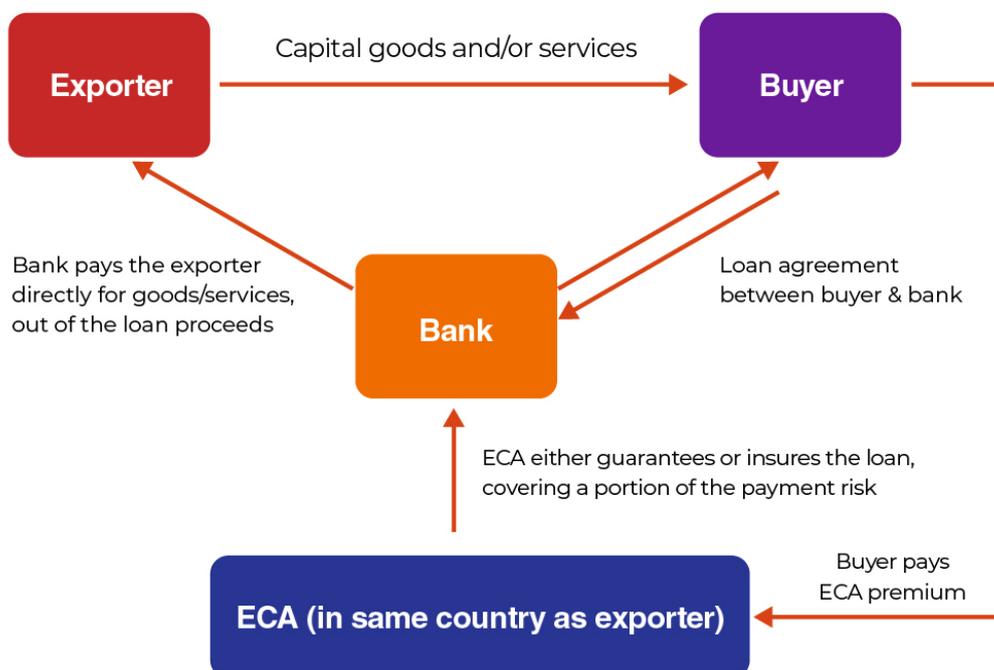
Export Credit Agencies (ECAs)

Export Credit Agency (ECA) financing is used to assist importers in challenging jurisdictions, materializing through a number of incentives being made available to importers by export credit agencies linked to developed exporting countries.

The types of transactions usually supported by ECAs are capital intensive, including the importation of heavy machinery to be included in large scale projects in the importing country, offering long term financing maturities with attractive conditions.

ECA support is usually provided via:

- ❑ Government guarantees offered to financial institutions supporting exports
- ❑ Financing facilities directly offered to importers
- ❑ Insurance mechanisms offered to both exporters and financing entities under the underlying trade transaction with a view of enabling credit to the importer



HOW TO SECURE TRADE FINANCE

Each lender has specific requirements and criteria which must be addressed before funds can be advanced to a business. Some lenders are more risk-averse than others. The lender type (bank vs non-bank, large vs small) and their risk appetite will also determine the interest rate which is charged to a business and the repayment conditions. There is a clear process when applying for a loan or other trade facility. The main stages of the credit process are outlined below.

How to Apply For a Trade Finance Facility

1. Application

The process starts with a credit application from the business to the lender. When applying for trade finance, the lender will ask for a set of information on the company, the individuals involved (Directors) and details on why the business is seeking debt finance.

Trade finance is typically suitable for businesses which are already active buying and selling (trading), either domestically or cross-border. Therefore, some form of track record is expected, showing trading revenues on past transactions.

