

## Your Friendly Neighbourhood Bank

In any case, EDC's medium- and long-term financing is only available for trade in capital goods. If the product you take to the market is a consumable one, your best bet is your friendly neighbourhood bank. They will put you in touch with their international centres.

Part of the good news is that your friendly neighbourhood bank, more likely than not, is interested in the Mexican financial market.

Bank of Montreal's Wren reflects on the series of events starting with the 1982 beginning of Mexico's — and the world's — debt crisis. He declares that while at least there may still be "some bumps here and there," the general view is that Mexico has turned the corner and is on its way to becoming a stable economy. "We withdrew somewhat and became less aggressive, but banks are back there now."

He adds: "Customers are going there and ... generally banks will follow customers."

Frank Fernandez of Merrill Lynch Securities notes that there is no "landrush" among Canadian and U.S. banks to establish operations in Mexico. However, a number of Canadian banks have already made a beginning by appointing representatives in Mexico. These include the Bank of Nova Scotia, the Royal Bank of Canada, the Bank of Montreal, and the Canadian Imperial Bank of Commerce (CIBC).

Most Canadian banks, says Raddysh of Sweeprite, are very helpful and have people who deal specifically with letters of credit and foreign currency transactions. "We worked with a few different banks running the letters of credit through for a Mexican deal and things have gone very smoothly."

Most experts believe that you should talk to your banker before you make your first exploratory visit to Mexico. Drop in on either EDC or someone in the international department of a commercial bank,



...you can sleep comfortably knowing that once the goods are correctly documented and shipped, you will be paid.

If your branch does not have such a department, ask to be referred to a branch — or a bank — that does.

One outcome of this initial contact might be some tips on how to structure your financing. Another might be to receive a letter of introduction to the bank's Mexico representative in case your exploration and negotiations are successful and you need help putting the finances together. A third reason for this interview might be to get money to use as equity in the business. Any one or more of these outcomes could help make your future trips to Mexico more meaningful.

## So We Don't Need Mexican Banks?

Of course, with the EDC providing medium-term credit and the Canadian banks taking care of short-term needs, there is no need for Mexican banks in this equation, right?

Wrong!

Even with the possibilities opened up by the NAFTA, a working paper by the New York-based Americas Society notes that Mexican banks "have enormous inherent advantages over foreign competitors, due to their existing branch networks, high name recognition and cultural familiarity with the local market."

Far from counting out the Mexican banks, you need them for at least three reasons. Take the letter of credit, or LC, the instrument through which your customer is likely to pay for your products,

especially in the early stages. The establishment of an LC begins with a conversation between your customer and his or her banker.

Raddysh urges caution; he believes that a Mexican bank should be chosen with care. "It gets down to the importance of finding a reputable distributor who can arrange the financing through a reputable bank in Mexico."

He has been told that there are some not so reputable banks, "and you have to be careful about that." The advice of your partner therefore is key. "For ourselves, if we had to go in without the middle person, we would need to do our homework to ensure that we were very comfortable with all parties involved."

If, despite the letter of credit drawn on the Mexican bank, you have some doubts about getting your money, have the LC confirmed by a Canadian bank. They won't confirm the LC unless they are confident about the stability of the Mexican counterpart. In any case, by issuing the confirmation, the bank shifts the risk from Mexico to itself. So you can sleep comfortably knowing that once the goods are correctly documented and shipped, you will be paid.

Naturally, this kind of peace of mind comes at a price. But confirmation commissions are minimal, between 1/4 and 3/8 percent on the total amount and 1/8 percent for the negotiation, or payment.

Much of the business done by EDC and the Canadian commercial banks in Mexico is carried out through that country's banks. For example, the funds provided by the Mexican bank to your customers to pay for your export might come from one of those EDC lines of credit we talked about. Or a Canadian bank might lend the money to the Mexican bank.

Only Mexican banks will provide you with loans to buy real estate, for example, or to finance costs for a joint venture. Also, if your business involves the export of Mexican goods to Canada