

EXPORT FINANCING

The economic crisis that followed the devaluation of the peso in 1994 resulted in a large number of bankruptcies, especially among companies with large amounts of dollar-denominated debt. This is cause for increased caution when extending credit terms. The most secure type of financing is an irrevocable letter of credit. This is an interbank arrangement under which the buyer's Mexican bank transfers funds to the seller's Canadian bank, when specified conditions have been met. For example, the letter of credit might specify full payment 90 days after delivery. This allows the Canadian seller to extend competitive payment terms without accepting significant risks of non-payment. The seller also has the option of selling the draft to a discountor before it becomes due.

The most credit-worthy customers such as the large chains and department stores routinely use this method of payment. Obtaining letters of credit for smaller customers can be very difficult, since Mexico is only now establishing a network of credit bureaus. Financing from Mexican sources is very difficult: banks reject 80 percent of all loan requests of firms with less than 70 employees. For domestic suppliers and those who do not operate with letters of credit, the tradition is for sellers to collect in person. In addition, terms of 90 to 120 days are the norm and 180 days are not uncommon.

Currency fluctuations are another risk that have increased since the devaluation. There could be substantial variation over the term of a 120-day letter of credit, for example. Denominating the sale in Canadian or US dollars is an obvious solution, but Mexican buyers are understandably reluctant to buy on those terms at a time when inflation is about 3.5 percent per month. For large transactions, currency futures may be worth considering, although it might be more practical to simply use the market rates as a guide when negotiating prices. For example, in June 1995, September peso deliveries were selling on the Chicago Mercantile Exchange at roughly 10 percent less than the spot rate, and December deliveries were 17 percent lower. The minimum transaction was N \$500,000 pesos.

SHIPPING AND DISTRIBUTION

Retailers in Mexico do not have centralized distribution centres. They expect the manufacturer to ship directly to each branch of the store. In many cases, domestic manufacturers operate their own delivery systems. For smaller lots, the manufacturer or agent may use local trucking services outside Mexico City. For imported goods, if the retailer has bought directly, the merchandise is usually cleared through customs by the retailer's own customs broker and delivered to the individual stores by the retailer.