

Getting Paid and Financing Your Exports

John Brislin

President and CEO

Natalie Campbell

Export Finance Program Manager



The Export Finance Assistance Center of Washington (EFACW)

- Provides trade finance counseling to ensure that Washington State small- and medium-sized exporters understand how to get paid, mitigate risk, and access financing to grow their businesses.
- Established by the state legislature in 1983
- Works closely with other federal, state and local international trade and economic development agencies
- Represents the Export-Import Bank of the United States as a City-State partner



Presentation Topics

1. Export Readiness
2. Contract Considerations
3. Definition of Trade Finance
4. Payment Methods
5. Sources of Export Financing
6. Scenarios
7. Where to Go for Help





Export Readiness

International trade is the movement of goods and services across borders and the payment for those goods and services.

With international transactions come risks greater and different than domestic transactions.

- Political risk – includes war, nationalization, currency/monetary policy
- Buyer credit risk – buyer default, insolvency, and bankruptcy
- Foreign exchange risk – exchange rate fluctuation



Export Readiness

Don't wait for your buyer to dictate sales terms, have a plan in advance. In building your export plan, consider these:

- Working capital needs to build or buy
- Consider buyer finance needs
- Create a credit policy for foreign buyers
- Develop an export quotation worksheet
- Create LC instructions

**Keep your plan flexible, one strategy will not work for all markets.*



Export Readiness

Have an internal credit policy for international clients

- Review financials
- Get a credit report
- Obtain a trade reference
- Determine a limit for outstanding receivables for each company, country, and region
- Monitor receivables and track buyer payment history
- Engage sales force to help collect past due receivables



Contract Negotiations

For contract negotiations, consult your lawyer.



Contract Considerations

Factors that Affect Negotiations

1. Laws, policies, and political authorities of more than one nation
2. Multiple currencies
3. Governmental authority involvement
4. Sudden and drastic changes in international ventures
5. Different business ideologies
6. Cultural differences



Contract Considerations

Know Your Buyer!

- Due diligence
- Meet face to face
- Obtain trade references from other sellers
- Request financial statements
- Purchase a credit report
- Use the services of the US Commercial Service



Contract Considerations

- Include Payment Terms in Sales Contracts
 - Payment terms must be specified, and should be incorporated with the payment method
 - Incoterms (international commercial terms) are used to allocate responsibilities, costs, and risks between a buyer and seller
 - Incoterms cover details including who pays for transport, who pays for insurance, who bears the risk for loss of goods, and who is responsible for clearing customs on export and import
 - Costs are allocated (and specified) by each incoterm, and they must be accounted for in pricing and contracts.



Contract Considerations

Example of Incoterms 2000 (new ones coming out fall 2010!)

TERM	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAF	DES	DEQ	DDU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free On-Board Vessel	Cost & Freight	Cost Insurance & Freight	Carriage Paid to	Carriage & Insurance	Delivery At Frontier	Delivered Ex-Ship	Delivered Ex-Quay,	Delivered Duty Unpaid	Delivered Duty Paid
SERVICE	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays	WhoPays
Warehouse storage at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Warehouse labor at point of origin	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export packing	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading at point of origin	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Inland freight	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Port receiving charges	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Forwarders fee	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading on ocean carrier	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Ocean/Air freight charges	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Charges at foreign Port/Airport	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Buyer	Seller	Seller	Seller
Customs, Duties & Taxes abroad	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Delivery charges to final destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller

What is trade finance?

“A means to turn export opportunities into actual sales and to get paid for export sales – especially on time – by effectively managing the risks associated with doing business internationally.”

