Export Financing Options for your Business

Export Financing & Methods of Payment

Several commercial banks, government agencies and other lenders offer facilities for export activities. Larger firms in particular could opt for short term commercial loans for large and periodic export orders. They are also likely to receive financing since their cash outflows and inflows tend to be more predictable than that of smaller firms. On the other hand, smaller enterprises can seek revolving lines of credit which are typically designed to cover temporary and in some instances, unexpected funding needs. In instances where commercial loans are not obtainable or desirable, many enterprises throughout the CARIFORUM region could also access government guarantees.

Some other methods of financing include:

Documentary Credit/Letter of Credit: This is a contractual agreement between a bank, known as the issuing bank, on behalf of one of its customers, authorizing another bank, referred to as the advising or confirming bank, to make payment to a beneficiary. Essentially, the issuing bank makes a commitment to honour drawings made under the credit on behalf of its customer.

Documentary Collection: Under this method of payment, the buyer pays for goods on delivery of the title document (e.g. bill of lading). This approach typically involves a bank handling the transaction on behalf of a buyer – the bank is not a guarantor, but acts as the collector of payment from the buyer. The bank charges under a Documentary Collection tend to be lower than those applied to a Documentary Credit/Letter of Credit which is highlighted above.

Ex-Im Bank Loan Facility: Financial actors in some CARIFORUM countries operate export-import loan facilities which assist exporters by guaranteeing term financing to creditworthy international buyers, both private and public sector, for purchases of goods.

Financing Trade Receivables: This is where the exporter sells its transaction with the buyer to the financier and the exporter receives payment up-front. This is particularly is particularly advantageous to firms with considerable cash-flow limitations.

Accounts Receivable Insurance (ARI): This is a form of credit insurance offered by commercial insurers to enterprises. This form of insurance is usually appealing to new businesses for which a letter of credit is not ideal. An ARI protects the exporter against loss on receivables, inclusive of default, bankruptcy or slow payment. An ARI would also typically cover for loss of records associated with a natural or man-made disaster such as a storm or fire.

Cash in Advance (Advance Payment): This is a payment method where the exporter does not process an order until payment has been received from the buyer. Clearly, this manner of payment protects the exporter against the possibility of non-payment by the importer.

Consignment: Under a consignment, the understanding is that the exporter does not receive payment for an order from the buyer unless the goods are sold. This method is disadvantageous to the exporter, especially those with cash flow problems and is generally the least desirable method of payment.

Open Account: An Open Account permits the exporter to extend credit to a buyer. Basically, an order is filled without payment and billing occurs at a later date. This is a rather risky method as the buyer can default on payment. For the new exporter or the small or medium sized enterprise in particular, another method of payment might be more ideal. However, once the exporter develops a high degree of trust with the buyer, this payment method can be considered.

Draft (Bill of Exchange): This is a written order that binds the importer to pay the exporter a fixed sum at a future date agreed to by both parties. A Bill of Exchange can be issued by a bank in which case it is referred to as a bank draft, or it can be issued by an individual and is thereafter referred to as a trade draft.

Development Financing

In many instances, new business entities or even established small and medium sized entities are hampered by lack of traditional means of export financing. In recognition of this, several of the Caribbean region's development partners offer grants and loans to such enterprises under structured financial and technical assistance mechanisms. Some of these programmes may not explicitly cover export activities, but may address other areas of a firm's operations which could eventually lead to increased exports.