SteelRock
Capital

Briefing Note

Export Finance for Defence SMEs: Mobilising Private Capital

Purpose of this Briefing

This note explains, in plain terms, how UK defence SMEs can access export finance using a combination of private capital, private insurance, and government-backed support through UK Export Finance (UKEF). It is intended to help teams within the Ministry of Defence understand the options available and how different funding routes can work alongside each other.

The Challenge: Why Export Finance Matters for Defence SMEs

When a UK defence company wins an overseas contract, it faces an immediate and practical problem: it needs to pay its own costs — staff, materials, manufacturing — long before the foreign buyer pays for the goods or services delivered.

This timing gap between spending money and receiving payment is known as the funding gap. For large defence primes, this gap can be bridged through their own balance sheets or through large banking relationships. For SMEs, it is often the single biggest barrier to winning and fulfilling export contracts.

A Practical Example

A UK SME wins a £3 million contract to supply communications equipment to a NATO ally. It must procure components, manufacture, and ship the goods over 9 months — but payment only arrives 60 days after delivery.

Without financing, and assuming a 20% profit margin, the SME must fund roughly £2.4 million of costs for 10–11 months from its own resources. Export finance solves this problem.

The Basic Model: How Export Finance Works

Export finance allows an SME to borrow against the value of the export contract — essentially using the expected payment from the overseas buyer as the basis for the loan. The SME receives cash now, fulfils the contract, and repays the lender when the buyer pays.

There are three broad participants in any export finance arrangement:

- The Exporter (the SME)
- The Funder (a bank, specialist lender, or private capital provider)
- The Risk Mitigant (an insurer, guarantor, or government agency such as UKEF)

The key insight is that the funder is not simply lending against the SME's own financial strength — it is lending against the value and quality of the export transaction itself. This means that even an SME without a large balance sheet can access meaningful financing, provided the underlying contract and buyer are creditworthy.

Private Capital: The Role in Supporting Exports

Private capital providers — including specialist trade finance funds, alternative lenders, and invoice financiers — have increasingly stepped in to support SME exporters, often more quickly and flexibly than traditional high street banks.

Private funders typically provide finance in one of two ways:

1. Pre-shipment / Contract Finance

How:
Funds the cost of manufacturing and delivering goods before payment is received

Example:
SME draws down funds to pay suppliers while producing goods for a NATO customer

2. Receivables / Invoice Finance

How:
Converts unpaid invoices into immediate cash, removing the wait for the buyer to pay

Example:
SME raises an invoice for £3.0m; funder advances 85% immediately and pays the balance when the buyer settles

Because private capital providers focus on the quality of the underlying transaction — rather than solely the size of the SME's balance sheet — they are often well-suited to financing export contracts where the buyer is a credible foreign government or NATO-approved entity.

Credit Insurance: The Role in Facilitating Finance

A critical enabler for private capital is credit insurance. This is a commercial insurance product that protects the lender (and sometimes the SME) against the risk of the overseas buyer failing to pay — whether due to insolvency, political events, or government action in the buyer's country.

By purchasing credit insurance, the private capital provider can take on transactions it might otherwise consider too risky. This is especially important in defence export contexts where buyers may be in regions with elevated political risk, or where payment terms are long.

Private capital may be comfortable with the credit risk where the overseas buyer is a sovereign state or an investment-grade company. In such circumstances, credit insurance may not be required.

Why Insurance Unlocks Private Capital

Without insurance, a private lender faces the full risk of the overseas buyer not paying. With credit insurance in place, that risk is substantially transferred to the insurer. The lender's confidence increases, its internal risk costs fall, and it can offer better pricing to the SME — or fund deals it would otherwise decline.

Major private credit insurers operating in the UK defence export market include Atradius, Euler Hermes (Allianz Trade), and Coface. These firms assess the creditworthiness of

overseas buyers and can provide cover for both single contracts and revolving facilities.

UK Export Finance guarantees and insurance can complement the products offered by private credit insurers. For example, UKEF may provide insurance where private markets cannot or will not provide cover.

