In Africa, SCGP Helps U.S. Exporters Score Sales From Coast to Coast

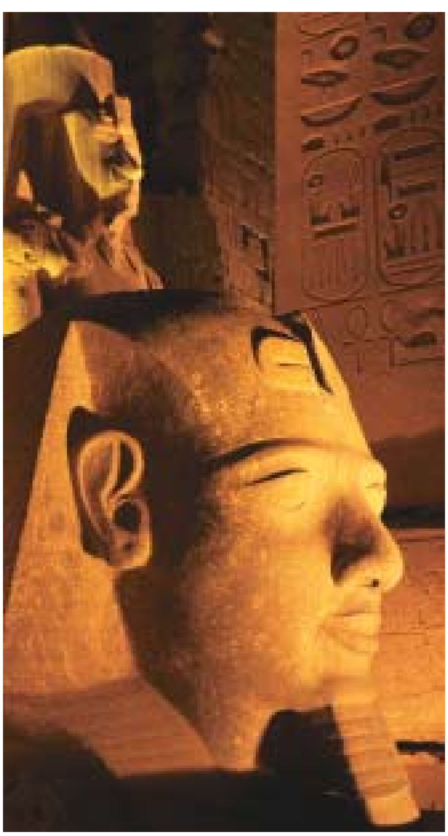
SCGP Uses in Egypt

By Ali Abdi

The Supplier Credit Guarantee Program (SCGP) has been very useful in Egypt for some commodities, particularly where there is a close relationship of confidence between buyer and seller.

Egypt is a huge market for U.S. agricultural products. In a typical year, Egyptian companies import about $1 billion worth of U.S. agricultural commodities, as they did in fiscal 2001.

Major U.S. agricultural exports to Egypt consist of bulk commodities such as wheat, corn, soybean and meal, dairy products, vegetable oils and consumer-ready products such as processed fruits and vegetables. USDA credit programs, particularly the SCGP, have been very valuable for Egyptian importers and U.S. exporters. Traditional credit programs, requiring letters of credit, have not been effective in the last couple of years.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Although the fiscal 2001 GSM-102 allocation for exports to Egypt was $100 million, that program has gone virtually unused. In an attempt to slow down imports, the government of Egypt prohibited banks from opening letters of credit unless importers deposit 100 percent of the value in advance. This policy virtually eliminated the use of the GSM-102 program in Egypt.

When this law went into effect, importers changed the way they do business with local banks. Most importers began using cash against documents, which lets them make payment through banks when the goods arrive, rather than asking banks to open letters of credit.

Although limited, SCGP funding for Egypt has been a valuable tool for U.S. exporters and Egyptian importers. The 2001 allocation for Egypt was nearly exhausted by the end of the year. Egyptian importers find the SCGP attractive because it has a 180-day credit period, and because they avoid high letter-of-credit costs.

Exports of fresh apples and beef liver have benefitted from this program. In the absence of credit facilities, Egyptian importers have difficulty importing U.S. agricultural products, particularly when there is a severe foreign exchange shortage in the market. Without the SCGP, import traders would not have the flexibility they need to raise money from end users.

Importers currently using the SCGP have expressed strong interest in extending the guarantee period from six months to one year. U.S. exporters would like to see the guarantee level increased.

Importers are struggling to cope with Egypt's difficult economic conditions. The Egyptian pound lost 25 percent of its value against the U.S. dollar in recent months, and most business groups anticipate further weakening of Egypt's currency. There is a severe shortage of hard currency in the market.

Moreover, economic and security concerns over the past several months have resulted in a $2.5 billion loss to Egypt's tourism sector and have reduced shipping revenues from the Suez Canal. Private sector importers have been hit particularly hard by the gap between the official exchange rate and the parallel market rate. For example, while government entities are able to import wheat at the official exchange rate of 4.65 pounds per U.S. dollar, private sector importers have been forced to find dollars in the parallel market, where exchange rates can go as high as 5.70 pounds to the dollar. And even at the higher rate, importers say they often must source funds from various exchange dealers, or face long delays at the bank.

Consequently, the SCGP is likely to be of interest to U.S. exporters to Egypt, particularly in cases where they know their customers fairly well. The SCGP has helped exporters and importers in the Egyptian market circumvent some economic and financing constraints. ■

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