Export finance opportunities in a changing world

As the green and digital transitions gather pace and economies seek to reduce strategic dependency risks, export credit agencies (ECAs) are expanding support beyond their traditional remit. This shift is injecting greater dynamism into the export finance market, opening up new opportunities for corporates despite an evolving macroeconomic backdrop.

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In the wake of myriad challenges, from supply chain disruption to climate shocks, geopolitical tensions and economic competition, a new industrial model is emerging that is reshaping trade — and revolutionizing the international export finance system.

Across the globe, nations are reassessing economic relations, dependencies and vulnerabilities. This, in turn, is driving three pivotal shifts. The first is a concerted effort to revive important industries, both to reduce reliance on distant and potentially disrupted suppliers as well as to encourage the return of jobs from overseas. In addition, a marked shift toward green and digital technologies is underway, with strong emphasis being placed on the clean energy transition. Finally, to fuel this transformation, policymakers and business leaders alike are setting their sights on ensuring a secure supply of the materials and components needed for the economy of the future.

As these shifts unfold, the role of ECAs is evolving from financiers to strategic enablers. With new offerings aimed at boosting local production, fostering innovative technologies, guaranteeing access to essential commodities, and meeting the evolving needs of exporters amid an increasingly competitive landscape, the range of transactions they are able to support is on the rise.

"We're seeing a real shift toward modernization in what has historically been a relatively static financing sector," says Pat Gang, global head of export and agency finance at Bank of America. "Consequently, in terms of deal flow and activity, this year is shaping up to be one of the most active years for export finance in a long time."

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The rise of reindustrialization

In August 2022, U.S. President Joe Biden signed the Inflation Reduction Act (IRA) and the Chips Act into law, aimed at making the U.S. less reliant on overseas production. The two pieces of legislation mobilize historic investments into activities such as domestic semiconductor and electric vehicle (EV) manufacturing, as well as incentivizing energy efficiency and other green initiatives.

Other developed economies are following suit with similar measures. The European Union's answer to the IRA is its Green Deal Industrial Plan, which aims to increase the technological development, manufacturing production and installation of net-zero and clean energy products, thereby helping to decrease the bloc's need for Russian fossil fuels.

"One of the most significant developments in the export finance industry currently revolves around the issue of the IRA and the subsequent responses from Europe and Asia. This has sparked a wider theme: the reindustrialization of transformative sectors on a global scale," says Gang.

"Europe and the U.S., which for the last 15 years or so have enjoyed robust capital markets, are now seeking export finance support to meet demand for large-scale projects," he adds. "This shift in strategy is about fostering early investment rather than waiting for products to hit the market. The emphasis is clear: assist businesses from the get-go, from setting up manufacturing plants and then initiating exports."

Reversing the decades-long trend of offshoring manufacturing capacity is no small feat. However, as a growing number of ECAs whir into action to promote manufacturing competitiveness, opportunities abound for corporates to clinch competitive financing options to set up facilities closer to home.

"With some governments already ahead of the curve, ECAs from countries such as the U.S., UK, Finland, Sweden, Germany and Denmark have now followed suit with untied solutions and domestic finance programs that have real potential to influence specific industries," says Gang. "At a time when the capital markets are still not back to 2019 levels, this has increased client dialogue for alternative export and agency finance solutions, as we can provide advice about these new initiatives and — most importantly — help our clients to leverage them."

In April last year, the U.S. Export-Import Bank (U.S. Exim) introduced the Make More in America Initiative. Under the scheme, the agency's existing loans, guarantees and insurance offerings are for the first time being made available to domestic manufacturing facilities and infrastructure projects.

While these projects must be export-oriented in nature, the eligibility threshold for the percentage of production or shipments for export starts at just 15%. In addition, U.S. content requirements are no longer the focus, with the amount of financing available instead being based on the number of U.S. jobs supported during construction and operations, enabling support for project sponsors and corporations during the job formation stage for years to come.

The latest U.S. Census Bureau statistics indicate these measures are having the desired effect: In June 2023, corporate spending on the construction of factories and manufacturing facilities was up by an eye-watering 80% compared to the same period last year — and Bank of America's Gang expects there to be more to come.

"We commend the Make More in America program and are proactively seeking ways to optimize it. We already have a pipeline of several deals that are on the brink of entering the application phase," says Gang, who adds that the bank is also supporting corporates to take advantage of other government-backed programs as part of a wider financing strategy.

"We are also in active collaboration with several clients on the Department of Energy's Advanced Technology Vehicles Manufacturing (ATVM) loan program," he says.

Originally set up in 2008 under the George W. Bush administration, the direct loan scheme offers low-cost debt capital for fuel-efficient vehicle and eligible component manufacturing. In 2009, it provided facilities to automotive giants Ford and Nissan as well as to the then-relatively unknown EV startup Tesla, although by 2011, funding activity under the program had slowed.

The Biden administration's passage of IRA revitalized the scheme and expanded the definition of ATVMs to include vehicles such as boats, trains and trucks, increasing the number of companies that can qualify. So far, billions of dollars in ATVM loan commitments have already been made, presenting yet another attractive financing option for corporates as they weigh investments into new technologies.

Securing strategic supplies

For corporates, support in setting up production facilities is only part of the puzzle. In recent years, supply chain disruption and geopolitical volatility have constrained access to critical inputs, from rare earth elements and minerals to components. This has not only impacted production schedules for items ranging from mobile phones to LED lighting, but also threatens manufacturing capacity for the batteries, turbines, solar panels and power cables that will underpin the clean energy transition.

The ongoing semiconductor shortage has brought this issue into sharp focus. With applications spanning from smartphones to medical equipment, automotive and defense technologies, ensuring a steady supply has become a matter of national urgency — driving ECAs to take swift action as a result.

"Several ECAs are exploring proactive ways to guarantee supply contracts to ensure uninterrupted access to essential commodities," says Gang. "We're seeing a range of new, flexible measures to support clients, including the import guarantee scheme, which was introduced late last year by Sweden's EKN, as well as the Hermes UFK guarantee product, which was used to secure raw material for German companies and provide energy security."

The EV sector is another industry grappling with tough access to components. As carmakers race to secure the entirety of their supply chain, from raw materials to manufacturing hubs, the sheer magnitude of support required means export financiers need to come up with creative solutions.

"This market segment has been bustling, encompassing everything from lithium mining to individual components in the vehicles and the development of gigafactories for battery production," says Gang. "We're seeing huge, generational investments, with debt transactions approaching multiple billions of dollars. Given the scale and novel nature of some of these ventures, we're bringing together blended finance, our robust capital markets operations and export and development finance to get them over the line."

Harnessing new possibilities

As aggressive rate hikes bring tougher borrowing conditions and uncertainty, the widening of ECA support for a range of sectors and industries offers a valuable alternative to corporates. From short-term working capital to medium and long-term capital expenditure, ECA-backed solutions are fast becoming a priority fundraising route for corporates — and all indications are that this trend is here to stay.

"Our aim is to ensure our clients have access to the most versatile and effective solutions, especially in today's challenging interest rate environment," says Gang. "We're continuously seeking to introduce new deals and structures, as well as advocating for the projects we believe ECAs and other government agencies should be supporting. This is being met with enormous and unprecedented receptiveness from agencies to consider new ideas, demonstrating just how transformative this period is for export finance."

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