The main items will be:

- ❑ 2-5 years of Financial Statements (Profit & Loss Statement, Balance Sheet, Cash Flow Statement) and, if available, Management Accounts, Creditors Ledger, Debtors Ledger, Stock Ledger
- ❑ Budgets and Forecasts for at least 1 year ahead
- ❑ Details of any Assets that the business or Directors own, which could be used as collateral (property, equipment, invoices, etc)
- ❑ Details of any Liabilities (loans, overdraft facilities, etc)
- ❑ Description of trade cycles
- ❑ Current Purchase Orders
- ❑ Current invoices from suppliers or clients

Other items may include:

- ❑ A Curriculum Vitae (CV)/ resume for each of the Directors
- ❑ References from banks
- ❑ Information on related companies (Group companies, suppliers, buyers, etc)

If you are a new client you will be asked to provide the following additional information: a business plan with financial forecasts is essential to show to a banker that your business idea is sound and realistic, that you can implement it successfully, and that you know what the finance will be used for. Business plans vary in formats, but usually include the following:

- ❑ A Curriculum Vitae (CV) / resume for each of the Directors
- ❑ References from other banks
- ❑ Information on related companies (Group companies, suppliers, buyers, etc)
- ❑ Thorough introduction to the business, including a future vision and the goals of the business and any significant accomplishments to date
- ❑ Information on the key stakeholders/ directors including past experience and equity structure of the company
- ❑ Introduction and an analysis of the product or service offered
- ❑ Overview of the sector/ competitor landscape
- ❑ Summary of anticipated results, including financial forecasts

2. Evaluating the Application

The lender will undertake a full credit risk assessment of the documents that have been received. The credit analysis will usually involve inputting figures from the applicant's income statement, balance sheet and cash flow documents. It will also take into consideration the collateral the SME can provide, and the quality of this. This will be alongside the status of suppliers, customers and trade cycles.

The evaluation process will normally involve some kind of credit scoring process, taking into account any vulnerabilities such as the market the business is entering, probability of default and even the integrity and quality of management. A credit score is normally ranked from AAA (very low risk of default) to D (likely to result in the denial of a loan application).

What does a lender look at to determine an applicant's credit?

- ▣ Key financial information
- ▣ Management/ Directors' credentials
- ▣ Operating market/ sector
- ▣ Risk of the transaction
- ▣ Analysis of the collateral



3. Negotiation

Eligible SMEs applying for trade finance can negotiate terms with lenders. An SME's aim with a lender is to secure finance on the most favourable terms and price. Some of the terms that can be negotiated can include non-interest related costs, fees and fixed charges, as well as interest rates.

If you're prepared and understand the structure of fees and charges, it can help you negotiate terms that are in your favour. Sometimes it may be a good idea to seek advice from your local trade body to avoid risks, understand the charges and the structure of the loan and insurance.



4. The Approval Process and Documentation of a Loan

Typically, the account officer who initially deals with the applicant and collects all of the documentation will do an initial credit and risk analysis. This then goes to a specific committee or the next level of credit authority for approval. If the loan is agreed (on a preliminary basis) it goes to the legal team to ensure that collateral can be secured/ protected and to mitigate any risks in the case of default. Signatures will also be required from a senior director at the bank for the loan documents.

The loan document is a legal signed contract from both parties that consists of definitions, a full description of the finance facility that has been agreed (amount, duration, interest rates, currency and payment terms – both interest and non-interest charges). The conditions of a loan will also be included, which will state any obligations of the borrower and the lender, as well as what would happen in the case of any disputes or a default.



Repaying the trade finance facilities

To maintain a good relationship with any lender, the business must make debt repayments (including interest) in a timely manner, according to its contractual and legal obligations. This should also protect the credit rating of the business.

Establishing and maintaining a good reputation as a borrower is key to accessing further funding and larger facilities, as the business grows and trade volumes increase.



ABOUT THE PARTNERS





ABOUT FEDERATION OF SMALL BUSINESSES

As the UK's largest and most established business membership organisation, we support small businesses and the self-employed to achieve their ambitions. As a non-profit making and non-party political organisation, we're focused on delivering real change through our advocacy work across the whole of the UK to help smaller businesses to grow and succeed.

As well as having a voice heard by governments and other decision-makers, our members receive an exclusive package of business services including tax inspection protection, business banking, 24/7 legal and HR advice, virtual networking and support events and a dedicated funding platform, we're helping you get back to doing what you do best – running your business.

