Payment terms and financing of international trade

- The specification of payment terms in international trade operations
- The ways of financing of international trade

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Radka Bauerová

International Trade Operations

11 April 2023

Content of the presentation

1. The payment terms
2. Specification of payments types, functions and payments content
3. The financing of international trade operations
4. Specification of financial subjects of international trade
5. Explanation of methods and instruments of financing used in trade operation
6. Explanation of receivable management

Payments related to international trade operations.

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

An international trade transaction is not completed until delivery has taken place, any other obligations have been fulfilled and the seller has received payment. This may seem obvious, however, even seemingly simple transaction can go wrong. There are many reasons why these things happen, but behind them all is the basic fact that the risk assessment of the transaction and/or the way these risks were covered went wrong.

Some of possible reasons of wrong/failed transaction are (Grath, 2016):

- **The way of risk assessment of the customer** – exporters do not always fully realize that some larger countries are divided into regions or states, often with different cultures, which may affect trade patterns and practices. In some countries, what the seller thought was a signed contract may just be seen as a letter of intent by the buyer until it also has been countersigned by a more senior and internally authorized manager. Or it may be that the seller has agreed to terms that were previously used but are not suitable in a changed environment or due to changes in their own business.
- The parties simply did not use the same **terminology** or did not focus on the **details of the agreed terms of payment.**
- The seller may have **outstanding claims on the buyer**, or that the buyer is of the same opinion with regard to the seller and takes the opportunity to make unilateral payment deductions owing to real or alleged faults or deficiencies in the delivery.

THE PAYMENT TERMS

Terms of payment refers to the extent to which an ex**porter would like to be guaranteed payment before he ships the goods to the importer or to a designated place** (Luk, 2011). Properly setting and adhering to payment terms is an important factor in reducing payment risk (also called credit risk).

The buyer´s distance, and location in a foreign country with an unfamiliar legal system, means that any attempt to collect **payment can be costly and time consuming**. If the buyer fails or refuses to pay, the seller might have to resort to litigation in the buyer´ s country to recover the money owed. Even then, recovery might become impossible, if the buyer becomes insolvent or bankrupt. If a foreign buyer refuses delivery, it may not be cost-effective to ship the goods home, and the seller may have difficulty locating a substitute buyer that far way. The exporter has to check whether the terms of payments are the same as mentioned in the quotation he has given. (Schaffer et al., 2014)

Some of the important issues to be looked at by exporters are (Singh, 2009):

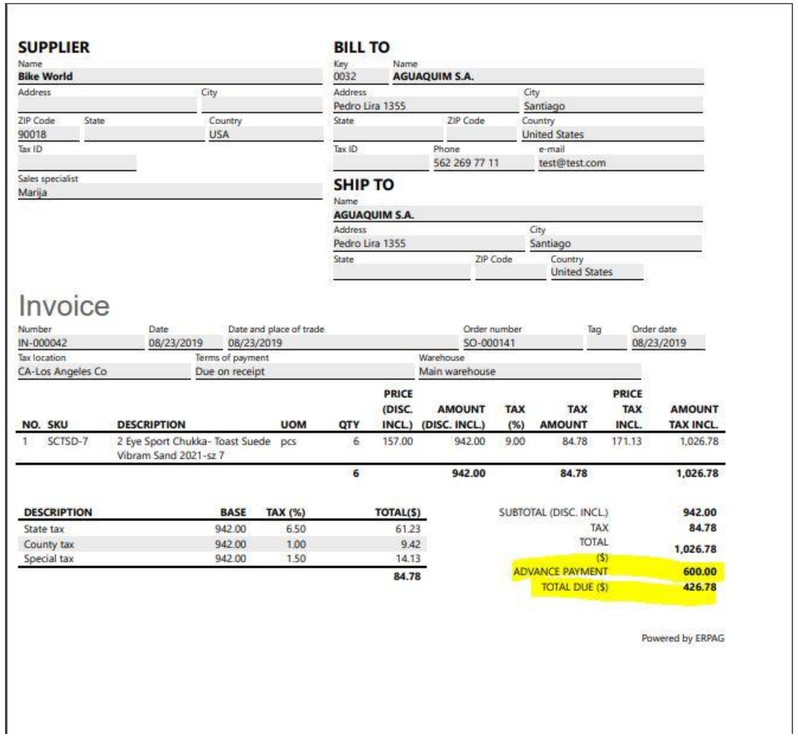
- Letter of credit, which is opened by the importer bank, shall be confirmed by the exporter bank. Exporters shall also check the creditworthiness of the bank through world banks almanac.
- The exporter can submit the documents as required in the letter of credit at the time of negotiating these documents with the bank for receiving payments
- Payments under Drafts drawn are to be sight and to be drawn on the bank of importer or the buyer himself
- The exporter has to see whether the credit validity period is sufficient for the collection of all relevant documents or not. If not, it is advisable to get it extended by the buyer in the beginning itself.
- Examine the exchange control regulation of the buyer country. It is possible that the buyer may be interested to make payments but due to importer´s country´s balance of payments problems, the exporter may not receive payment in freely convertible currency.

