

# Chapter 13

## Government-Backed Agricultural Export Financing

The United States is the world's largest exporter of agricultural products. U.S. agricultural exports play a vital role in building and strengthening the nation's economy. As is the case with any cross-border transaction, international sales of agricultural products often pose financing challenges to exporters as commercial lenders may be reluctant to extend credit to foreign buyers, especially those in risky emerging market countries. One viable solution to these challenges is government-backed agricultural export financing offered by the U.S. Department of Agriculture (USDA). USDA's Foreign Agricultural Service (FAS) is responsible for the operation of two credit guarantee programs for commercial financing of U.S. agricultural exports and related facilities—the Export Credit Guarantee (GSM-102) Program and the Facilities Guarantee Program (FGP). These programs, with guarantees issued by USDA's Commodity Credit Corporation, encourage commercial lenders to extend otherwise unavailable financing to buyers in countries where credit is necessary to purchase U.S. agricultural products and build or expand agricultural-related facilities. With USDA's agricultural export financing, U.S. exporters of agricultural commodities and products can turn their business opportunities into real transactions and get paid upon submission of the proper documents.

### Key Points

- Government-backed agricultural export financing helps turn sales opportunities, especially in emerging markets, into real transactions for U.S. exporters of agricultural products and related facilities.
- Letters of credit are required in all USDA-supported export financing transactions.
- USDA takes the lead on U.S. agricultural export financing, while the U.S. Export-Import Bank (Ex-Im Bank) is the lead federal agency for providing financing and insurance for non-agricultural U.S. exports.
- However, should USDA-backed export financing be unavailable due to its program restrictions or the terms of the sales contract proposed by the foreign buyer, government-backed agricultural export financing may be available at Ex-Im Bank.

### Export Credit Guarantee (GSM-102) Program

GSM stands for General Sales Manager, which refers to the FAS official with the responsibility of administering the GSM-102 program. Under the GSM-102 program, USDA's Commodity Credit Corporation (CCC) provides credit guarantees to encourage commercial financing of U.S. agricultural exports, thereby assisting U.S. exporters in making sales that might not otherwise occur. USDA does not provide loans to foreign

### CHARACTERISTICS OF GOVERNMENT-BACKED AGRICULTURAL EXPORT FINANCING

#### Applicability

Suitable for the export of agricultural commodities and products, and manufactured goods to improve or establish agricultural-related facilities, to emerging markets where credit may be difficult to obtain

#### Risk

USDA assumes almost all the risk of payment default

#### Pros

- Making otherwise unavailable financing available to buyers of U.S. agricultural products
- Prompt payment upon submission of proper documents

#### Cons

- Cost of obtaining a guarantee from USDA
- Subject to certain restrictions for U.S. government policy reasons

buyers, but guarantees payments due from foreign banks under letters of credit (LCs) to U.S. exporters or U.S. commercial lenders. Because payment is guaranteed, U.S. commercial lenders can offer competitive credit terms to the foreign banks that issue letters of credit for the importers of U.S. food and agricultural products. It is the U.S. exporter who must apply for the CCC guarantee and pay a fee. As such, the exporter may factor this cost into the selling price prior to the contract negotiation process. The CCC guarantee covers up to 98 percent of the loan principal and a portion of the interest for terms up to 3 years. The U.S. exporter can avoid assuming a loss by assigning the CCC guarantee to a U.S. bank. In other words, the holder of a CCC guarantee takes the 2 percent loss if there is a default.

## Step-by-Step GSM-102 Program Process

1. U.S. exporter qualifies to participate in the GSM-102 program (Online application)
2. U.S. exporter negotiates a firm sales contract with the importer
3. Importer requests the opening of a LC in favor of the U.S. exporter at a USDA-approved foreign bank
4. U.S. exporter applies for a CCC guarantee and pays a guarantee fee
5. CCC issues a guarantee to the U.S. exporter
6. U.S. exporter typically assigns the CCC guarantee to a USDA-approved U.S. bank
7. U.S. exporter ships the commodity and presents documents to the U.S. bank
8. U.S. bank pays the U.S. exporter at sight and extends financing terms to the foreign bank
9. Foreign bank pays the U.S. bank per terms of CCC-guaranteed financing
10. Importer pays the foreign bank per terms established between these two parties
11. If the foreign bank defaults, the holder of the CCC guarantee files claim with USDA

## Examples of GSM-102 Eligible U.S. Food and Agricultural Products

- **Bulk commodities:** wheat, feed grains, cotton, soybeans, rice
- **Intermediate products:** animal feed, cattle hides, soybean meal, flour, sweeteners
- **High-value products:** meat, fruits, vegetables, wine, grocery products

## Facilities Guarantee Program (FGP)

Another USDA export financing program is called the Facilities Guarantee Program (FGP), which provides payment guarantees to finance commercial exports of U.S. manufactured goods and services that will be used to establish or improve agriculture-related facilities in emerging countries. The FGP program is designed to expand sales of U.S. food and agricultural products to emerging markets where inadequate storage, processing or handling capacity limit trade potential. USDA makes a determination annually as to whether or not to make this program available. The FGP guarantee covers 95 percent of the value of goods and services to be exported less any discounts or allowances to the importer.

## Examples of FGP Eligible U.S. Products or Services

- Construction of a soybean crushing facility for the purpose of crushing U.S. soybeans
- Construction of a corn silo to hold imported U.S. corn
- Implementation of an agricultural commodity data system

## More Information about FAS and USDA Export Financing Programs

On behalf of USDA, FAS operates both the GSM-102 Program and the FGP. FAS links U.S. agriculture to the world to enhance export opportunities and global food security. In addition to its Washington, D.C., staff, FAS has a global network of 98 offices covering 162 countries. These offices are staffed by agricultural attachés and locally hired professionals who are the eyes, ears, and voice of U.S. agriculture around the world. FAS staff identify problems, provide practical solutions, work to advance opportunities for U.S. agriculture, and support U.S. foreign policy around the globe. For more information about FAS, visit their Web site at [www.fas.usda.gov](http://www.fas.usda.gov). For more information about the GSM-102 Program and the FGP, contact: Credit Programs Division, Office of Trade Programs, FAS/USDA, 1400 Independence Ave. SW, Washington, DC 20250-1025; tel.: (202) 720-6211; fax: (202) 720-2495.