A Note on Billing in Mexico

One peculiarity of doing business in Mexico is the fact that payments between companies are usually made in person. In part, this avoids the uncertainties of sending cheques in the mail; in part it harks back to a time when business was conducted between people who knew and trusted each other. Therefore, invoices should not be sent in the mail, since they are likely to be ignored. Instead, a company should take the time to set up a meeting between its representative and the buyer to present the invoice in person.

Common Methods of Financing

In many export transactions, there is a significant gap between cash going out to effect a transaction and proceeds coming in as payment. In such instances, the exporter will have to find financing to bridge the gap.

Bank Lines of Credit

Commercial banks will sometimes provide businesses with operating lines of credit to finance their ongoing activities. However, banks normally define an upper limit for each operating line of credit according to two parameters. First, they set an absolute ceiling based on the size and creditworthiness of the company. Second, they issue credit based on accounts receivable (often about 75 percent of total acceptable accounts receivable). This is common practice for domestic businesses. Foreign accounts receivable, however, may not be considered acceptable, except perhaps when they involve customers in the United States. The reluctance of commercial banks to set up operating lines of credit finance has been a major stumbling block for many exporters and has led them to look for alternative ways to finance their transactions.

Instead of offering operating lines of credit, exporters might be able to access commercial bank financing against signed contracts. This might take the form of a term loan secured by the contract. If the bank is uncertain about the creditworthiness of the purchaser or has questions about the exporter's ability to fulfill the terms of the contract, it may ask for additional security in the form of liens or mortgages against property or other assets.

Discounting Receivables (Factoring)

Companies can accelerate the inflow of cash by selling their receivables to another institution at a discount. This allows exporters to satisfy short-term cashflow requirements even if their receivables are long-term. Factoring also relieves exporters from the burden of securing payment from buyers. The financial institution purchasing the receivable takes over the responsibility for collecting payment. This also means that the exporter is freed from any risk of non-payment: the institution buying the receivable assumes the risk and the costs in the event of a default.