SPECIFICATION OF PAYMENTS TYPES FUNCTIONS AND PAYMENTS CONTENT

The terms of payment used in an international transaction will depend on **the relationship between the seller and the buyer**, **the nature of the merchandise**, **industry norms**, **the distance between buyer and seller**, **the potential for currency fluctuation**, and **political and economic stability** in either or both countries. All of these factors must be considered before deciding on a method of payment that is acceptable to both parties. (Hinkelman, 2003)

In general, the **lesser the risk to an exporter, the grater the risk to an importer**. In other words, to minimize both parties´ worries, the importer and the exporter must agree to mutually acceptable payment terms before a contract is agreed. There are basically four terms of payment in international trade. The extent of the risk implied by each term is different for different parties. (Luk, 2011)

The example of Advance Payment in invoice



SUPPLIER

Name: **Bike World**
Address:
City:
ZIP Code: 90018
State:
Country: USA
Tax ID:
Sales specialist: Marija

BILL TO

Key: 0032
Name: **AGUAQUIM S.A.**
Address: Pedro Lira 1355
City: Santiago
State:
ZIP Code:
Country: United States
Tax ID:
Phone: 562 269 77 11
e-mail: test@test.com

SHIP TO

Name: **AGUAQUIM S.A.**
Address: Pedro Lira 1355
City: Santiago
State:
ZIP Code:
Country: United States

Invoice

Number: IN-000042
Date: 08/23/2019
Date and place of trade: 08/23/2019
Order number: SO-000141
Tag:
Order date: 08/23/2019
Tax location: CA-Los Angeles Co
Terms of payment: Due on receipt
Warehouse: Main warehouse

NO.	SKU	DESCRIPTION	UOM	QTY	PRICE (DISC. INCL.)	AMOUNT (DISC. INCL.)	TAX (%)	TAX AMOUNT	PRICE TAX INCL.	AMOUNT TAX INCL.
1	SCTSD-7	2 Eye Sport Chukka- Toast Suede Vibram Sand 2021-sz 7	pcs	6	157.00	942.00	9.00	84.78	171.13	1,026.78
				6		**942.00**		**84.78**		**1,026.78**

DESCRIPTION	BASE	TAX (%)	TOTAL($)
State tax	942.00	6.50	61.23
County tax	942.00	1.00	9.42
Special tax	942.00	1.50	14.13
			84.78

SUBTOTAL (DISC. INCL.)	**942.00**
TAX	**84.78**
TOTAL ($)	**1,026.78**
ADVANCE PAYMENT	**600.00**
TOTAL DUE ($)	**426.78**

Powered by ERPAG

TERMS OF PAYMENT

These terms of payment are ranked here in ascending order of risk to the exporter.

