

## INTERNATIONAL TRADE AND FINANCE MASTERCLASS

PART 07 OF 25 · SECTION II: PAYMENT METHODS AND TRADE FINANCE

# PART 7

## STRUCTURED TRADE FINANCE

*Export Credit Agencies, supply chain finance programs, trade credit insurance, development bank instruments, and Islamic trade finance — the advanced toolkit that large companies use to fund billions of dollars of international trade.*

## IN THIS PART

- Export Credit Agencies — how governments subsidize exports
- Reverse factoring and supply chain finance programs
- Trade credit insurance — insuring your receivables
- Development Finance Institution trade windows
- Islamic trade finance — Murabaha and Wakala explained
- Choosing and combining multiple instruments

## CASE STUDIES

*Each part includes fully worked case studies with detailed calculations, real-world context, and practical lessons for CFOs and finance leaders.*

### ■■ GOVERNMENT-BACKED TRADE FINANCE

## Export Credit Agencies: When Governments Want You to Export

Every major trading nation has one or more Export Credit Agencies — government entities or government-backed financial institutions whose purpose is to help domestic companies export by providing financing, insurance, and guarantees that the private sector either cannot or will not provide at an affordable price. These agencies exist because governments understand that exports create jobs, generate foreign exchange, and project economic influence — and that some economically valuable export transactions would not happen if left entirely to commercial banks.

The United States Export-Import Bank — Ex-Im Bank — is the official export credit agency of the United States. It was established in 1934 and has supported more than seven hundred billion dollars of US exports since its founding. Ex-Im Bank does not compete with commercial banks. Instead, it fills the gaps where commercial banks are unwilling to lend — typically because the country risk is too high, the transaction is too large, or the tenor is too long. When a

US manufacturer wants to sell one hundred million dollars of aircraft to an airline in Vietnam and no commercial bank will provide the financing, Ex-Im Bank steps in.

Agency	Country	Key Products	Annual Support Volume
Ex-Im Bank	USA	Direct loans, loan guarantees, working capital guarantees, export credit insurance	Approximately \$8-10 billion per year
UKEF	United Kingdom	Buyer credit, supplier credit, bond support, export insurance	Approximately \$7-9 billion per year
Euler Hermes / Allianz Trade	Germany	Export credit guarantees (Hermes cover), investment guarantees	Approximately \$25-30 billion per year
Bpifrance	France	Export credit insurance, guarantees, refinancing	Approximately \$15 billion per year
JBIC	Japan	Loans, equity investment, guarantees for Japanese exporters and overseas investments	Approximately \$30 billion per year
Sinosure	China	Short-term export credit insurance, medium/long-term insurance	Over \$500 billion per year — by far the largest ECA globally
KEXIM	South Korea	Export credit, overseas investment credit, guarantee facilities	Approximately \$70 billion per year

## How Ex-Im Bank Works in Practice

Ex-Im Bank offers several types of support. A Direct Loan is a loan made directly by Ex-Im Bank to a foreign buyer to purchase US goods or services. A Loan Guarantee is a commitment by Ex-Im Bank to repay a commercial bank if the foreign borrower defaults — this allows commercial banks to lend at lower rates because their risk is covered. A Working Capital Guarantee covers the risk that an exporter will not be able to repay a working capital loan if a foreign buyer fails to pay. Export Credit Insurance covers the exporter against non-payment by foreign buyers due to commercial or political risk.

## ◆ EX-IM BANK GUARANTEE BENEFIT CALCULATION

## EX-IM BANK GUARANTEE — AIRCRAFT SALE EXAMPLE

TRANSACTION: US manufacturer sells aircraft to Vietnamese airline

Aircraft value: \$85,000,000

Financing required: \$75,000,000 (88% of value)

Tenor: 12 years

## WITHOUT EX-IM SUPPORT:

Commercial bank interest rate (Vietnam risk): 9.5%

Annual debt service:  $\$75M \times 9.5\% / (1 - (1.095)^{-12})$

= approximately \$9,840,000 per year

Commercial banks reluctant — 12yr Vietnam risk too long

## WITH EX-IM BANK GUARANTEE:

Ex-Im guarantees 100% of principal and interest

Commercial bank now lends at near-US-government rate

Guaranteed rate: SOFR + 0.5% = approximately 5.8%

Annual debt service:  $\$75M \times 5.8\% / (1 - (1.058)^{-12})$

= approximately \$7,920,000 per year

Annual saving for Vietnamese airline: \$1,920,000

Total saving over 12 years: \$23,040,000

## EX-IM BANK FEE (exposure fee):

Approximately 1.5-3.5% of guaranteed amount

On \$75M: approximately \$1,125,000 - \$2,625,000

Still far less than the \$23M interest saving

RESULT: Deal that could not happen without ECA support

now happens — US manufacturer wins \$85M contract

## Supply Chain Finance: The Buyer's Tool for Supporting Suppliers

Supply chain finance — also called reverse factoring — is a financing arrangement in which a buyer's bank pays the buyer's suppliers early, on behalf of the buyer, at the buyer's credit rating. The supplier receives early payment at a low interest rate (because the bank is effectively lending against the buyer's creditworthiness, not the supplier's). The buyer gets to extend its payment terms without damaging supplier relationships. The bank earns a spread on the financing. All three parties benefit.

