



AbdulJaami, PLLC
International Commercial Transactions

Agriculture (Ag) Trade Finance

Agriculture / Commodity
Trade Finance



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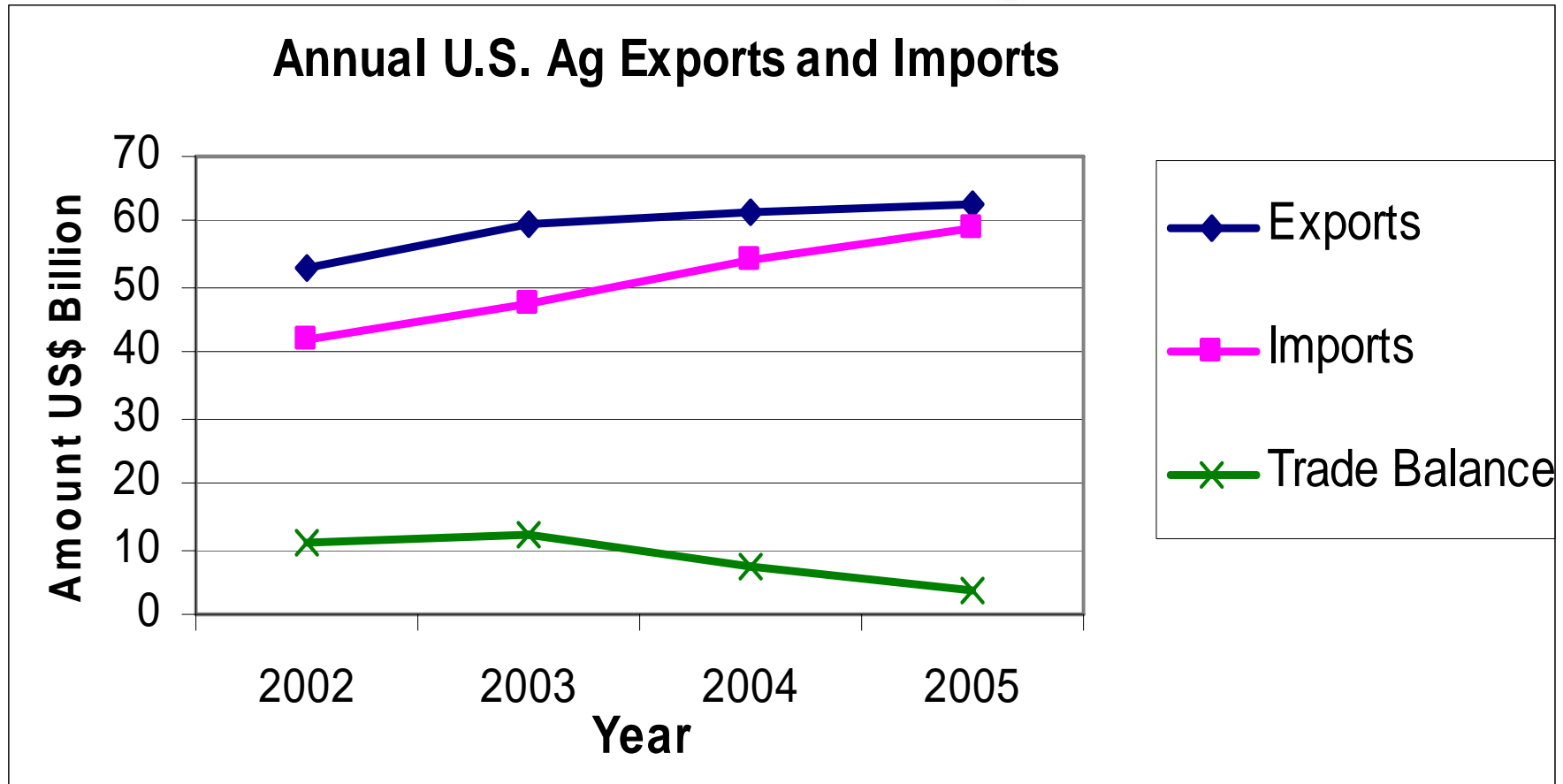