Advance payments

A letter of credit

Documents against Payments

Documents against Acceptance

Open Account Payments

Increasingly unfavourable to the exporter

Increasingly favourable to the importer

Advance Payments

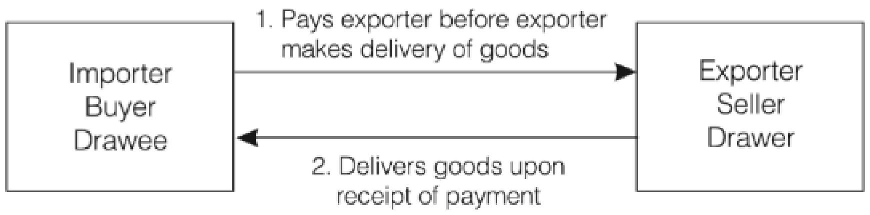
This type of payments is considered to be the **safest mode of payments** but no importer is willing to make payments in advance in this globally competitive era. This type means that the **sellers obtain cash in advance from new foreign buyers before the goods leave their hands.** On the other hand, few buyers would part with their money merely in the hope that the goods they order will ever arrive. An unscrupulous seller who already has the cash, may be tempted to walk away without shipping or to ship goods other than those that were ordered. The seller may have no long-term interest in exporting to a foreign market or may just be dishonest. Cultural and language barriers can make it particularly difficult to asses a seller´s honesty or intentions.

Sometimes, exchange controls in the importer´s country may cause payment delays or even prohibit funds to move out of the country (Luk, 2011).

In summary, and exporter may consider trading with this term under the following circumstances (Luk, 2011). :

- He is selling the goods which are **exclusive to himself** in the global market.
- When he is **doubtful about the buyer´s character and/or ability to pay** for the goods.
- When he is exposed to buyer´s country risk, arising for example from **political and/or economic instability**.

Figure 1: Illustration of advance payments between importer and exporter



Source: Luk, 2011

A Letter of Credit

This is another preferred method of payment, but the exporter needs to **check its authenticity and transactional cost involved.**

The documentary sale is a type of contract for the sale of goods in which possession and ownership of the goods are transferred from seller to buyer through negotiation and delivery of a negotiable document of title issued by an ocean carrier. The seller´s obligation is to place the goods in the hands of an ocean carrier within the time called for in the contract, in exchange for a negotiable document of title and to negotiate the document of title to the buyer in return for either immediate payment or, if an extension of credit is anticipated by the contract, for the buyer´s promise to pay at a future date. The buyer´s obligation is to "purchase" the document in a timely fashion and to take delivery of the goods. Correspondent banks in the buyer´s and seller´s countries handle the process of **exchanging a document of title in return for money.** It **reduces the transaction risk between a buyer and a seller** who are great distances apart by ensuring that if one releases the title to the goods, the other will release the money. The documentary sale is a unique method of exchange devised by early traders when their sailing vessels travelled medieval trade routes. Today, the documentary sale is a common type of contract for the sale of goods. (Schaffer et al., 2014)

The most used documents are **bill of lading, air waybill, commercial invoice and certificate of origin**.

A Letter of Credit

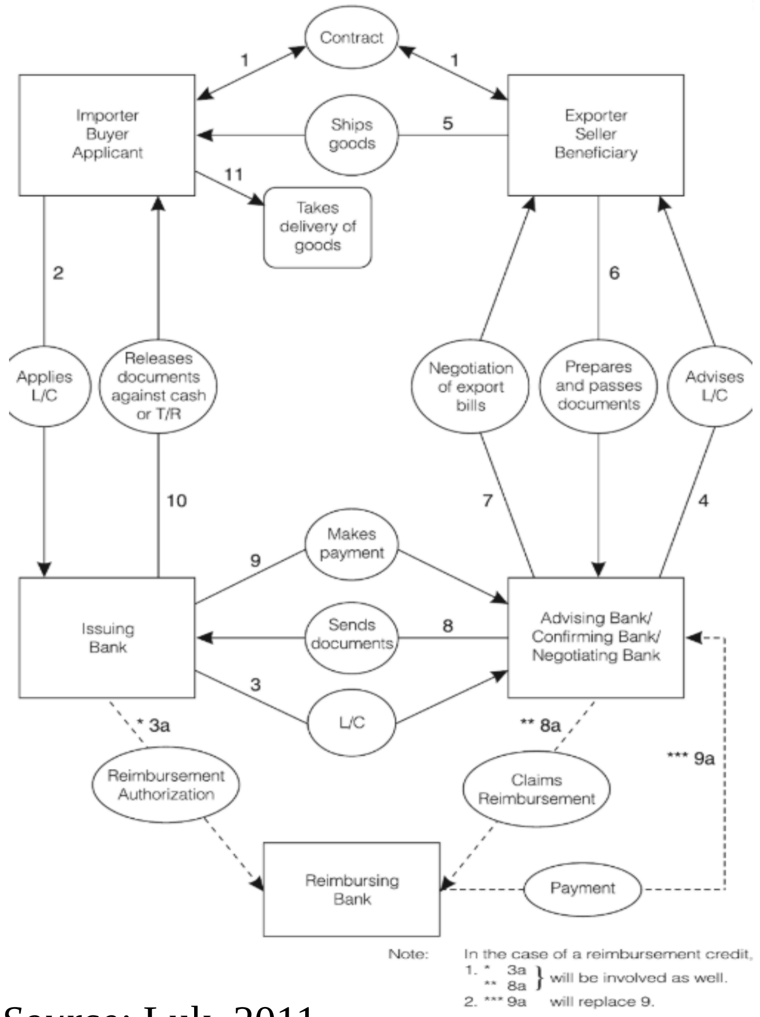
The meaning of a letter of credit embodies the following (Luk, 2011):