– Trade Finance Guide, International Trade Administration



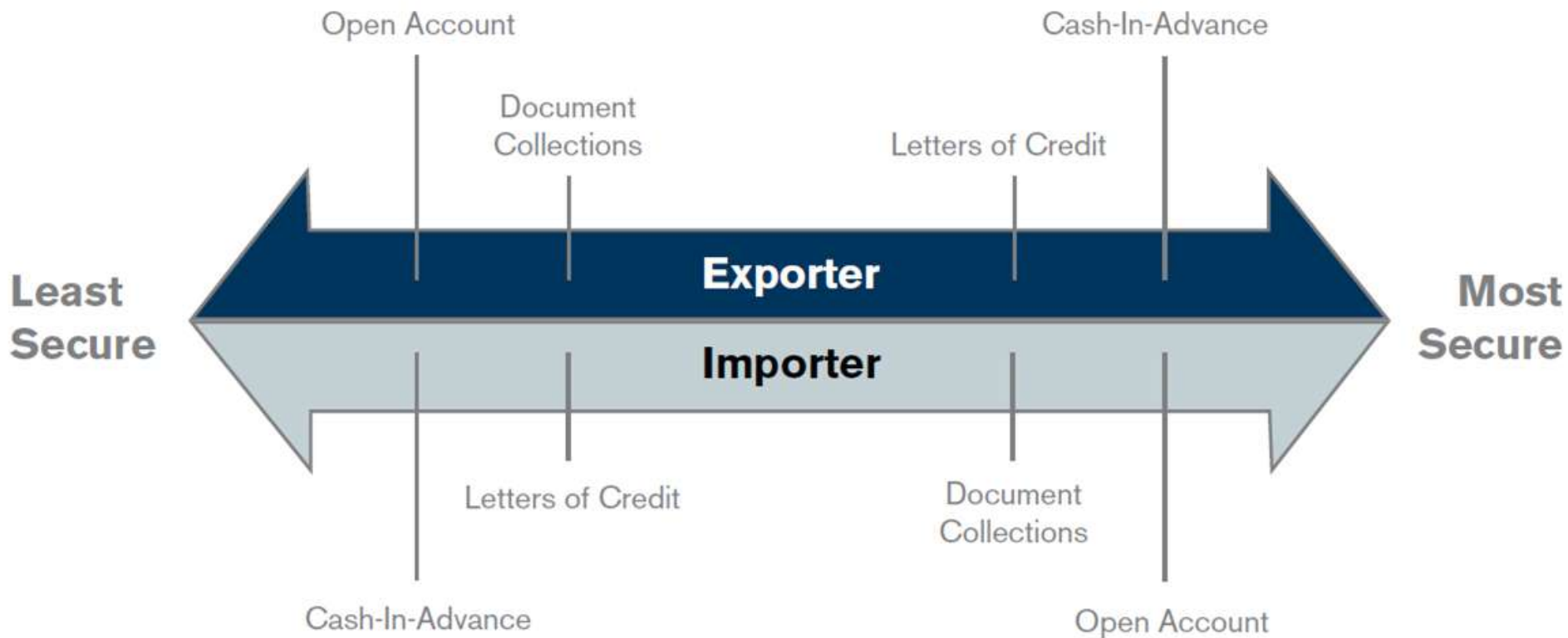
Payment Methods

1. Cash in Advance
2. Letter of Credit
3. Documentary Collections
4. Open account



Payment Methods

The Sliding Scale of Payment Risk



Payment Methods

Cash in Advance

- Definition
 - Buyer makes payment *before* goods are shipped
- How it Works
 - Payments are made via credit card, wire transfer, automated clearing house (ACH), PayPal
- Risk
 - Little to seller, pending validity of credit cards and other accounts
- Advantages
 - Have full amount of working capital and little doubt as to buyer credit risk



Payment Methods

Cash in Advance

- Disadvantages
 - Less competitive because other sellers might offer terms of 30-60-90 days.
- Buyer's Perspective
 - Might create cash flow issues while waiting for goods
 - Highest amount of risk that the goods will not be sent
 - Is out of cash for the longest time period (opportunity cost)
- Alternative
 - Split payment option, a buyer and seller can share risk by requiring a down payment, progress payments, and the balance due upon delivery or acceptance of goods or services



