Canada

HOW TO FINANCE YOUR EXPORTS TO MEXICO: A PRACTICAL GUIDE FOR CANADIAN BUSINESS

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
Latin America & Caribbean Branch

BAKER & McKENZIE

BUSINESS GUIDE - MEXICO

Business Guide – Mexico

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This business guide is designed to provide an overview of how to finance exports to Mexico. Although efforts have been made to avoid errors and inaccuracies in this document, it is not intended to be used as the only source of market information in this area. We encourage the reader to use this publication as one of several resources for commercial dealings with Mexico.

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FINANCING EXPORTS TO MEXICO:

A PRACTICAL GUIDE FOR CANADIAN BUSINESS

Export i MEXICO

From Baker & McKenzie, Barristers & Solicitors

With more than fifty offices in 27 countries, Baker & McKenzie is the largest law firm in the world. In Mexico, the firm has had a very significant presence since 1961. In Mexico City, the firm operates locally under the name *Bufete Sepulveda* and in all other locations in Mexico the firm is known as Baker & McKenzie. The firm currently has offices in the cities of Juárez, Mexico City, Monterrey, and Tijuana, with expansion plans to the other growing industrial regions in Mexico. A substantial percentage of all foreign companies establishing operations in the *maquiladora* regions have retained the services of Baker & McKenzie to assist them in all aspects of their endeavours in this regard.

The lawyers in the firm combine expertise in Mexican law with an understanding of the business environment and governmental process in Mexico. The firm enjoys an excellent reputation in business and government circles as one of the leading Mexican firms dealing with international and domestic business transactions. The lawyers from the four Mexican offices regularly meet with their Canadian counterparts to discuss coordination of business activities in the North American context and to encourage trade and investment activities between Canada and Mexico. Partners from the Mexican offices serve on a number of domestic and international bodies as representatives of both national business organizations and the Mexican government. Partners from the Mexican offices regularly advise the Mexican government on international business matters including the recent NAFTA negotiations.

The Toronto office, in existence since 1962, is an integral part of the North American practice of the firm which includes nine offices in the United States and four in Mexico.

The areas of firm's expertise in Canada and Mexico include:

- Administrative Law
- Banking and Finance
- Corporate and Commercial
- Customs
- Environmental Law
- Foreign Investment and *Maquiladora* Law
- Health Law
- Immigration
- Intellectual Property
- International Trade
- Labour and Employment Law
- Real Estate, Tax and Transportation
- Tax Law

The Baker & McKenzie offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand business activities in Mexico. Whether a company's objective is to raise capital, establish a joint venture or strategic alliance, or begin exporting to the Mexican market, Baker & McKenzie offers a coordinated approach to ably facilitate entry to the Mexican market.

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The North American Free Trade Agreement (NAFTA)

The NAFTA expands Canada's free-trade area of 270 million people into a market of 360 million — a market larger than the population of the 15 countries of the European Union and one with a total North American output of $7 trillion.

Mexico is Canada's most important trading partner in Latin America. Two-way merchandise trade with Mexico exceeded $5.5 billion in 1994 and is expected to exceed $7 billion by the end of the decade.

Canadian direct investment in Mexico is growing rapidly, increasing from $452 million in 1992 to over $1.2 billion in 1994.

This guide has been prepared with the problems inherent to the new exporter in mind. However, it is not exhaustive. The differing circumstances, interests and needs of individual companies will influence their strategies for the Mexican market.

Further assistance can be obtained by addressing requests to:

International Trade Centres (see Where To Get Help) or contact the InfoCentre at:

Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board (IBB):
1-800-628-1581 or (613) 944-1581

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Mexico: The Opportunity

Highlights

Mexico has a number of advantages that make it an excellent source of long-term opportunities for Canadian exporters:

- ☐ A strategic geographical location including a 3,234 kilometre border with the United States, coastlines facing Europe and Asia, and a gateway into Latin America.
- ☐ Preferred access to the United States, the world's largest market, under the North American Free Trade Agreement (NAFTA).
- ☐ A relatively young workforce of more than 30 million people that has proved capable of delivering quality at substantially lower labour costs than in the advanced industrialized economies.
- ☐ Plentiful natural resources.
- ☐ A rapidly growing domestic market of 92 million people, about half of them under 20 years of age.
- ☐ An economic and regulatory climate that is supportive of the private sector.

In spite of the economic crisis spawned by the sharp devaluation of the peso in December 1994, Mexico presents major opportunities to Canadian exporters. These arise from Mexico's sweeping economic reforms, which began in the late 1980s. The North American Free Trade Agreement (NAFTA), which came into effect on January 1, 1994 has further reduced the barriers facing Canadian companies that want to move into Mexico.

Mexico's reforms were driven by a set of complementary policies that included trade liberalization, deregulation and privatization. The government also embarked on a massive program to modernize a dilapidated infrastructure that was the legacy of decades of protectionism. The result was several years of sustained economic growth, and a dramatic drop in the rate of inflation.

Unfortunately, the forces of expansion and modernization also had negative effects. Mexico lacked the sophisticated technology needed to bring about an economic revolution on its own. Imports surged as Mexican manufacturers scrambled to modernize their operations so as to compete in international markets. The surge in imports put pressure on the peso. Prior to the end of 1994, the government, led by President Carlos Salinas, put off the problem by drawing down its foreign currency reserves to dangerously-low levels. The succeeding government, led by Ernesto Zedillo, could not sustain this policy. Over the Christmas holidays of 1994, the three-week-old Zedillo administration stopped supporting the peso. Within days, the currency had lost one-third of its value relative to the American dollar. Subsequent market adjustments have left it at less than half of its 1994 value.

These dramatic events triggered a serious economic crisis as higher import prices cascaded through the economy. Mexico's gross domestic product (GDP) fell by about 6 percent during 1995. Inflation surged from 7 percent in 1994 to more than 50 percent in 1995, and the market for imports was profoundly affected by the rise in peso prices.

Most observers think these problems were caused by mismanagement of an inevitable devaluation in the peso, not by any fundamental structural weakness in the economy itself. Within a year, the devaluation shock had worked its way through most of the economy, which then began to recover. Forecasts suggest that by 1996 inflation will fall to the 20 percent range and economic growth will rise to between 1 and 3 percent. Although this level of growth will not restore industrial output to 1994 levels, it is a sign that the worst of the crisis is over.

From the foreign exporter's perspective, continuing internal inflation will actually have some positive benefits. The devaluation of the peso almost immediately caused import prices to surge but it took longer for the effects of inflation to influence the cost structures of domestic producers. As a result, it was difficult to export goods to Mexico until domestic prices caught up. In some sectors, however, adjustments in domestic prices have already made imports more competitive, and this trend is expected to continue.

For the Canadian exporter with a medium-term strategy, Mexico continues to offer excellent opportunities. It has become one of the most open economies in Latin America. As a result, external competitive pressures are forcing Mexican manufacturers to increase their efficiency and product quality. Experience has shown that joint ventures with foreign companies are one of the best ways to accomplish those objectives. Moreover, Mexico continues to enjoy the advantages of a large domestic market, as well as a young population and an abundant and cost-competitive labour supply.

In the longer term, Mexico can provide an excellent base for Canadian companies interested in expanding into the rest of Latin America. In particular, Canada's bilateral negotiations with Chile, which began in late 1995, are likely to lead to new opportunities there. Eventually, plans for liberalized trade on a hemispheric basis are likely to bear fruit. Companies with an established base in Mexico will be in an excellent position to move into those emerging markets.

Opportunities for Canadian suppliers can be found throughout the Mexican economy. No industrial sector or public enterprise has escaped the forces of change that have swept through Mexico since the late 1980s. Manufacturers are rationalizing their operations and modernizing to meet the influx of foreign competition. Service providers are struggling to become more efficient and to offer their customers the latest products. For the first time in decades, government agencies have been forced to consider new methods as they react to budget cutbacks. And on a broader scale, the federal and state governments have embarked on ambitious plans to modernize Mexico's infrastructure. Increasingly, they are turning to the private sector to help make this happen.

This environment of pervasive change opens up opportunities for Canada, which has not been a prominent supplier to Mexico's industries. The rationalization initially brought about by economic reforms has been accelerated by the recent peso crisis. Both elements are forcing Mexican buyers and decision makers to consider alternative methods and new suppliers.

Five Priority Sectors

Within this general environment of opportunity, there are at least five sectors that are particularly promising, because Mexican needs mesh particularly well with established Canadian capabilities. These are also sectors for which many Canadian suppliers have those global product-mandates that are needed in order to move directly into Mexico. Significantly, the five sectors also represent areas where Canada's competitors have not yet established dominant positions.

Mexican buyers have generally recognized the nature and magnitude of their problems, but they have not yet selected the most appropriate technologies or suppliers that will help to create solutions. The five sectors of particular opportunity are:

Agriculture

Mexico's agriculture sector suffers from very poor productivity and it has been unable to meet the needs of the nation's rapidly growing population. The average farm size is only about 5 hectares, which has made it difficult for producers to adopt the latest genetic and processing technologies, or to take advantage of economies of scale. Recent agrarian reforms are changing this situation, by allowing landholders to form cooperatives. Canada has the technology to help Mexico bring about the agricultural revolution that it desperately needs.

Environment and Geomatics

Mexico faces environmental problems of crisis proportions. The problems are equally severe in the areas of solid waste, sewage and water treatment, air pollution, and toxic/biological refuse. Canada's proven track record in pollution control and environmental redemption systems create a natural fit between needs and capabilities.

Oil and Gas

Canada and Mexico have much in common in the way they have managed their petroleum resources. Both have pursued policies of aggressive government intervention to protect their resource endowments. But decades of government ownership and price supports have left Mexico's oil industry in an extremely unproductive state. Large amounts of energy are wasted, and much more remains unexploited. This is one of Canada's strongest areas of expertise.

Electric Power

Mexico's electric power system is both inefficient and inadequate to meet the nation's needs. Substantial amounts of energy are lost due to transmission losses and to an antiquated system of household metering. By one estimate, Mexico will need 14,639 megawatts of new generating capacity to meet projected electricity demand in the year 2003. In a reversal of past policies, the government has announced that it will rely on the private sector for about 60 percent of these needs. Canadian capabilities in the electric power sector are well-matched to these needs.

Advanced Manufacturing Equipment

Mexico's exports surged by 30 percent in 1995 as a result of the devaluation of the peso. But many manufacturers are hard pressed to take advantage of export opportunities because they cannot meet international standards of quality, consistency and reliability. Canada's established expertise in developing automated flexible manufacturing systems to serve its relatively small market are particularly adaptable to Mexican needs.

Emerging Sectors of Interest

In addition to the priority sectors listed above, there are several other sectors where significant trade already exists between Canada and Mexico. They are considered to be sectors of emerging Mexican demand.

Automotive Products and Services

Canada and Mexico have similar automotive sectors, dominated by branch plants of multinational manufacturers, in particular the American "Big Three" automotive manufacturers. For the most part, their purchases are determined by continental and even global policies. Canadian producers participate in this trade through their affiliations with the major producers. In addition, the propensity of Mexican consumers to keep their cars for a long time has created a large market for aftermarket parts, accessories and service.

Mining

Mexico has substantial untapped reserves of many important minerals. The development of the mining industry has been held back by government restrictions, but these have now been largely removed. Canadian mining companies have moved into Mexico and are major players in new mining developments. The recognition of Canada's mining capabilities can be extended to sales of mining equipment and services.

Transportation Systems

Canada gained an early entry into the Mexican market for transportation systems and equipment when Montreal-based Bombardier took over *Concarril*, the major Mexican producer of rapid transit equipment and rail cars. This market is getting bigger as Mexico's rapid transit systems expand to meet the needs of the nation's rapidly growing and increasingly urbanized population.

Cultural and Educational Products

Mexico is spending increasingly large amounts of money on social development programs. The proportion of gross domestic product (GDP) spent on education is expected to rise to 8 percent by 2000, compared with just over 5 percent in 1993. In spite of the obvious cultural differences, Canada's success in the educational and cultural areas is recognized in Mexico and is likely to lead to new opportunities.

Advanced Technologies

Mexico, like Canada, has used technology to tie together a diverse and geographically disparate population. But its capabilities are much less advanced. In particular, there is a serious lack of geographic information. Among other problems, some 90 percent of Mexico's property taxes go uncollected due to the lack of adequate cadastral data. Canada has a proven track record in this area along with proven systems available for sale.

Despite the tremendous progress it has made over the past decade, Mexico continues to display many of the characteristics of a developing economy. The peso crisis of 1994 demonstrated just how fragile its economic foundations were and showed that doing business in Mexico carries more risk and demands more caution than selling to the United States. This, however, should be taken as an argument in favour of prudence rather than as a reason to abandon doing business in Mexico. For those who are willing to take the time and make the effort, Mexico continues to offer striking opportunities. Finding appropriate financing is key to taking advantage of those prospects.

THE NEED FOR FINANCING

In general, business financing bridges the gap between the outflow of cash to pay for the ongoing costs associated with the operations of a business — such as its establishment, production, operations, expansion, research and development (R&D) — and the inflow of revenues generated by sales.

Even established and highly profitable businesses may occasionally need financing. This can happen, for example, if a company wins a large manufacturing contract. To make the sale, it may have to expand its production facilities, hire temporary workers or purchase additional inputs such as raw materials or components. All of this may involve additional costs that have to be paid for up-front, long before the buyer takes delivery of the merchandise and issues instructions for payment.

Not every business needs financing, however. In some cases, there are few additional start-up costs involved in a new contract. This is also true of smaller contracts or in certain kinds of service businesses where the infrastructure to carry out the contract is already in place.

The need for business financing, therefore, is determined by:

- the difference between what a company already has and what it needs to make a sale;
- the length of time between incurring up-front expenses and receiving payment; and
- the size of the up-front payments involved relative to the firm's normal cashflows.

The type of financing a company should look for will depend on:

- the amount of capital required
- the length of time for which it is needed
- the risks involved
- the security available

In each of these instances, however, an international transaction will involve additional factors that make it more complex than a simple domestic sale.

- An export sale will always require relatively more capital, because it involves additional charges such as transportation, insurance and customs.
- The gap between incurring additional costs and receiving payment will always be longer in exporting since it must include time for transport, customs clearance, and the remittance of payments across borders.
- Export sales always carry additional risks associated with currency fluctuations, default and dispute settlement across borders, or political factors.

As a result, the nature of the security required by those financing the firm may differ from what would be required for a domestic sale. The characteristics that make financing exports different from financing domestic sales have led to the creation of financing techniques and instruments.

EXPORT STRATEGIES

There are many ways in which a Canadian firm can export to Mexico. The simplest is to export indirectly through a trading house or export management company, or by selling components or services to a firm that does export directly. Indirect exporting minimizes the risks incurred by the Canadian producer, but it also reduces overall profitability and control. Companies that are seriously interested in foreign markets quickly move to direct exporting. This means that they assume the responsibility for selling and shipping goods, or for providing services to Mexican buyers. This type of exporting, however, involves commitment and attention to detail as well as securing appropriate forms of financing.

GOODS EXPORTS

Much direct exporting to Mexico involves shipping goods. In such transactions, financing may be required to cover the costs of the additional production that is needed to fill a new order from Mexico when existing inventories cannot do so. These additional costs might include:

- purchasing additional raw materials
- buying semi-finished components
- purchasing new production equipment, a facility upgrade or an expansion
- paying overtime to existing production workers

- hiring additional full- or part-time employees
- modifying the product to suit the Mexican market
- packing and shipping
- landing and distributing the goods in Mexico

Much depends on the size of the contract relative to a firm's previous activities. Also important is the length of the contract and whether or not it represents a one-time transaction or the beginning of an ongoing relationship. A significant order that does not return revenue for half a year or more can actually bankrupt a small company that is not prepared to weather a period of negative cashflow. If an export sale cannot be financed out of current operations, the company will have to consider other financing methods.

One possible approach is to seek financing on the strength of the signed contract with the Mexican purchaser. Securing such financing, however, cannot be taken for granted. Much depends on the reputation of the Canadian exporter, the credibility of the Mexican buyer, and the viability and timing of the proposed transaction.

If unable to secure financing against the contract, the Canadian exporter can explore several alternatives. For example, it may be possible to borrow capital against inventories held by the company or to mortgage assets such as land or buildings.

If long-term financing is not available, the exporter might explore ways of shortening the period during which cashflow is negative. One possibility is to factor receivables as soon as the goods are shipped rather than waiting for payment to arrive from Mexico. This involves selling invoices such as bills of exchange or letters of credit (L/Cs) at a discount to a financial institution willing to make immediate payment. The purchasing financial institution then assumes all risks and responsibilities associated with collecting payment from the Mexican buyer. The exporter, however, receives an immediate inflow of capital that can then be applied to further operations.

Export of Services

Canadian service providers are becoming increasingly aware of significant opportunities for exporting their services to Mexico. For example, the North American Free Trade Agreement (NAFTA) has opened up competition for Mexican federal government procurement contracts to companies from both Canada and the United States. This means that Canadian service providers can bid on an equal footing with their Mexican and American counterparts for service contracts that exceed US $50,000. The sole exception is for services associated with construction contracts, which have higher thresholds.

Financing the export of services to Mexico poses a different set of challenges. On the one hand, the export of certain types of legal, accounting, and consulting services may actually require little in the way of additional financing beyond covering the costs of communication and travel. If short-term capital is required, this may be covered by existing credit cards or bank lines of credit.

The service exporter can also negotiate progress payments with the Mexican buyer to ensure that cash starts flowing into the company as different parts of the contract are completed. Negotiating advance or progress payments is a common practice in many Mexican service contracts. In the case of larger contracts, however, Mexican customers may demand that these advances or progress payments be secured by performance bonds, to ensure that the service is performed to the satisfaction of the purchaser. The service exporter may have to place a significant amount of capital into such a bond and this can limit working capital, affect lines of credit, and increase the risks involved in executing the terms of the contract.

It should be added that the provision of services to Mexico from Canada can only be considered a short-term strategy. To a large degree, service companies depend on personal contacts and personal delivery of what they have to offer. In the long term, if Canadian service providers want to develop and strengthen their exports to Mexico, they should establish a presence in that market. This will not only help to satisfy customers, it will go a long way toward simplifying financial transactions with bankers and creditors.

All of this suggests that for service contracts extending over a longer term or associated with bigger projects, some kind of financing will be required. The exporter may need to raise capital to:

- set up sophisticated communications links between the Canadian office and the Mexican client;
- move employees to Mexico and maintain them there;
- establish a permanent office in Mexico; and
- put up a large performance bond for the duration of a contract.

Securing the financing for such purposes may not be easy. Unlike goods exporters, service providers usually have few tangible assets that they can offer a financial institution as collateral. Thus, while it is relatively easy for manufacturers to borrow against inventories and receivables, service providers must often look at alternatives.

One option that is becoming increasingly popular with service exporters is to find a Canadian or Mexican partner to share some of the costs involved or contribute infrastructure to the undertaking. Another option is to look for equity financing instead of debt: there may be investors willing to contribute capital to the Mexican venture. If the service exporter is unwilling to surrender control over the parent company in Canada, it can structure the Mexican operation as a separate entity, the shares of which can be made available to investors.

The export of services from Canada to Mexico is not as well-established as the export of goods. However, the rewards for making the effort are potentially large. If it is to keep evolving, the Mexican economy needs a wide range of sophisticated services, especially in technologically-advanced infrastructure development. Services connected with telecommunications, construction, and project management are among the most promising areas for Canadian expansion in the future.

PARTNERSHIPS

The risks and complexity associated with direct exports are leading a growing number of firms to look for foreign partners. Such arrangements are especially helpful to smaller firms who can benefit from the experience and contacts of a partner in the target country. Many Canadian firms have succeeded in penetrating the Mexican market because they have first found a Mexican firm with which they could cooperate for mutual advantage.

Many different types of partnering arrangements are available to the Canadian exporter. Among the most important are:

- Informal strategic alliances that can represent little more than an agreement to share information.
- Formal joint ventures, in which the Canadian and Mexican partners each contribute capital, expertise or technology to create a separate corporate entity in which they share ownership.
- Franchises, in which one side sells the other the right to use a business process and corporate identity.
- Mergers, in which a Canadian and Mexican firm exchange shares and become a single corporate entity.
- Acquisitions, in which one company purchases another.
- Co-development agreements, in which firms cooperate to perform pre-competitive basic research.
- Co-marketing or co-manufacturing agreements, in which one company offers another access to marketing or manufacturing infrastructure as a way of filling gaps in their own line of offerings.

Each of these different partnership types involves unique financing considerations. Canadian firms interested in using the partnership route to enter the Mexican market should understand the financing implications of each form of partnership before deciding on what suits their own best interests.

