



## Export financing options and credit practises

When you're doing business in lesser known territory, you can expect higher risk; exporters are often subjected to financial and political risk that may require specific financing. In order to develop a clear and concise export financing plan, it's important to assess the following factors:

### Financing needs

**Working capital.** Prospecting and operating foreign markets usually requires a greater investment than the same operations would require in a domestic market. You may get a large order or many small orders that will affect your productivity and inventory capacity. Also, in some cases, your buyer may request longer payment terms which may have an impact on your working capital.

BDC and Export Development Canada (EDC) can finance the working capital that is often required by exporters. EDC provides **pre-shipment financing** in order to raise sufficient working capital to fund up-front costs associated with export contracts. BDC complements your existing line of credit with flexible **working capital financing**; this type of financing helps to stabilize your cash flow while your company takes more risks and grows.

**Political risk insurance.** Not all importing countries enjoy the political, social, and economic stability to which we are accustomed. Special insurance policies are often necessary, particularly for protection of overseas investments.

EDC's **Export Protect** insures a transaction against non-payment by a foreign buyer. They will help collect your funds in case there is any breach of contract, non payment, expropriation and any political instability.

**Payment guarantees.** You may be dealing with clients and intermediaries you hardly know and in an economic context that is foreign to you. Take extra precautions and expect complications i.e. late payments and fluctuations in exchange rates. You should have a plan of action in place before such problems arise.

Benefit from EDC's **Export Check** to verify your foreign buyers' online credit profile. They also offer loans or lines of credit to foreign buyers to encourage them to purchase goods or services from Canadian companies. In this way, a Canadian business can make what amounts to a cash sale, and EDC collects the payment from the buyer. Their **Accounts Receivable Insurance (ARI)** protects your business against foreign buyers who can't or won't pay you; it covers up to 90% of the value of the sale.

**Security for foreign distributors or clients.** The people you will be doing business with abroad do not know you, so they may ask you for guarantees. This is particularly true in the public, agricultural, and food sectors. **Canadian Commercial Corporation (CCC)** offers foreign buyers security by providing a Canadian government-backed guarantee of contract performance. The agency offers a range of pre-contract, contract advisory and post-contract services.

**Long-term financing to purchase fixed assets.** As your export venture thrives, your productivity and capacity need to increase. In turn, you may be required to plan for long-term financing. BDC's **financing solutions** for Canadian exporters and exporters-to-be combine long-term financing and flexible repayment options. BDC can finance equipment purchases, retooling and increased inventory that is often required by exporters. You may also outgrow your current facilities, and require **commercial real estate financing** for an expansion or the purchase of a new building.

### Good credit practices

Depending on how trustworthy and creditworthy you consider your foreign clients, there are several ways to protect your sale:

#### Cash in advance

With domestic sales, if the buyer has good credit, sales are often made on an open account. However, this fully exposes you to credit risk until the payment is received.

In the exporting market, you can consider asking for cash in advance. By doing this, you're relieved of collection problems and have immediate use of the money. A wire transfer is commonly used. Keep in mind that payment by cheque may result in collection delays of up to six weeks. If you accept credit card payments, beware of fraud.

**Letters of credit**

A letter of credit is essentially a financial contract between the bank, the bank's customer and the beneficiary. The letter of credit outlines the conditions under which payment will be made to the beneficiary. The conditions are generally specified by the buyer and usually include insurance forms, bills of lading, customs forms, **various certificates**, etc. Think of these as the documents necessary to safeguard the integrity of the purchased product.

**Collections**

With collections, it is usually the responsibility of the exporter's bank to collect the funds. There are two types of collections: documentary and draft/clean. In a documentary collection, your bank deals with the foreign bank and sends payment instructions. A documentary credit means the exporter is entitled to receive payment upon presentation of the shipping and commercial documents to the foreign bank. A draft/clean collection is similar to a cheque. The buyer sends a draft in the interim that his shipment arrives and the product is transferred upon clearing of the draft. A draft carries a similar risk to a cheque as it may be dishonoured.

**Open accounts**

This is the riskiest payment option as the burden of sale falls on the exporter. Usually buyers and sellers can negotiate a 30 to 90 day term or even longer depending on the relationship and transaction. If you are considering this form of payment, you need to have a clear understanding of any political, economic or commercial risks.

**Dealing with payment problems**

If negotiations with your customer fail, you should obtain the assistance and advice of your bank, legal counsel and other qualified experts. Since arbitration is often faster and less costly, this step is preferable to legal action if both parties can agree to take their dispute to an arbitration agency.