Payment Methods

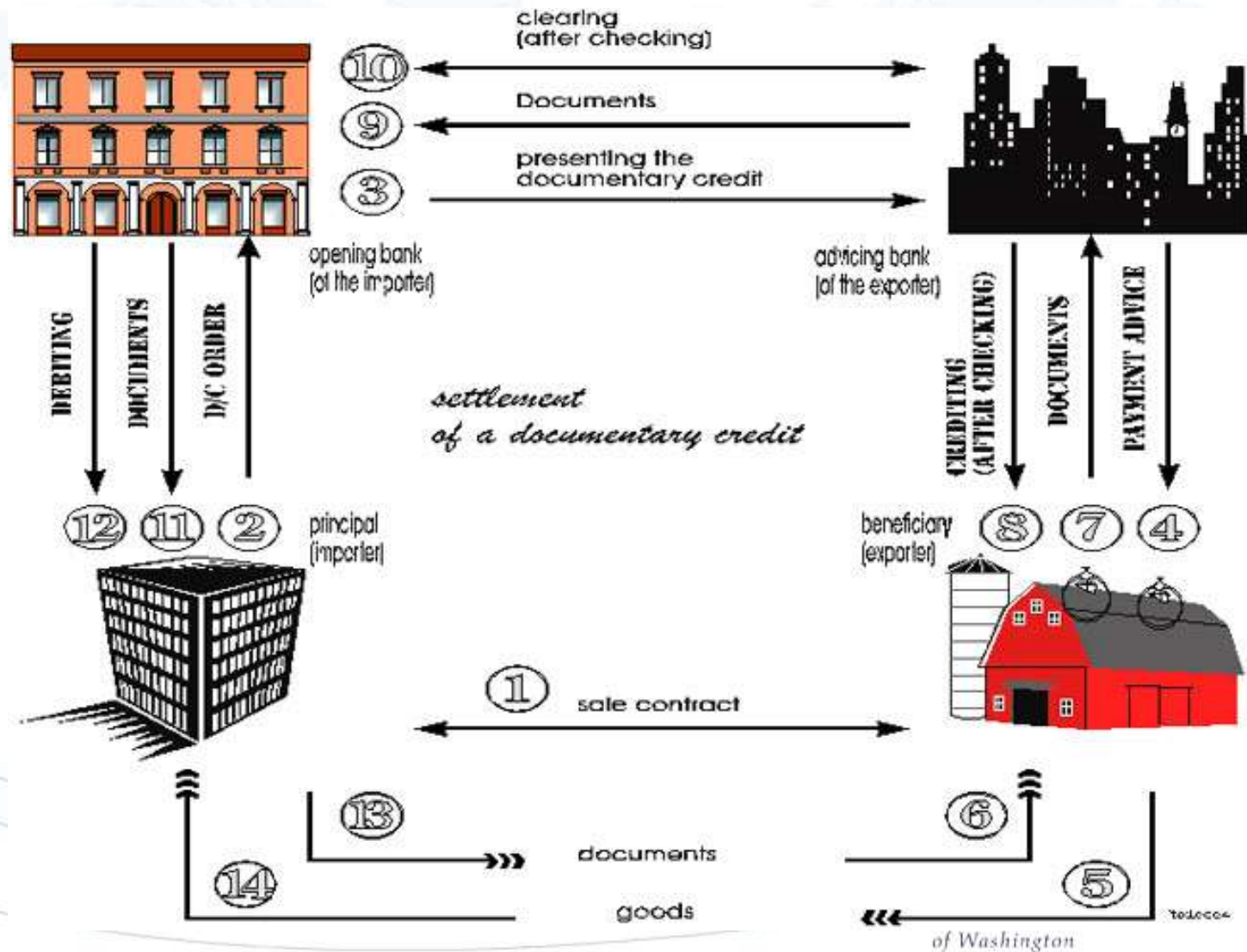
Letter of Credit

- Definition
 - A commitment made by a bank to pay on behalf of a buyer. Payment is made at a specific time, pending the bank's acceptance of shipping documents and other requirements in the letter of credit (LC).
- How it Works
 - Buyer applies their bank to issue a letter of credit on their behalf, which is sent to the seller's bank to be communicated to seller. When the seller ships, all documents are presented to seller's bank. The seller's bank checks the documents against the LC before sending them to the buyer's bank for final approval and payment.