- A written undertaking given by a bank, known as an issuing bank or opening bank.
- To a seller, known as a beneficiary.
- At the request and on the instructions of its customer (buyer), known as the D/C applicant.
- To pay either at sight or at a specific future date.
- A stated sum of money.
- Against delivery of shipment and submission of stipulated documents and fulfilment of all the terms and conditions in the D/C.

A letter of credit is a conditional payment instrument made by the issuing bank in favour of a designated beneficiary. It is especially appropriate in the following circumstances (Luk, 2011):

- When the **importer is not well known**, the exporter selling on credit terms may wish to have the importer´s promise of payment backed by his banker.
- On the other hand, the importer may not wish to pay the exporter **until it is reasonably certain that the merchandise has been shipped in good condition and/or in accordance with his instructions**.

Figure 2: A letter of credit operation



Source: Luk, 2011

Collection method

Collection is a method of settlement of payment by a buyer through bank channels at comparatively low cost and little risk. It is called collection because the seller uses the bank system to collect payment from the buyer. Unlike in D/C cases, a bank handling collection is acting as the agent for its customers. In processing collections, banks do not guarantee that the buyer will pay. The payment instrument in a documentary collection is usually a bill of exchange drawn by the exporter on the importer. Two types of bill of exchange can be drawn (Luk, 2011):

- **Sight bill (Documents against Payments)** – a bill of exchange drawn by the drawer (exporter) at sight for immediate payment (Documents against Payments)
- **Term bill (Documents against Acceptance)**– (Usance bill) a bill of exchange drawn by the drawer (exporter) and providing time for the drawee to pay at a fixed or determinable future date, such as 30 days sight.

There are two types of collection. The first type is documentary collection, which means collection of:

- **Financial documents and commercial documents**
- **Commercial documents only**

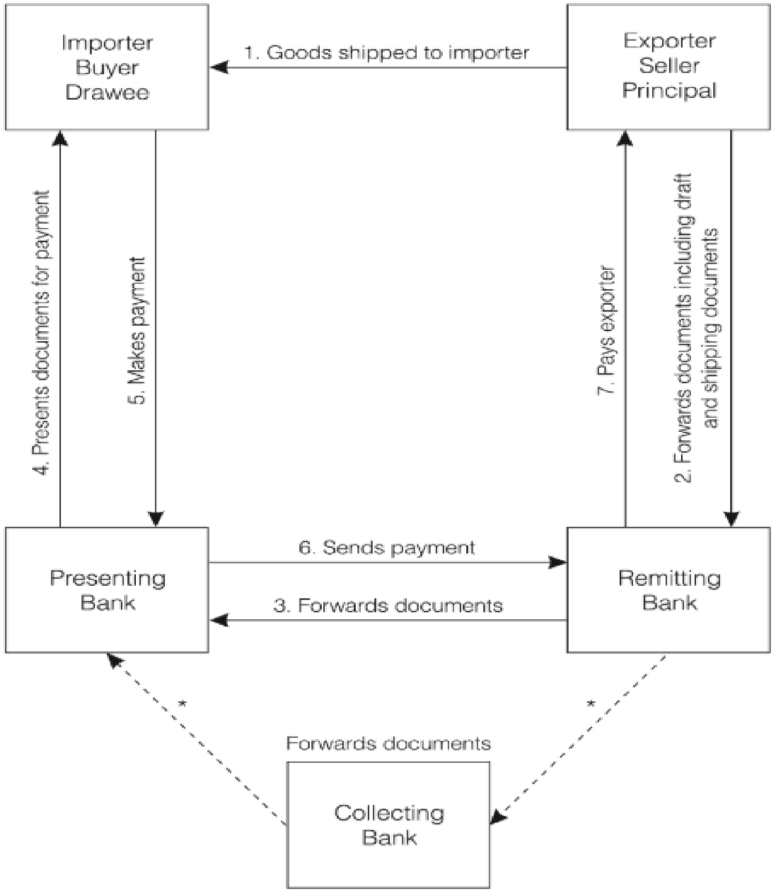
The second type is clean collection. This consists of one or more bills of exchange or promissory notes, for obtaining cash. Clean collection requires no other commercial documents to be attached. In other words, all shipping documents except financial documents are sent direct to the buyer or accompanied the goods. Financial documents such as drafts will be submitted to the remitting bank for obtaining cash. (Luk, 2011)