FINANCING PARTNERSHIPS

Partnership Type	Financing Requirement	Key Issues
Strategic alliance	Potentially minimal.	Ensuring commitment to the alliance so that it serves a useful purpose.
Joint venture	Depends on what the joint venture is for and what each side can contribute.	Defining who contributes what and agreeing on a valuation of each partner's contribution.
Franchise	The franchisee is responsible for securing the capital required to purchase the franchise.	Determining the "rules" by which the franchisee can exploit the franchise.
Merger	Potentially minimal if shares of equivalent value can be exchanged.	Determining the relative value of the companies involved.
Acquisition	Raising the capital required to purchase a controlling interest in the company to be acquired.	Putting an appropriate valuation on the company to be acquired.
Co-development	Covering the costs associated with each company's contribution to the consortium.	Ensuring that each partner in the research consortium makes a valuable contribution so there are no "free riders."
Co-marketing/ co-manufacturing	Set-up and start-up costs that could potentially be minimal.	Ensuring that both costs and profits are calculated and apportioned fairly.

Forms of Payment

The need for financing is closely connected to the way in which payment is to be made for an export transaction. Several payment options are available and care should be given to choosing the most suitable one. If financing options are not carefully considered, the exporting firm may find itself paying unnecessary interest rates or fees, or it may discover that the instrument chosen does not match the availability of financing to cover cashflow requirements.

For most short-term financing instruments, payment occurs within a year of the transaction date. Such financing is generally used to expand the exporter's operating line of credit. It thus bridges the gap between the time that payments need to be made to suppliers and the time that payments from foreign customers are received.

Importers will sometimes arrange short-term financing, thus minimizing or eliminating any costs and risks incurred by the exporter. If this is not feasible, financing rests exclusively with the exporter. In choosing among alternative financing options, the exporter must always weigh the advantages and disadvantages of each, especially in terms of cost, timing and risk. The extent to which risk is allocated among the exporter, importer and participating financial institutions is key to short-term financing and will be reflected in its final cost.

The most common short-term financing instruments are bills of exchange and letters of credit (L/Cs), both of which evolved in response to the times, distances and complexities of international trade. There is an inevitable gap from the moment that an export sale is made to the moment that payment is received. Even if the exporter has goods in inventory, they must still be packed and shipped, passed through customs and delivered to the final destination. The exporter is unlikely to undertake all of this effort without some reasonable assurance that payment will be made. On the other side, the buyer may not be willing to release funds until the goods are inspected and accepted.

Financing instruments such as the L/C address these uncertainties and delays by providing assurances to both sellers and buyers that payment will be made as long as the shipment conforms to all the terms specified in the purchase agreement.

Advance Payment

Cash in advance or prepayment usually involves payment for the goods either at the time that they are ordered, or prior to shipment. Another type involves progress payments for the design and manufacture of specialized equipment long before it is delivered to the foreign buyer.

Once payment has been made, the buyer has little leverage over the timing of the shipment, the quality of the goods, or receipt of documentation. Consequently, it is unlikely that such terms will be readily agreed to by most foreign buyers. The only buyers likely to accept such terms would be those who have a poor credit rating, who operate in an extremely risky political or economic environment, or who cannot get the specified goods or services from anyone else.

Payment in advance, either full or partial, eliminates the need for financing, eliminates any risk to the exporter and bolsters working capital. Although goods importers are rarely willing to pay on this basis, it may be worth trying to negotiate such an arrangement, especially in services contracts where charging an initial fee (on signing), followed by progress payments, is a relatively common practice.

Prepayment can be advantageous to both buyer and seller if financing costs (interest rates) are lower in the importer's country than in the exporter's country. In such a case, prepayment terms allow the transaction to be financed at a lower cost and prices to come down because the exporter does not incur the higher rates in his or her own country. Prepayment terms also allow the importer to avoid foreign exchange losses if the domestic currency depreciates against the exporter's currency during the period between contract signing and receipt of the goods.

Letters of Credit

One of the more common forms of payment for export transactions is the letter of credit (L/C). It is issued by a bank on behalf of the importer for a fee, and is generally payable to the exporter's bank, also for a fee, when the terms and conditions of the contract have been met.

In an L/C transaction, the buyer instructs its bank to send the letter of credit (L/C) to the exporter's bank. The L/C instructs the exporter's bank to pay the exporter upon presentation of specified documents, usually the shipping documents. Because payment is made only on presentation of these documents, the buyer is assured that the exporter will not be paid until the contract terms are met. Because the exporter knows that payment will be made when the documents are presented, the goods can be shipped without worry about payment. Both the importer and the exporter rely on their banks to protect their interests.

Letters of credit can take different forms. A documentary L/C requires presentation of the specified documentation before payment is made. A clean L/C requires only a simple demand for payment. Advisement of an L/C by the exporter's bank informs the exporter that an L/C was written by the importer. Confirmation of the L/C adds the guarantee of the exporter's bank that the exporter will be paid upon presentation of the documents specified. Letters of credit can be:

- Revocable or irrevocable: an irrevocable L/C cannot be amended or cancelled without the consent of all parties.

- Confirmed or unconfirmed: in the case of a confirmed L/C, the Canadian bank agrees to pay the exporter even if the Mexican institution defaults.
- Sight or term: these are L/Cs that are payable "on sight", immediately upon fulfillment of contract terms, or payable after a term specified in the L/C.

An irrevocable and confirmed L/C, that is payable on sight offers the exporter the optimal level of security. It also involves the highest fees.

Whatever the terms, the exporter should always strive to ensure that the language of the L/C is consistent with the contract agreed-upon between the exporter and the buyer. It should provide the simplest possible conditions for approval of payment and it should set strict limits on the time allowed for approval or disapproval of the invoice.

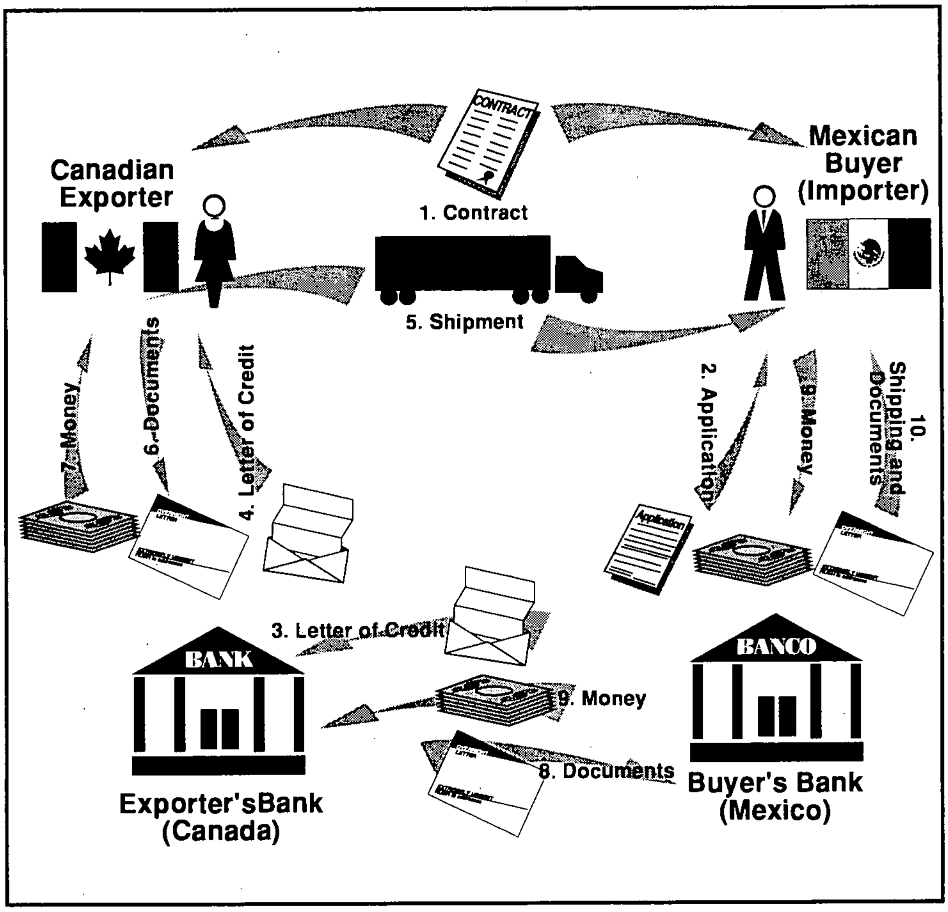
Letters of credit can be used in financing both buyers and sellers. If the exporter agrees to receiving a term draft that is payable 90 days after the documents are received by the buyer's bank, in effect the exporter is providing the buyer with short-term financing. At the same time, however, the term draft was accepted by the exporter's bank. This is referred to as a Bankers' Acceptance, and is regarded as a short-term obligation by the bank. In effect, the exporter holds a financial instrument that matures in 90 days (plus a grace period) and that can be sold at a discount to receive immediate cash. Thus, both buyer and seller have short-term financing.

Letters of credit are highly flexible instruments. For example, if an exporter wants to receive partial early payments, it is possible to send partial shipments as long as the L/C provides for this and deadlines are met. L/Cs can also contain "red clauses", that are often printed in red. These authorize the exporter's bank to make advances to the exporter against the guarantee of the importer's bank. Transferable L/Cs can be used to share the proceeds of a transaction between parties. Back-to-back L/Cs can be drawn up between exporter and buyer, and between the exporter and a supplier of inputs as a way of financing more complex transactions. Standby L/Cs are used to guarantee performance under a commercial contract and serve as bid bonds or advance payment guarantees. Finally, revolving L/Cs are automatically renewable as to time or amount in order to cover a series of shipments occurring over a period of time.

Drafts are often used to effect payment under a letter of credit. A bank draft is an order to pay drawn up by the party to whom payment is to be made, usually the exporter, and accepted by the party making the payment, usually the exporter's bank on behalf of the buyer. Drafts can be demand drafts (payable immediately upon presentation), sight drafts (payable after presentation) and term drafts (payable after a specified term, such as 90 days after presentation). In Canada, both sight and term drafts have three days of grace added before payment is due.

There are four major parties to a transaction involving a letter of credit: the importer, the importer's bank, the exporter's bank and the exporter. Each of the four parties is responsible for performing a number of tasks when using a letter of credit to effect payment.

FIGURE 1.1
TYPICAL LETTER OF CREDIT TRANSACTION



First, the buyer and exporter agree on the terms of their contract (1). The buyer then applies to its bank for an L/C in favour of the exporter (2). The L/C specifies which documents have to be presented to secure payment. The buyer's bank accepts the application, prepares the L/C and forwards it to the exporter's bank (3). The exporter's bank forwards the L/C to the exporter (4). The exporter ships the goods (5) according to the terms of the contract and presents the specified documents to the bank for payment (6). The exporter's bank checks the documents to ensure compliance with the L/C. It can then issue payment to the exporter (7) and forward the documents to the buyer's bank (8). The buyer's bank also checks the documents for compliance. If satisfied, it can release funds to the exporter's bank (9) and forward the shipping documents to the importer (10). With the shipping documents in hand, the importer can take delivery of the goods from the carrier.

On receiving an L/C, the exporter should carefully check its basic points and requirements. The exporter must also be satisfied that the credit amount is sufficient to cover the shipment and that all of the specified documents can be assembled and prepared in the time allowed for payment. Special documents such as consular invoices and certificates of quality may be especially difficult to procure on short notice. In addition, the details of the credit must be checked carefully as discrepancies may cause the credit to be unacceptable to either the exporter or the negotiating bank. Particular attention must be paid to issues such as the spelling of names, the description of the goods, their quantity, expiry dates, ports of shipment and destination, and insurance specifications.

If an examination of the L/C shows some conditions to be untenable, or if the terms of the sale have changed, the exporter should arrange to have the importer instruct the issuing bank to make a formal amendment to the L/C before shipment. If irregularities occur at the time of shipment or if documents go missing, the exporter has several options.

- Ask its bank to get the permission of the buyer's bank to negotiate the credit in spite of the irregularity or missing document.
- Guarantee repayment of the credit to the bank if the deficiency causes the documents to be rejected. The exporter's bank will then negotiate the L/C in spite of the deficiency, and send the documents to the buyer's bank which will either accept or reject them.
- Instruct the bank to forward the documents to the buyer's bank, with a request that it authorize the exporter's bank to make payment to the exporter. If the buyer's bank refuses to accept the deficient documents, the exporter regains control over the goods.

Collections

Bills of exchange or "collections" are another way of effecting payment for an export transaction. It is an order in writing, addressed by one person to another and signed by the person giving it. It requires the person to whom it is addressed to pay either on demand, or at a specific time, a sum of money on the order of a specified person or bearer.

Four players are involved in a collection: the exporter, the exporter's bank, the importer and the importer's bank. The bill of exchange and related documentation is forwarded by the exporter to the buyer through their banks. The collection order issued by the exporter to the bank lists the enclosed documents and specifies the terms as well as conditions of payment before the documents can be released to the buyer. The exporter's bank then contacts the buyer's bank to deliver these instructions. At this point, the buyer informs its own bank of its agreement to accept the goods and pay the draft.

The role of the banks in a collection is confined to an examination of the documents involved to ensure that terms, conditions and descriptions match. The banks do not examine the goods themselves. The exporter relies on them to transfer shipping and payment documents and to obtain payment after the goods are shipped. As a result, the exporter should ensure that the documents required in the collection order match the terms of the commercial contract between the exporter and importer, and that all documents are properly completed when submitted for collection.

Documentary collections are probably the most common form of payment used in international trade. They consist of a bill of exchange accompanied by commercial documents that transfer ownership to the importer after the payment is made for the goods. In a documentary collection, payment is obtained on submission of commercial documents such as invoices, shipping documents or documents of title. The documentary collection is a relatively secure means of payment because the bank will not release the goods without either payment or a promise to pay from the buyer.

In certain cases, however, "clean collections" are used to effect payment for an export transaction. These are not accompanied by shipping documents, usually because it has been previously agreed that preparation of these documents is the responsibility of the importer. In a clean collection, only financial documents such as bills of exchange, promissory notes, cheques, payment receipts or similar instruments are used to obtain payment.

A bill of exchange is used as a means of securing payment in a collection either immediately (if a demand bill is used), within two business days (if a sight bill is used), or at a future date (if a term bill is used). If a term bill is used, a bill of exchange can be costlier to the exporter than a letter of credit (L/C). In such cases, the exporter may have to borrow funds to cover the transaction until the bill comes due. In effect, this extends credit to the importer. There may be no alternative, however, especially in countries where the banking system is less developed and if L/Cs are unavailable. The incurred interest charges, however, are commonly added to the price paid by the buyer.

Where an accepted bill of exchange (or acceptance) has been tendered in exchange for the shipping documents, the exporter can arrange to discount the acceptance at the bank rather than wait until the bill matures before receiving cash. Acceptances can be discounted on either a recourse basis (the exporter guarantees the importer's payment of the bill) or a non-recourse basis (the bank agrees to accept the risk that the importer might not pay). Charges for discounting acceptances are based on an interest charge for the time until payment is due and on a risk premium to cover the possibility of non-payment.

Open Account Trading

Open account transactions are the simplest, cheapest, but also the riskiest way for the exporter to get paid, since any financing required is provided entirely by the exporting firm until the payment is received from the importer. Open account financing is, in fact, the way most domestic business is done: goods are shipped, an invoice is sent and payment is received sometime thereafter.

In open account trading, the exporter sends the goods, shipping documents, and an invoice to the buyer, all at the same time. Trading on open account allows the exporter to incur minimal documentation and transaction costs, but also to assume most of the risk in the transaction.

Generally, open account trading is only used where the exporter has established a trusted and ongoing relationship with the buyer. However, open account trading is popular because it is relatively easy. About 60 percent of Canada's export trade is conducted on open account terms, 70 percent of which is to the United States. It reflects a tendency of international trading partners to move to the simplest possible payment procedures once a relationship has been established. This also reflects pressures on the exporter to match competing credit offers. The need to match competitors' payment terms is especially acute in the United States where Canadians are often competing against American suppliers.

As Canada's trading relations with Mexico expand and develop, it is likely that more transactions will be settled on open account terms. The strengthening of links among North American financial institutions and credit agencies will undoubtedly facilitate this process.

If a firm chooses to deal on open account terms, it should do a thorough credit check on the client. It should speak with his or her bank, both suppliers and clients personally. A firm should not deal on open terms until it is completely satisfied with the financial risk it is assuming. Terms of payment should include an incentive to pay on time. For instance, if a firm has insurance against non-payment of accounts receivable, its co-insurance factor will be 10 percent. This 10 percent should be included in the price and the client advised that all payments received on time will receive a 10 percent credit or rebate.

If the buyer fails to respond to the invoice, collection procedures must be undertaken. This should be done in such as way as to secure payment without unnecessarily antagonizing what may still be a promising customer. The exporter might choose to mail a reminder of the bill or telephone the buyer with a request for payment. In the case of Mexico, collection often occurs in person. What is important is that the exporter determine the reasons for non-payment and secure a commitment to pay. If this proves impossible, it may be necessary to place the matter into the hands of a collection agency. Dun & Bradstreet Canada offers worldwide collection services through their international affiliates. Fees are calculated as a percentage of the amount collected. The Canadian exporter can also contact a Mexican collection agency or legal firm directly, although particular care must be taken to ensure that the costs of collection do not outweigh the expected proceeds.

The Role of Documentation

In short-term export transactions, it is extremely important that appropriate arrangements be made for payment. Unless this is done correctly, there will be costly delays. The key to getting paid in international trade is documentation. And the documentation must be letter perfect. For international financial transactions, 99 percent is a failing grade!

It is crucial that Canadian exporters take Mexican documentation requirements, including language of submission, with the utmost seriousness. Although the North American Free Trade Agreement (NAFTA) has gone a long way toward streamlining customs procedures, Mexican customs officials administer and enforce the remaining regulations very strictly. Getting even the smallest detail wrong can mean costly delays, or even fines. Serious offences may result in penalties that include confiscation or even criminal action.

In general, exporters should note that the NAFTA has led to major tariff reductions covering a wide array of goods. In 1994, however, Mexico began enforcing labelling laws and standards certification requirements at the border. Compliance with these regulations is the responsibility of the exporter.

The following are the most important (though not necessarily only) documents involved in the process of exporting goods from Canada to Mexico.

Commercial Invoice

This document, which should be prepared in Spanish, must be signed by the exporter and include:

- the date and place of issue
- the names and addresses of the exporter and the Mexican buyer
- a very detailed description of the merchandise, including quantities
- freight and insurance charges, since these are often subject to taxation
- a purchase order

Export Declaration (Form B-13)

This form is required by Canada Customs, and is used to provide Canadian policy makers with statistical data on export volumes, as well as to limit or prevent the export of certain types of controlled goods. For most items, there is a threshold of C $2,000 beyond which an export declaration form must be filled out.

Bill of Lading

This is a shipper's acknowledgement that the goods have indeed been received. A bill of lading, or a set of such bills if the shipment has been packaged in bundles or groups, should specify the nature and quantity of goods, and also identify the exporter, the buyer, as well as all intermediaries. In addition, ports of origin and destination should be noted.

Import Permit

Although there are fewer products in Mexico that are subject to import permits or quotas under the North American Free Trade Agreement (NAFTA), some 300 categories remain, largely in the areas of used machinery, autos and auto parts, luxury goods and some agricultural items.

If it is necessary to obtain an import permit, a delay of several months may ensue. In such cases, it is unwise to begin shipping goods before receipt of a permit issued by the *Secretaría de Commercio y Fomento Industrial (SECOFI)*, Secretariat of Commerce and Industrial Development.

Transit and Exportation Bond

This is required by U.S. authorities if the shipment is passing through American territory.

Packing List

If a number of packages are being sent to meet an order, a packing list must specify how many packages are being sent, what they contain, and volumes and weights in metric units.

Special Certificates

These can include health or safety certificates, or certificates of conformity. These may be requested if goods are subject to Mexican health or product standard regulations.

Certificate of Origin

To establish whether goods should qualify for preferential tariff treatment under the NAFTA, an exporter must certify that North American content requirements have been met. To support a certificate of origin, full records of the sources of inputs must be kept for five years. Mexican customs officials may want to see these documents to verify the status of a shipment. These records should be comprehensive, and include the final purchase price of the goods being exported, as well as the cost of all materials used in producing them.

Common Financing Techniques

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. The following section outlines some forms of financing available to the exporter.

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 credit worthiness of the company. Second, they issue credit based on accounts receivable, which is often roughly 75 percent of the 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.