Payment Methods

Letter of Credit



Payment Methods

Letter of Credit

- How it Works (cont)
 - Mirrors the underlying sales contract and transaction terms. Includes who pays bank fees, necessary inspections, acceptance of goods, shipping costs, time period of shipment, time for document presentation, and expiry day of the credit.
 - Sellers should send LC instructions to the buyer before it is issued. Banks generally have helpful LC instruction sheets.
- Risk
 - Credit risk is with Buyer's Bank (have confirmed by a local bank)
 - Presentation of non-complying documents



Payment Methods

Letter of Credit

- Advantages
 - Useful for working with a new buyer with little credit history
 - Flexible and have several types: sight, usance (time), transferrable, installment, revolving
- Disadvantages
 - Operational risk, or, seller non-adherence
 - Bank costs, minimums should be accounted for in profit margin
- Buyer's Perspective
 - Will have proof that goods have shipped before payment
 - May tie up line of credit
 - May still have to pay before goods arrive



Sample LC Instructions

TO BUYER			
FROM SELLER			
LETTER OF CREDIT INSTRUCTIONS (LCI). Seller instructions to the Buyer for terms and conditions of the Credit to be opened (LS).		LC INSTRUCTIONS NO	LCI DATE
Data Source File: TxxBOAx ... Data Save File: TxxLCIx		BASIC ORDERING AGREEMENT NO	TRANS NO
CREDIT TYPE TO BE ISSUED: IRREVOCABLE DOCUMENTARY LETTER OF CREDIT The Credit must be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision, International Chamber of Commerce, Paris, France, Publication No. 500) AND the Supplement to the UCP for Electronic Presentation (eUCP Version 1.0) and engages you in accordance with the terms thereof. Negotiable documents may present by mail, courier or electronically at the issuing bank's URL/Email location.			
APPLICANT NAME (CONTACT)	APPL TEL	BENEFICIARY NAME (CONTACT)	BENE TEL
APPLICANT EMAIL	APPL FAX	BENEFICIARY EMAIL	BENE FAX
@		@	
APPLICANT COMPANY (IMPORTER)		BENEFICIARY COMPANY (EXPORTER)	
APPLICANT COMPANY ADDRESS		BENEFICIARY COMPANY ADDRESS	
PRESENTATION PERIOD (48) 21 DAYS	LATEST SHIP DATE (44C) 1-Jan-00	BENEFICIARY BANK	
INCOTERM FOB - Free On Board	SHIP VIA OCEAN	BENEFICIARY BANK ADDRESS	
PARTIAL SHIPMENTS (43P) NOT ALLOWED	TRANSHIPMENTS (43T) NOT ALLOWED		
FREIGHT CHARGES COLLECT	INSURANCE COVERED BY SELLER		
SHIP FROM (44)	SHIP TO (48)	BENE BANK TEL NO	BENE BANK FAX NO
CONFIRMATION(49) WITH CONFIRMATION	CREDIT TOLERANCE (39A) 0%	BENE BK ABA/TR NO	BENE BK SWIFT NO
CURRENCY USD\$	CREDIT AMOUNT (32B)	BENE BANK E-DOCS URL HTTP://	BENE BANK E-DOCS EMAIL @
GENERAL DESCRIPTION OF GOODS AND/OR SERVICES			
DRAWEE (DRAFTS DRAWN ON) (42A) ISSUING OR CONFIRMING BANK			FORM OF CREDIT NON-TRANSFERABLE
METHOD OF PAYMENT AT SIGHT OR NO DAYS AFTER BILL OF LADING OR INVOICE DATE			
LETTER OF CREDIT AT SIGHT AFTER BILL OF LADING (SHIPPING) DATE			
B28X: E-BILL OF LADING E-BILL OF LADING	LSX	CONSIGNED TO	NOTIFY PARTY
E-INVOICE E-INVOICE	E-PACKING LIST E-PACKING LIST	E-BILL OF EXCHANGE E-BILL OF EXCHANGE	OTHER E-DOCUMENT NONE REQUIRED BY eUCP
(71B) BANK CHARGES WITHIN IMPORTING COUNTRY FOR APPLICANT.		3. THIRD PARTY DOCUMENTS / E-DOCUMENTS ARE ACCEPTABLE.	
(71B) BANK CHARGES WITHIN EXPORTING COUNTRY FOR BENEFIC.		4. <input checked="" type="checkbox"/> T/T REIMBURSEMENT REQUESTED.	
Copyright © 2002 by AVG Letter of Credit Management, LLC. All rights reserved. File Name TxxLCI100A			

