

Structured finance: pre-export and inventory-backed financing

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Beyond transactional operations, trade finance includes more complex structures in which the Geneva banks were pioneers. Pre-export financing consists in lending to a producer, often in an emerging country, against an undertaking to deliver its production to a trader, who will repay the bank out of the sale proceeds. Combining producer, trader, country and price risk, this structure finances considerable volumes of oil, metals and agricultural products.¹ Inventory-backed financing, or borrowing on the basis of inventory, lends against goods stored in warehouses controlled by a third party, with safety margins and regular inspections, for the benefit of traders whose stocks tie up substantial capital.

Bringing trade finance closer to corporate lending and project finance, these structures expose banks to risks of longer duration than the documentary credit. Part I described the resource-backed loans granted to African states, an extreme form of this logic, together with their consequences. The Geneva banks reduced their appetite for these structures after 2015 and 2020, leaving a growing share of this market to the traders themselves, to Chinese banks and to specialised funds. Whether Geneva remains a centre for structured trade finance, beyond transactional financing, is a question that remains open.

Instrument	Duration and principal risk	Role of the Geneva banks
Documentary credit	short term; documentary and issuing-bank risk	advising, confirmation, examination of documents
Transactional facility	short term; commodity and counterparty risk	financing secured on each cargo
Inventory financing	medium term; valuation and custody risk	lending against inventory controlled by a third party

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Instrument	Duration and principal risk	Role of the Geneva banks
Pre-export financing	medium term; producer, country and price risk	structuring and syndication
Syndicated loan	medium term; trader risk	participation, arranging
Resource-backed loan	long term; sovereign and governance risk	partial financing, growing role of traders

1 Notes

1. TXF, “The Rosneft prepayment: Deal of the Year 2013” (txfnews.com): prepayment of USD 8.32 billion signed in March 2013 for the long-term crude purchases of Glencore (70%) and Vitol (30%) from Rosneft, through special-purpose vehicles (Ros-GIP, Ros-VIT), secured by offtake contracts of 46.9 and 20.1 million tonnes, five-year term plus two years’ grace, twelve lead banks including BNP Paribas, Credit Suisse, ING and Société Générale; NRG, 27 February 2020 (resource-backed loans granted by trading houses to Chad, the Republic of the Congo and South Sudan). ↩

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