If the exporter cannot obtain a line of credit or term loan from the commercial banks, he or she may turn to government agencies such as the Export Development Corporation (EDC), the Canadian Commercial Corporation (CCC), or the Canadian International Development Agency (CIDA). These institutions offer various financing products that can be used to bridge the financing gap. For example, the Canadian Commercial Corporation (CCC) is a federal agency that offers exporters a guarantee that can be used with commercial banks to secure pre-shipment financing beyond the normal credit lines that are available to exporters.

In some cases, financing is available to the buyer. International institutions such as the World Bank or the Inter-American Development Bank will make credits available to recipient countries for infrastructure projects or other types of development. Those credits, in turn, are available to purchasers who can use them to buy goods and services from prospective exporters.

Discounting Receivables

Companies can accelerate the inflow of cash by selling their receivables to another institution at a discount. Sometimes called factoring, this techniques 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 also freed from any risk of non-payment: the institution buying the receivable assumes the risk and the costs in the event of a default.

Banks and factoring houses will agree to purchase export receivables such as a collection or an open account invoice at a discount. This is likely to be a costly alternative, however, since the discount charged will also reflect the institution's assessment of the risks involved in the transaction. The receivables are converted entirely into immediate cash, or sometimes a partial cash payment is bundled with collection and credit risk protection.

If the exporter is able to negotiate a letter of credit (L/C) or some form of promissory note from the buyer, there is less risk involved. As a result, the L/C can be used as collateral or be discounted for immediate payment at banks and other financial institutions. The discount can be built into the price, and this pricing element generally pleases clients because it effectively provides them with money at a rate of 6 to 8 percent for a period of 90 to 180 days.

Canadian commercial banks are becoming more active in this kind of arrangement, especially if the contract with the Mexican purchaser is accompanied by a guarantee from a Mexican bank. In addition, both the Export Development Corporation (EDC) and the Canadian Commercial Corporation (CCC) offer financing against export receivables.

Depending upon the type of factoring required, an exporter can discount receivables through a bank, an export finance house or a factoring company. The most comprehensive service is offered by factoring companies and can include sales accounting and transaction status reports as well as the provision of cash to the exporter on the basis of invoices less the factor's charges. In effect, by taking over responsibility for collecting on the exporter's invoices, the factor offers the exporter a form of export credit insurance.

Factoring companies have international branches or affiliates through which they arrange for collection of payments. Moreover, they are closely linked to banks. In some cases, they may even be owned by a bank. Thus they find it easy to present bills of exchange and other credit instruments to the banks for payment. They can also readily obtain information about the status of any given transaction.

Exporters contemplating factoring should consult with their own bank. The bank will be able to advise on whether factoring is appropriate, and may be able to direct the exporter to an suitable provider of the service. Many of Canada's commercial banks offer factoring services. Alternatively, the exporter should make contact with export financing houses specializing in this function.

FORFAITING

Forfaiting involves the purchase of a series of bills of exchange (drawn up by the exporter) or promissory notes (issued by the buyer). The purchase usually occurs after the successful completion of a transaction and is usually performed at an all-in fixed rate. The exporting firm draws a series of bills of exchange accepted by the importer or the importer issues promissory notes due at regular intervals in favour of the exporter. The purchasing institution buys the bills or notes outright, at a discount that reflects the cost of the money over five years together with a margin reflecting the risk perceived to be involved. The purchasing institution assumes complete responsibility for all risks and the exporter is free of any responsibility in the event of a default.

The forfaiter will usually want promissory notes to be guaranteed, or avalized, by a bank with which it is familiar in the importer's country. The forfaiting institution may also require a guarantee from the exporter that the contract has been completed to the satisfaction of the importer, that payment is due, and that it will be made as the notes mature, in transferrable funds.

As a result of the transaction, the exporter can receive cash up-front, and the importer has credit for the period for which each bill or note is drawn. The forfaiting bank or company collects payment from the importer as each bill or note falls due. In the event of a default, the forfaiter has recourse to the bank that guaranteed the bills or notes. The period for which a forfaiter will purchase the series of bills of exchange or promissory notes can vary. Credit periods extending from one to five years are not uncommon, with bills or notes maturing every six months. The forfaiting bank or company may choose to sell these bills or notes at any time during the credit period. This can be done at a further discount to another organization, which will then collect from the importer at maturity.

Export-house Factoring

There are companies that specialize in managing an exporter's sales. This is done for a fee that is deducted from the proceeds of the export sales. In effect, the export house will make a discounted payment of cash to the exporting firm for its shipping documents or its receivables. The arrangements can take place either before or after a transaction is completed. The export house will purchase either the documents or the receivable, the invoice, from the exporter and will assume responsibility for accounting, invoicing and collecting payment from foreign buyers.

By using the services of an export house, an exporter may receive immediate cash, less an agreed discount, upon presentation of the shipping documents or receivables involved in a foreign transaction. The export house will check into the creditworthiness of the importer and may take out credit insurance. It will also want to be satisfied that the exporter has performed everything according to the terms of the contract. If all is in order, the export house will issue immediate payment to the exporter and then collect the debt from the importer, with no recourse against the exporter in the event of a default.

This type of arrangement can be entered into either on a case-by-case basis or as an ongoing agreement. An export house can relieve the exporter of the burden of managing and administering foreign collections, performing all functions relating to documentation, invoicing, collecting and accounting for foreign sales. To reduce its exposure in these transactions, the export house may establish an upper credit limit for each buyer-importer. The exporting firm can supply goods up to this limit and pass the invoices on to the export house, which will honour them. Collection of any invoices above the limit will be the responsibility of the exporting firm.

INSURANCE

In dealing with their financing needs, exporters should not forget insurance. Generally, insurance is available to cover two types of risk involved in international trade: the risk associated with transporting goods to a foreign market (freight or cargo insurance), and the risk associated with non-payment on the part of the buyer (commercial insurance). Cargo insurance can be obtained from insurance firms. Exporters or their banks can arrange for commercial insurance through the Export Development Corporation (EDC) or with the help of the Canadian Commercial Corporation (CCC).

The EDC insures almost any type of transaction, including services and large infrastructure projects. Its insurance program protects receivables against losses caused by commercial risks (e.g. insolvency of the foreign buyer, default on payments, repudiation of goods and termination of contract) or political events (e.g. difficulties in converting or transferring currency, cancellation of import or export permits, and war-related risks). In addition to its own insurance services, the EDC also offers documentary credits insurance to cover Canadian banks serving Canadian exporters whose foreign customers pay with irrevocable letters of credit.

THE PROS AND CONS OF FACTORING

Advantages
The exporter has more control over cashflow
Reduction or elimination of risks associated with non-payment
Reduced exposure to fluctuations in interest rates and currency exchange rates
Elimination of need for export credit insurance
Elimination of need for financial control and collection of export transaction
Disadvantages
Costs of services vary from institution to institution and require comparison shopping
The costs may be high relative to the value of the transaction
If the factoring institution only provides its services on low-risk transactions, the exporter may be exposed on higher-risk deals
Not every deal can be factored

Financing Capital Projects

The Mexican demand for capital projects is virtually unlimited, given the need to modernize and expand the country's infrastructure rapidly enough to support sustained economic growth. A growing and increasingly impatient population also expects to see tangible improvements in its quality of life.

There are, however, severe fiscal constraints on the Mexican government's ability to finance the construction of much-needed new infrastructure. As a result, the bulk of the funding for such projects is provided by international sources. These include private-sector providers of capital such as large multinational banks, international financial institutions (IFIs) such as the World Bank or the Inter-American Development Bank (IDB), and government agencies such as the Canadian International Development Agency (CIDA).

To take full advantage of Canadian and IFI financing mechanisms, it is necessary to structure a capital project venture to meet financing criteria that vary from one institution to another. However, any institution or agency approached for financing will insist on working with the firm to assess the risks involved. The most significant include:

- Developer risk: the project authority could become insolvent.
- Economic feasibility risk: the project might not make economic sense.
- Completion risk: the project could run out of capital before it is completed and never bring a return on the original investment.
- Market risk: changes in the marketplace might affect demand for the products or services represented by the project.
- Feedstock supply risk: a large production facility may simply not have access to the inputs it requires to operate at optimal capacity.
- Production risk: the facility may not perform as expected.
- Environmental risk: the project may do unforeseen harm to the environment.
- Sovereign risk: unexpected political changes may affect key aspects of the project.

Foreign private sector capital puts a high priority on managing and controlling the risks of capital investment in Mexico. This, in part, accounts for the popularity of the build-operate-transfer (BOT) approach. About half of all infrastructure investment in Mexico is now financed through BOT arrangements, which combine private capital with supplier credits and other type of financing. The innovative feature of a BOT project is that, when it is completed, it is the developer and not the client government that collects user fees until the project debt is repaid. After a specified period, the assets are turned over to the Mexican government. To date, however, there has been little Canadian involvement in Mexican BOT projects, partly because Canadian financial institutions have shown little interest in providing the capital needed to participate in them.

Credits for Capital Projects

In a highly competitive market, a major part of winning large infrastructure contracts in Mexico is the ability to arrange for medium-term (up to five years) and long-term (5 to 15 years) financing.

This kind of financing is made available by Canadian banks and other financial institutions, the Export Development Corporation (EDC) and other government agencies. In many cases, international financial institutions such as the World Bank or the Inter-American Development Bank (IDB) may also be involved. The size and scope of many long-term development projects means that several different sources of financing may be involved. It is not uncommon to arrange consortial financing for such undertakings. As a result, proposals for medium- to long-term financing will require a lengthy period of evaluation, and much documentation before they are approved. There are two basic types of medium- to long-term financing arrangements that exporters should look for: buyer credits and supplier credits.

Buyer Credits

Buyer credits are provided directly to the buyer or, through a line of credit allocation to a Mexican bank. When a buyer credit has been put into place, the exporter then sells to the lender on a non-recourse basis.

International financial institutions (IFIs) and foreign governments can make credits available for purchases associated with infrastructure development. Individual companies can also secure financing for their purchases. Such credits are often issued by IFIs for purchases by the governments of developing countries or economies in transition. Individual companies in these countries can also secure financing for purchases of technology or equipment that they need to upgrade or expand facilities. If local financing is unavailable, the buyer may ask the seller to get involved in securing the necessary capital. Ultimately, however, it is the buyer that is responsible for repayment of the loan or credit.

SUPPLIER CREDITS

Supplier credits, or forfaiting, is a form of financing through which the exporter can sell promissory medium-term notes with payment periods of up to five, or sometimes seven, years. The notes are received from the Mexican buyer and made out to a Canadian financial institution. The exporter receives cash after the notes are discounted at a fixed rate and the interest is deducted. A guarantee from the buyer's bank is usually required.

Export leasing is a specialized form of medium- to long-term financing made available by the subsidiaries of some Canadian banks. They will pay the exporter cash for transfer of title and delivery of equipment, then collect payments from the Mexican leaseholder.

CONCESSIONAL TRADE FINANCING

Concessional trade financing involves providing credits or loans at below-market rates. For example, it is common for international financial institutions or governments to offer credits to purchasers in less-developed countries as a way of providing developmental assistance. Similarly, low-interest loans are provided to exporters as a way of encouraging expanded export activity. Generally, the intention behind such loans is to encourage small- and medium-sized enterprises (SMEs) to get involved in what would otherwise be marginal transactions. The unintended effect of such below-market lending, however, may also be to narrow the availability of capital for export, since lenders operating at commercial rates will be undercut by lenders offering concessional terms.

PERFORMANCE BONDS AND GUARANTEES

It is common in larger capital projects for the financing institutions to assume all risks associated with buyer default. On the other hand, the financing consortium may require performance bonds or guarantees from suppliers to ensure that the project is executed to a certain level of quality, on time and within budget. Design and general contractors, for example, may be asked to include letters of guarantee along with their bids, to provide assurance of their ability and intent to carry out the terms of a proposal. They may also be required to put up performance bonds against project performance, payment advances, quality of materials, general workmanship, and the type of equipment used in the development of physical facilities.

Types of Bonds and Guarantees

Bid bonds	Because issuing large international public tenders is a costly and time-consuming process, many such tenders require cash deposits of between 2 and 10 percent of the total contract amount before bidders will be considered. This ensures that applications will only be submitted by serious candidates with the resources to carry out the contract. Once the contract is awarded, the bid bonds will be cancelled for all applicants. The only exception is in the case of a successful applicant that fails to accept to carry out the contract. In that event, the bond compensates the foreign buyer for the costs of having to find another contractor to carry out the contract. Normally, prospective exporters secure financing for a bid bond from a banking institution.
Performance guarantees	Purchasers often request a performance guarantee for 5 to 25 percent of the contract amount to ensure that the supplier will satisfactorily perform all the obligations under the agreement. Suppliers will often ask a bank to issue a performance guarantee for them so as not to tie up their own capital. The performance guarantee is usually issued at the time of contract signing and continues until the project's end.
Advance payment guarantees	Firms supplying large and complex international projects may have to hire additional staff, expand capacity, re-tool, or perform design work before producing any deliverables. They will need advance payments to cover such costs. Since the buyer runs a risk that the supplier may not deliver after the advance is issued, the purchaser may insist on advance payment guarantees. In the event of non-delivery, the purchaser will recover the advances by calling the guarantee. The amount of the guarantee is usually reduced in stages to zero as the supplier provides deliverables against the advance payments.
Warranty guarantees	As might be expected from the name, the warranty guarantee provides compensation if goods, installations or buildings supplied under a capital projects contract do not perform as required within the period of the warranty.
Retention guarantee	Some contracts provide for a holdback of a portion of the payment until the purchaser is satisfied that all is in order. In this, they serve the same purpose as warranty guarantees. Holdbacks are especially common where ongoing service and maintenance is involved. If a supplier needs cash before the holdback is released, the supplier may ask a financial institution to issue a guarantee to the purchaser. The purchaser pays out the holdback and the financial institution assumes responsibility for repayment in the event that there is a problem.

Bonds are usually requested if the buyer advances payment or establishes a revolving fund. In responding to such a request, exporters should consider the implications. On the one hand, bonds may be a condition of securing a foreign contract, and they may put the exporter in a better position to negotiate progress payments. On the other hand, providing performance bonds can affect a company's line of credit, limit its working capital, and thereby increase the risk that the company might not complete the project. Companies intent on carrying out a particular project may find themselves in the position of having to finance the performance bond that is a prerequisite for getting the contract.

Performance bonds and guarantees are issued by surety companies or by banks. The surety company's performance bond assures the buyer that if the contractor fails in its obligations, the surety company will ensure that the contract is satisfactorily completed by another party without additional cost to the buyer. Performance bonds issued by banks are usually simple irrevocable letters of credit from which the foreign purchasing firm can get all or some of its money back if it is not satisfied with the exporter's performance.

To post a performance bond or guarantee, the exporting firm must persuade a surety company or bank that it has the technical, managerial and financial ability to carry out the terms of the contract with the foreign buyer. This will require submission of financial statements, banking information, the text of the proposed contract, information about other current contracts or bids, details about other bonds or guarantees issued, cashflow statements, and the exporter's assets.

For details of standard international practice as regards bonds and guarantees, prospective exporters are advised to consult the Uniform Rules for Contract Guarantees prepared by the International Chamber of Commerce (ICC). This document was prepared by an international committee of bankers to establish a set of clear and exhaustive rules governing international contracts. These rules are voluntary, but many countries adhere to them because of their clarity and fairness.

ASSESSING RISK

Risk is always present in any business transaction, but in domestic sales it is usually restricted to issues such as non-payment, for which recourse is usually readily available. The risks faced by exporters are far more diverse. Apart from the risk of non-payment, the exporter must always remember that fluctuations in exchange rates could turn a profitable deal into a financial disaster. Similarly, exporting into a country characterized by political or economic instability carries additional risks.

Exporters, or the governments representing them, have developed ways of reducing some of these risks by establishing international courts of arbitration, or entering into bilateral or multilateral agreements on trade and investment. There are also financing techniques that can be used to manage the exporter's exposure. Apart from purchasing export insurance that pays in the event of a default, the exporter can also guard against currency risks through techniques such as hedging or the purchase of futures contracts. Unlike financing sales or purchases, where capital is made available in advance to consummate a transaction, risk financing involves purchasing an "option" that will make capital available should a deal turn sour.

The amount and type of financing needed to support international transactions is heavily influenced by the amount of risk involved. If risks are high, they must be offset by additional financing or different types of financing. Assessing risk is thus an important next step in ensuring that your exporting activity in Mexico is adequately financed.

TYPES OF RISK

Risks are common to all businesses, and companies seeking to export are no exception: suppliers might fail to deliver inputs on time, partners might go bankrupt, market forces may become unfavourable, or sources of financing might dry up. Exporters, however, face an additional set of risks not encountered by firms focussed on domestic markets. These can be grouped into three broad categories:

1. Country risks: These cover possible actions by the government exercising jurisdiction over the foreign market. Governments can revoke permits, seize goods, engage in wars, freeze payments, boycott goods, impose sanctions or engage in a multitude of other acts that disrupt commerce. Even apparently friendly governments can become threatening if they are looking for ways of retaliating against trade practices with which they are unhappy.

2. Commercial risk: This refers to the possibility that a foreign buyer will not honour the terms of a contract, especially with regard to making payment. This is held to be riskier than a domestic default since it may be more difficult to establish the creditworthiness of a foreign buyer — especially in more remote markets — and it may also be more difficult to seek redress in such markets.

3. Foreign exchange risk: This refers to the possibility that the value of export receivables is reduced as a result of changes to exchange rates. Since export contracts usually specify payment several months after a deal is arranged, the relative values of the domestic and foreign currencies involved may be entirely different than they were at the time the deal was negotiated. The exporter runs the risk that whatever currency is specified as the medium of payment may no longer be worth as much on the day payment is due as it was on the day the deal was signed.

In the case of exporting from Canada to Mexico, country risk has eased somewhat as Mexico adopted a market orientation and joined Canada and the U.S. in the North American Free Trade Agreement (NAFTA). Even so, the country's political climate remains problematic. Regional grievances led to a short-lived uprising and ongoing unrest in the southern state of Chiapas. And the country's political system seems ripe for overhaul. It has long been dominated by the *Partido Revolucionario Institucional (PRI),* Institutional Revolutionary Party, which once again won the presidential elections in August of 1994. However, *PRI's* dominant position is increasingly being assailed by both external and internal challenges. In its assessment of Mexico's political climate, Canada's Export Development Corporation (EDC) has commented:

> *Despite its victory in the election of August 1994, there are considerable splits within the PRI. Fearing a loss of influence, many of the old guard are opposed to any efforts to further the democratization of the ruling party and the country as a whole. The situation in Chiapas has yet to be resolved and may be repeated in nearby states.*

The second type of risk remains significant for Canadian exporters. However, Mexico is pursuing a series of market-oriented reforms designed to bring it into line with Canada and the United States. This includes establishing commercial institutions such as credit rating services, as well as an effective legal framework. As a result, it is now easier to check on the creditworthiness of Mexican firms; as well, mechanisms for redress are becoming stronger.

It is the third type of risk, however, that remains the chief concern for Canadian firms doing business in Mexico. The business climate in Mexico was dramatically altered by the 40 percent fall in the value of the peso in December, 1994.

Devaluation of the Peso

The root causes of the peso's collapse included increased political instability, along with the discovery of undisclosed government expenditures that pushed the already high volume of short-term government debt beyond acceptable levels. These concerns drew attention to Mexico's persistently high current account deficits, running over US $20 billion annually since the early 1990s, and created a sudden and massive outflow of capital.

To stem the outflow and alleviate the crisis, President Clinton of the United States announced a direct line of US $20 billion in aid for Mexico. The package was supplemented by US $17.5 billion from the International Monetary Fund (IMF) and US $10 billion from the Bank for International Settlements.

For its part, the Mexican government made commitments to the IMF that included addressing the fundamental causes of the crisis. An emergency plan was launched to restructure the economy. The program includes cuts to public spending on services and infrastructure, accelerated privatization of a number of government enterprises, tax increases and a wage restraint agreement.

Most analysts believe these steps are appropriate and sufficient, but risks remain. Mexico is likely facing several years of high interest rates and unemployment. This might lead to renewed wage demands, social unrest because of falling real incomes, and political uncertainty that raises questions about the government's ability to maintain restrictive fiscal and monetary policies. Higher wage settlements and the bailout of troubled banks would imply a loose monetary policy that would be reflected in more currency weakness and higher inflation.

In 1995, the Mexican government faced a bleak year: 42 percent inflation, shrinkage in the overall economy by 2 percent, and an unemployment rate of 12 percent. All of these factors worked against Mexican purchases abroad, which fell dramatically as a result of the peso's collapse. However, the lower peso clearly improved the price competitiveness of Mexico's exports. For example, in the first quarter of 1995, Mexico had a trade surplus of US $540 million, as compared with a deficit of US $4.3 billion in the same period a year earlier.

