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Department:
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REPUBLIC OF SOUTH AFRICA

GVPM

Export Finance and Payment

Export Administration: Ensuring Payment in International Trade

Understanding international payment methods, financing options, and risk management in export transactions

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Global Exporter Passport Programme

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Ensuring Payment in International Trade

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International sales create unique challenges for both exporters and importers

Exporter's Security

- How can exporter be sure of receiving payment?
- Banking and trade finance provide crucial security
- Need documentation to verify goods have been shipped
- Time and distance create risks

Requires: Evidence of shipment, buyer creditworthiness

Importer's Confidence

- How can importer be sure goods will be shipped?
- Need verification that order has been placed
- Banking and trade finance provide confidence
- Documentation helps verify terms of trade

Requires: Order confirmation, terms of payment

Risk for Exporter — Balance Point — Risk for Importer

The challenge is to find the optimal balance between security and confidence for both parties

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Payment Terms Spectrum

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Different payment methods create varying levels of risk and security for both parties

Prepayment | D/P or D/A | L/C | Bank Transfer | Open Account

Prepayment

Buyer pays before goods are shipped

Exporter Risk: Low
Importer Risk: High

D/P or D/A

Documents released against payment/acceptance

Exporter Risk: Medium-Low
Importer Risk: Medium

L/C

Bank issues irrevocable credit

Exporter Risk: Medium
Importer Risk: Medium

Bank Transfer

Bank transfer after goods are shipped

Exporter Risk: High
Importer Risk: Medium

Open Account

Goods shipped, payment later

Exporter Risk: Highest
Importer Risk: Low

International sales require careful consideration of payment terms to balance security and confidence

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Risk vs. Financing in Trade Payments

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Different payment methods balance risk management and financing needs differently

Low Risk/High Financing | Balance Point | High Risk/Low Financing

Prepayment | L/C, D/C | Open Account

Prepayment

- Low risk for exporter
- High risk for importer

Financing: Immediate cash flow

L/C, D/C

- Bank guarantee for both parties
- Partial risk transfer

Financing: Bank credit substitution

Open Account

- High risk for exporter
- Low risk for importer

Financing: Extended credit

Key Considerations:

Balance risk and financing needs based on transaction specifics

Consider using banking and trade finance to mitigate risks

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Order-to-Cash Cycle

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Exporters need to understand the two critical financing periods in the export transaction

Order → Pre-Shipment → Shipment → Post-Shipment → Payment

Pre-Shipment Financing

Financing needs before goods are shipped

- High-risk period as goods aren't yet produced or available
- Financing options include company funds, bank loans, supplier credit
- Buyer prepayments are ideal but difficult to obtain
- Trade credit from suppliers helps fund inventory

Key consideration: Balancing production costs with buyer credit worthiness

Post-Shipment Financing

Financing needs after goods are shipped but before payment

- Period between physical delivery and final payment
- Financing options include letters of credit, bank guarantees
- Documentary collections and export credit insurance
- Helps bridge the time gap between shipment and payment

Key consideration: Managing the time gap between delivery and payment

Effective management of both financing periods is crucial for successful international trade

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Pre-Shipment Financing

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Financing needs that arise before goods are delivered to customers

Raw Materials — Production — Documentation — Shipment — Payment

Raw Materials & Supplies

- Procurement of materials
- Inventory replenishment

Operational Expenses

- Wages and salaries
- Rent and utilities

Production Costs

- Manufacturing expenses
- Quality control testing

Risks & Challenges

This period is considered high-risk with limited collateral. Companies need to bridge the gap between payment for goods and receipt from buyers.