Payment Methods

Documentary Collections

- Definition
 - A seller entrusts collection of payment to its bank, which sends documents to the buyer's bank, along with instructions for payment
- How it works
 - The seller uses its bank to handle their documents, which presents the shipping documents to the buyer's bank. The buyer's bank releases the documents to the buyer when the buyer either pays to receive the documents at "sight" (documents against payment) or when the buyer "accepts" the documents and draft to be paid at a later date (documents against acceptance).



Payment Methods

Documentary Collections

- Risk
 - Bank is not a party to the transaction
 - Non-payment of goods
 - Non-acceptance of goods, left at docks
 - Mitigation through a standby LC or credit insurance
- Advantages
 - Cheaper than an LC
 - Good for existing companies or smaller transactions
- Disadvantages
 - Bank will not hold the goods or act as your agent in case of non-payment



Payment Methods

Documentary Collections

- Buyer's Perspective
 - Easier and cheaper than an LC
 - No requirement for money up front
 - Does not tie up a line of credit



Payment Methods

Open Account

- Definition
 - Sale where goods are shipped or services are performed before payment is due.
- How it works
 - Seller sends goods, then invoices buyer to pay on certain terms, often 30, 60, or 90 days.
- Risk
 - Buyer might refuse to pay, can mitigate with credit insurance
 - No agent to act as representative
 - No internationally accepted rules to protect seller



Payment Methods

Open Account

- Advantages
 - Most competitive method of payment
 - No bank charges
 - Goods move quickly
- Disadvantages
 - No bank to act as agent
 - Biggest risk of non payment
- Buyer's Perspective
 - Best solution because goods are ensured
 - Have time to turn into cash before payment
 - No lack of cash



Payment Methods

- Which to use?
 - What is your relationship with your buyer?
 - How much risk are you willing to take?
 - What are your margins?



Sources of Export Financing

- Identify the Financing Gap
 - What are your sales terms with your buyers?
 - What are your sales terms with your suppliers?
 - Does your buyer need financing?
- Trade Finance Players - Federal
- Trade Finance Players - Private
- Pre-Export Financing
- Post-Export Financing
- Buyer Finance



Export-Import Bank of the United States

- Support U.S. exports when faced with competition supported by foreign government entities in order to create and sustain U.S. jobs
 - Induces domestic banks to lend outside of usual practices
 - Strategic initiatives for certain industries and countries
- Supplements commercial financing for pre and post-export financing at small business rates
 - Working Capital Guarantee for sellers
 - Export Credit Insurance for sellers
 - Loan Guarantees to buyers

www.exim.gov



Small Business Administration

- Aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy
 - Network of field offices, partnerships, and services
- Resources for small business exporters
 - Two 7(a) export loan guarantee programs
 - Trade finance specialist in each of its regional offices
 - “How to” resources for trade and trade finance