Documents against Payments

The buyer has to be careful in choosing his payments terms keeping in mind the **creditworthiness of the importer**. (Singh, 2009)

After the goods are shipped, the **exporter sends the sight draft to the clearing bank**, along with documents necessary for the importer/buyer to obtain the goods from customs. The buyer has to settle the payment with the bank before the documents are released and he can take delivery of the goods. If the buyer fails or refuses to pay, the exporter has the right to recover the goods and resell them. Unlike a letter of credit, **the bank does not assume any liability to pay if the buyer does not want or is unable to pay**. Compared to open account sales, the documentary collection offers more security to the seller, but less than a letter of credit.

Figure 3: Illustration of documents against payments operation



Source: Luk, 2011

Documents against Acceptance

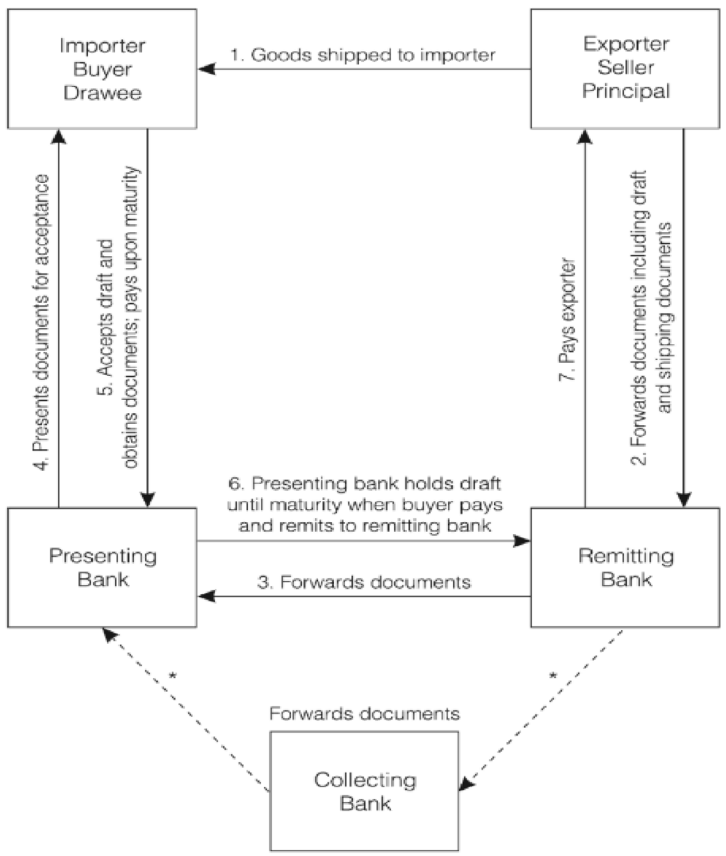
The documents required to take possession of the goods are released by the clearing bank **only after the buyer accepts a time draft drawn upon him**. In essence, this is a deferred payment or credit arrangement. The buyer's assent is referred to as a trade acceptance.

D/A terms are usually after sight, for instance "at 90 days sight", or after a specific date, such as "at 150 days bill of lading date."

There are some reasons for the growth of collection (Luk, 2011):

- Collection provides an alternative payment method which can satisfy both the importer and the exporter by means of reducing their worries.
- Collection charges are comparatively cheaper for both parties.
- Importers prefer to use this method as no credit line is required.