Assessing Mexico's Country Risk

In contemplating exporting to Mexico, there is always the possibility that political or economic conditions might change for the worse. This could lead to problems for the Canadian exporter if current financial difficulties were to lead the Mexican government to impose import restrictions or block international payments. Given Mexico's commitment to opening up the country to international trade, there seems little immediate danger of expropriation, but the possibility of internal unrest and political instability cannot be ignored.

In assessing the risks associated with doing business in Mexico, the prospective exporter should be mindful of the possible ramifications of some or all of these factors:

- the impact of inflation and unemployment, the growth rate of the economy, government fiscal deficits, export earnings, the foreign debt load, the performance of key export sectors, the level of international reserves;
- the current political situation, the mechanisms used to resolve political conflicts, the role of the opposition, the condition of the ruling party, the way in which Mexico changes its government;
- the possibility of social or labour unrest, regional grievances, the impact of economic performance on unemployment, living standards, the distribution of wealth; and
- the possibility of renewed nationalistic tendencies coupled with movements toward protectionism, any sign of attempts to reverse the direction that economic liberalization has taken over the past decade.

Exporters do not need to master all of this information on their own. Fortunately, expert advice on sociological, political and economic circumstances and trends in Mexico is available at little or no cost from several sources in Canada:

- Major banks have teams of international economists and political analysts who have substantial resources of information available to them, including the input of local representatives.
- A periodical, *Institutional Investor*, carries regular reports on the risks associated with doing business in various countries.
- Trade commissioners at the Department and Foreign Affairs and International Trade (DFAIT), at the Canadian Embassy in Mexico City and the consulates in Monterrey and Guadalajara, or in offices in major centres across Canada have a wealth of contacts and expertise available to exporters.
- Workshops called Let's Talk Risk are sponsored by the Export Development Corporation (EDC) twice a year in many locations across Canada. Speakers sometimes are available to discuss Mexico. EDC also sells a publication, *Country Risk Workbook*, which assesses current conditions in Mexico along with over 50 other nations.
- A number of global business publications occasionally publish detailed supplements on Mexico. *The Economist*, a highly regarded British magazine, publishes a series of comprehensive surveys of individual nations on a quarterly basis, including one on Mexico.

Exporters contemplating doing business in Mexico should consult with one of these sources for an assessment of the country risks involved.

Such analysts often use a checklist approach to evaluate these diverse factors. Sometimes they weigh certain financial ratios if they seem particularly important. Occasionally, they rely heavily on econometric modelling.

Whatever the approach, the ultimate objective of the institution providing export financing is to quantify the country risk so that it can be input into calculations of fees, interest or other charges. This can be a daunting task, given the always somewhat unpredictable human element underlying the political process.

On the whole, however, country risk professionals have achieved an impressive track record. Canada's EDC, for example, is active in over 55 foreign markets, many of them quite turbulent. Yet the EDC seems to have been reasonably successful in assessing risk. In 1993, for example, export losses for the riskier non-American markets abroad were about 20 percent of the total — about the same proportion as these markets hold in all Canadian trade. In other words, the EDC's risk assessment techniques succeeded in minimizing losses in these more difficult markets. This suggests that when properly performed, country risk analysis can indeed be effective.

As an example, in 1995 the EDC's country risk analysts for Mexico were reporting serious increases in payment delays for transactions because Mexican partners were asking for extensions. They were advising Canadian exporters to exercise caution since the peso's devaluation and higher borrowing costs were putting considerable pressure on Mexican firms, especially those that relied heavily on the purchase of imported goods. In the short term, the EDC was urging Canadian exporters to be careful. Over the long term, however, the EDC's assessment was more optimistic.

Assessing Commercial Risk in Mexico

The commercial default of foreign buyers is by far the biggest factor underlying losses by Canadian exporters. This highlights the vital importance of thoroughly assessing the creditworthiness and business capability of a foreign buyer. According to a 1992 survey by the EDC, commercial default by foreign buyers accounted for more than two thirds of all exporter losses. Buyer insolvency or bankruptcy, together with political or economic factors, accounted for most of the rest.

Minimizing Commercial Risk

In order to minimize commercial risk, do the following prior to signing a contract:

1. Check with the Export Development Corporation (EDC) to see if the contract can be insured. If it can, the EDC will do most of the following points.
2. Perform a credit check with a credit agency.
3. Contact the Canadian Embassy in Mexico City or the consulates in Monterrey and Guadalajara, to see if they have any information on the reputation or performance of the Mexican buyer.
4. Check with a local bank to ascertain the creditworthiness of the customer and any services they may recommend to minimize commercial risk.
5. Check with banks in Mexico to see if the Mexican firm is known to them and to find out about any credit services they may recommend.
6. Be aware of all the costs associated with this risk reduction strategy and incorporate them in the price of the bid. For example, there are fees associated with measures such as establishing performance bonds or drawing up letters of credit (L/Cs).
7. Be sure the contract specifies payment dates for established milestones. Contracts should include penalty charges for late payment. Also, ensure your contract specifies a reliable dispute settlement mechanism (such as putting payments in an escrow account) and an arbitration process (such as referring a dispute to a neutral third party for a judgement).
8. Work with a reputable local partner who has a good relationship with the customer. The local partner is in a better position to ensure payment.
9. If working with a partner or members of a consortium, be sure that work and payment arrangements are formalized in contracts. In most cases, the client should only be presented with one bill managed by the lead company. Capital and lines of credit should be arranged for the whole team, since this is much easier than having individual lines. Local partners

It is not easy to determine the creditworthiness of a foreign buyer, given that the prospective customer is operating in a legal, accounting and commercial environment that is, in the case of Mexico, quite different from Canada's. What should an exporter be looking for? EDC takes the following approach:

> *The type of information on which EDC bases its assessment on credit limits includes credit agency and/or bank reports obtained from recognized, disinterested credit information sources which provide background on the principles, the operation of the business, and the history of the company. In addition, sufficient financial information is required to enable EDC to determine the firm's ability to pay. Sometimes this is contained in the agency or bank report while other times it is necessary to obtain the buyer's latest financial statements...*

Other information sources could include previous knowledge of the buyer, other suppliers' references, filed buyer data, buyer applications, bank reports, sales staff interviews, or a survey of the buyer's plant or operations.

To ensure that factors such as the buyer's payment record, background and financial strength are covered comprehensively, the exporter may wish to use a checklist. It can then be weighted, using a scale of relative importance based on an individual exporter's priorities and experience. The final numbers can then be assessed through credit scoring, with marginal scores usually requiring a judgement call on the part of the exporter's senior management.

There are two factors that should be included in a credit checklist: information about the Mexican firm's credit character, such as its track record of meeting commitments, and the buyer's financial strength, that is, its ability to undertake new commitments.

The best way to assess a buyer's credit character is to look at how well it is paying and performing under its existing contracts. That can be established by examining how the buying firm settles its accounts, what terms of credit are available to it, and which levels of credit have been extended to it both now and in the past. Other factors to consider include the buyer's banking relationships and references, quality of ownership and management, and related issues such as the stability of the company's workforce, the quality of its technology, and its reputation within the business community.

Different accounting standards in Mexico complicate the task of assessing the buyer's exact financial strength. However, it is generally possible to achieve a functional approximation by working from numbers to be found in the company's balance sheet and income statements. From that data, the exporter can calculate the buyer's vital financial ratios, including liquidity. If possible, the exporter should match what is known of the buyer's current assets, including cash, securities, receivables and inventory, against the firm's short-term obligations, which include accounts payable and repayment of debt. This will provide an initial impression of the buyer's ability to pay.

For a fuller picture, the exporter can establish a current ratio by dividing total current assets by current liabilities. Ideally, that would produce a ratio falling somewhere between 2.0 and 3.0.

The portrait of the buyer is more complete and accurate when the exporter establishes a quick ratio, calculated by excluding inventory from the buyer's assets, then dividing the current assets by current liabilities. A quick ratio of 1.5 to 2.0 should generally be considered acceptable, given that this figure builds-in any problems the buyer might have in moving inventory.

In assessing creditworthiness, the exporter also needs to know if the buyer is having trouble collecting accounts promptly. This can be established by calculating the accounts receivable turnover, which is determined by dividing the firm's total annual sales by the accounts receivable balance. The buyer's average collection period can then determined by dividing 365 days by the accounts receivable turnover.

Finally, the pace of inventory turnover is an important indicator of how well a company is doing. It varies from industry to industry, but a very slow rate may mean the buyer is carrying low quality goods on the books. Inventory turnover can be calculated by dividing sales of goods (or the more difficult to establish cost of goods) by the inventory balance.

ASSESSING FOREIGN EXCHANGE RISK

On the face of it, foreign exchange seems fairly straightforward. It involves trading one currency for another. One might think that such transactions ought to be transparent and predictable if not completely stable.

For about 30 years after the end of World War II, this was largely true because governments followed fixed-rate exchange policies. In the 1970s, however, the world began moving toward a free market in foreign exchange. By the mid 1990s, currency trading was a trillion-dollar global market, a high-tech money bazaar that is amazingly fast-paced, bewilderingly multifaceted and volatile beyond anything the world has ever seen.

No exporting company can afford to ignore the new rules of the money trading game when preparing its business plan or closing a deal. Currency fluctuations can easily erase the profit expected from any export transaction but they can also overturn the whole corporate game plan for penetrating a foreign market.

Mexico provides a textbook example of how currency fluctuations affect international trade. The sudden 40 percent fall in the value of the peso in December 1994 cast a significant shadow over the global economy. As a result, when the leaders of the world's major industrial powers met in Halifax, Nova Scotia in June 1995, consideration was given to what measures might be used to reregulate global foreign exchange markets. Meanwhile, the aftershocks of the currency crisis continue to be felt and the Mexican economy remains fragile.

The lower peso boosted the price competitiveness of Mexico's export sector. In the first quarter of 1995, Mexico had a trade surplus of US $540 million, compared with a deficit of US $4.3 billion in the same period a year earlier. Some Canadian firms, generally highly liquid multinationals, actually benefitted because their exports to Mexico were linked to Mexico's ability to export or re-export its own products. Other Canadian firms, however, were reconsidering the viability of exporting to Mexico since their deals were made with domestically oriented Mexican customers whose ability to pay for foreign goods had been severely curtailed.

It may be that the collapse of the peso takes the form of a relatively short, sharp shock rather than a long-term upheaval. It may also be that such an event will not recur in this generation. But no one can be sure. Given this inevitable uncertainty, one that is ever present in international trade, business people have devised effective ways of managing foreign exchange risk to protect themselves from shifts in currency markets.

FORECASTING FOREIGN EXCHANGE RATES

Checking how many pesos a dollar will currently buy is as simple as looking at the charts carried in every major newspaper. The "spot" rate will indicate the price of a currency available for immediate delivery. Slight delays of up to a day may accompany the purchase of very large sums of a foreign currency.

The currency charts in the newspapers will generally also indicate the "forward" rate, which is the cost of acquiring the pesos today, for delivery at a specific future date. Examining the forward rate is important: it can help to determine the real dollar value of the peso payment that will ultimately be received. By using the forward market, an exporter can lock in the purchase of a specified amount of currency at a given exchange rate, and thus eliminate a major source of uncertainty and risk.

Forward rates are set by the market through a complex process that reflects the actions and attitudes of a wide variety of market participants, of which there are four main types:

1. Arbitrageurs seek to profit from variations in market values that may exist at the same time, but in different places. Typically, an arbitrageur might take advantage of a window of opportunity by executing a "swap" that could involve selling dollars for pesos today while simultaneously buying a forward contract to reverse the process several months hence.

2. Traders in foreign exchange are active in the market either on behalf of themselves, or for clients such as businesses, governments or wealthy individuals. The experience, expertise and contacts that professional currency traders possess generally allow them to profit from even slight fluctuations in the market, and the large volumes of currencies that traders have at their disposal mean small margins of profit can translate into lucrative rewards.

3. Hedgers do not generally focus on the profit potential of foreign exchange dealings. Instead, they consider the risks involved as a necessary evil to be minimized to the full extent possible. Accordingly, hedgers are very active in the forward market as they seek to insure the real value of foreign assets or receivables.

4. Speculators simply bet that they possess an insight into the direction of change in currency valuations. They generally ignore hedging their bets in the belief that this would curtail the gains to be made if the insight proves to be valid.

On any given day, an assortment of arbitrageurs, traders, hedgers and speculators will buy and sell Mexican pesos and Canadian dollars on the basis of their needs and perceptions. There is no truly comprehensive or scientific explanation for the actions or reactions of all these participants. As much depends on what this market thinks is going to happen as it does on what is really happening.

As a practical matter, a Canadian exporter is usually concerned with the behaviour of currency markets only to the extent that they pose risks. There are three main types of exposure which an exporter needs to measure and monitor.

1. Transaction exposure is the risk associated with a deal that has been launched but is not yet completed. A change in the value of the peso will affect the real value of both the cash inflow from receivables and outflow for costs in Mexico.

2. Translation exposure is of concern when a significant portion of an exporter's assets and liabilities are in pesos. Changes in the relative value of the peso will then have a major impact on the company's balance sheet and tax position. *The Handbook of the Canadian Institute of Chartered Accountants* provides a guide to the complex reporting issues that arise from translation exposure.

3. Economic exposure is a broader but no less vital concern. The underlying viability of an export venture may be challenged when changes to the value of a currency create a new competitive equation. For example, the dramatic drop in the peso in late 1994 meant that many Mexican buyers could no long afford to pay for Canadian goods, even though the prices of the goods in Canadian dollars had not changed.

Dealing with these risks pose complex challenges. Fortunately, however, the exporter has several sophisticated tools for dealing with these challenges.

Forward Contract

A commercial bank will generally agree to signing a forward contract with an exporter, committing the bank to buy or sell a given number of pesos at a given date and at a given price. This relieves much of the pressure from the exporter. On the downside, however, the bank will add a margin to the forward rates set by the market. The exporter must settle the contract whether or not anticipated payments from the customer arrive in time. And, of course, the exporter foregoes the chance to profit from a favourable move in exchange rates.

Futures Contract

In a forward contract, the funds are provided by the banks. In a futures contract they are raised by a securities dealer who trades currencies on an open commodities market. In some instances, the exporter may find that the commissions to be paid to a dealer may be less than the fee that would be charged by a bank.

Money Market Hedge

Somewhat paradoxically, borrowing more pesos may be an effective way to eliminate peso transaction risk. This strategy — known as a money market hedge — involves covering a peso receivable due at a future date by undertaking to pay back in dollars an equal amount at the same rate. The pesos borrowed are immediately converted into dollars, thus avoiding the exchange risk. The downside in such a transaction may be a loss of real interest.

THE PESO MELTDOWN OF 1995

One could argue that when a developing nation like Mexico attracts the interest of international investors, the country will inevitably develop a current accounts deficit because it imports billions of dollars of capital equipment that has to be paid for by future exports. This need not pose a problem, however. The U.S., for example, was the world's biggest borrower at the beginning of this century.

Yet the peso certainly did become a problem. In fact, the collapse of the peso could have started a chain reaction that might have undermined the entire global financial system. This is why the U.S. organized a US $50 billion rescue package that included a standby loan from the International Monetary Fund (IMF). There was also support for currency stabilization under the North American Free Trade Agreement (NAFTA), and the Canadian government contributed C $1.5 billion to the effort. Canadian financial institutions also participated in an international funding initiative organized by Mexico's creditors.

"There is no question there was ripple effect from the peso collapse," says Alan Bowbyes, Vice President and General Manager, Latin America for Royal Bank of Canada. "Whether it was justifiable is questionable. Then again, in an era of globalized financial markets, money traders are so quick to act since, once behind, it is very hard to catch up.

"In effect, this was a wake-up call to a lot of countries with financial problems of one sort or another. The message was that things have changed. In the past, when a developing nation ran into difficulties, a small group of international bankers could meet and perhaps sort things out. Not this time. Mutual funds and government agencies are so involved in Mexico and other developing markets in Latin America and elsewhere that commercial banks are almost excluded from the process of resolving a crisis."

So how risky is the peso today? There is no easy answer. Paradoxically, Mexico stumbled just when, after joining the NAFTA, it should have finally been well on its way. The fundamentals — chief among them, guaranteed access to the North American market — never changed. Over the long term, they remain just as encouraging as they ever were.

CONTRACTUAL RISK SHIFTING AND SHARING

A Canadian exporter will sometimes find it possible to negotiate away all or part of the foreign currency risk associated with a deal. The Mexican firm may be willing to pay entirely or partly in Canadian dollars. Or price adjustments might be built into the contract to offset exchange rate fluctuations.

PRICING ADJUSTMENTS

In contract negotiations, it is sometimes possible to achieve a pricing adjustment, meaning that prices are quoted on the basis of the forward rate instead of the current, spot rate. This can be specified in the contract.

EXPOSURE NETTING

If a Canadian firm is both importing from and exporting to Mexico, exposures can be matched and thus offset. This strategy, known as exposure netting, will require careful cashflow planning — but can be very effective.

FOREIGN CURRENCY OPTIONS

In exchange for a premium, an exporter can acquire a foreign currency option that would give the company the right — but not the duty — to buy (call option) or sell (put option) a specified number of pesos at a given price within an established timeframe. This is a highly flexible tool for minimizing risk, but one that requires much time-consuming attention if it is to be used effectively.

How Much Financing?

Once the nature of the export transaction is defined and the financing implications are identified, the exporter's next step is to decide how much financing is actually needed. This involves:

- determining all of the costs that have to be incurred to accomplish the transaction;
- estimating the cashflow into and out of the company to identify periods of negative revenue; and
- evaluating all of the risks that could affect either the timing or the amount of revenues generated by the transaction.

Estimating Costs

The first step in estimating costs is to determine whether or not the proposed deal is financially viable, and what financing, if any, will be needed to complete it. Preparing a costing sheet is an easy way to do both. A simple computer spreadsheet can be customized to develop costing scenarios.

A costing sheet based on the items that are relevant to the transaction will allow a firm to determine its cost per unit. The result of this calculation should then be compared with the prices of competing goods or services in Mexico. If the costs seem uncompetitive, the costing sheet can be used to identify expenses that can be reduced or eliminated. The company can then develop a pricing strategy and a sense of its bottom line for use in negotiations with Mexican partners, agents, distributors, retailers or buyers.

Estimating costs is a prerequisite for financial planning and, if necessary, securing financing. For this, a company needs to develop a sense of what its aggregated costs are likely to be. In other words, the objective is to go beyond unit costs to estimate the total cost of the entire transaction. Once this has been done, a cashflow assessment can be prepared.

ESTIMATING COSTS

Step in Export Process	Possible Cost Items	INCOterm
Manufactured product	Research and development (R&D) Materials, components Labour Product or process modification	
Make the sale	Market research Communications Travel and accommodation Events (trade fairs, missions) Preparation of marketing materials Translation into Spanish Advertising Negotiations Legal or other fees Agent's commissions	Ex Works (EXW)
Arrange terms	Costs of drawing up letters of credit (L/Cs) etc. Preparation of financing presentation Financing charges Export insurance	
Prepare shipment	Labelling (in Spanish) Packaging for Mexican market Packing and crating Marking crate contents (in Spanish) Strapping Prepare documentation in Spanish (invoices, bills of lading, certificate of origin etc.) Cargo insurance Freight forwarder's fees	
Inland freight (bring to international carrier)	Loading Inland transport Tailgating Unloading	Free Carrier (FCA) Free Alongside Ship (FAS)

continued on next page

Step in export process	Possible cost items	INCOterm
Lading	Demurrage (for delays) Storage Wharfage Special charges (e.g. long, heavy loads, congestion etc.) Lading charges	Free On Board (FOB)
Transport to Mexico	Freight	Cost and Freight (C&F) Cost, Insurance and Freight (CIF) Carriage Paid To (CPT) Carriage and Insurance Paid to (CIP)
Land goods in Mexico	Unlading Storage	Delivered At Frontier (DAF) Delivered Ex Ship (DES) Delivered Duty Unpaid (DDU) Delivered Ex Quay (DEQ)
Clear customs	Duties Customs broker's fees	
Deliver to customer	Reloading charges Transport to final destination Unloading charges	Delivered Duty Paid (DDP)

PRICING

The costs associated with a transaction have to be compared with the income it is expected to generate. This involves the pricing of the exporter's goods and services. Most international trade experts consider pricing to be a marketing issue: the price of a good or service is closely linked to how attractive it will be to a target market.