To understand why this is so powerful, consider the credit rating differential between a large investment-grade buyer and its small-to-medium-sized suppliers. A Fortune 500 company might borrow at SOFR plus fifty basis points — approximately five and a half percent in the current environment. Its typical supplier — a privately held manufacturer with thirty million dollars of revenue — might pay SOFR plus three hundred and fifty basis points for its working capital facility — approximately eight and a half percent. Supply chain finance allows the supplier to borrow at rates closer to the buyer's rate, creating a genuine financial benefit.

#### ◆ SUPPLY CHAIN FINANCE – THREE-PARTY BENEFIT

##### SUPPLY CHAIN FINANCE – FINANCIAL BENEFIT CALCULATION

BUYER: Large retailer, investment grade (BBB+)

SUPPLIER: Mid-size manufacturer, unrated

Invoice amount: \$500,000

Normal payment terms: 60 days

##### SUPPLIER'S CURRENT SITUATION (without SCF):

Waits 60 days for payment

OR borrows on its own credit:  $\text{SOFR} + 3.5\% = 8.8\%$

Cost to accelerate \$500K for 60 days:

$\$500,000 \times 8.8\% \times 60/365 = \$7,233$

##### WITH SCF PROGRAM (buyer's bank finances early payment):

SCF discount rate (based on buyer's credit): 5.3%

Cost to accelerate \$500K for 60 days:

$\$500,000 \times 5.3\% \times 60/365 = \$4,356$

SUPPLIER SAVING vs. own borrowing:  $\$7,233 - \$4,356 = \$2,877$

##### BUYER BENEFIT:

Buyer can extend payment terms from 60 to 90 days

Supplier happy because SCF cost on 90 days < own cost on 60

Buyer DPO improvement: +30 days

Cash flow benefit: \$500K released for 30 extra days

On full supplier base (\$50M payables):

30-day DPO extension  $\times$  \$50M  $\times$  cost of capital 8%

$= \$50,000,000 \times 8\% \times 30/365 = \$328,767$

Buyer effectively earns \$329K by extending payment terms

while suppliers get cheaper financing than on their own

## Trade Credit Insurance: Protecting Your Receivables

Trade credit insurance — sometimes called export credit insurance — is an insurance policy that protects a company against the risk that its customers will not pay their invoices. It covers two types of risk: commercial risk, which is the risk that a buyer becomes insolvent or refuses to pay; and political risk, which is the risk that a government action prevents payment — such as currency inconvertibility, import restrictions, war, or expropriation. The three dominant global providers are Euler Hermes (now Allianz Trade), Atradius, and Coface, which together cover approximately sixty percent of the global insured trade credit market.

## Islamic Trade Finance: Sharia-Compliant Instruments

For any company doing business in the Gulf Cooperation Council countries — Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Bahrain, and Oman — or with Islamic financial institutions anywhere in the world, an understanding of Islamic finance principles is not optional. Islamic finance prohibits the charging or paying of interest — called *riba* — which means that conventional loan instruments and interest-bearing trade finance facilities are not available from Islamic banks. Instead, Islamic finance uses profit-sharing and asset-based structures that achieve similar economic results without involving interest.

The most commonly used Islamic trade finance instrument is the *Murabaha*. In a *Murabaha* transaction, the bank purchases the goods that the client wishes to import, and then sells them to the client at a higher price — the cost plus a pre-agreed profit margin. The client pays the higher price on deferred terms — perhaps ninety or one hundred and eighty days. The economic effect is identical to a loan with interest, but the structure avoids *riba* because the bank is making a profit on a sale rather than charging interest on a loan.

## ◆ MURABAHA vs. CONVENTIONAL TRADE FINANCE

## MURABAHA TRADE FINANCE – CONVENTIONAL vs. ISLAMIC COMPARISON

## CONVENTIONAL IMPORT FINANCE (interest-based):

Importer borrows \$500,000 from bank

Interest rate: 6.5% p.a.

Repayment: 90 days

Interest cost:  $\$500,000 \times 6.5\% \times 90/360 = \$8,125$

Total repayment: \$508,125

## MURABAHA IMPORT FINANCE (Sharia-compliant):

Islamic bank BUYS goods from supplier: \$500,000

Islamic bank SELLS goods to importer at cost + profit

Murabaha profit rate: 6.5% p.a. (same economic cost)

Deferred sale price:  $\$500,000 + \$8,125 = \$508,125$

Importer pays \$508,125 at day 90

ECONOMIC RESULT: Identical – importer pays \$508,125 in both

LEGAL STRUCTURE: Completely different

Conventional: loan + interest (prohibited under Sharia)

Murabaha: sale + deferred payment (permitted under Sharia)

**PRACTICAL NOTE:** Murabaha requires the bank to actually take legal title to the goods, even briefly. This creates additional documentation requirements and a slightly longer process than conventional trade finance. In Gulf markets, the infrastructure is well-established and the process is smooth. Allow extra time in markets where Islamic finance is newer.