Figure 4: Illustration of documents against acceptance operation



Source: Luk, 2011

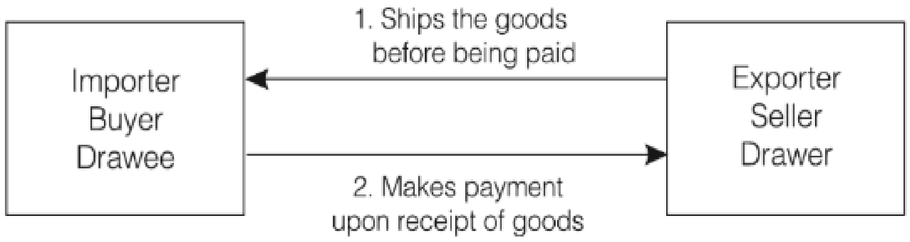
Open Account Payments

This type of payments **is not advisable** as the jurisdictions of countries vary and there are no international conventions protecting exporters through arbitration for obtaining payments under the Open Accounts Method. With open account terms, the seller grants an extended credit period for the buyer to pay, typically 30 days. In domestic sales, for the seller who has had an opportunity to learn the creditworthiness of the buyer, sales are often made on open account terms. However, few sellers would risk shipping their goods, perhaps halfway around the world, giving up possession, control, and even ownership of the goods to a foreign buyer, without some adequate assurance of payment.

Perhaps after a long relationship has developed between them, they may agree to do business this way, but an open account sale is usually not secure enough for most large international transactions.

In addition, a seller who agrees to sell on open account in a foreign currency bears **the risk that the currency will fall in value during the open credit period**. (Schaffer et al., 2014)

Figure 5: Illustration of open account payments operation



Source: Luk, 2011

Financial Management of Trade Operations

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Financial management is one of the core activities of any business, regardless of its nature, focus, size or industry. In addition, it can be stated that the principles, rules and procedures are, to a large extent, similar or even identical in the area of financial management. Thus, financial management is essentially cross-cutting in nature, unlike many other activities, so it is possible to define certain universally valid approaches and principles. These then represent a framework for a specific form of financial management system in individual companies. (Mulač and Mulačová, 2007)

The essence of the financial management of the company is taking financial decisions related to the selection of options (Mulačová and Mulač, 2013):

- **What the company is to invest its resources in.**
- **Where and how to get these resources.**
- **How to deal with the profit.**

The financial management **of business companies does not differ much from the same activity of a manufacturing company** and has characteristic common features. The financial management of the business company is therefore the starting point and at the same time a limiting factor of the realization side of the business activity itself. (Mulačová and Mulač, 2013)

THE FINANCING OF INTERNATIONAL TRADE OPERATIONS

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Funding generally means **raising and using funds to ensure the operation and expansion of business assets.** In terms of company financing we distinguish the following types of financing (Mulačová and Mulač, 2013):

- **Current financing** - refers to securing and spending funds for the operation of the company. These are funds for the purchase and storage of materials, goods, energy, wages and salaries, transportation charges, rentals, postage, telephones, taxes and short-term payables.

- **Extraordinary financing** - usually requires large sums of money and brings major changes in the company's activities. This type of financing includes these situations:
  - Financing of business creation.
  - Financing of the expansion of the company.
  - Merger financing.
  - Financing for the company redevelopment.
  - Financing of liquidation of the company.

SPECIFICATION OF FINANCIONAL SUBJECTS OF INTERNATIONAL TRADE

Commercial banks, export intermediaries and government assistance programs can be classified as financial subjects in the field of international trade. These subject provide these operations (Nee, 2014) :

- **Commercial banks**

Banks offers short-term and long-term financing, These instruments are appropriate for both, importers and exporters.

- **Export intermediaries**.

In addition to acting as export representatives, many export intermediaries, such as export trading companies and export management companies, can help finance export sales. Export intermediaries may provide short-term financing, or they may simply purchase the goods to be exported directly from the manufacturer, thus eliminating any risks to the manufacturer that are associated with the export transaction as well as the need for financing.

- **Government assistance programs**

Several state and local government agencies offer programs to assist exporters with their financing needs. Some are guarantee programs that require the participation of an approved lender, others provide loans or grants to the exporter or to a foreign government.