Pricing Strategy and Market Entry

Strategy	Description
Static pricing	Charging the same price for all customers. It is seen as fair for all and easy to administer, but does not respond to price sensitivity and thus may not capture every potential buyer.
Flexible pricing	Charging different groups of consumers different prices as a means of capturing all possible demand in the marketplace. It requires positioning the product differently with different audiences.
Penetration pricing	Charging low prices to capture marketshare and knock competitors out of the game. Large sales volumes allow a company to benefit from economies of scale. Excessive use of this mechanism, however, runs the risk of eliciting a response in the form of anti-dumping legislation on the part of the government in the target market.
Market skimming	Charging premium prices and focussing on the wealthiest market segment as a way of maximizing profits from low sales volumes. This is often used when a new technology is introduced as a way of quickly recovering research and development (R&D) costs.
Market maintenance	Holding down prices to maintain marketshare, even if costs rise. For example, when the Mexican peso was devalued in December 1994, companies exporting to Mexico would have had to raise their prices drastically to cover their domestic costs. Some may not have done so, however, in order to keep their share of the Mexican market.

Despite its obvious connections with marketing, pricing is also a key factor in determining the bottom line, i.e. how profitable a transaction is likely to be. From a financing perspective, pricing shapes the absolute amount of income that can be expected from an export sale.

CASHFLOW

Cash is the life-blood of every business. As cash flows into and out of a firm, the expectation is that over the long term, more flows in than out, allowing for bonuses to employees and dividends to owners. Yet companies sometimes fail, even though their long-term economic health is sound, because they cannot manage their short-term cashflow effectively. An unexpected cash crunch that lasts too long can do irreparable damage to a company's operations and credibility.

Though effective cash management is important to all businesses, it is absolutely essential to the exporter. Compared with a purely domestic enterprise, an exporter must:

- Sell to a foreign customer base that may be less susceptible to the usual means of accelerating payment and less accessible in the event of a default.
- Contend with a variety of factors that can interrupt, disrupt or delay payments. These can include transmission delays, currency exchange fluctuations, and even the imposition of exchange controls.
- Use flexible payment terms as a sales tool more often and more aggressively than is the case in the domestic market.
- Incur proportionately higher costs (shipping, transportation, insurance, customs etc.) to achieve the same sales volume.

Some of these characteristics of international business serve to delay payments, others to make collection more risky, still others to lengthen the gap between incurring a cost and collecting revenues. Consequently, estimating probable cashflows and devising ways of financing them become critical for exporting enterprises.

A primary objective of export cashflow planning is to compare expected cash outlays with revenue inflows, and to do so over time. Companies should attempt to forecast these by using a cashflow planning sheet. Such a tool is based on the cost categories that a firm has identified. To fill out this cashflow sheet, it is necessary to consult the exporting cost sheet and consider when the costs incurred will have to be paid. These payouts should then be compared against the dates on which revenues are expected. The cumulative total at the bottom of the sheet should provide a running total of the company's cash position during any period.

It should be added that cashflow sheets can be prepared for a particular venture, such as exporting to Mexico, to test its impact on the firm. But they should also be drawn up for the company as a whole, since it is the entire firm that will ultimately be affected by any long period of negative cashflow in one of its projects.

Sample Cashflow Planning Sheet

Period	1	2	3	4
Costs				
Product				
Sales				
Financing				
Shipment preparation				
Inland freight				
Transport				
Landing				
Customs				
Delivery				
Financing charges				
Total cash outflow				
Revenues				
Cash advances				
Installment payments				
Due on settlement				
Drawbacks and holdbacks				
Factoring (sale of receivables)				
Total cash inflow				
Balance for period				
Cash at beginning of period				
Cash at end of period				
Cumulative total				

A strongly negative cashflow projection should not be taken as a reason for cancelling an export deal. Instead, it should be seen as a warning to the exporter, to make appropriate financial counter-arrangements in advance. Faced with a protracted period of negative cashflow, the exporter can opt for one of three basic strategies:

- seek different terms of sale from the buyer;
- adopt internal measures to manage for cash; or
- secure external financing.

Revising the Terms of Sale

If the expected cashflow connected with an export sale is likely to cause problems, it may be possible to revise the terms under which the goods are sold. Generally, these terms define the relative responsibilities of the buyer and the seller, and specify at what point in the process title to the goods is to be transferred to the buyer and payment is to be remitted.

One possibility is to specify a method of payment that brings cash to the seller at an earlier point in the process. An exporter that is strapped for cash may ask the buyer for cash in advance, or try to get an agreement to advance the date on which payment is specified in a letter or credit or collection. Of course, the buyer may not agree to such a proposal, especially since it increases his or her own risks.

Methods of Payment Used in International Trade

Method	Time of Payment	Goods Available to Buyer	Risk to Exporter	Risk to Importer
Cash in advance	Before shipment	After payment	None	Reliance on exporter to ship goods as ordered
Letter of Credit (L/C)				
Sight draft	After shipment	After shipment	Little or none, depending on letters of credit (L/Cs) terms and issuing/confirming bank	Assured shipment but relies on exporter to ship goods described in documents
Time draft	Accepted by issuing/confirming bank to mature on a specific future date after shipment	After acceptance is created		Assured shipment but relies on exporter to ship goods described in documents
Collection				
Documents against payment (sight draft)	On presentation of draft to buyer	After payment	If draft unpaid, must dispose of goods. Incurs exchange risks etc.	Same as L/C unless allowed to inspect goods before payment
Documents against acceptances (time draft)	On maturity of draft accepted by buyer	After draft acceptance and before payment	Relies on buyer to pay draft at maturity	None
Open account	As agreed	Before payment	Relies on buyer to pay account as agreed upon	None

Source: Supplied by Livingston Trade Services.

Another option available to the cash-strapped exporter is to specify terms of trade that would transfer more of the responsibility for the transaction to the buyer. Trade terms define who is responsible for the different steps in the export process. For example, the terms of sale may specify that the goods are to be made available to the buyer at the exporter's premises. This is known as an "ex works" (EXW) arrangement. In this instance, the buyer assumes responsibility for all the steps connected with moving the goods to the final destination.

At the other extreme, the exporter may agree to assume responsibility for transporting the goods, clearing them through customs and delivering them to the buyer's premises. Known as a "delivered duty paid" (DDP) transaction, this confers maximum responsibility on the exporter.

Terms such as EXW and DDP are two of the thirteen INCOterms developed by the International Chamber of Commerce to define different divisions of responsibility between the parties to an international transaction. These standardized terms help to define the parameters of a deal and can also be crucial in resolving contractual disputes.

INCOTERMS

Category	Term	Explanation	Description
E terms	EXW	Ex Works	defines a transaction in which the seller makes goods available to the buyer at the seller's own premises
F terms	FCA FAS FOB	Free Carrier Free Alongside Ship Free On Board	specify that the seller is to deliver the goods to a carrier appointed by the buyer
C terms	C&F or CFR CIF CPT CIP	Cost and Freight Cost, Insurance and Freight Carriage Paid To Carriage and Insurance Paid To	cover transactions in which the seller assumes responsibility for arranging carriage, but does not assume the risk of any loss, damage or additional costs due to events occurring after shipment and dispatch
D terms	DAF DES DEQ DDU DDP	Delivered At Frontier Delivered Ex Ship Delivered Ex Quay "Duty Paid" Delivered Duty Unpaid Delivered Duty Paid	cover deals in which the seller bears all costs and risks needed to bring the goods to the country of destination

Each term will have a direct impact on a company's cash position. In an EXW transaction, the goods are made available to the buyer at the factory gate and the exporter incurs no further costs. At the other extreme, the DDP transaction requires the exporter to bear all risks and costs until the goods arrive at their final destination. Clearly these different levels of risk and responsibility will be reflected in the purchase price that is negotiated: buyers will pay less for goods EXW than they will for goods DDP. What may be more important for a cash-strapped exporter, however, is that the "E" and "F" terms of sale will place less strain on cashflow than the "C" or "D" terms.

MANAGING FOR CASH

Managing for cash involves measures to speed up the receipt of cash and slow down its outflow. The most common cash management techniques include the following:

- deposit cheques immediately;
- control petty cash and advances;
- use credit cards for employee expenses;
- pay taxes and bills only when due;
- do not prepay for items such as insurance;
- put surplus cash into short-term, interest-bearing deposit instruments;
- make the most of benefits available under the tax laws;
- establish limits on the credit allowed customers;
- use the information supplied by credit agencies, banks, and bondrating services to establish appropriate credit terms for customers;
- invoice promptly;
- monitor receivables;
- charge interest on overdue accounts;
- cut off overdue accounts;
- negotiate with suppliers to accept extended payment terms; and
- keep your banker informed in advance of what is happening.

Consultations with a company's bank or accountants may be helpful in identifying and implementing some of these techniques.

In addition, there are several strategies specific to international trade that can speed up the flow of cash. For example, many American and European banks do not give "good value" for deposited cheques until they have passed the inter-bank clearing system. Further time lags are sometimes caused by delays inside the negotiating bank. A firm may be able to negotiate with the bank to get credit for such deposits, even before they clear the system, so the funds can be used for other operations.

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 hearkens 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.

Short-term Financing

If all else fails, the cash-strapped exporter will have to look for short-term financing. Funds can be borrowed from a bank or other financial institution, preferably against insured receivables. Government agencies can also provide export credits or short-term financing.

For example, the Export Development Corporation (EDC) offers a range of services that can help alleviate cashflow problems. Exporters requiring short-term repayment periods can benefit from the Global Comprehensive Insurance service, which requires exporters to insure all of their exports for a risk premium paid to EDC. A company can take this insured receivable to its bank and receive cash up-front in order to alleviate cashflow problems. This insurance covers all commercial and global risks. The EDC also offers specific insurance for large transactions involving goods and services. It covers the period from the effective date of contract or shipment of goods until payment is received.

The EDC provides export financing for up to 85 percent of the contract value, at both fixed and floating rates of interest, to foreign buyers of Canadian goods, equipment and services. These funds are disbursed directly to the Canadian exporter on behalf of the borrower. In effect this creates a cash sale that can provide a considerable cashflow support, especially for large sales.

Through its lines of credit, the EDC also offers simplified medium- and long-term financing for foreign buyers who want to purchase from Canadian exporters. These lines of credit are available in most countries in which Canadian exporters do business and are a useful marketing tool that makes purchase of their goods more attractive.

An option open to firms interested in moving up payment on export receivables is to sell the invoices generated from the sale and shipment of goods to a bank or receivables firm for their cash-equivalent value. This amount is the face value of the invoices, less applicable interest and risk premium fees. Selling the export receivable turns the export transaction into a cash sale with the corresponding financial benefits going to the exporter.

Sources of Financing

Many sources of financing are available to the prospective exporter, but different sources may specialize in different types of financing . For example, short-term transaction financing such as a letter of credit (L/C) is available from commercial banks. Operational financing, however, may be more readily secured from private lenders or investors. Longer-term project financing may require the participation of international financial institutions.

Finding a source of financing can take time. In the case of large capital projects, it can even take years. A good place to start is with people and institutions that are already known to the exporter. Even if these contacts do not yield capital, they may provide direction, make introductions and put the exporter in touch with those who might offer help. Generally, it is a good idea to focus the search for capital, approaching those who know the company or its business, understand the target market, or have considerable experience in exporting.

When looking for financing, companies should shop around, since not only rates but levels of service differ widely. It may also be a good idea to test a proposal on a number of practitioners in the field before formally approaching a financing source. In addition to saving time and effort, this may keep the company from spoiling a promising lead by making a poorly-conceived or premature proposal.

Once the firm elicits some interest from a potential financing source, it should develop greater familiarity with that organization, as well as its concerns and its objectives. This will allow the firm to amplify its financing proposal with details of how its proposed transaction fulfills the mandate or the concerns of the financing institution.

Commercial Sources

Canadian exporters can select from a wide array of commercial sources of export financing, each with its own priorities and perspectives and each offering different rates, terms and services. In looking for capital, the prospective exporter should investigate what is available from the following typical private-sector suppliers of export financing:

- confirming houses, which act as buyers' agents;
- export finance houses, which can buy exporters' receivables as well as provide exporters with financial management services such as invoicing, accounting, and collections;

A Mexican Bank in Canada

Banamex is one of three Mexican banks with offices in Canada. Its local representative, Mr. Max Avila, has reported seeing a "spectacular" upturn in Mexican business interest in this country. That bodes well for future expansion, since servicing the Mexican importer or potential joint-venture partner with trade and project financing is the core business of the bank's Canadian office.

"As Mexico's largest bank, we work with the major players," says Mr. Avila. "And we can help bring the right Canadian firms to the attention of key Mexican business executives." Smaller players are not excluded. On the contrary, *Banamex* is eager to get in on the ground floor. "Often the original deals we help make are small," says Mr. Avila, "but just as often, that is when the potential for the future is greatest."

- factoring companies, which assume the risk of buyer default by purchasing receivables at a discount;
- Mexican partners, who sometimes have better access to financing than the Canadian exporter has;
- private investors, who may be flexible and available but who often seek a very high rate of return; or
- commercial banks, known for their breadth and depth of service but also for their caution.

All major Canadian banks have established a presence in Mexico. The National Bank of Canada is the most recent Canadian bank to set up operations there. It joins a list that also includes the Bank of Montreal, Royal Bank of Canada, Bank of Nova Scotia, Toronto-Dominion and Canadian Imperial Bank of Commerce. Their presence facilitates such transactions as cashing letters of credit, making bank transfers, negotiating local trade financing, and obtaining credit references on Mexican buyers. Any small business with an established relationship to one of these institutions should probably consult it first, to explore what trade financing services are available. These banks pride themselves on the scope of the services they offer and will take pains to help their valued customers.

Another commercial financing avenue worth exploring is the Mexican banking community. Three of the largest Mexican banks, *Banamex*, *BANCOMER* and *Banca Serfin*, are testing the Canadian market by establishing representative offices in Toronto. The Canadian offices of these Mexican banks can help selected Canadian firms by sharing their knowledge of the Mexican business environment as well as specific Mexican companies. The Canadian firm can also take advantage of the banks' bold approach to finding Canadian investors for their Mexican clients.

Canadian Government Agencies

There are several federal departments and agencies that have a mandate to foster Canadian exports by providing firms with attractive financing. Since this mandate is focussed on Canada, these agencies will tend to focus on the Canadian content of any project and the extent to which it creates jobs and wealth in this country. It should be added that a similar role is played by provincial governments, which provide some financing assistance to support exporters in their own provinces.

THE EXPORT DEVELOPMENT CORPORATION

According to Mr. James Brockbank, EDC's General Manager, Financial Services, Americas, many bankers are cautious about long-term financing for Mexican export investments. As a result, EDC fills this important need. "We are comfortable with meeting the long-term financing needs of acceptable ventures in Mexico," says Mr. Brockbank, "and we look at small business as a key target market focus."

EDC's lines of credit are particularly useful for small- and medium-sized exporters looking to finance sales of capital goods to Mexico. As well, companies can benefit from a newly streamlined approval process, says Mr. Rolfe Cooke, EDC's Vice President, Ontario Region: "Decisions on exporter eligibility are made in the regions with a turnaround time as short as three days and for funding as low as C $50,000."

One of the products EDC offers is political risk insurance, and it makes it its business to follow foreign events closely. Is Mexico politically risky? "Certainly there are risks," says Brockbank. "However, the North American Free Trade Agreement (NAFTA) means better protection for Canadian exporters or investors than in markets like South Africa or elsewhere in Latin America. For that matter, many companies investing in the Mexican market do not pursue political risk insurance on their investment once they have come to know the market."

EXPORT DEVELOPMENT CORPORATION (EDC)

The EDC is Canada's official export credit agency. Its mandate is to promote Canadian exports by providing Canadian exporters with a wide range of financial and risk management services, including export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees. Because most of this financing is on relatively favourable (i.e. below market) terms[1], EDC insures and finances 50 to 60 percent of Canadian business ventures in Mexico. Most transactions involve small- and medium-sized enterprises (SMEs).

Mexico is a priority market for EDC, which offers its full range of financial services to support exports to private and public-sector buyers. This includes nine lines of credit with Mexican financial institutions. Canadian sales of capital goods or services valued at C $50,000 may qualify for these lines of credit.

EDC can also help Canadian exporters by providing financing to their prospective foreign customers. It has a mandate to finance up to 85 percent of the foreign buyer's purchases of Canadian capital goods, equipment and services. It does so through three types of medium- and long-term financing:

1. Direct loans, typically financed over 7 to 10 years, with fixed and floating rate portions.
2. Allocations under lines of credit, which occur only after the transaction, buyer and exporter have been approved.
3. Note purchase and forfaiting that is usually applied to small- and medium-sized transactions extending from two to five years.

Credits issued to foreign borrowers are paid directly to the Canadian exporter by the EDC, as the exporter delivers on its obligations. EDC then collects from the borrower according to the agreed interest rates and repayment terms.

EDC financing is not automatic, and potential exporters will have to work hard to secure it. Before it arranges financing, the EDC must be confident that the transaction is feasible; that the exporter has the technical and financial capability to complete the transaction as contracted; that Canadian content has been maximized; and that the foreign buyer is creditworthy. To proceed with the transaction, it may require:

- product information on the goods being exported;
- an estimate of the contract price;
- expected terms of payment and delivery;
- a Canadian Benefits form, to determine whether the benefits to Canada from the transaction justify EDC support;
- a draft proposal or commercial contract;

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1 EDC's below-market rates allow Canadian exporters to compete with firms from other industrialized nations that also offer subsidized credit. The actual amount of subsidy offered by EDC and its competitors, such as Eximbank in the U.S., Export Credits Guarantee Department (ECGD) in Britain, and Compagnie française d'assurance pour le commerce extérieur (COFACE) in France, is controlled by an international agreement called the Consensus which sets out the maximum amount of financing allowed, the maximum repayment terms allowed, and the minimum interest rates allowed in support of exports.

- a profile of the exporter;
- audited financial statements for the past three years; and
- a summary of the exporter's international sales experience.

The EDC will also investigate the creditworthiness and reliability of the foreign buyer or financial institution. It requires details of the financing support requested. For larger projects, it may also demand a feasibility study, details of any consortial arrangements, as well as financial projections for the project.

The EDC can help the exporter put together a deal by issuing a number of supporting letters. A General Letter of Interest signifies that EDC financing could be available to support the transaction. A Detailed Letter of Interest provides some indications of the nature and amount of EDC support which could be available for the transaction. The Proforma Letter of Offer sets out the terms and conditions of likely EDC support. Finally, the EDC's Letter of Offer delineates the final terms of financing and conditions to be set out in the formal loan agreement. By contacting the EDC early, potential exporters can secure these letters to assist them in their marketing efforts.

RISK-SHARING FRAMEWORKS

Making medium- to long-term export financing available to foreign buyers is a critical component in the package offered by many Canadian firms, especially in the capital goods sector. Recognizing this, the EDC and the commercial banks have worked out a new, co-operative approach to sharing the risk involved in such projects and therefore making financing available.

EDC will undertake medium- and long-term financing in developing country markets, but does not have the distribution network within Canada to provide services nationwide, especially to small- and medium-sized enterprises (SMEs). Commercial banks have both the networks and the resources needed to expand the Crown corporation's capacity to support capital goods exporters. To combine their respective strengths, two frameworks for risk-sharing are being developed.

1. The "SME Risk-sharing Framework" will allow Canadian banks to provide medium-term financing directly, with a partial EDC guarantee, for certain types of transactions in a large number of developing country markets. The framework, under which the EDC guarantees 75 percent of the financed amount, was agreed to by the six major banks in November 1994.
2. The second framework involves risk-sharing for large exporters — over C $10 million in sales. Negotiations are beginning between the government and the banks over an EDC proposal for larger-scale risk sharing. Countries are divided into higher- and lower-risk categories. The latter, in which banks take 40 percent of the medium-term loans for their own account, includes Mexico.

Given that 85 percent of Canada's exports are part of contracts valued at more than C $25 million, the stakes are high. SMEs, which are often subcontractors in these larger contracts, also have a vital interest in a successful resolution of the negotiations.