The Transaction: Key Considerations for Financiers

Lending to a defence SME exporter is materially more complex than standard trade finance. The lender must satisfy itself across five distinct layers simultaneously: the SME's own creditworthiness, the transaction structure, the overseas buyer's creditworthiness, the regulatory and compliance environment (which in defence carries unique obligations), and the risk mitigation framework (insurance, guarantees). A weakness in any single layer can undermine the entire credit case.

A summary of the key considerations a lender would typically work through is set out below.

Onboarding:

- KYC & AML of the SME exporter
- Sanctions screening of the SME exporter and, in some circumstances, its suppliers and customers
- Export licensing verification
- End-use certificate

SME Exporter:

- Financial statements, management accounts, cash flow forecast, and existing debt facilities
- Order book, pipeline

The Export Order:

- Export contract and purchase orders
- Trade cycle timeline
- Shipping and transport documents

The End-Buyer:

- Identity, status, and sanctions screening
- Creditworthiness, country risk assessment

In addition, the lender needs to consider the security documentation, facility conditions and covenants as well as the ongoing monitoring of the export transaction.

Step by Step:
How a Typical Structure Works

The diagram below illustrates how the key parties and products interact in a typical export finance structure for a defence SME.

1	**Contract Award** The SME wins an export contract with an overseas defence buyer. The contract specifies payment terms — typically 30–180 days after delivery.
2	**Financing Arranged** The SME approaches a private capital provider (or their bank) to fund the working capital needed to fulfil the contract. UKEF or private insurance may be used to reduce the lender's risk and improve terms.
3	**Insurance / Guarantee in Place** Credit insurance is secured — either privately through Atradius, Euler Hermes, or Coface, or via a UKEF Export Insurance Policy. A UKEF Bond Support or Working Capital guarantee may also be issued to the lender.
4	**Drawdown & Fulfilment** The SME draws down funds to pay suppliers, manufacture, and ship the goods or deliver the services. The lender monitors the progress of the contract.
5	**Invoice Raised & Buyer Pays** On delivery, the SME raises an invoice. The overseas buyer pays according to the contract terms. Payment flows to the lender first (to repay the finance), with the balance going to the SME.
6	**Insurance Pays if Buyer Defaults** If the buyer fails to pay, the credit insurer (private or UKEF) compensates the lender — protecting both the funder and the SME from a catastrophic loss.

Glossary of Key Terms

The following plain-English definitions are provided for reference:

Funding Gap: The time gap between a company spending money to fulfil a contract and receiving payment from its customer.

Working Capital Finance / Pre-Shipment Finance: Finance provided to a company to bridge the cost of manufacturing and delivering goods before the buyer pays.

Invoice / Receivables Finance: A financing arrangement where a company raises immediate cash against its unpaid invoices.

Credit Insurance: Insurance that protects against an overseas buyer failing to pay, due to insolvency, political events, or government action.

UK Export Finance (UKEF): The UK Government's export credit agency. Provides guarantees, loans, and insurance to support UK exports where the private market cannot.

Private Capital Provider: A specialist fund or non-bank lender that provides finance to businesses — often secured against the value of a contract or receivable rather than the borrower's balance sheet.

Performance Bond / Advance Payment Guarantee: A financial guarantee issued by a bank or insurer on behalf of the exporter, promising to repay an advance payment if the contract is not fulfilled, or to compensate if performance obligations are not met.

About Us: SteelRock Capital

SteelRock Capital is an FCA regulated corporate finance and fund management firm with a focus on the defence, security, and resilience sectors (DSR).

The firm provides working capital to UK small and medium-sized businesses operating in the DSR industries via structured credit solutions. These include purchase order financing to provide working capital to deliver on orders and supply chain finance to improve cash flow for SMEs in the supply chain.

The firm also provides corporate finance and strategic advice to UK defence-sector corporates, covering capital-raising and structuring for project finance, mergers & acquisitions, and corporate funding.

This briefing note has been prepared by SteelRock Capital for informational purposes and is intended for the Ministry of Defence. It does not constitute financial, legal, or investment advice. Product terms and UKEF eligibility criteria are subject to change. Readers should seek independent professional advice before entering into any financing arrangement. Sources: UK Export Finance Annual Review 2023–24; Jones, S.A., Trade and Receivables Finance (Palgrave Macmillan, 2018); Atradius, Euler Hermes, and Coface public product documentation.