

Documentary Credits and Collections

Exporters can also make use of sight and term documentary credits. A documentary credit calling for a sight draft means that the exporter is entitled to receive payment on sight, i.e. upon presentation of the draft to the bank. A term documentary credit, in contrast, may allow for payments to be made over terms of 30, 60, or 90 days, or at some specified future date.

In a collection, the exporter ships goods to an importer and forwards shipping documents to a collecting bank which obtains payment from the importer in exchange for the documents. A collection differs from a letter of credit in that the exporter remains exposed to credit risks associated with the importer because no bank has undertaken in advance to pay the exporter upon presentation of the documents. By using a bank as an intermediary, the exporter keeps title to the goods until payment is received (or the importer issues a formalized promise to pay, e.g. term draft). On the other hand, the exporter must still rely on the importer to proceed with the transaction and is exposed to possible losses from the time the goods are shipped until payment is received. Under collection terms, the exporter is also required to finance the shipment at least until the importer receives the goods (sight draft) and sometimes longer (term draft).

There are two major types of collections: clean and documentary. In a clean collection, only financial documents such as bills of exchange, promissory notes, cheques, payment receipts or other similar instruments are used to obtain

payment. In a documentary collection, commercial documents such as invoices, shipping documents or documents of title are used — with or without financial documents — to obtain payment. The documentary collection is more secure because the bank requires either payment or the importer's promise to pay (e.g. acceptance of a term draft) before the goods are released. Unless otherwise indicated, the bank will release the documents to the importer only on payment and not on acceptance.

Open Account

Open account terms require the exporter both to ship goods and pass title to the importer before payment is made. In these cases, the exporter is fully exposed to any credit risk associated with the importer until payment is received. In addition, because open account terms usually allow 30, 60, 90 days, or longer, before payment is due, the exporter effectively finances the transaction. Often, this financing period is extended because the importer pays after the due date.

Exporters that need to finance sales have several options. Funds can be borrowed from a bank or other financial institution. Government agencies often provide export credits or short-term financing. If you need to secure export financing, Section 11 of *The Exporter's Guide* will help you select an appropriate source of assistance.

The next step in the export process is to promote your product or service in your target foreign market.