<http://www.sba.gov>

<http://www.sba.gov/international>

<http://app1.sba.gov/training/sbaexporting>



EXPORT FINANCE
ASSISTANCE CENTER
of Washington

Overseas Private Investment Corporation

- Mobilize and facilitate the participation of U. S. private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from nonmarket to market economies.
 - Emphasis on economic development and sustainability
- Supports US Exporters through financing in developing markets complimentary to private financing
 - Large and small loans
 - Political risk insurance
 - Investment funds

www.opic.gov



US Trade Development Agency

- Promote economic growth in developing and middle income countries, while helping US business export their products and services, creating US jobs.
 - Provides grants directly to overseas project sponsors who select U.S. companies to perform USTDA-funded activities.
- Assists US small businesses by:
 - Awarding contracts to small businesses
 - Funding technical assistance, including feasibility studies, training, orientation visits, and business workshops

www.ustda.gov



USTDA

UNITED STATES TRADE AND DEVELOPMENT AGENCY



EXPORT FINANCE
ASSISTANCE CENTER
of Washington

Trade Finance Players – Private

- Commercial Bank
 - Each bank has different products and capabilities in international trade.
- Non-Bank Lenders
 - Non-bank lenders offer international trade-related services. Depending on the project, a non-bank lender might look at a company passed over by a commercial bank. Rates can be higher.
- Shipping, Logistics, and Supply Chain Companies
 - Offer trade related services, including finance and insurance
- Credit insurance companies and brokers
 - Provide credit insurance and look for best rates

Sources of Export Financing

Pre-Export Financing

- Self-financing
 - According to a survey done by the small business exporters association, this is the main way that companies finance export activity.
- Working capital line of credit
 - Most banks are not comfortable with export-related assets as security for a loan.
 - As a result, both Ex-Im Bank and SBA have guarantee programs for lenders to induce them to provide a line of credit to support exports.



Export-Import Bank Working Capital Guarantee Program

- The EWCP is an asset-based lending program that loans against export raw materials, export work in progress, export inventory, and foreign accounts receivable.
- Key Features are:
 - Exporters must adhere to the Bank's requirements for content, end use, and buyer country
 - Non-refundable \$100 application fee and a 1.5 percent upfront facility fee is based on the total loan amount and a one-year loan but may be reduced.
 - Fees and interest charged by banks are usually negotiable



SBA Export Working Capital Program and Export Express

- The Export Working Capital Program (EWCP) has a \$2mm limit, supports financing for suppliers, inventory, or manufacturing.
- Key features are:
 - Exporters must meet SBA eligibility and size standards.
 - A 0.25 percent upfront facility fee is based on the guaranteed portion of a loan of 12 months or fewer.
 - There are no US content restrictions
 - Fees and interest rates charged by the commercial lender are negotiable.
- The “Export Express” program can provide exporters and lenders a streamlined method to obtain SBA-backed financing for EWC loans of up to \$250,000. With an expedited eligibility review, a response may be obtained in fewer than 24 hours.



Sources of Export Financing

Post-Export Financing

- Export Credit Insurance – provides protection against commercial and political losses, especially on open account sales. It can be obtained from Ex-Im Bank as well as private insurers.
- Receivable Financing – with credit insurance, commercial and non-bank lenders are often willing to lend into a portion of accounts receivable. With an assignment, some companies will advance as much as 90 percent.



Sources of Export Financing

Post-Export Financing

- Export Factoring - Factoring is the discounting of short-term receivables (up to 180 days). The exporter transfers title to short-term foreign accounts receivable to a factor for cash at a discount from the face value. The factor assumes the financial liability of the importer to pay and handles collections on the receivables.
- Forfaiting - allows the exporter to sell medium-term receivables (180 days to 7 years) to the forfaiter at a discount, in exchange for cash. The forfaiter assumes all the risks, and the exporter can offer extended credit terms. Forfaiters usually work with exports of capital goods, commodities, and large projects. Not available for open account transactions.



