7. EXPORT FINANCING & CREDIT INSURANCE

7.1 Learning Outcomes

- Identify Sources of Finance for export
- Discuss Insurance

7.2 Module Content: Export Finance and Credit Insurance

One of the most important requirements of successful exporting is the availability of necessary funds. These funds are mostly needed by the exporter as working capital to allow the procurement of production inputs before receipt of export proceeds. This section introduces the basic aspects of export financing and credit insurance available in Eswatini but being a complex subject, a lot of detail has been deliberately omitted. The relevant financial institutions should be contacted where more details required.

7.2.1 Finance

Exporters can finance themselves from their own resources, but this is not always possible especially for relatively new and small exporters. Alternatively, the funds may come from the importer if he/she pays for the goods at the time of placing the order, or before shipment. However, the amount of business done on this basis is negligible, most transactions are done through letters of credit or open account. Payments may be made on sight of the export documents, or after an agreed period following the sighting of the documents. It may, therefore, become necessary for the exporter to obtain credit from a bank or some other financial institution.

Export financing needed by exporters may be classified as pre-shipment credit and post-shipment credit.

Pre-shipment Credit

The exporter needs these funds as working capital to:

- procure raw material for the export goods;
- process or manufacture the export goods;
- pack the goods for export;
- transport the export goods to seaport or airport or railway siding of departure or destination (depending on the terms of delivery);
- pay for other export-related services like insurance, documentation, port handling, warehousing, etc.

Post-shipment Credit:

These are the funds required as bridging finance for the exporters between the shipment of the goods and receipt of payment from the importer. The funds enable the exporter to continue in business during this period.

Sources of Export Finance

Exporters in need of such finance are advised to contact their bank managers to access the following funds:

- **Export Credit Guarantee Scheme:** The Export Credit Guarantee Scheme promote the country's export trade. The policy objective of the scheme is to facilitate Eswatini exporters to obtain loans from Commercial banks at concessionary rates of interest and without undue limitation to the collateral that exporters can afford when applying for the loans.

- **Small Scale Enterprises Loan Guarantee Scheme.** This is a fund designed to increase lending by commercial banks to small scale enterprises while reducing risks to the commercial banks. It is designed to stimulate small scale industry, agriculture, commerce, tourism, construction and services by providing adequate capital to local businesses. The guarantee scheme is designed to cover shortage or lack of other collateral for credit to small scale enterprises.

  Both these scheme are managed by the commercial banks. Contact Your bank.

- Overdraft Facilities granted by commercial banks. Drawing under the facility takes the form of overdrawing the current account up to the amount that has been agreed upon with the bank. Interest is charged on the outstanding balance of the overdraft. The borrower has the flexibility of repaying or reducing the loan amount as and when he/she is in a position to do so.

In general the banks will take the following factors into consideration for their financing support:

- capability of the exporter to execute the orders within the stipulated delivery schedules;
- type of goods to be exported;
- method of payment agreed upon with the importer;
- period for which finance is required;
- financial viability of the export contract;
- whether the amount asked for commensurate with the company's export turnover;
- whether appropriate arrangements have been made to import the necessary raw materials or components;
- the spread of risk;
- the economic and political status of the importer's country;
- availability of security, also guaranteed by the Central Bank if business proposal is viable;
- whether appropriate export credit insurance cover is available;
- other lending criteria as stipulated by individual banks.

7.2.2 Cargo Insurance

One of the major differences between selling locally and selling abroad is the considerable distance that separates Eswatini from major world markets. Distance implies remoteness and associated with remoteness are countries at various levels of development, some with excellent infrastructure and others with dysfunctional ports, roads in very poor condition, etc.

In the face of all these negatives, the exporter has to deliver his goods on time and in good condition in order to retain his customer. The journey that cargo must undertake is obviously more hazardous in the case of some markets, and in respect of certain modes of transport, than it would be in the case of others. For example, conveying goods by air to London would be much less hazardous than sending the same goods to Burundi by road!

Whatever the case, however, some risk attaches to cargo in transit irrespective of where or how it goes, and the exporter or the importer will usually choose to take out insurance to cover the risk. In the early days, when all cargoes were transported by sea – there were no vehicles, railways engines or aeroplanes – the insurance of cargo was termed "marine insurance'. The term has stuck even though the insurance in question today applies to cargo being conveyed by any mode, or combination of modes, of transport.

In brief, the purpose of marine or cargo insurance is to transfer the financial burden of the risks of loss of ,or damage to, cargo in transit from the exporter (or the importer, as the case may be) to specialist marine insurance underwriters.

Insurance underwriters are skilled at assessing risks. Once they have determined the extent of risk involved in a particular venture or journey, they will work out a suitable charge for covering the risk, i.e. the premium payable. All the premiums paid go into a reserve fund from which those who suffer losses are compensated.

Marine/cargo insurance underwriters may work for insurance companies or alternatively they may be underwriting members of Lloyd's. Lloyd's of London is the present day association of marine insurance underwriters which has evolved out of the origins of marine insurance in seventeenth century England. Between 1670 and 1680, Edward Lloyd owned a coffee shop in London where merchants and shippers used to come together to discuss insurance and other trade-related matters. From these meetings, the concept of marine insurance developed. Lloyd's of London's insurance companies together constitute the world's most important marine/cargo insurance market.

The London market, however, is by no means the only market – marine/cargo insurance is provided by many companies throughout the world, including South Africa.

It is advisable for exporters and would-be exporters to have a valid export credit insurance policy all the time. This is necessary to avoid costly delays which might arise if application is made when one is already negotiating exporting business. In order to obtain a policy the exporter should contact their insurance broker.

7.2.3 Activity

Question 1. Discuss the Export Credit Guarantee scheme and share you experience in accessing it?