EDC Financing and Insurance Products

Direct loans	Direct loans are made to foreign buyers to support the purchase of Canadian capital goods and services, usually for a single export transaction. In some cases, several exporters might be involved in one project. The EDC would pay them according to a disbursements agreement negotiated with the foreign project authority. In mixed credit arrangements, EDC agrees to finance a portion of the project at its normal rates with the balance provided by the Canadian International Development Agency (CIDA) at much lower aid financing rates. This blended financing is very inexpensive and provides a competitive edge for Canadian exporters. It is generally limited to projects which fall within the mandates of both the EDC and CIDA.
Lines of credit and protocols	Under a line of credit, EDC lends money to a foreign bank or institution, which then re-lends the funds to foreign purchasers of Canadian goods and services. Interest rates, repayment terms and other details are pre-arranged between EDC and the foreign borrowing institution. Because the financing is already in place, the exporter and the buyer avoid the delays and costs of negotiating a separate loan agreement. A buyer credit protocol is an agreement between EDC and a foreign institution through which the foreign institution can guarantee EDC export loans to buyers of Canadian goods and services in that country. EDC and the foreign institution preset both the total value of Canadian exports that can be guaranteed, and the various procedures to process the guarantee — thereby speeding up the process of procuring financing support. A supplier credit protocol is an agreement whereby a foreign institution guarantees the promissory notes issued to Canadian exporters as payment by their foreign buyers. EDC then purchases the notes from the Canadian exporter.
Note Purchase Program	EDC purchases promissory notes issued by foreign buyers to Canadian exporters as payment for Canadian goods and services. The EDC and the exporter sign an agreement outlining the rate at which the notes will be discounted; fees and costs to be paid by the exporter; the form and legal domicile of the notes; and the minimum Canadian content requirement for the goods and services to receive EDC financing support. The EDC may also require the notes to be guaranteed by a bank or other acceptable financial institution.
Loan guarantees	EDC can provide loan guarantees to commercial banks which finance foreign purchasers of Canadian exports. These guarantees protect the banks against non-payment by the foreign borrower. By providing the guarantee, EDC can ensure that financing is available on competitive terms.
Specialized credits	Specialized credits are available to Canadian entities for transactions such as the purchase of Canadian goods by a Canadian buyer for permanent use or lease outside of Canada.
Bid and performance security insurance	This protects the exporter from up 90 percent of the loss incurred by unjustified calls on the exporter's bid or performance bond. Also covered are rightful calls on the guarantee resulting from the exporter's inability to perform due to political risks. Claims for losses must be made within 30 days of the call on the guarantee.
Bid and performance security guarantees	Protects the exporter's bank against 100 percent of the loss from a call on the guarantee. Before issuing the guarantee, EDC requires the exporter to purchase Bid and Performance Security Insurance. Concurrently, EDC enters into a recourse agreement with the exporter. The recourse agreement requires the exporter to reimburse EDC if the call on the guarantee is due to the exporter's failure to perform.
Surety bond insurance	This protects domestic surety companies that provide a performance bond on behalf of Canadian exporters.
Consortium insurance	This protects members of an exporting consortium against losses incurred from a rightful call resulting from the non-performance of one of the members of the consortium. In certain circumstances, EDC would cover remedial costs incurred by the non-defaulting members of a consortium to avoid a call under the guarantee.

Canadian Commercial Corporation (CCC)

Smaller Canadian companies often encounter barriers when seeking to participate in international bids and tenders. They may be unknown to foreign governments seeking reliable suppliers. And they have very little leverage with those governments in the event that a project runs into difficulties. Left to their own devices, they might be unable to persuade a foreign government to pay for work that it had contracted.

The CCC specializes in bridging the gap between Canadian exporters and foreign governments. It enters into "back-to-back" contractual arrangements through which it strengthens the position and credibility of smaller Canadian firms pursuing business opportunities abroad. Under these arrangements, the CCC signs a contract with a foreign buyer (usually a government) to supply specified goods and services from Canada. It then signs a separate contract to purchase the goods and services from a Canadian supplier. By interposing itself in this way, the CCC assumes the risks from both sides of the transaction. Since the Canadian exporter has a contract with the CCC, it is protected from the risk of non-payment by a foreign government that it would have a difficult time pursuing for collection. Similarly, the foreign government is protected from the risks of non-performance by a company outside of its jurisdiction.

By guaranteeing the performance of Canadian suppliers, the CCC reassures foreign purchasers and makes them more likely to issue contracts that involve Canadian firms. Its participation can expand the financing options available to Mexican public-sector clients. Finally, CCC assistance is available to eligible Canadian suppliers throughout all stages of a transaction, including opportunity identification, project analysis, risk analysis, bidding, negotiations, invoicing and collection.

Exporters working through CCC contracts may not have to wait as long for payment, since they invoice the CCC while the CCC invoices the foreign buyer. In the event of default, the CCC can bring to bear the full weight of the Canadian government to ensure payment.

Canadian International Development Agency (CIDA)

CIDA is Canada's official development aid agency. It channels Canadian funding to the major multilateral development banks and it sources goods and services required by developing countries directly from Canadian firms.

If a capital project involves environmental improvement, technology transfer, developmental assistance to women, job training or job creation, the Canadian International Development Agency (CIDA) may provide some financial support through the Industrial Cooperation Program (CIDA/INC).

A key criterion used by CIDA/INC in assessing whether or not to support a project, is that it must ultimately create jobs in Mexico (or other target countries), while not having a negative impact on employment in Canada. If a project meets this criterion, the Canadian company proposing it may be eligible for grants to perform studies and provide professional advice to Mexican clients.

To qualify as an eligible supplier to CIDA-sponsored projects, Canadian exporters must demonstrate their technical ability and the competitiveness of their product. In addition, the goods and services provided must meet a minimum of two-thirds Canadian content, while consulting services and technical assistance provided through CIDA's bilateral program must be provided by firms established in Canada and owned by Canadians.

International Financial Institutions (IFIs) and Multilateral Agencies

The IFIs include organizations such as the World Bank and Inter-American Development Bank. The multilateral agencies include organizations such as the United Nations Development Program (UNDP), the Food and Agriculture Organization (FAO) and the World Health Organization (WHO).

IFIs and multilateral agencies fill a need in an emerging market such as Mexico's by offering long-term financing, often at attractive rates with more flexible terms and conditions than is available from private sources. Much of this financing is specifically directed to projects that are significant to the country's development, but which would otherwise have difficulty in securing funding. The participation of an IFI in an international transaction provides a level of comfort to other potential investors and financial institutions, by providing assurance that the project has been properly assessed and that it will be managed appropriately. Most international development financing involves a complex blend that may include private firms, merchant banks, investment dealers, governments, IFIs, as well as other development institutions. The funding can be provided through means such as parallel financing, co-financing, the extension of guarantees, or equity contributions, all of which may be required to see a deal through to completion.

IFIs do not act as a direct source of funds or insurance for the exporter. Instead, through their lending and support programs, they provide opportunities for providers of goods and services to bid on specific projects. The IFIs and multilateral agencies will work directly with government bodies in Mexico to identify high priority needs, requiring funding that is not otherwise available. The government, or borrowers, determine which projects to initiate. They also manage the projects, hire consultants and award the contracts. As bankers, however, the IFIs review the process, ensure guidelines are followed and establish terms and conditions for monitoring the project from start to finish.

THE WORLD BANK GROUP

The World Bank Group is a multilateral lending agency consisting of the following four closely associated institutions:

The *International Bank for Reconstruction and Development (IBRD)* lends funds raised largely through the sale of AAA-rated bonds in international capital markets. It lends these funds to creditworthy developing countries. Loans are made only to governments, government agencies, or institutions that can obtain a guarantee from their government. The IBRD also provides partial risk or partial credit guarantees (with a counter-guarantee from their government) to private lenders on development projects.

The *International Development Association (IDA)* is funded largely by contributions from its wealthier member countries. It provides assistance on concessional terms to the poorest developing countries. IDA credits are issued only to governments and procurement procedures are identical to those of the IBRD.

The *International Finance Corporation (IFC)* was established in 1956 to promote growth in developing countries by supporting the private sector. It invests directly in private commercial enterprises by means of loans, equity financing and guarantees in collaboration with other investors. It also offers "stand-by financing", risk management and "quasi-equity instruments", such as subordinated loans, preferred stock and income notes. In addition to funding, it also provides financial, legal and technical advice to private enterprises. Unlike the IBRD and the IDA, the IFC does not require government guarantees of repayment. The IFC is owned by 161 member countries. About 80 percent of its funds are borrowed in the international financial markets through public bond issues or private placements, while the remaining 20 percent are borrowed from the International Bank for Reconstruction and Development (IBRD). Each year the IFC approves approximately US $4 billion in financing for private-sector projects in developing countries.

The *Multilateral Investment Guarantee Agency (MIGA)* encourages foreign investment in developing countries by providing equity guarantees to foreign investors against loss caused by non-commercial risks. It also provides advisory services to developing member countries on means of improving their environment for foreign investment.

THE WORLD BANK

The World Bank provides financing for development projects around the world. Its primary role is to lend assistance to governments that are unable to secure long-term funding from traditional sources of financing. For more developed countries such as Mexico, the World Bank provides lending services through the International Bank for Reconstruction and Development (IBRD).

Companies cannot contact IBRD directly to request funds for exports or investment. Instead, the opportunity to sell goods or provide services arises from projects which are funded usually only in part by the World Bank. The borrower of the funds, in this case the Mexican government, determines which projects are priorities and whether or not to seek funding from the World Bank or other international financial institutions. Therefore, marketing a company's product or service must be directed to the organization designated as project manager by the Mexican government. Such a designated organization is called an executing agency.

The purpose of the World Bank is to assist its developing member countries in furthering their economic and social progress so that their people may live better and fuller lives. Specifically, IBRD and IDB lending is concentrated in the following areas:

- human resources development
- environmentally sustainable development
- financial and private-sector development

Mexico is one of the World Bank's largest borrowers, accounting for more than US $23 billion, or 10 percent of its total commitments since 1948. In 1994, Mexico was the bank's second largest borrower after China.

Early World Bank lending to Mexico was almost entirely devoted to investment projects in power, transportation and utilities. In the 1960s, the focus changed to agricultural and industrial projects. In the 1970s, the bank's efforts in Mexico were concerned with developing projects that would help alleviate poverty. In the 1980s, high debt, falling oil prices and a slowdown in economic growth prompted the country to rethink its economic policies. The result was a more open economy and a push toward trade liberalization.

Mexico looks to the World Bank for help in making the structural adjustments necessary to become a more market-oriented economy. In mid-1994, the bank reported that much of this restructuring was complete or well underway. After the peso crisis of December 1994, however, additional adjustment assistance was required. Mexico and the bank agreed that future priorities will include addressing infrastructure bottlenecks and long-standing social needs.

Three quarters of the World Bank's lending in Mexico to date has been for investment projects and one quarter for structural adjustment loans. Almost all of the Bank's projects in Mexico have included technical assistance components for training, consulting services and feasibility studies, which together account for more than 7 percent of all approved funding.

The World Bank's overall strategy was to make the transition from addressing adjustment issues to addressing long-term issues such as human resources development, environmentally sustainable development and private-sector development. For all of Latin America, World Bank lending for adjustment and debt reduction was expected to fall from 24 to 3 percent between the 1991 to 1993 fiscal period and the 1994 to 1996 fiscal period. Over the same timeframe, lending for human resource development and poverty reduction was expected to increase from 23 to 33 percent; lending for environmental and forestry commitments to increase from 7 to 13 percent. In fact, however, these objectives will not be achieved because of the currency crises in both Mexico and Argentina.

The World Bank's focus on human resources and poverty issues arises from the region's highly stratified social structure and skewed distribution of wealth. Its objectives include: economic stabilization supported by targetted social safety nets; long-term investment in health and education; and the elimination of hidden subsidies for the rich and hidden taxes on the poor. Mexico's planned projects include: a US $412 million primary education project; a US $300 million health care initiative; a US $335 million housing project; and a US $265 million technical education and training program.

Much of the effort related to the environment in Latin America is focussed on developing institutions and mechanisms to deal with environmental concerns. As governments downsize and privatize, it is important that the region has the capacity to deal with environmental issues through regulation and planning. Mexico's institutions are better developed than those in some of the other countries in the region. Among the most important planned or proposed environmental projects are the US $368 million Northern Border environmental project; a number of sanitation sites; a US $200 million solid waste management project; and a national forestry and conservation program.

Efforts related to private-sector development are the other priority area. Planned and proposed projects in Mexico include those related to developing the country's agricultural capacity through improved irrigation and drainage; a US $60 million port-sector privatization project; a technical assistance facility to help with privatization of state-owned enterprises; and a US $100 million railway restructuring program intended to increase private-sector participation.

The International Monetary Fund (IMF)

Next to the World Bank, the other well-known international financial institution is the IMF. It is committed to the orderly and stable growth of the world economy, primarily by promoting effective monetary and exchange rate policies among its members. Believing that an orderly monetary system is critical to the success of international prosperity, the IMF hopes to encourage trade, create jobs, broaden economic activity and raise living standards throughout the world. Its activities seek to:

- promote exchange stability and orderly exchange arrangements;
- promote international consultation and collaboration on international monetary issues;
- work toward the removal of exchange restrictions;
- make financial resources temporarily available to members so as to permit them to correct payment imbalances; and
- seek the reduction of both the duration and magnitude of payments imbalances.

The IMF's primary focus is on relationships with its member governments. Thus, the IMF has been active in Mexico, providing financial assistance to stabilize the peso. It does not, however, provide financing to private companies or participate in capital projects.

The Inter-American Development Bank (IDB)

The IDB is an international financial institution aimed at helping accelerate the economic and social development of its member countries in Latin America and the Caribbean. Created in 1959 and with its headquarters in Washington, D.C., the Bank is owned by 46 member countries. Of the 28 members in the region, 26 countries can borrow from the Bank while the remaining two, Canada and the United States, are non-borrowers. There are also 18 member countries from outside the region. Companies from all 46 member countries are eligible to bid on IDB contracts. The objectives of the IDB are:

- to promote the investment of public and private capital in the region;
- to use its own capital for high-priority economic and social projects;
- to encourage investment that contributes to economic and social development and an improvement in living standards;
- to help member countries make better use of their resources while fostering foreign trade; and
- to provide technical cooperation, often in the form of grants, to help countries conduct feasibility studies for projects and development plans as well as to provide specific training or assistance as a way of strengthening the country's institutions.

The financial resources of the IDB consist of subscribed capital, reserves, funds raised through borrowings, and trust funds established by member countries. The Bank also has a special fund for lending on concessional terms to economically less-developed countries. IDB is the world's largest regional development bank with authorized ordinary capital in excess of US $100 billion. With this base, its lending capacity is about US $8 billion per year, although lending levels for the next few years are unlikely to go much beyond US $6 to US $7 billion. Since its inception, IDB has approved more than US $70 billion in loans and generated more than US $178 billion in related investment.

At the IDB headquarters in Washington, D.C. the Bank maintains three regional departments supported by sector specialists. Each project which comes to the Bank is assigned a task manager who is responsible for co-ordinating and managing its involvement in the venture.

Canada has its own IDB executive director supported by a staff of three professionals who reside in Washington. They are responsible for commercial liaison, coordination and monitoring with the Canadian International Development Agency (CIDA), as well as finance. The commercial liaison representative is the key contact person within IDB for Canadian companies interested in getting additional information about projects or setting up meetings with task managers. In addition to its Washington headquarters, IDB has offices in each of the borrowing countries. These offices are very active in the development, implementation and evaluation of projects.

In general, the Bank is shifting its emphasis from developing physical infrastructure such as roads and power plants, to more comprehensive social programs aimed at reducing social inequality and creating opportunity. These include projects in education, health, urban development and the environment. All of these activities will result in new opportunities for consultants in areas such as program development and institutional strengthening. A large proportion of the budget, however, will continue to concentrate on physical infrastructure and civil works such as schools, water supply and sewage systems, and soil and forestry conservation.

Canadian firms have traditionally fared less well in projects funded by IDB than in Latin American projects funded by the World Bank. In part, this is because World Bank projects contract a larger amount of the lending to non-borrowing nations. It is also a function of the type of project funded by the IDB and the type of service or goods required. Canadians tend to do better at providing consulting services — but this is a much smaller part of IDB's business.

Canada has done relatively little business in Mexico as yet. Over the past five years, no major contracts have been awarded to Canadian firms. In 1994, a total of US $662,603 was disbursed to Canadian companies: US $639,000 for goods and services provided to an agricultural project, and US $23,603 to an energy project.

BIDDING PROCEDURES

Generally, a source of international financing such as the World Bank or the Inter-American Development Bank (IDB) does not provide funding directly to companies. In conjunction with borrower governments, the Bank will prepare country workplans and identify projects that both parties (the recipient country and the Bank) feel are worthy of support. Usually, the borrowing country will select a project executing agency such as a ministry, a government agency, or a public utility. In some cases, the executing agencies can be international or multinational institutions. These executing agencies are responsible for organizing tenders, selecting suppliers, overseeing progress and disbursing funds. They will, however, tend to follow the IFI's procurement guidelines.[2]

Such agencies typically operate on the basis of short-lists of eligible firms with which they are already familiar. The executing agency will draw up this list and invite these companies directly. One of the reasons for doing this is because proposals are largely judged on their technical content and the executing agency is looking for companies that it knows it can trust on the technical aspects of the project. The bids that are submitted are judged approximately 80 percent on the technical content that is provided and only about 20 percent on the financial aspects of the proposal.

Pre-qualification of bidders is often required for contracts to construct major civil works or industrial facilities. In some cases, pre-qualification is used for suppliers of specialized equipment. Pre-qualification is designed to ensure that invitations to bid are extended only to companies capable of undertaking the work. Invitations to pre-qualify are advertised internationally so that prospective bidders can obtain documents and submit their responses. Any bidder who is qualified during the pre-qualifications process must be allowed to participate in the bidding.

Procurement may involve one of several different bidding procedures. Internationally competitive bids are publicly announced through a number of channels. For example, the World Bank regularly posts a Procurement Notice in the United Nations' publication *Development Business: Monthly Operational Summary*. Local and nationally-recognized newspapers are another typical venue for advertising as are local and international technical journals and trade publications. Borrowing countries are encouraged to circulate copies of the announcements and Canadian embassies, especially their commercial officers, will also know about upcoming projects.

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2 For a copy of the World Bank's *Guidelines: Procurement Under IBRD Loans and IDA Credits*, which is free of charge, contact World Bank Publications, 1818 H Street, N.W., Washington DC, 20433, U.S.A. Tel.: (202) 473-1155; Fax: (202) 522-2627.

If an international competitive bid is not the most effective method of procurement because of project size or time constraints, other forms of procurement are used. They include:

- Limited international bidding, in which suppliers or contractors of specialized goods and service participate by invitation.
- National competitive bidding for projects that are highly dependent on local know-how and in which advertisement of the opportunity is restricted to suppliers within the borrowing country.
- International and local purchasing of low-value or off-the-shelf items on the basis of three bids.
- Direct purchase when proprietary equipment is only available from a single supplier.

In Summary: The Financing Proposal

Once a company has estimated its financial needs and identified a potential source of financing, the next step is to prepare a financial plan and make a presentation to the potential source of funds.

Every company should have a clear idea of what it wants to do and how much it expects to earn from what it does. As a specific component of the business plan, the financial plan and the financing proposal that is based on it can serve several purposes. Internally, it can explain the rationale underlying a foreign venture and secure support for it from management and employees. Externally, it can serve as a marketing tool, presenting the company's capabilities and opportunities to potential partners and suppliers, as well as to investors and lenders. The most important function of a financial plan, however, is to help the company identify and secure the capital it needs to take advantage of an opportunity.

In drawing up a financing plan or financing proposal, it is important to recognize that different sources of financing will be interested in different things.

Because of their responsibilities to their own shareholders and depositors, commercial banks are interested in security and want to know how a loan or credit can be secured against assets, receivables, mortgages, personal or government guarantees, or other types of collateral. Bankers look closely at cashflow to see if it will be sufficient to cover repayment of principal with interest. Banks are also likely to look at a firm's past performance and conduct a thorough credit check.

Venture capitalists are more willing to take risks if there is a prospect of high rates of return. They will look closely at a firm's management capability and may even ask for a say in operations as a way of monitoring the progress of their investment. Often, venture capitalists will ask for a portion of a firm's equity as a way of securing their interest and involvement. Finally, since no venture capitalist wants to be locked into a deal permanently, they will want some evidence that they can take out their investment, together with a significant return, within a reasonable timeframe (five to seven years).

Canadian government agencies such as the Export Development Corporation (EDC) will consider Canadian content and the possibility of creating jobs and wealth in Canada. EDC will not finance transactions involving countries that are subject to Canadian boycott or sanctions, nor will it considering financing to countries that have reneged on financial commitments to Canada.

The Canadian International Development Agency (CIDA) is interested in how a project will benefit both Canada and the target country. In particular, it will want to know how a project supports its own priorities, such as promoting the economic role of women in developing countries, or the transfer of technology, know-how and skills to the target country.

International financial institutions such as the World Bank are interested in the overall economic and social impact of a project on the beneficiary country.

Regardless of their primary interests, all financial sources want to have a clear, comprehensive and realistic picture of the transaction being proposed. That means carefully laying out all the costs and risks involved as well as projecting expected revenues, income flows, and anticipated profits.

