SOURCES OF EXPORT FINANCING

Banks

The banks have always been engaged in foreign trade financing. The International Section of the banks will provide two essential functions for exporters – lending of money and the collection of money.

1. Lending of Money. The lending function has both Buyer and Seller Credit.

Buyer Credit. Funds can be loaned directly to a foreign buyer. Not only must that buyer be judged credit worthy, but the country in question must be considered stable, politically and economically. A guarantee may be requested from the buyer's government or national bank.

Supplier Credit. Loans can be arranged with banks through the co-operation of the Export Development Corporation's insurance facility. The EDC facility provides coverage for the bank in the event of non-payment. This gives the bank additional security when purchasing the promissory notes issued by the importer. The notes are purchased either at face value or at a discount, depending upon the collateral available. This provides the exporter with quick cash.

Short term (180 days) buyer credits can be arranged for foreign buyers without affecting the exporter's available line of credit. Medium term (up to five years) buyer credits can be arranged to finance capital goods, where the exporter alone cannot support such receivables.

2. Confirming Houses, Export Finance Houses and Factors Confirming houses, as well as banks, play an important role in the financing of exports. They are companies which, acting as agents for overseas buyers, place and confirm orders with exporters. They guarantee payment to the exporter and may often arrange credit for the buyer. Thus, the exporter runs no credit risk. Credit terms are usually short, up to 180 days, and are invariably covered by bills drawn on the buyer, which reflect not only the cost of the goods but also the cost of the finance.

Export financing houses will purchase the exporter's foreign receivables on a non-recourse basis upon presentation of proper shipping documentation. They organize all export arrangements and documentation and will provide front-end financing to the overseas buyer. Charges vary, but the cost of financing will take account of all expenses. Many export finance houses are owned by banks.

Factoring is a financial service popular in many parts of the world, but is still not common in Canada. Some Canadian banks now have factoring companies as subsidiaries. Factoring involves the outright sale of accounts receivable. A factoring company purchases an exporter's accounts receivable with immediate payment. The advantage to you, the exporter, is that you do not have to wait for your money to arrive at the bank from the importer. Once the factoring company buys the accounts receivable, it assumes most or all of the risk of non-payment by the importer. The factoring company will investigate the credit worthiness of each importer before agreeing to purchase the receivable.

For its services, the factor charges 2.5 per cent, or more, of the invoice value of the export, which is higher than the cost of collecting through a bank. The exporter's costs, however, are reduced because the need to buy commercial and political risk insurance is eliminated.

Government Assistance

Export Development Corporation

The Export Development Corporation (EDC) provides Canadian exporters with competitive financing as well as a wide range of insurance and guarantee services including:

- supplier credits, both short and medium term, providing protection to exporters from non-payment by foreign buyers;
- buyer credits, providing direct loans to foreign buyers for the purchase of Canadian projects, goods and services; and
- surety insurance, providing protection on bid and performance bonds as well as guarantees.