Sources of Export Financing

Buyer Finance

- Loan Guarantee – Ex-Im Bank guarantees commercial loans to creditworthy foreign buyers in emerging for purchases of U.S. goods and services. They finance the purchase of high-value capital equipment or services or exports to large-scale projects that require medium- or long-term financing.
- Can also be used to finance:
 - purchase of refurbished equipment
 - Software
 - certain banking and legal fees
 - local costs and expenses.



Case Study – Snowboard Wax

Small snowboard wax manufacturer wants to flatten seasonality by selling overseas. They want to be sure they get paid, but giving terms means they cannot afford to fill additional orders. As a newer company, do not have a developed banking relationship.

- Cash in advance is not competitive
- LCs are too expensive, are selling countries that are not high risk
- Documentary collections provide no protection against non-payment
- Decide to purchase credit insurance to sell on open account and use receivable financing.



Case Study – Marine Surveyor

A marine surveyor company wants to flatten seasonality by doing projects overseas. They want to be sure they get paid, but giving terms means they will not have adequate working capital. As a newer company they have not yet obtained a secured credit line with a local bank. Export transactions have been self financed and cash flow is an issue as sales increase. Larger multinational competitors can offer open account terms.

- Cash in advance is not competitive.
- LCs are not competitive.
- Documentary collection does not assure them of prompt payment. The client does not need the documents as a service is being provided.
- Decide to purchase credit insurance to sell on open account basis and use receivable financing with a non-bank lender. The exporter can be paid right after invoicing for their services.



Case Study – Machine Tool Manufacturer

A manufacturer wants assurance of timely payment to produce a piece of customized machine tool for a buyer in Argentina. This is the first order between the buyer and seller. The order is also substantial to the manufacturer. The buyer wants extended payment terms on the equipment.

- Cash in advance is not competitive for the buyer
- Open account does not protect the seller
- Documentary collections does not provide adequate protection against non-payment or non-acceptance of drafts
- Credit insurance is not available to cover Argentine country risk
- Buyer offers to have his bank issue a usance letter of credit which provides 90 day terms. Allows for the time drafts to be discounted and the seller to get paid at sight. The cost of bankers acceptance financing in the U.S. is lower than borrowing rates in Argentina.



Case Study – LCs in India

Medical device manufacturer found a buyer for goods in India, but due to currency concerns, the country practice requires an LC or Document Collection.

- Do not know buyer well enough for a documentary collection
- Must do an LC because they always have
- Ask your bank for advice on issuing bank risk
- Can still offer terms to remain flexible under a usance LC, or require money right away in a sight LC



Contacts

John Brislin

President & CEO

206-256-6127

John.Brislin@efacw.org

2001 Sixth Avenue, Suite 2600, Seattle, WA 98121

www.efacw.org

Natalie Campbell

Export Finance Program Manager

206-256-6115

Natalie.Campbell@efacw.org

Pru Balatero

International Trade & Finance Officer

(206) 553-0051 Ext. 228

Pru.Balatero@mail.doc.gov

2601 Fourth Avenue, Suite 320, Seattle, WA 98121

www.sba.gov



Resources

- Export Finance Assistance Center of Washington – www.efacw.org
- Trade Banker
- SBA – <http://www.sba.gov/international>,
<http://app1.sba.gov/training/sbaexporting>
- Department of Commerce, Trade Finance Guide–
<http://trade.gov/publications/pdfs/tfg2008.pdf>
- Incoterms – <http://www.iccwbo.org/incoterms/>
- International Chamber of Commerce –<http://www.iccwbo.org>
- UCP 600 – Rules for letters of credit and documentary collections, freight forwarder’s website – http://www.sharaflogistics.com/wp-content/uploads/UCP_600_2007_208751_v1.pdf, Purchase UCP 600 book at <http://www.iccbooks.com/Product/ProductInfo.aspx?id=456>
- International Standards for Banking Practices (ISBP) –
<http://www.iccbooks.com/Product/ProductInfo.aspx?id=485>
- Uniform Rules for Collections Publication 522 (URC522) –
<http://www.iccbooks.com/Product/ProductInfo.aspx?id=178>