

ARRANGING YOUR FINANCING

Financing is more likely to be required in exporting than in domestic transactions because the time between production and payment is normally greater. You should become familiar with various options for financing transactions as well as strategies to ensure protection from non-performance of foreign buyers. While financing problems are common in international business, they need not be an obstacle to exporting your product or service.

HOW YOU CAN EXPECT TO BE PAID

There are a variety of means by which you can be paid. Four common short-term financing methods are discussed below, in order of increasing risk to the exporter.

Cash in Advance

Cash in advance is the most secure option for an exporter, since it eliminates all risk of non-payment and bolsters working capital. Unfortunately, few foreign buyers are willing to pay full cash in advance. On occasion, a buyer will

Investigate and select one of the following financing options:

- ▶ cash in advance
- ▶ letters of credit
- ▶ documentary credits and collections
- ▶ open account transactions

provide a portion of the cost as down payment. For services, a partial payment may be made upon signing a contract, after which progress payments are matched to deliverables.

Letters of Credit

Letters of credit provide some measure of security to both the importer and exporter by relying on banks to receive and check shipping documents and guarantee payment. By specifying particular terms, a letter of credit can allow the costs of financing a transaction to be borne by either the exporter or importer: both sight (immediate) and term (deferred) payment provisions can be arranged.

There is also a distinction between confirmed and unconfirmed letters of credit. A letter of credit issued by a foreign bank can be confirmed by a Canadian bank, constituting a guarantee that payment will be made. This is an undertaking by the Canadian bank to pay, even if the foreign bank does not. Confirmed letters of credit protect exporters against the risk of non-payment by the foreign bank. The most secure form is a letter of credit which is both confirmed and irrevocable.