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Department:  
Trade, Industry and Competition  
REPUBLIC OF SOUTH AFRICA



# Export Finance and Payment

Export Administration: Ensuring Payment in International Trade






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

 Report Date: 2025-09-21
 Global Exporter Passport Programme

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## Ensuring Payment in International Trade



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



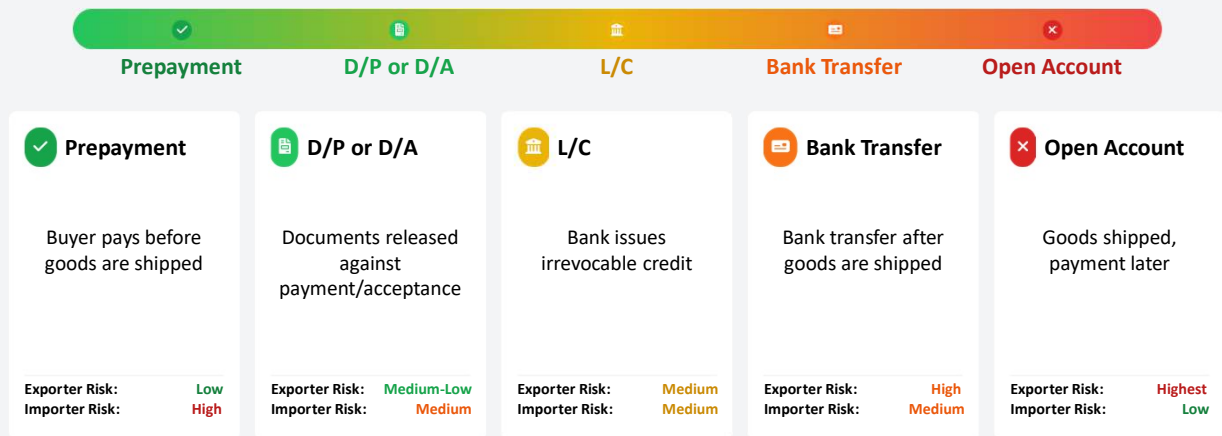
The challenge is to find the optimal balance between security and confidence for both parties

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## Payment Terms Spectrum



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



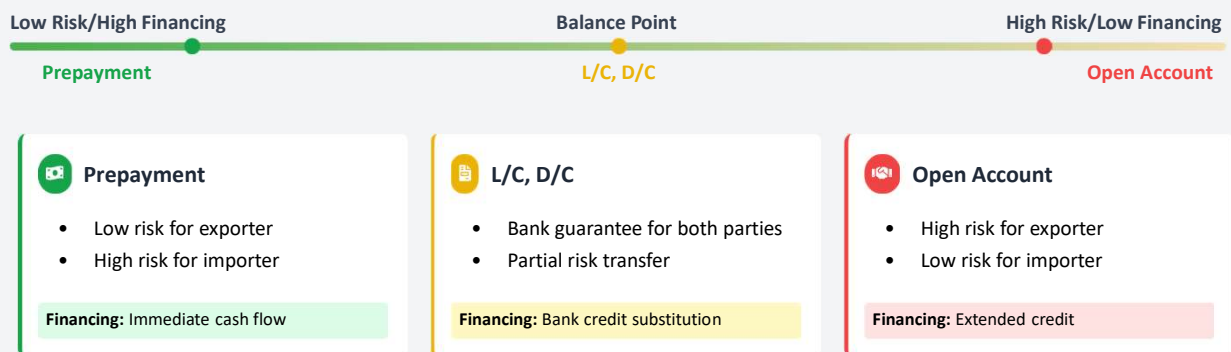
International sales require careful consideration of payment terms to balance security and confidence

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## Risk vs. Financing in Trade Payments



Different payment methods balance risk management and financing needs differently



### 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



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



### 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



Financing needs that arise before goods are delivered to customers



### 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



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

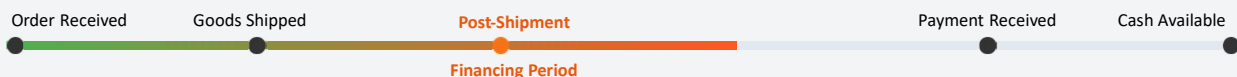
**Tip: Diversify financing sources to reduce risk**

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## Post-Shipment Financing



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



### 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



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



**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



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



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

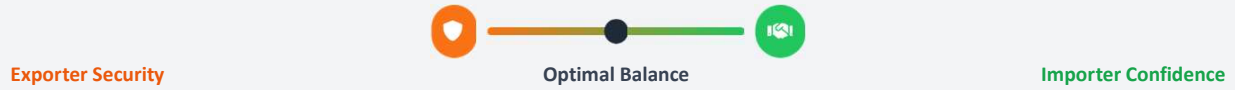


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# Trade Finance Risk Management



Managing commercial and political risks through appropriate payment methods



## 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**

### Political Risks

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

**Management:** Insurance, credit checks, trade credit insurance

### Financial Risks

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

**Management:** Banking relationships, credit checks, factoring