Documentary credit

Exporters can also use *sight* and *term* documentary credits, as follows:

- 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.

Documentary collection

In a collection, you ship goods to an importer (your customer) and forward the shipping documents to a collecting bank. Next, the customer pays the collecting bank in exchange for the documents. You then obtain the money from the bank.

With a collection, you're exposed to the credit risks associated with the importer until you actually get the money. In other words, no bank has guaranteed that you'll get paid, and you're required to finance the shipment until your customer receives the goods and pays through a sight or term draft.

PITFALL

Low priority – the exporter uses foreign markets as a backup to the domestic market and abandons exporting when the local economy booms.

Open account

Open accounts require you to ship goods and pass title to the customer before payment is made. In these cases, you're fully exposed to any credit risk associated with the customer until payment is received. In addition, because open account terms usually allow 30, 60, 90 days (or even longer) before payment is due, you effectively finance the transaction.

Insuring against non-payment

Imagine this: you assumed your foreign purchaser was reliable, but something has gone seriously wrong at his end and now he can't, or won't, pay. If the future of your company hangs on the deal, this is a nightmare scenario. Even if it wasn't, the impact of non-payment can be severe and lasting.

You can protect your company from such a disaster through Export Development Canada's Accounts Receivable Insurance. It covers up to 90 per cent of the value of a sale when the customer doesn't pay. For details on this, and also for information about insurance against political risks, go to **www.edc.ca/insurance.**