In order to secure financing, prospective exporters must prepare financing proposals that will convince the source of capital that the deal being contemplated is viable. The proposal should outline the nature of the transaction or the business opportunity, the expected returns, the possible risks involved and the measures taken to minimize risk. It should detail how much capital a company needs and how it will use the funds. Finally, it should support the request with details of the company's current situation and its ability to carry through on the transaction. Not every financing proposal will necessarily include all of this detail, though larger or longer-term projects certainly will.

TYPICAL ELEMENTS OF A FINANCING PROPOSAL

Item	Description	Headings
Company identification	Basic information identifying the company, including the name, title, telephone and fax numbers of the contact person responsible for the proposal.	Name of company Address Telephone Fax Contact person Title
Executive summary	Since some people do not read more than the first few pages, most business documents include a brief summary of the key points in the proposal: the business opportunity, the company's strengths and its financing needs.	
Company description	This should include a general description of the company, its founders, mission, development and major achievements.	Summary description Founder(s) Date of establishment Milestones Current position in industry
Management	Many companies cannot get support because financial institutions lack confidence in their managerial ability. This section should convince the reader that the company has people in key positions who can manage the project properly.	Name Title Age Experience Education Responsibilities in company
Product or service	What does the company do? What is unique about the company's goods or services? Is any part of this covered by patent or other form of protection? A description of the market, customer profiles, and pricing strategy should be included.	Description How it is used Profile of customers/users Unique features Patents (if any) Awards or other distinctions Pricing strategy
The opportunity	Details of the transaction or project for which financing is being sought. What makes it an opportunity? Why is the company uniquely positioned to take advantage of that opportunity?	Market description Number of customers Sales volumes Key trends Changes in composition Market share Key competitors Market positioning (sales tactics) Sales methods Distribution channels

continued on next page

Item	Description	Headings
Capabilities	Details of the facilities, operations, processes and capacity that the company will bring to bear to realize the project. Detailed costings should be included here.	Plant description Equipment Capacity Overheads Materials Labour Administration Rents, leases and utilities Marketing Other Costing Costing methods Controls and reporting Employees Numbers Full-time/part-time Main functional areas Unionization Wage and salary rates Inventory (by number and value) Order processing method Control methods Major suppliers
Financial summary	A summary of the company's financial performance over several previous years as well as projections for several years into the future. Details of sales, the cost of goods, gross profits, selling costs, administration and pre-tax profits should be included.	Gross sales Cost of goods Gross profit Cost of sales Administration Pre-tax profit Taxes After-tax profit Explanations
Scenarios	Since it is impossible to predict exactly what will happen, companies often develop high (best-case), low (worst-case) and intermediate scenarios that set limits on the project. Each scenario depends on a series of assumptions and these should be explicitly described in the proposal.	Scenario Cashflow projection Cash requirement High Medium Low Key assumptions
Rationale	Why is financing needed? How much will be needed? How will the financing be used? When will it be repaid? What security can be offered?	

continued on next page

Item	Description	Headings
Additional information	Some proposals include information on the company's bank, legal advisors, accountants, incorporation, stock (if any), directors and shareholders.	Company's bank Company's legal advisers Details of incorporation Stock issued and details Directors Major shareholders
Annexes	The main body of the financing presentation should be short and simple. Detailed discussions and supporting documentation should be placed in annexes.	Management biographies Product literature Letters of reference, awards Patents Major contracts Asset valuations Detailed description of assets Relevant studies (feasibility, market research, technical studies) Detailed cashflow projections Profit and loss statement (past and projected) Balance sheets Auditor's reports

Postscript: Getting the Most Out of Financing

Export financing is not like domestic financing. Because of the risks involved in international trade, export financing is necessarily more complex, time consuming and, therefore, expensive. Given this reality, export financing must be used carefully and selectively.

To optimize the use made of financing and in order to succeed in Mexico, or in any foreign market, a company must be clear as to its goals. There is no substitute for having a strong sense of strategic direction. This can be embodied in a business plan, but the prospective exporter must be prepared to adjust the plan as additional information becomes available and as circumstances change. Perhaps most important to the entire process are appropriate tracking and control mechanisms. These enable the exporter to know exactly what is happening, how it fits into the overall strategy and what still remains to be done.

These general observations are important to every aspect of a business operation, but they are critical in financial planning. If the exporter does not have a clear idea of the cash position, cashflow, and the timing of expected returns, even the most lucrative contract can end up ruining a company. To succeed in international transactions, the Canadian firm must have a deep understanding of the entire export process, what is involved, what to expect and when to expect it.

It is also necessary to integrate export financing into the overall financial framework. Financing of any type can affect the overall financial strength of a company. Operating ratios, loan covenants, borrowing capacity and management's ability to withstand the pressure of managing debt are but a few of the important elements to consider when taking on additional debt whether it be for export, or for any other reason. Export financing, however, has a specific role in business and has its own particular risks.

Unlike the more traditional sources of financing (e.g. an operating loan or term debt), which usually depend on the overall financial strength of the company for repayment, export financing depends directly on the export sale for repayment. The assessment of the collection risk takes on a very different perspective when repayment is entirely dependent on collecting the export receivable. The size of the order, currency volatility, political instability and other factors involve risks well beyond what a business would run in making a domestic sale.

The key components to consider when using export financing include the repayment terms of the debt, the rate of interest and security.

Similar to other lending instruments, the maturity of export financing should match the respective asset it is financing. Whether this asset is an open trade account or a long-term infrastructure project, the export financing instrument should extend to, and mature with the expected realization of the asset being financed. Terms on these instruments can be as short as several months or as long as several years.

The interest rate on a debt instrument reflects the lender's perception of the risk involved in recovering the loan. The elements to keep in mind in dealing in any export market are directly related to the rate of interest the exporter should expect to pay for financing an export sale. If additional security — beyond the asset that gave rise to the export sale — is provided for in the export loan, the risk to the lender is significantly reduced and a corresponding reduced rate of interest should be applied.

Without additional security, exporters should not be surprised that the rates being quoted for such instruments touch on what seems to be usury by normal business standards. However, higher rates under these circumstances are normal in many of today's export markets.

What constitutes security for an export loan is never as simple an exporter would want. Export lenders operate as going concerns and will limit, whenever possible, their risk of losing the principal they have advanced against the export sale. There are no set rules for determining the amount of security an export lender generally looks for, nor are there precedents or "rules of thumb" that an exporter uses. Exporters must do their homework and be prepared to enter into negotiations over the amount and quality of the security and the representations and warranties that they will be expected to provide for an export loan.

Ultimately, the success of a negotiation will determine not only the interest rate on the export loan but may, for loans that are substantial to the business, determine how the rest of the business operates in the future. Future borrowing capacity, covenants on existing loans and the ability to manage the obligation are among the factors that the exporter should always be aware of when seeking export financing.

A company's asset base is the key to successful export financing or any other financing a company undertakes. An abundance of unencumbered assets of reasonable quality will result in a better interest rate, less strenuous payment terms and less onerous financial covenants than would otherwise be the case.

If compelled to provide additional security for the asset being financed, the exporter should be selective with the additional assets that are offered. The exporter should remember that export financing by its very nature is expensive: the quality of a loan's underlying security may determine whether its provisions are a sound enough basis to proceed with the export order.

Compared to normal commercial lenders, export lenders tend to be few in number, selective in the deals they choose to finance (including government lending agencies) and focussed either geographically or by product.

Exporters should choose their financiers (in reality, partners in an export market) carefully and develop a relationship of trust and honesty with them. Above all, they must not allow their product to deteriorate, for it alone justifies the export loan.

Finally, the exporter should consider finding a reliable Mexican representative or partner to help with the transaction. As well as "hard" items such as facilities, a good partner will provide invaluable "soft" support, including up-to-date market intelligence, and guidance on managing cultural differences and human resources. Those aspects of successful exporting are especially important where a firm has no previous Mexican market presence or experience, or in service businesses which depend on a high degree of personal contact and cross-cultural communication.

A trusted partner on the scene can prove to be a key strategic asset. Finding a suitable partner can be time-consuming. But the investment more than pays for itself in sustained export sales. Once a good partner is found, the relationship should be carefully nurtured and the Mexican counterpart treated as an integral part of the company.

Coming to terms with Mexico's complex and very different business climate can be a major challenge for the Canadian exporter. Yet the growing number of Canadian firms that have succeeded in this market are proof that, with careful planning and perseverance, obstacles can be overcome.

Canadian Government Departments and Services in Canada

Department of Foreign Affairs and International Trade (DFAIT)

DFAIT is the Canadian federal government department most directly responsible for trade development. The **InfoCentre** should be the first contact point for advice on how to start exporting. It provides information on export-related programs and services, acts as an entry point to DFAIT's trade information network, and can provide copies of specialized export publications and market information to interested companies.

InfoCentre
Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink: (613) 944-4500
InfoCentre Bulletin Board (IBB):
1-800-628-1581 or (613) 944-1581
Internet: http://www.dfait-maeci.gc.ca

The Latin America and Caribbean Branch promotes trade with Mexico. There are several trade commissioners at the Embassy of Canada in Mexico City, as well as in the satellite offices in Monterrey and Guadalajara. Trade commissioners can provide a range of services including introducing Canadian companies to potential customers in Mexico, advising on marketing channels, assisting those wishing to participate in trade fairs, helping to identify suitable Mexican firms to act as agents, and compiling strategic business intelligence on potential foreign customers.

Latin America and Caribbean Branch
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 996-5547
Fax: (613) 996-6142

International Trade Centres

International Trade Centres have been established across the country as a convenient point of contact to support the exporting efforts of Canadian firms. The centres operate under the guidance of DFAIT and all have resident trade commissioners. They help companies determine whether or not they are ready to export, assist firms with market research and planning, provide access to government programs designed to promote exports, and arrange for assistance from the trade commissioners in Ottawa and trade officers abroad. Contact the International Trade Centre nearest you:

Newfoundland
International Trade Centre
P.O. Box 8950
Atlantic Place
215 Water Street
Suite 504
St. John's, NF A1B 3R9
Tel.: (709) 772-5511
Fax: (709) 772-2373

Prince Edward Island
International Trade Centre
P.O. Box 1115
Confederation Court Mall
134 Kent Street
Suite 400
Charlottetown, PE C1A 7M8
Tel.: (902) 566-7400
Fax: (902) 566-7450

Nova Scotia
International Trade Centre
P.O. Box 940, Station M
1801 Hollis Street
Halifax, NS B3J 2V9
Tel.: (902) 426-7540
Fax: (902) 426-2624

New Brunswick
International Trade Centre
1045 Main Street
Unit 103
Moncton, NB E1C 1H1
Tel.: (506) 851-6452
Fax: (506) 851-6429

Quebec

International Trade Centre
5 Place Ville-Marie
Seventh Floor
Montreal, PQ H3B 2G2
Tel.: (514) 496-4636
Fax: (514) 283-8794

Ontario

International Trade Centre
Dominion Public Building
1 Front St. West
Fourth Floor
Toronto, ON M5J 1A4
Tel.: (416) 973-5053
Fax: (416) 973-8161

Manitoba

International Trade Centre
P.O. Box 981
330 Portage Avenue
Eighth Floor
Winnipeg, MB R3C 2V2
Tel.: (204) 983-4540
Fax: (204) 983-2187

Saskatchewan

International Trade Centre
The S.J. Cohen Building
119-4th Avenue South
Suite 401
Saskatoon, SK S7K 5X2
Tel.: (306) 975-5315
Fax: (306) 975-5334

Alberta
**Edmonton office is also responsible for Northwest Territories*

International Trade Centre
Canada Place
9700 Jasper Avenue
Room 540
Edmonton, AB T5J 4C3
Tel.: (403) 495-2944
Fax: (403) 495-4507

International Trade Centre
510-5th Street S.W.
Suite 1100
Calgary, AB T2P 3S2
Tel.: (403) 292-6660
Fax: (403) 292-4578

British Columbia
**Vancouver office is also responsible for the Yukon*

International Trade Centre
300 West Georgia Street
Suite 2000
Vancouver, BC V6B 6E1
Tel.: (604) 666-0434
Fax: (604) 666-8330

World Information Network for Exports (WIN Exports)

WIN Exports is a computer-based information system designed by DFAIT to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 23,000 Canadian exporters. To register on WIN Exports, call (613) 996-5701, or fax 1-800-667-3802 or (613) 944-1078.

Program for Export Market Development (PEMD)

PEMD is DFAIT's primary export promotion program. It supports a variety of activities to help Canadian companies expand into export markets.

PEMD shares up to 50 percent of eligible expenses. Program financial assistance is a repayable contribution, not a grant, and must be approved in advance. Funded activities include:

- Market Development Strategies, which consist of a package of support for visits, trade fairs, and market support initiatives, under one umbrella of the company's marketing plan.
- New to Exporting Companies, which provides a vehicle for these companies to seek out individual export opportunities, either through a market identification visit or participation in an international trade fair.
- Capital Projects Bidding for specific projects outside Canada involving international competition/formal bidding procedures.
- Trade Association Activities undertaken by non-sales national trade or industry associations on behalf of their member companies.

Support is provided for certain types of government-planned activities, such as outgoing trade missions of Canadian business representatives and incoming missions to Canada of foreign business persons and officials who can influence export sales. For general information, call the InfoCentre at 1-800-267-8376. For applications for assistance, call the International Trade Centre nearest you.

International Financing

DFAIT helps Canadian exporters interested in pursuing multilateral business opportunities financed by international financing institutions (IFIs). Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine if an IFI-funded market opportunity is practical and worth pursuing. DFAIT can provide information and advice on the availability of Canadian government-funded assistance programs and can assist companies in developing effective export marketing. For further information, contact:

International Financing Division
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-7251
Fax: (613) 943-1100

Technology Inflow Program (TIP)

Managed by DFAIT and delivered domestically by the National Research Council, TIP is designed to help Canadian companies locate, acquire and adopt foreign technologies by promoting international collaboration. The Department of Industry (DI) also helps in program promotion. TIP officers respond to requests to identify technology sources and opportunities for cooperation between Canadian and foreign firms. The Program also helps Canadian firms make exploratory visits abroad to identify and gain first-hand knowledge of relevant foreign technologies, as well as how to negotiate to acquire them. For information, call (613) 993-5326.

Investment Development Program

The Investment and Technology Bureau (TID) promotes Canada as an attractive, competitive destination for business investment to potential foreign investors. It actively encourages investments that take the form of new plant and equipment, joint ventures or strategic partnerships. The Bureau is especially interested in attracting investment that introduces new technology into Canada, which is key to creating new jobs and economic opportunities. It also helps Canadian companies to find international investment partners and to access international sources of capital and technologies. TID provides support to the chief executive officers of Canadian subsidiaries of multinationals which are seeking to attract manufacturing and R&D mandates to Canada. It also monitors and analyzes investment trends and perceptions of Canada as an investment site. TID works closely with the "geographic" branches of DFAIT and the investment counsellors at Canadian missions around the world, as well as with provincial and municipal authorities, and professional and business organizations. For more information, contact:

Investment and Technology Bureau (TID)
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel.: (613) 995-4128
Fax: (613) 995-9604

Department of Industry (DI)

DI was created with a broad mandate to make Canada more competitive by fostering the growth of Canadian businesses, by promoting a fair and efficient marketplace for business and consumers, and by encouraging commercial ventures in scientific research and technology. In the area of small business, it has been given specific responsibility to:

- develop, implement and promote national policies to foster the international competitiveness of industry; the enhancement of industrial, scientific and technological development; and the improvement in both the productivity and efficiency of industry;
- promote the mobility of goods, services, and factors of production within Canada;
- develop and implement national policies to foster entrepreneurship and the start-up, growth and expansion of small businesses;
- develop and implement national policies and programs respecting industrial benefits from procurement of goods and services by the Government of Canada; and
- promote and provide support services for the marketing of Canadian goods, services and technology.

The regional offices of DI work directly with Canadian companies to promote industrial, scientific and technological development. They help clients recognize opportunities in a competitive international marketplace by providing services in the areas of business intelligence and information as well as trade and market development. DI also promotes and manages a portfolio of programs and services.

The following are areas in which DI regional offices have special competence:

- access to trade and technology intelligence and expertise;
- entry points to national and international networks;
- industry-sector knowledge base;
- co-location with International Trade Centres connected to DFAIT and Canadian posts abroad;
- client focus on emerging and threshold firms; and
- business intelligence.

For more information, call (613) 941-0222.

Business Service Centre
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 952-4782
Fax: (613) 957-7942

NAFTA Information Desk
Department of Industry
235 Queen Street
Fifth Floor, East Tower
Ottawa, ON K1A 0H5
Fax: (613) 952-0540

The Business Opportunities Sourcing System (BOSS)

BOSS is a computerized databank that profiles over 25,000 Canadian companies. It lists basic information on products, services and operations of use to potential customers. The system was established in 1980 by the Department of Industry (DI) in cooperation with participating provincial governments. BOSS was originally established so that trade commissioners posted around the world by DFAIT could find Canadian companies that might be able to take advantage of foreign market opportunities. Today, more than 11,000 domestic and international subscribers use the system, not only to locate Canadian suppliers, but also to obtain market intelligence and identify market opportunities. The majority of subscribers are Canadian companies. For more information, call (613) 954-5031.

Market Intelligence Service (MIS)

MIS provides Canadian businesses with detailed market information on a product-specific basis. The service assists Canadian companies in the exploitation of domestic, export, technology transfer and new manufacturing investment opportunities. The intelligence is used by Canadian businesses in decisions regarding manufacturing, product development, marketing and market expansion. A request for information can be custom-tailored to meet each client's particular need. Previously-published customized reports are also available on request. The database is updated quarterly and annually. MIS is offered free of charge by fax, letter or telephone. For more information, contact:

Strategic Information Branch
Department of Industry
235 Queen Street
First Floor, East Tower
Ottawa, ON K1A 0H5
Tel.: (613) 954-5031
Fax: (613) 954-1894

Revenue Canada

Revenue Canada, Customs Program Branch provides a NAFTA Help Desk telephone line with service available in Spanish. Revenue Canada publications and customs notices are available by calling or faxing the NAFTA Information Desk. For more information, contact:

NAFTA Spanish Help Desk
Tel.: (613) 941-0965

NAFTA Information Desk
Revenue Canada, Customs Programs Branch
191 Laurier Avenue West
Sixth Floor
Ottawa, ON KIA 0L5
Tel.: 1-800-661-6121, or (613) 941-0965
Fax: (613) 952-0022

Canadian International Development Agency (CIDA)

An important possible source of financing for Canadian ventures in Mexico is the special fund available through CIDA under the Industrial Cooperation Program (CIDA/INC). This program provides financial contributions to stimulate Canadian private-sector involvement in developing countries by supporting long-term business relationships such as joint ventures and licensing arrangements. INC supports the development of linkages with the private sector in Mexico by encouraging Canadian enterprises to share their skills and experiences with partners in Mexico and other countries. A series of INC mechanisms help enterprises to establish mutually beneficial collaborative arrangements for the transfer of technology and the creation of employment in Mexico.

There are five INC mechanisms that help eligible Canadian firms to conduct studies and that provide professional guidance and advice to potential clients. Where a project involves environmental improvement, technology transfer, developmental assistance to women, job training or job creation, early contact with CIDA's Industrial Cooperation Division is suggested. An important CIDA criterion is that the project creates jobs in Mexico without threatening jobs in Canada. In fact, most CIDA-assisted projects have produced net increases in Canadian jobs. For more information, contact:

Industrial Cooperation Division
Canadian International Development Agency
200 Promenade du Portage
Hull, PQ K1A 0G4
Tel.: (819) 997-7905/7906
Fax: (819) 953-5024

Atlantic Canada Opportunities Agency (ACOA)

Atlantic Canadian companies seeking to develop exports to Mexico may be eligible for assistance from the ACOA. The Agency works in partnership with entrepreneurs from the Atlantic region to promote self-sustaining economic activity in Atlantic Canada.

ACOA provides support to businesses as they look to expand existing markets through the development of marketing plans. Efforts include monitoring trade opportunities arising from global economic change, communications efforts to promote the region, trade missions and associated activities, as well as better coordination with federal and provincial bodies that influence trade and investment opportunities. For more information, contact:

Atlantic Canada Opportunities Agency
Blue Cross Centre
644 Main Street
P.O. Box 6051
Moncton, NB E1C 9J8
Tel: 1-800-561-7862
Fax: (506) 851-7403

Western Economic Diversification Canada (WD)

WD is responsible for federal economic development activities in Western Canada. The Department works in partnership with the western provinces, business, industry associations and communities to stimulate the western Canadian economy.