EXPLANATION OF METHODS AND INSTRUMENTS OF FINANCING USED IN TRADE OPERATION

SILESIAN

Financial sources are means that ensure the operation of the company, enable the recovery and expansion of the company. Financial sources can be sorted from different points of view. We distinguish sources according to ownership (Brigham and Houston, 2016):

- **Own (equity financing) -** Own resources are the owners' deposits, resources obtained through the performance of services (retained earnings and depreciation), resources obtained from the sale of non-cash assets.
- **Foreign (debt financing) -** We consider all debt increments or leasing financing through the lease of assets as foreign sources.

The optimal capital structure is the mix of debt, preferred stock, and common equity that maximizes the stock´s intrinsic value.

Depending on the method of acquisition, we can also divide the company's resources into (Mulačová and Mulač, 2013):

- **Internal sources** - are acquired based on the company's own activities, mainly depreciation and profit. Internal financing is called self-financing.
- **External sources** - are all other sources acquired outside the enterprise. These are mainly deposits of owners (in the case of joint-stock companies, issued shares), issued bonds, long-term, medium-term and short-term bank loans, supplier loans, factoring and leasing.

EXPLANATION OF METHODS AND INSTRUMENTS OF FINANCING USED IN TRADE OPERATION

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

We distinguish the two types according to the maturity of resources, i.e. current liabilities and long-term liabilities (Levy et al., 2018).

1. Current liabilities

Liabilities that will be satisfied within 1 year. They include accounts payable, the amounts owed to suppliers for products or services purchased with credit, short-term debt or notes payable, and current maturities of long-term debt, which are all repayments of debt that will occur within the next year. (Levy et al., 2018)

Sources and forms of short-term financing are diverse, the basic groups are (Berry and Jarvis, 2005; Mulač and Mulačová, 2007):

- Trade credit.
- Bank overdrafts and short-term bank loan
- Other short-term non-bank liabilities (outstanding wages, liabilities to budgets, short-term borrowings from other companies).
- Financing through asset conversion, especially factoring.

Trade Credit

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

Normally a supplier will allow business customers a period of time after goods have been delivered before payment is required. The period of time and the amount of credit a business gets from its suppliers are dependent upon a number of factors. These include the normal terms of trade of that industry, the credit-worthiness of the business and its importance to the suppliers. Thus, for example, a small clothing retailer is likely to get less favourable terms than a major group such as Marks & Spencer. (Berry and Jarvis, 2005)

Effective management in a small business setting requires a balance to be struck between taking advantage of trade credit and not being perceived as a slow payer. If too long a period is taken to pay, the supplier may impose less favourable terms next time.

Trade credit is often thought of as cost-free credit, which is not strictly true, as often suppliers allow a small discount for early payment. Therefore, taking the full period to pay has an opportunity cost in the form of the discount foregone. This opportunity cost has to be weighed against the availability of funds within the business or the cost of raising additional funds. For trade credit there is generally no requirement for security, which is not the case with other forms of short-term finance, as we shall see.

Bank Overdrafts

Banks provide short-term finance for working capital, either in the form of short-term loans or in the form of an overdraft. The difference is that a loan is for a fixed period of time and interest is charged on the full amount of the loan, less any agreed repayments, for that period. An overdraft, by contrast, is a facility that can be used as and when required and interest is only charged when it is used. Thus, if a business knows that it needs money for a fixed period then a bank loan may be appropriate. On the other hand, if the finance is only required to meet occasional short-term cash flow needs then an overdraft would be more suitable.
(Berry and Jarvis, 2005)

Although many businesses use overdrafts as a semi-permanent source of finance, this is not how the banks would like to see this form of finance used. Bank managers like to see a business bank account, on which an overdraft facility has been provided, swinging between having money in the bank account and using the overdraft. They do not see an overdraft as a form of permanent working capital.

A bank overdraft carries with a charge in the form of interest and often a fee for setting up the facility.