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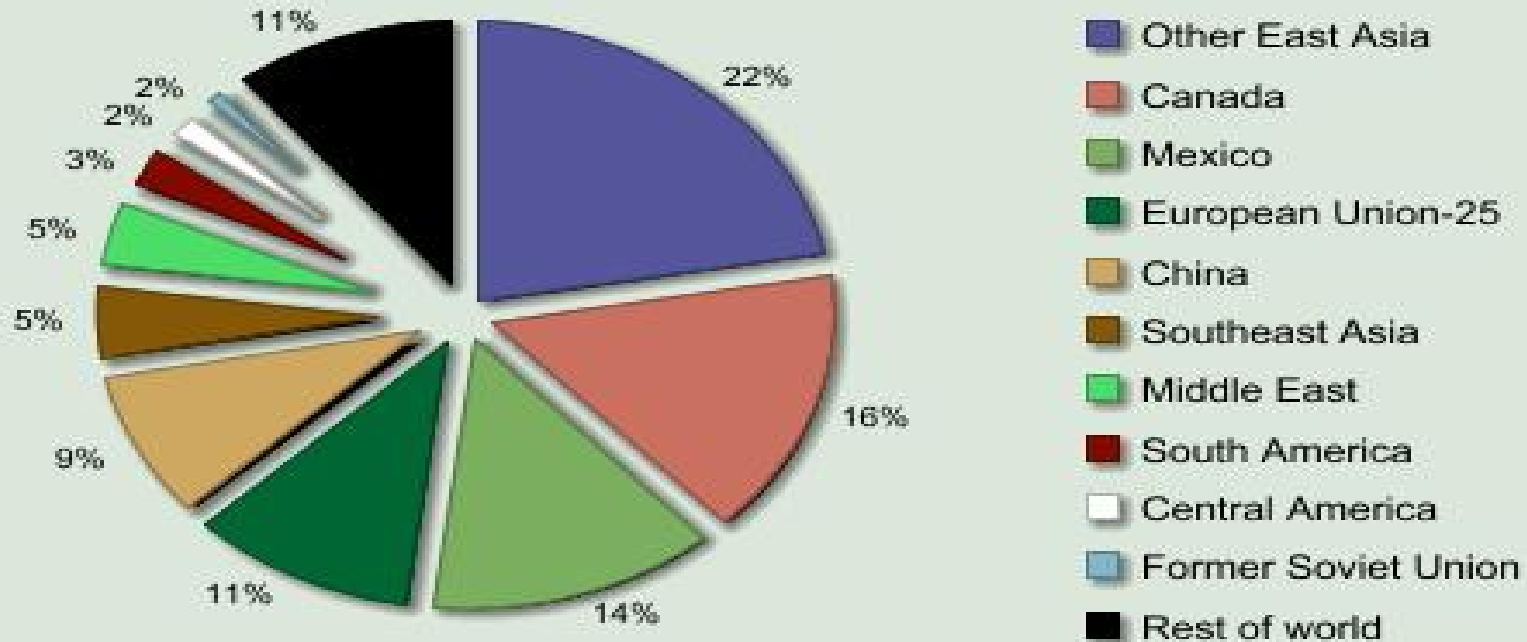
U.S. Ag Export Statistics