WD's "New Directions" program will work to enhance the export position of western companies by boosting their competitiveness in domestic and global markets.

The Department no longer provides repayable loans to individual companies, but seeks new innovative partnerships within both the public and private sectors. These partnerships will address the needs of small- and medium-sized enterprises for information, business services and capital, particularly for high growth industries critical to Western Canada's economic diversification.

One of WD's new products focused on export development is the International Trade Personnel Program. This federal-provincial initiative links export-focused western firms with recent post-secondary graduates. The program accomplishes two important socio-economic goals: it gives companies the extra person-power they need to penetrate new markets, and it gives recent graduates valuable work experience. Under the new program, the length of export-development projects may vary from one to three years. Approved projects will be eligible for assistance ranging from C $7,500 for one year, to a maximum of C $37,500 per graduate over the 3 year period. For more information, contact:

Western Economic Diversification Canada
The Cargill Building
240 Graham Avenue
Suite 712
P.O. Box 777
Winnipeg, MB R3C 2L4
Tel.: (204) 983-4472
Fax: (204) 983-4694

Export Development Corporation (EDC)

EDC helps Canadian exporters compete in world markets by providing a wide range of financial and risk management services, including export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.

EDC's products fall into four main categories:

- export credit insurance, covering short- and medium-term credits;
- performance-related guarantees and insurance, providing cover for exporters and financial institutions against calls on various performance bonds and obligations normally issued either by banks or surety companies;
- foreign investment insurance, providing political risk protection for Canadian investments abroad; and
- export financing, providing medium- and long-term export financing to foreign buyers of Canadian goods and services.

EDC has established relationships with leading commercial and public sector institutions in Mexico and Latin America. Exporters can call (613) 598-2860 for more information.

Smaller exporters, with annual export sales under C $1 million, should call the Emerging Exporter Team at 1-800-850-9626.

Exporters in the information technology sector can call EDC's Information Technologies Team at (613) 598-6891.

For information on the full range of EDC services, contact any of the following EDC offices:

Ottawa	Export Development Corporation 151 O'Connor Street Ottawa, ON K1A 1K3 Tel.: (613) 598-2500 Fax: (613) 598-6858
Vancouver	Export Development Corporation One Bentall Centre 505 Burrard Street Suite 1030 Vancouver, BC V7X 1M5 Tel.: (604) 666-6234 Fax: (604) 666-7550
Calgary	Export Development Corporation 510-5th Street S.W. Suite 1030 Calgary, AB T2P 3S2 Tel.: (403) 292-6898 Fax: (403) 292-6902
Winnipeg	Export Development Corporation 330 Portage Avenue Eighth Floor Winnipeg, MB R3C 0C4 Tel.: (204) 983-5114 Fax: (204) 983-2187
Toronto	Export Development Corporation National Bank Building 150 York Street Suite 810 P.O. Box 810 Toronto, ON M5H 3S5 Tel.: (416) 973-6211 Fax: (416) 862-1267
London	Export Development Corporation Talbot Centre 148 Fullarton Street Suite 1512 London, ON N6A 5P3 Tel.: (519) 645-5828 Fax: (519) 645-5580
Montreal	Export Development Corporation Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3 Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Export Development Corporation Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7 Tel.: (902) 429-0426 Fax: (902) 423-0881

NATIONAL RESEARCH COUNCIL (NRC)

Canadian companies hoping to succeed in the Mexican marketplace may require additional technology to improve their competitiveness. The NRC works with Canadian firms of all sizes to develop and apply technology for economic benefit. The Council manages the Industrial Research Assistance Program (IRAP), a national network for the diffusion and transfer of technology.

The IRAP network supports the process of developing, accessing, acquiring, implanting and using technology throughout Canadian industry. IRAP has been in existence for 50 years and has acquired a reputation as one of the most flexible and effective federal programs. IRAP takes advantage of an extensive network of more than 190 different locations within approximately 90 communities across Canada, including numerous provincial technology centres, the NRC's own laboratories and research institutes, federal government departments, and technology transfer offices in Canadian universities. For further information, contact:

Industrial Research Assistance Program
National Research Council
Montreal Road
Building M-55
Ottawa, ON K1A 0R6
Tel.: (613) 993-1770
Fax: (613) 952-1086

CANADIAN COMMERCIAL CORPORATION (CCC)

CCC, a Crown corporation, provides Canadian exporters with valuable assistance when they are selling to any foreign government, or to an international organization. In such sales, CCC acts as a prime contractor and guarantor for the sale of Canadian goods and services to the foreign customer.

CCC certifies the Canadian exporter's financial and technical capabilities, and guarantees to the foreign buyer that the terms and conditions of the contract will be met. CCC's participation in a sale provides Canadian suppliers with the tangible backing of their own government, enhancing their credibility and competitiveness in the eyes of foreign customers. This can often lead to the negotiation of more advantageous contract and payment terms.

The Progress Payment Program, developed by CCC in co-operation with Canada's financial institutions, makes pre-shipment export financing more accessible to small- and medium-sized exporters. The program allows an exporter to draw on a special line of credit, established by his or her principal banker for a particular export sale. In most instances, the borrowing costs will approximate those associated with a typical demand line of credit. The program is available for transactions with foreign government and private sector buyers.

For more information about CCC and its programs, contact:

Canadian Commercial Corporation
50 O'Connor Street
Eleventh Floor
Ottawa, ON K1A 0S6
Tel.: (613) 996-0034
Fax: (613) 995-2121

MULTILATERAL ORGANIZATIONS

Inter-American Development Bank
1300 New York Avenue NW
Washington, D.C. 20577
USA
Tel.: (202) 623-1000
Fax: (202) 623-3096

World Bank
Washington, D.C. 20433
U.S.A.
Tel.: (202) 477-1234
Fax: (202) 477-6391

KEY CONTACTS IN CANADA

SPONSORING ORGANIZATIONS

BAKER & MCKENZIE

Baker & McKenzie is one of the largest international law firms with offices in 35 countries. They presently have four offices in Mexico, in the cities of Juárez, Mexico City, Monterrey and Tijuana. In addition to providing legal advice, the firm's offices in Canada and Mexico work to assist Canadian companies to find the right partner to enable them to establish or expand their activities in Mexico. For more information, contact:

Baker & McKenzie
Barristers & Solicitors
BCE Place
181 Bay Street
Suite 2100
Toronto, ON M5J 2T3
Tel.: (416) 865-6910/6903
Fax: (416) 863-6275

BUSINESS AND PROFESSIONAL ASSOCIATIONS

Canadian Council for the Americas (CCA)
The Council is a non-profit organization formed in 1987 to promote business interests in Latin American as well as Caribbean countries. The CCA promotes events and programs targetted at expanding business and building networking contacts between Canada and the countries of the region.

The Canadian Council for the Americas
Executive Offices
360 Bay Street
Suite 300
Toronto, ON M5H 2V6
Tel.: (416) 367-4313
Fax: (416) 367-5460

Canadian Exporters' Association
99 Bank Street
Suite 250
Ottawa, ON K1P 6B9
Tel.: (613) 238-8888
Fax: (613) 563-9218

Canadian Manufacturers' Association
75 International Boulevard
Fourth Floor
Etobicoke, ON M9W 6L9
Tel.: (416) 798-8000
Fax: (416) 798-8050

The Canadian Chamber of Commerce
55 Metcalfe Street
Suite 1160
Ottawa, ON K1P 6N4
Tel.: (613) 238-4000
Fax: (613) 238-7643

Forum for International Trade Training Inc.
155 Queen Street
Suite 608
Ottawa, ON K1P 6L1
Tel.: (613) 230-3553
Fax: (613) 230-6808

Language Information Centre
240 Sparks Street RPO
Box 55011
Ottawa, ON K1P 1A1
Tel.: (613) 523-3510

Open Bidding Service
P.O. Box 22011
Ottawa, ON K1V 0W2
Tel.: 1-800-361-4637 or (613) 737-3374
Fax: (613) 737-3643

Canadian Standards Association
178 Rexdale Blvd.
Rexdale, ON M9W 1R3
Tel: (416) 747-4000
Fax: (416) 747-4149

Standards Council of Canada
45 O'Connor Street
Suite 1200
Ottawa, ON K1P 6N7
Tel.: (613) 238-3222
Fax: (613) 995-4564

Mexican Government Offices in Canada

The Embassy of Mexico and Mexican consulates can provide assistance and guidance to Canadian companies in need of information about doing business in Mexico. For more information, contact:

Embassy of Mexico
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-8988
Fax: (613) 235-9123

Mexican Consulate in Ottawa
45 O'Connor Street
Suite 1500
Ottawa, ON K1P 1A4
Tel.: (613) 233-6665
Fax: (613) 235-9123

Other Mexican Consulates General in Canada

Consulate General of Mexico
2000 Mansfield Street
Suite 1015
Montreal, PQ H3A 2Z7
Tel.: (514) 288-2502/4916
Fax: (514) 288-8287

Consulate General of Mexico
199 Bay Street
Suite 4440
P.O. Box 266, Station Commerce Court West
Toronto, ON M5L 1E9
Tel.: (416) 368-2875/8141/1847
Fax: (416) 368-8342

Consulate General of Mexico
810-1139 West Pender Street
Vancouver, BC V6E 4A4
Tel.: (604) 684-3547/1859
Fax: (604) 684-2485

Mexican Foreign Trade Commissions

Banco Nacional de Comercio Exterior (Bancomext) is the Mexican Foreign Trade Commission and has offices in Canada. It offers credits, export guarantees and counselling services to Mexican companies seeking to do business in Canada.

Mexican Banks with Offices in Canada

Banco Nacional de México (Banamex), Banco de Comercio (Bancomer), and *Banca Serfin* are private-sector banks which offer specialized services through their international trade information centres. The centres participate in a computerized communications network with access to numerous economic, governmental and financial databases throughout the world. These banks are located throughout Mexico and maintain offices in Toronto.

Banco Nacional de México (Banamex)
1 First Canadian Place
Suite 3430
P.O. Box 299
Toronto, ON M5X 1C9
Tel.: (416) 368-1399
Fax: (416) 367-2543

Banco de Comercio (Bancomer)
The Royal Bank Plaza
South Tower
Suite 2915
P.O. Box 96
Toronto, ON M5J 2J2
Tel.: (416) 956-4911
Fax: (416) 956-4914

Banca Serfin
BCE Place
Canada Trust Tower
161 Bay Street
Suite 4360
P.O. Box 606
Toronto, ON M5J 2S1
Tel.: (416) 360-8900
Fax: (416) 360-1760

Canadian Government Departments and Services in Mexico

Trade and Economic Division
The Embassy of Canada in Mexico

The Trade and Economic Division of the Canadian Embassy in Mexico can provide vital assistance to Canadians venturing into the Mexican market. The trade commissioners are well-informed about the market and will respond in whatever measures possible to support a Canadian firm's presence in Mexico.

Note: to telephone Mexico City, dial 011-52-5 before the number shown. For contacts in other cities in Mexico, consult the international code listing at the front of your local telephone directory for the appropriate regional codes.

Trade and Economic Division
The Embassy of Canada in Mexico
Schiller No. 529
Apartado Postal 105-05
Col. Polanco
11560 México, D.F.
México
Tel.: 724-7900
Fax: 724-7982

Canadian Consulate
Edificio Kalos, Piso C-1
Local 108-A
Zaragoza y Constitución
64000 Monterrey, Nuevo León
México
Tel.: 344-3200
Fax: 344-3048

Canadian Consulate
Hotel Fiesta Americana
Local 30-A
Aurelio Aceves No. 225
Col. Vallarta Poniente
44110 Guadalajara, Jalisco
México
Tel.: 616-6215
Fax: 615-8665

Key Contacts in Mexico

Mexican Government Departments

Secretariat of Commerce and Industrial Development
Secretaría de Comercio y Fomento Industrial (SECOFI)
Sub-Secretaría de Promoción de la Industria y el Comercio Exterior
Insurgentes Sur No. 1940 — P.H.
Col. Florida
01030 México, D.F.
México
Tel.: 229-6560/6561, 229-6100
Fax: 229-6568

Mexican Investment Board
Consejo Mexicano de Inversión (CMI)
Paseo de la Reforma No. 915
Col. Lomas de Chapultepec
11000 México, D.F.
México
Tel.: 202-7804
Fax: 202-7925

Department of the Federal District
Departamento del Distrito Federal (DDF)
Plaza de la Constitución
Esquina Pino Suárez, Piso 1
Col. Centro
06068 México, D.F.
México
Tel.: 518-1100, 782-2088/3000
Fax: 542-1429

Secretariat of Finance and Public Credit
Secretaría de Hacienda y Crédito Público (SHCP)
Palacio Nacional
1er. Patio Mariano
Col. Centro
06066 México, D.F.
México
Tel.: 518-5420 through 29
Fax: 542-2821

Secretariat of Social Development
Secretaría de Desarrollo Social (SEDESOL)
Av. Constituyentes No. 947
Edificio B, Planta Alta
Col. Belén de las Flores
01110 México, D.F.
México
Tel.: 271-8481/1616
Fax: 271-8862

BANKS

National Bank of Construction and Public Works
Banco Nacional de Obras y Servicios Públicos (BANOBRAS)
Tecoyotitla No. 100, Piso 4
Col. Florida
01030 México, D.F.
México
Tel.: 723-6000
Fax: 723-6108

National Bank of Construction and Public Works
Banco Nacional de Obras y Servicios Públicos (BANOBRAS)
Viena No. 4, Piso 5
Col. Juárez
06600 México, D.F.
México
Tel.: 627-0785/0786
Fax: 705-6217

National Development Bank
Nacional Financiera (NAFIN)
Insurgentes Sur No. 1971, Piso 13
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 325-6000, 661-7165/4044
Fax: 325-6042, 661-8418

Mexico's Central Bank
Banco de México
Tacuba No. 4, Piso 1
Col. Centro
06059 México, D.F.
México
Tel.: 512-5817, 237-2378
Fax: 237-2370

Banco Nacional de México, S.A. (Banamex)
Isabel la Católica No. 44, Piso 1
Col. Centro Histórico
06600 México, D.F.
México
Tel.: 225-6504
Fax: 225-5422

Banco de Comercio, S.A. (BANCOMER)
Av. Universidad No. 1200
Col. Xoco
03339 México, D.F.
México
Tel.: 621-3301/3302, 621-0034
Fax: 621-3988

Banca Serfin, S.A.
Prolongación Paseo de la Reforma No. 500
3er. Nivel, Módulo 310
Col. Lomas de Santa Fe
01219 México, D.F.
México
Tel.: 259-8860/8861, 257-8000
Fax: 257-8387

Banco Inverlat, S.A.
Bulevar Manuel Avila Camacho No. 1, Piso 18
Col. Lomas de Chapultepec
11560 México, D.F.
México
Tel.: 229-2531/2004/2929
Fax: 229-2157

Banco Mexicano, S.A.
Paseo de la Reforma No. 156, Piso 3
Col. Cuauhtémoc
06500 México, D.F.
México
Tel.: 592-5472, 629-3000
Fax: 629-4447

Banoro, S.A.
Obregón y Angel Flores s/n
Col. Centro
80000 Culiacán, Sinaloa
México
Tel.: 15-1722, 16-4350
Fax: 15-0122

Banco Interestatal, S.A. (INTERBANCO)
Av. Manuel Vallarta No. 2086 Sur
Col. Fraccionamiento Centro Sinaloa
80120 Culiacán, Sinaloa
México
Tel.: 17-4305/4306/5600
Fax: 14-7257

Banco Mercantil del Norte, S.A. (BANORTE)
Zaragoza Sur No. 920, Piso 3
Col. Centro
64000 Monterrey, Nuevo León
México
Tel.: 319-5202/5200
Fax: 319-5222

Banco Promotor del Norte, S.A.
Berna No. 6, Piso 6
Col. Juárez
06600 México, D.F.
México
Tel.: 627-9211, ext 1117-/18
Fax: 627-9293

Banco de Oriente, S.A. (BANORIE)
Av. 2 de Oriente No. 10
Col. Centro
72000 Puebla, Puebla
México
Tel.: 46-5196/4700, 32-4251
Fax: 42-0381

Banco del Bajío, S.A.
Paseo del Moral No. 506
Col. Jardines del Moral
37160 León, Guanajuato
México
Tel.: 73-4719/5300, 17-0322
Fax: 73-4718

National Banking Commission
Comisión Nacional Bancaria y de Valores (CNBV)
Insurgentes Sur No. 1971
Col. Guadalupe Inn
01020 México, D.F.
México
Tel.: 724-6900/6000
Fax: 724-7364, 661-3608

Business and Professional Associations

National Association of Importers and Exporters of the Mexican Republic
Asociación Nacional de Importadores y Exportadores de la República Mexicana (ANIERM)
Monterrey No. 130
Col. Roma
06700 México, D.F.
México
Tel.: 564-8618/9218
Fax: 584-5317

The Canadian Chamber of Commerce in Mexico
Cámara de Comercio de Canadá en México
c/o Bombardier
Paseo de la Reforma No. 369, Mezzanine
Col. Juárez
06500 México, D.F.
México
Tel.: 729-9903, 207-2400
Fax: 208-1592

National Chamber of Commerce of Mexico City
Cámara Nacional de Comercio de la Ciudad de México (CANACO)
Paseo de la Reforma No. 42
Col. Juárez
06030 México, D.F.
México
Tel.: 592-2677/2665
Fax: 705-7412, 592-3571

HELP US TO SERVE YOU BETTER

We are interested in your views on this publication. Please take a few minutes to respond to the questions below.

1. What is your overall opinion of this publication?
   - ☐ **very useful**
   - ☐ **useful**
   - ☐ **moderately useful**
   - ☐ **not useful**

2. Please provide your assessment of each of the following aspects of this publication.

   a) Quality of text discussion (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   b) Presentation of information (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

   c) Use of graphics and other visual aids (mark one only):
   - ☐ **excellent**
   - ☐ **good**
   - ☐ **fair**
   - ☐ **poor**

3. If this publication were updated, revised and re-issued in the future, would you be interested in receiving a copy?
   - ☐ **yes, very interested**
   - ☐ **probably interested**
   - ☐ **no, not interested**
   - ☐ **not sure**

4. How did you find the structure and format of this publication?
   - ☐ **clear and easy to follow**
   - ☐ **confusing and difficult to follow**

5 For your purposes, did this publication provide a sufficiently complete treatment of the subject(s) reviewed?
   - ☐ **yes, definitely**
   - ☐ **to some extent**
   - ☐ **no**
   - ☐ **can't say/don't know**

6. This publication would have been more useful to me if it had (mark all that apply):
   - ☐ **provided more qualitative information**
   - ☐ **provided less quantitative information**
   - ☐ **made greater use of graphs, charts and tables**
   - ☐ **contained a longer textual discussion**
   - ☐ **contained a shorter textual discussion**
   - ☐ **used more examples, case studies, company profiles**

7. In your opinion, was there important information missing from this publication?

   ☐ **yes — please specify:**

   ____

   ____

   ____

8. Are there any issues relevant to the subject of this publication that you would like to have seen covered in more detail?

   ____

   ____

   ____

9. Please offer any suggestions for improving the next version of this publication.

   ____

   ____

   ____

10. Will this publication assist you in your business development?

    ☐ **yes** ☐ **no**

11. a) Does your company currently export?
    - ☐ **Yes, go to 11 b)**
    - ☐ **No, go to 11 c)**

    b) If yes, to which foreign markets?

    ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
    ☐ **Mexico** ☐ **Latin America**
    ☐ **Other (please specify)**______________

    c) If not, are you planning to export within the next 12 months?

    ☐ **Yes, where?**

    ☐ **U.S.A.** ☐ **Europe** ☐ **Japan**
    ☐ **Mexico** ☐ **Latin America**
    ☐ **Other (please specify)**______________

12. What is the approximate size of your company?
    - ☐ **under $1 million**
    - ☐ **$1 to 5 million**
    - ☐ **$5 and $10 million**
    - ☐ **over $10 million**

To discuss this evaluation may we contact you? If so,

Name: ______________________________

Company: ______________________________

Address: ______________________________

Tel.: ______________ **Fax.:** ______________

Please return the completed survey by fax to (613) 996-6142 or to the address below:

Latin America and Caribbean Branch
Department of Foreign Affairs and International Trade
Lester B. Pearson Bldg., 125 Sussex Drive
Ottawa, Ontario K1A 0G2

Baker & McKenzie

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
Latin America & Caribbean Branch

InfoCentre

Fax:	**(613) 996-9709**	**Toll free:**	**1-800-267-8376**	**Bulletin Board**	**1-800-628-1581**
FaxLink:	**(613) 944-4500**	**Telephone:**	**(613) 944-4000**	**(IBB):**	**(613) 944-1581**