

# Supply Chain Scenario Loan Guarantee

**AS Limited** has secured a contract to supply 8,000 duvets to a New Zealand firm (OB Exports Limited) for export to Asia. Demand for these duvets is seasonal, and AS Limited must have the duvets available for shipments between September and January. This contract is worth a total NZD 1.4 million.

OB Exports is selling the duvets to a range of Asian-based distributors and retail outlets, and is not getting paid up until 60 days from delivery from New Zealand. Accordingly, OB Exports wants to postpone its payments to AS Ltd for their supply of duvets.

AS Ltd's fabric and wool suppliers are not prepared to provide credit terms to AS Ltd, and require full up-front payments. AS Ltd now finds itself squeezed for working capital to finance this profitable opportunity.

AS Ltd forecasts it needs an additional NZD 800,000 to fund this seasonal contract. It asks its bank for an extension to its working capital facility but this is declined because AS Ltd is unable to provide additional security to the bank to increase its working capital facility.

The bank and AS Ltd approach the New Zealand Export Credit Office (NZECO) to see if they qualify for a Loan Guarantee to help underwrite a short-term trade finance facility.

NZECO's **Loan Guarantee** is provided to a bank to enable them to provide additional lending to cover the costs of a firm performing an export-related contract. NZECO takes on the risk that the New Zealand firm will be able to deliver the contract to budget and be able to repay the loan by its due date.

While NZECO typically only supports exporters, it has the ability to also provide its product to NZ firms that are supplying goods or services that are integral to an exporting firm's delivery of exports.

Given that AS Ltd is manufacturing the duvets for export by OB Exports, NZECO is able to extend its support to AS.

NZECO first assesses the commercial risks of this contract, including the experience of AS Ltd and its suppliers to manufacture a high number of duvets to budget and technical specification. NZECO also takes comfort from the fact that OB Exports only sends its goods overseas upon confirmation of an order from its overseas buyers, which it has prior trading histories with. AS Ltd's bank is also prepared to extend some additional lending without NZECO's support, which also affirms the bank's confidence in AS Ltd and this transaction.

NZECO's Loan Guarantee is provided to the AS Ltd's bank which enables them to receive additional lending to pay their suppliers upfront and cover the period until it receives payment from OB Exports.