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Pre-Shipment Financing Sources

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Before shipping, exporters need funding for materials, production, and operational costs

Company Funds
Internal capital invested in business assets

Commercial Banks
Short-term loans with interest

Suppliers
Trade credit based on creditworthiness

Buyers
Prepayments for goods

Government Agencies
National and regional development banks

Key Considerations

- Company assets and creditworthiness
- Supplier relationships and terms
- Buyer creditworthiness and market demand
- Government export promotion programs

Tip: Diversify financing sources to reduce risk

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Post-Shipment Financing

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Financing needs after goods are shipped but before buyer's payment

Order Received — Goods Shipped — Post-Shipment — Payment Received — Cash Available

Financing Period

Financing Needs

- Working capital during extended payment periods
- Funds for operational expenses while waiting for payment
- Interest on outstanding invoices
- Protection against buyer default

Risk Management

- Credit risk from buyers in foreign markets
- Interest rate fluctuations
- Political risks in foreign countries
- Currency exchange rate risks

Common Financing Options

Letters of Credit
Bank guarantee of payment based on documents

Documentary Collections
Bank facilitates document exchange for payment

Forfaiting
Bank purchases documents from exporter

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Letters of Credit

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Documentary letters of credit (L/Cs) are a secure payment method that balances risks in international trade

What are L/Cs?

L/Cs are bank documents that guarantee payment to exporters based on the importer's application and subject to terms and conditions.

Risk Balancing

L/Cs shift risk from importer to bank, reducing risk for exporters while providing confidence to importers that goods will be shipped as ordered.

Key Benefits

- Bank verification of documentation
- Reduced risk of non-payment
- Facilitates trade between parties with limited credit history

Process Flow

- Importer applies to bank for L/C issuance
- Bank issues L/C to exporter
- Exporter ships goods and submits documents
- Bank verifies documents and disburses payment

L/Cs provide a secure payment mechanism that balances the needs of both parties in international trade, reducing risks and facilitating smoother transactions.

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Documentary Collections

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Documentary Collections: A payment method where banks facilitate the exchange of documents between parties but do not guarantee payment. Similar to letters of credit but less formal and less expensive.

Exporter
Ship goods and documents

Bank
Facilitates document exchange

Importer
Pays and receives documents

Types of Documentary Collections

DDP (Documents Against Payment)
Bank transfers payment to exporter after receiving documents from importer

DDP+D (Documents Against Payment + Documents)
Similar to DDP but with additional document verification

Advantages & Disadvantages

For Importers

- Bank verification of documents
- No need for trust in buyer
- Bank acts as neutral third party

For Exporters

- No guarantee of payment
- Risk of dishonor from importer
- Less formal than letters of credit

Comparison with LCs: Documentary collections are less formal, less expensive, and faster than letters of credit but offer less protection for exporters.

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Negotiating Optimal Payment Terms

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Strategies for exporters to negotiate favorable payment terms

Preparation | Negotiation | Balance | Agreement

Market Conditions

- Understand local banking options
- Research buyer's credit worthiness
- Consider geopolitical risks

Buyer Relationship

- Build trust through communication
- Understand buyer's business culture
- Provide value-added services

Competitive Factors

- Research industry standards
- Identify buyer's alternatives
- Emphasize your unique value

Key insight: Balance security with financing needs

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Trade Finance Risk Management

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Managing commercial and political risks through appropriate payment methods

Exporter Security | Optimal Balance | Importer Confidence

Commercial Risks

- Currency exchange rate fluctuations
- Import/export documentation errors
- Goods not meeting specifications

Management: Letters of credit, documentary collections

Documentation Risks

- Incorrect or incomplete documents
- Discrepancies between documents
- Delays in document processing

Management: Structured documentation systems, verification procedures

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Trade Finance Risk Management

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Managing commercial and political risks through appropriate payment methods

Exporter Security — Optimal Balance — Importer Confidence

Political Risks

- Import country trade policies
- Political instability in transit countries
- Import restrictions or embargoes

Management: Insurance, credit checks, trade credit insurance

Key Risk Management Strategies:

- Combine multiple risk mitigation techniques
- Know your buyer's creditworthiness
- Document all transactions thoroughly

Effective risk management is the foundation of successful international trade

Financial Risks

- Buyer default on payment
- Banking system differences
- Wire transfer delays or errors

Management: Banking relationships, credit checks, factoring

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