Find finance that fits you

FSB Funding Platform is designed to help you find the right business finance solution. As an FSB member, you can use the service for free, save time with one simple online application and let our finance experts handle the rest. The platform matches you with the largest panel of business lenders in the UK, and is supported with advice and guidance. To find out more and to join us: fsb.org.uk

For advice and resources to help you through the UK's transition from the EU, please visit fsb.org.uk/uktransition.



ABOUT INTERNATIONAL TRADE CENTRE

The International Trade Centre (ITC) is the joint agency of the World Trade Organisation and the United Nations for sustainable trade and enterprise development. ITC assists micro, small and medium-sized enterprises in developing & transition economies to become competitive in global markets and contribute to sustainable economic development within the frameworks of the Aid-for-Trade agenda and the United Nations' Sustainable Development Goals. ITC manages the DfID-funded UK Trade Partnerships Programme (UKTPP). UKTPP works with African, Caribbean and Pacific (ACP) countries to increase exports from SME suppliers to the United Kingdom (UK) and the European Union (EU). The UKTP Programme is funded by the Foreign, Commonwealth & Development Office (FCDO) of the United Kingdom of Great Britain and Northern Ireland. www.intracen.org



ABOUT INSTITUTE OF EXPORT & INTERNATIONAL TRADE

The Institute was established more than 85 years ago to support UK businesses in growing their international markets and trade.

It is now the leading association of exporters and importers, providing education and training to more than 60,000 learners per year, professionalising the UK's community of international traders.

The Institute co-partners in running the online UK Customs Academy, the world's first training platform dedicated to customs skills and developed at the request of HM Revenue and Customs (HMRC).



ABOUT SME FINANCE FORUM

Created by the G20 in 2012, and managed by the IFC, the SME Finance Forum's mission is to enhance access to finance for SMEs through knowledge sharing, networking, and public-private dialogue. In 2016, we launched a global membership network of SME-oriented commercial financial institutions, development finance institutions, fintech companies, and more, currently numbering over 200 institutions, working in virtually every country in the world.

More information about the SME Finance Forum is available at www.smefinanceforum.org.



ABOUT FORUM OF PRIVATE BUSINESS

Essential business support when you really need it.

The Forum is a national business membership organisation providing you and your business with support, advice and protection. As a business owner, we want you to focus on what you do best and that's running your business. We give you the time to run your business as we help you deal with your business issues. Forum membership makes 'doing business' easier, keeping you up to date through the ever-evolving maze of legislation and red tape issues.

We believe businesses that seek advice are more likely to succeed and become successful. With Forum Membership, your business will have access to a team of experienced advisors and a partner network that will be able to share their knowledge in some of the most complex of situations you may come across in business. You will also have access to a toolbox of resources including comprehensive business guides and templates for you to edit and use within your business.

Our advice covers those detailed below: Finance, Legal, HR, Health and Safety, Debt Recovery, Purchasing, Business Development, Management and Leadership.

But if it isn't listed, whatever the business dilemma, the Forum can help. For any queries please contact our membership advisors on 01565 626001 or email info@fpb.org



ABOUT TRADE FINANCE GLOBAL (TFG)