## 01

## CASE STUDY 1

## Atlas Aerospace Components

*Ex-Im Bank Working Capital Guarantee — Funding \$22M of Export Production*

## Background

Atlas Aerospace Components manufactures precision machined parts for commercial aircraft and has won a twenty-two million dollar export contract to supply components to an aircraft manufacturer in Singapore. The contract requires Atlas to deliver components over eighteen months. Atlas needs a working capital facility of approximately eight million dollars to fund the raw materials, labor, and manufacturing overhead required to fulfill the contract. Its commercial bank was willing to provide only four million dollars without collateral. The Ex-Im Bank working capital guarantee bridged the gap.

## ◆ EX-IM WORKING CAPITAL GUARANTEE

## ATLAS — EX-IM WORKING CAPITAL GUARANTEE

Export contract value: \$22,000,000

Working capital needed: \$8,000,000

Commercial bank willing to lend (without guarantee): \$4,000,000

Gap: \$4,000,000

## EX-IM BANK WORKING CAPITAL GUARANTEE:

Ex-Im guarantees 90% of the facility

Bank now willing to lend: \$8,000,000

(Bank's risk:  $10\% \times \$8M = \$800,000$  — manageable)

Ex-Im exposure:  $90\% \times \$8M = \$7,200,000$

## COSTS:

Ex-Im guarantee fee: 1.5% per year

On \$7,200,000 for 18 months:  $\$7,200,000 \times 1.5\% \times 1.5 = \$162,000$

Bank interest (SOFR + 2.25% = 7.55%):

Average outstanding \$6M  $\times 7.55\% \times 1.5$  years = \$679,500

Total financing cost: \$841,500

As % of contract:  $\$841,500 / \$22,000,000 = 3.83\%$

## CONTRACT PROFIT AFTER FINANCE COST:

Gross margin on contract (estimated 18%): \$3,960,000

Less finance cost: (\$841,500)

Net profit: \$3,118,500 (14.2% net margin)

Without Ex-Im: contract could not be fulfilled

at full volume — \$2M shortfall in working capital

## 02

## CASE STUDY 2

## NorthStar Manufacturing

Trade Credit Insurance — A \$3.1M Claim That Was Paid

## Background

NorthStar Manufacturing exports industrial filtration systems to buyers in forty-two countries. In 2021, the company purchased a whole-turnover trade credit insurance policy with Atradius covering its entire export receivables book — approximately sixty million dollars of annual export sales. The policy had a premium of approximately four hundred and twenty thousand dollars per year. In October 2022, NorthStar's largest African buyer — a Ghanaian industrial group with three million one hundred thousand dollars outstanding — entered administration. The insured loss was paid in full within ninety days.

## ◆ TRADE CREDIT INSURANCE CLAIM ANALYSIS

## NORTHSTAR — TRADE CREDIT INSURANCE CLAIM

Annual premium: \$420,000

Coverage: \$60,000,000 annual export turnover

Premium as % of turnover: 0.70%

**CLAIM EVENT: Ghanaian buyer enters administration**

**Outstanding balance: \$3,100,000**

**Expected recovery from administration: \$155,000 (5%)**

**Net loss without insurance: \$2,945,000**

**INSURANCE CLAIM:**

Policy covers 90% of loss (10% first loss retention)

Claim amount:  $\$2,945,000 \times 90\% = \$2,650,500$

Paid by Atradius: 87 days after notification

NorthStar's net loss:  $\$2,945,000 \times 10\% = \$294,500$

**INSURANCE ROI FOR NORTHSTAR (in claim year):**

Claim received: \$2,650,500

Premium paid: \$420,000

Net benefit in claim year:  $\$2,650,500 - \$420,000 = \$2,230,500$

Even across all years (if no claims), the premium

represents 0.70% of turnover — far less than the

bad debt provision that would otherwise be required

## 03

## CASE STUDY 3

**Gulf Construction Partners**

*Murabaha Facility — Financing \$45M of Imported Equipment in Saudi Arabia*

**Background**

Gulf Construction Partners is a Saudi Arabian construction company that won a major infrastructure contract and needed to import forty-five million dollars of heavy construction equipment from Germany, Japan, and South Korea. The company's existing banking relationships were entirely with Islamic banks — Al Rajhi Bank and Riyadh Bank — and the financing needed to be fully Sharia-compliant. The solution was a syndicated Murabaha facility structured across three Islamic banks.