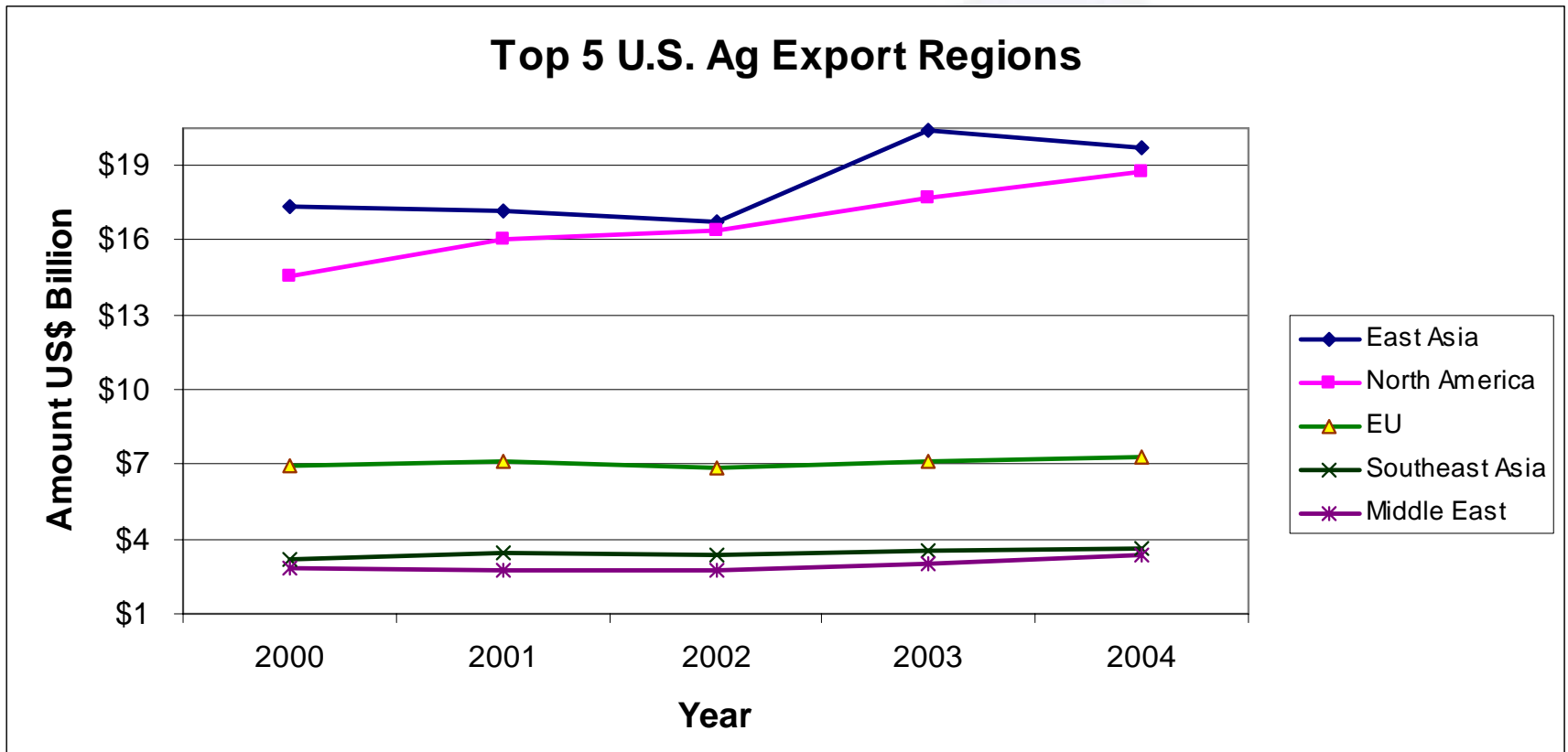
U.S. Ag Export Statistics

Major destination of U.S. agricultural exports, 2004



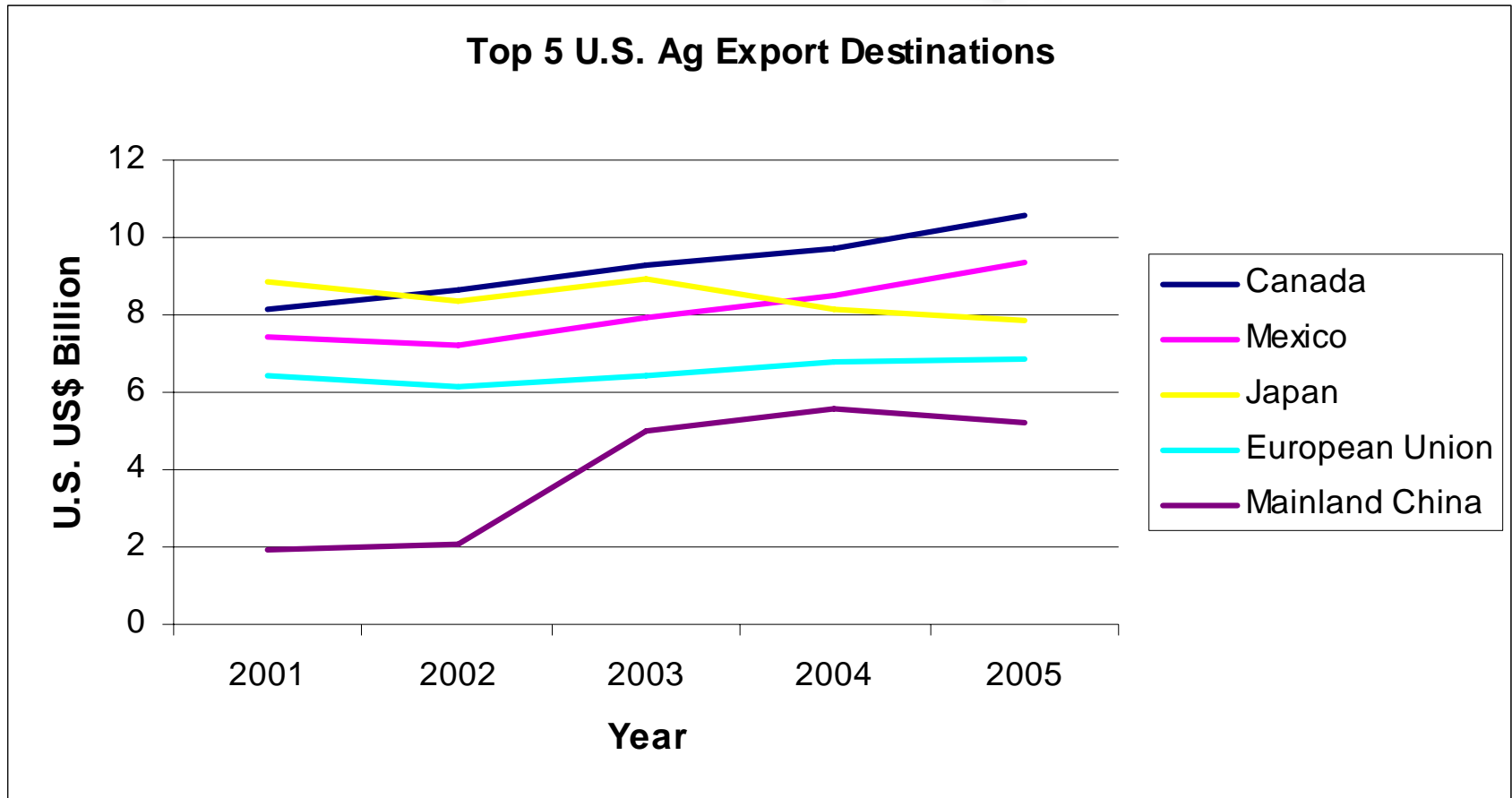


U.S. Ag Export Statistics



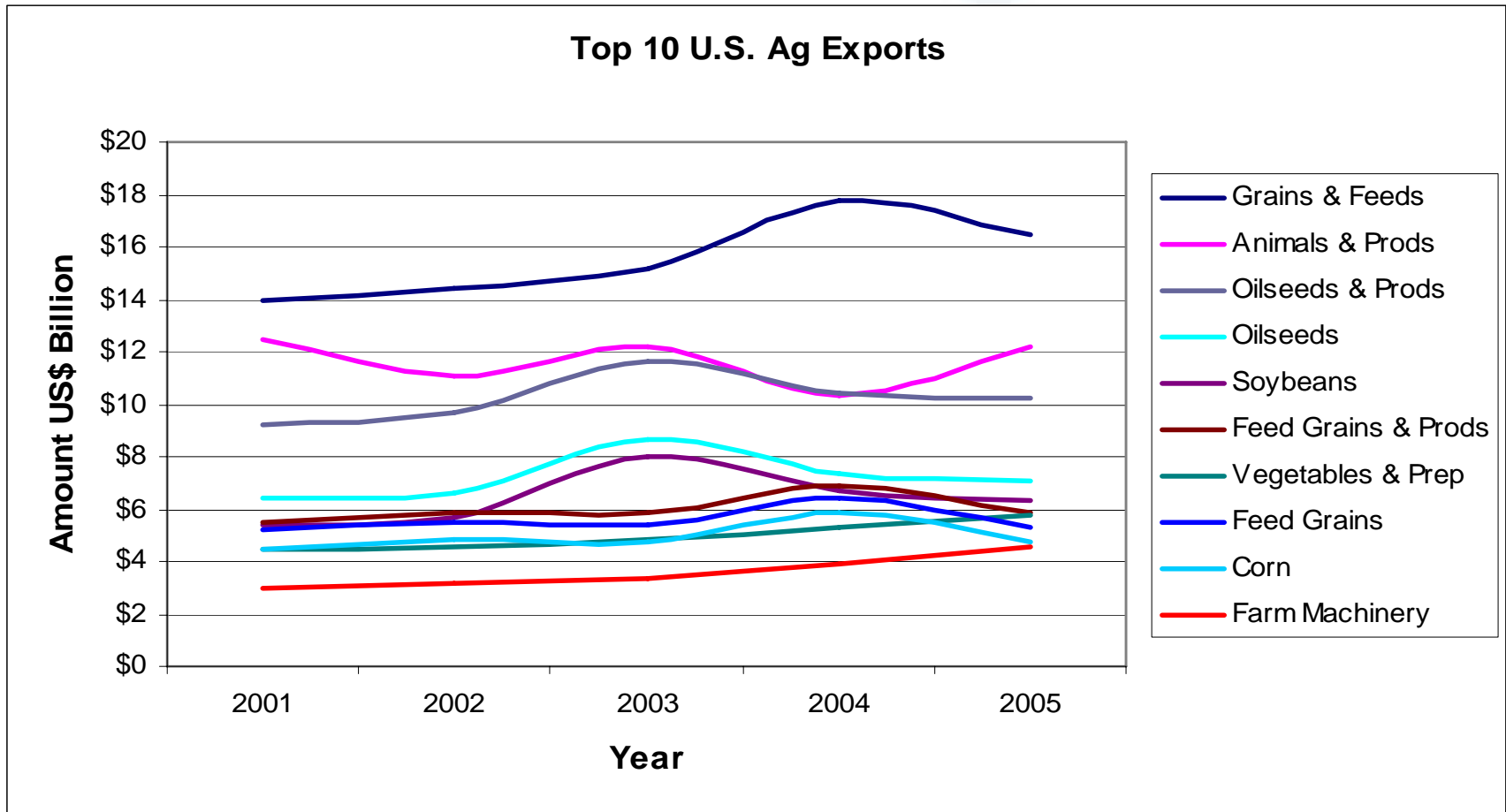


U.S. Ag Export Statistics





U.S. Ag Export Statistics





Need for Ag Trade Finance

- Increasing or high interest rates
- Pressure on margins – impact of global trade
- Inability to sell on credit
- Need for improvements to stay competitive
- Large transaction size due to high volume, low margin products
- Pressure to sell quickly despite state of market
- Undercapitalization/temporary cash-flow problem
- Cash required to fund increase in production



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Overview of Ag Trade Finance Solutions