Trade & Receivables Finance

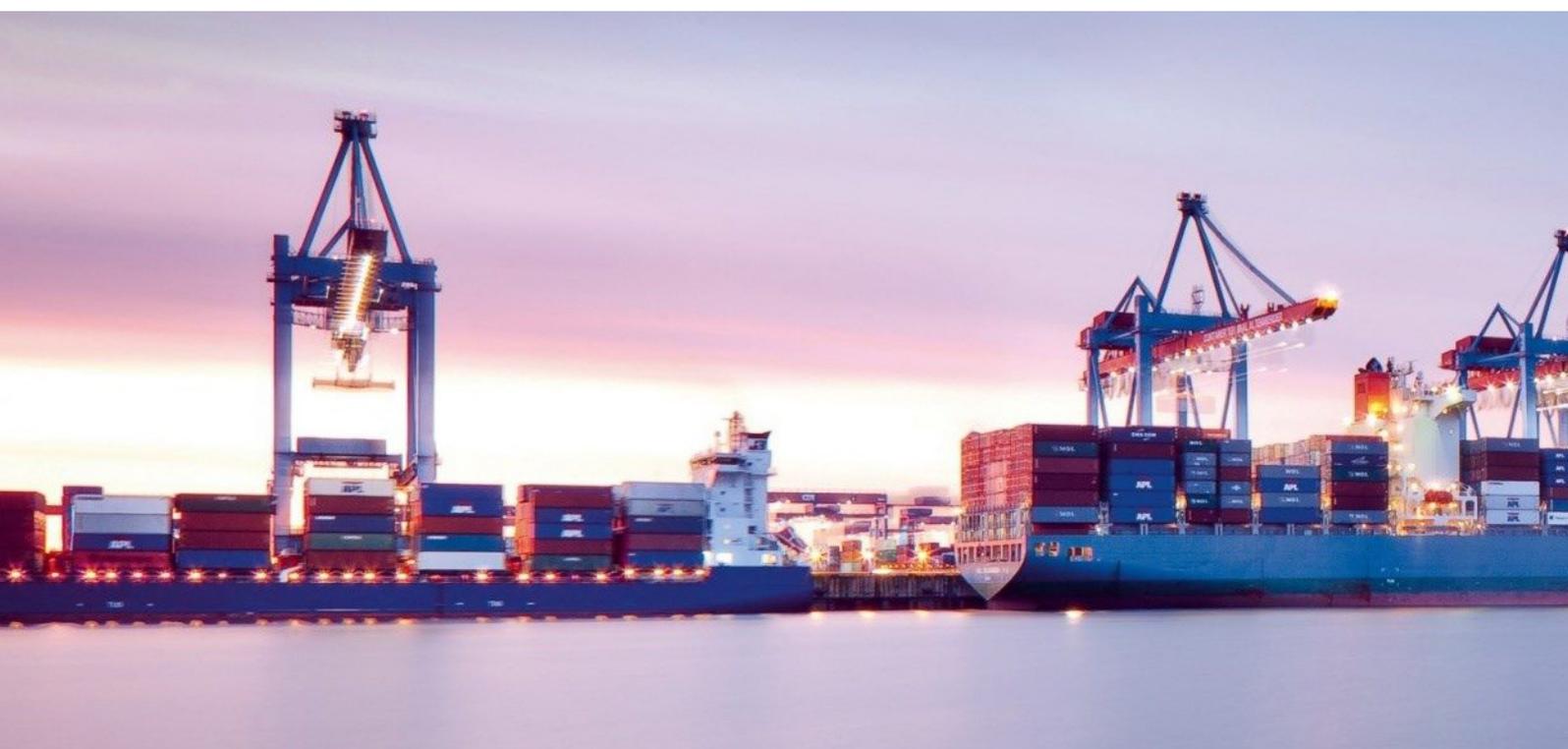
TFG assists companies to access trade and receivables finance through our relationships with 270+ banks, funds and alternative finance houses. We assist specialist companies to scale their trade volumes, by matching them with appropriate financing structures – based on geographies, products, sector and trade cycles. Contact us to find out more.

Trade Information & Education

TFG has an award winning provider of educational resources, serving an audience of 160k+ monthly readers (6.2m+ impressions) in print & digital formats across 187 countries, covering insights, guides, research, magazines, podcasts, tradecasts (webinars) and video.

Our nine specialist content hubs provide free guides, thought leadership articles and features on International Trade, Letters of Credit, Shipping & Logistics, Risk & Insurance, Treasury & FX, Blockchain & DLT, Legal, Receivables and Export Finance.

Visit <https://www.tradefinanceglobal.com> for more.



CONTACT

Trade Team

trade.team@tradefinanceglobal.com

Receivables Team

invoice.team@tradefinanceglobal.com

Editorial and Publishing

media@tradefinanceglobal.com

General Enquiries

info@tradefinanceglobal.com

Telephone

+44 (0) 20 3865 3705

Website

www.tradefinanceglobal.com

Address

Trade Finance Global
2nd Floor
201 Haverstock Hill
Belsize Park
London
NW3 4QG