- Invoice discounting
- Receivables discounting (Export Receivables-backed Financing)
- Reserve-based lending
- Warehouse Receipt Finance (Inventory Financing)
- Collateral Management Agreements
- Structured Finance



Ag Trade Finance Solutions

- Invoice discounting
 - What it is: a financing technique that allows you to raise cash immediately after export based on your buyer invoices
 - How it works: a bank or commercial finance company will purchase your buyer invoices from you at a percentage of the invoice value, minus a discount (fee). The invoices must be backed by insurance or a guarantee (See Government Help Slides).
 - Benefits:
 - Reduces your cash to cash cycle
 - Allows you to extend credit to buyers



Ag Trade Finance Solutions

- Receivables discounting (Export Receivables-backed Financing)
 - What it is: a post-export financing technique that allows you to raise cash based on your export accounts receivable
 - How it works: a bank or commercial finance company will purchase your export accounts receivable from you at a percentage of the invoice value, minus a discount (fee). Depending on the credit-worthiness of the buyer, you may need to purchase insurance or a guarantee (See Government Help Slides).
 - Benefits:
 - Reduces your cash to cash cycle
 - Allows you to extend credit to buyers



Ag Trade Finance Solutions

- Reserve-based lending
 - What it is: a financing technique that allows you to raise cash based on your estimated future crop production
 - How it works: a bank or commercial finance company will make funds available to you based on your estimated future crop production. The financier will require first lien status and insurance to reduce the impact of environmental factors (weather).
 - Benefits:
 - Resolve cash-flow issues
 - Fund pre-export expenditures



Ag Trade Finance Solutions

- Warehouse Receipt Finance (Inventory Financing)
 - What it is: a financing technique that allows you to raise cash pre-export based on your current production
 - How it works: you deposit your goods in a third-party controlled storage facility. The bank or commercial finance company will either directly or indirectly gain possession and control of the warehoused goods. You will then be advanced funds which will be secured (collateralized) by the financiers possession and control of the goods.
 - Benefits:
 - Can be used to cover pre-export expenses (production; shipping)
 - Lower borrowing costs due to loan being secured



Ag Trade Finance Solutions

- Collateral Management Agreements
 - What it is: a financing technique that allows you to raise cash pre-export based on your current production
 - How it works: a bank or commercial finance company will enter into a collateral management agreement (CMA) with you. Through the CMA, the financier gains control of the goods by appointing a collateral manager. Funds are then advanced based on the value of the goods covered by the CMA. CMAs basically substitute for a warehouse receipt structure. CMAs may also be used where goods must be further processed.
 - Benefits:
 - Can be used to cover pre-export expenses
 - Allows you to extend credit to buyers

Ag Trade Finance – Government Help

- **USDA Foreign Agriculture Service Programs**
 - Supplier Credit Guarantee Program
 - Guarantees up to 65% of payments resulting from the export of U.S. agriculture products.
 - You are then able to extend credit to your foreign buyer; the buyer must secure that credit with a promissory note.
 - You can immediately raise cash by selling (assigning) the guarantee backed accounts receivable.
 - Facility Guarantee Program
 - Exports of U.S. manufactured goods and services that will be used to improve overseas agriculture-related facilities can benefit from USDA payment guarantees. Must increase opportunities for U.S. exports.
 - Guarantee typically covers 95% of principal and a portion of interest.
 - Covered facilities include warehouses, refrigerated storage, and ports.



Ag Trade Finance – Government Help

- Non-USDA U.S. Government Trade Finance Assistance
 - EXIM
 - Working Capital Finance Guarantee
 - Export Credit Insurance
 - SBA
 - Export Express Loan
 - Export Working Capital
 - International Trade Loan



Conclusion

- **Problem**
 - Balance-sheet lending
 - too tough to obtain
 - too restrictive
 - Unsecured financing
 - stringent lending policies
 - high cost (interest rates)
- **Solution**
 - Financing techniques that focus on the value of your agricultural products and commodities
 - Raise cash independent of your balance sheet, at reduced cost
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