Short-Term Bank Loan

An alternative to overdraft finance is a bank loan. In general, loans should only be used when finance is required for a known period. Ideally that period should relate to the life of the asset or the purpose for which the finance is to be used. Compared with an overdraft facility, which can be used as and when needed, a loan is more permanent. Repayment of the loan is negotiated at the time the loan is taken out and is generally at fixed intervals. (Berry and Jarvis, 2005)

According to specific conditions, bank loans are provided in various forms. The most typical are (Mulačová and Mulač, 2013):

- **Short-term bank loan** – it is the simplest form of a bank loan. It is provided for specific need, drawn as well as repaid in one sum or gradually.
- **Revolving credit** - this is a situation where the bank modifies an already agreed loan. However, it requires higher fees for constant replenishment of the loan.
- **Lombard credit** - is a loan secured by a movable collateral (securities, goods or precious metals). It is granted only up to a certain amount of collateral.
- **Aval credit** - it is provided on the basis of the purchase of bills of exchange before their maturity.
- **Acceptance credit** - is a special form of loan where the bank accepts, at the client's request, a promissory note issued by the debtor, thereby committing itself to repay it within the due date for the debtor. The bank does not give money to the debtor but takes on the obligation for it.

Factoring

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

If a business make sale on credit, it will have to collect payment from its customers at some stage. Up until that point, it will have to finance those debts, either through trade credit, and overdraft or its own capital. The costs of this finance can be very high and many small businesses will be hard up against their limits in terms of their overdraft and the amount and period of trade credit taken. **In order to release money tied up in receivables**, the business can approach a **factoring company**. These are finance companies which specialize in providing a service for the collection of payments from customers. (Berry and Jarvis, 2005)

Essentially, the way in which the system works is that the factoring organization assesses the firm´s customers, in terms of the risk of them going bust and the collectability of the money. It then agrees to collect the money due on behalf of the client business.

Factoring, however, is not available to all industries. In some cases this is because it is inappropriate, e.g. most retailing operations, and in others the factoring companies are reluctant to be involved because of a lack of clear legal definitions.

EXPLANATION OF METHODS AND INSTRUMENTS OF FINANCING USED IN TRADE OPERATION

SILESIAN UNIVERSITY

2. **Long-Term liabilities** – The second type according to the maturity of resources is a long-term liabilities. The specification of this liabilities is the extend of them beyond 1 year. (Levy et al., 2018).

Sources and forms of long-term financing are diverse. There is some basic groups, such as follows (Mulačová and Mulač, 2013; Levy et al., 2018):

- **Long-term loans** – is any loan or debt obligation with a maturity of more than a year. When a firm needs to raise funds to purchase an asset or make an investment, it may borrow those funds through a long-term loan.
- **Capital leases** are long-term lease contracts that obligate the firm to make regular lease payments in exchange for use of an asset. They allow a firm to gain use of an asset by leasing it from the asset´s owner. For example, a firm may lease a building to serve as its corporate headquarter.
- **Deferred taxes** are taxes that are owed but have not yet been paid. Firms generally keep two sets of financial statements, one for financial reporting and one for tax purposes. Occasionally, the rules for the two types of statements differ. Deferred tax liabilities generally arise when the firm´s financial income exceeds its income for tax purposes. Since deferred taxes will eventually be paid, they appear as a liability on the balance sheet.

Companies can also finance investments through depreciation, profits, extraordinary income from the sale of assets and inventories, and capital increases (Mulačová and Mulač, 2013).

Financing Export Transactions

Export financing is often **a key factor in a successful sale**. Contract negotiation and closure are important, but ultimately the company must get paid. **Exporters naturally want to get paid as quickly as possible**, whereas **importers usually prefer to delay payment until they have received or resold the goods**. Because of the intense competition for export markets, being able to offer attractive payment terms is often necessary to make a sale. There are some options of financing. **The private sources of financing and government sources of financing**.

In many cases, government assistance in export financing for small and medium-sized business can increase the firm´s options. The **following factors** are important to consider **in making decisions about financing** (Brigham and Houston, 2016):

- **The need for financing to make the sale** – in some cases, favourable payment terms make a product more competitive. If the competition offers better terms and has a similar product, a sale can be lost. In other cases, the buyer may prefer buying from someone else but might buy product from other company because of shorter or more secure credit terms.

Financing Export Transactions

SILESIAN UNIVERSITY

- **The length of time the product is being financed** – the term of the loan required determines how long the company will have to wait before received payment from the buyer and influences the choice of how to finance the transaction.
- **The cost of different methods of financing –** interest rates and fees vary, and an exporter may expect to assume some or all of the financing costs. Before submitting a pro forma invoice to the buyer, the company must understand how those costs affect price and profit.
- **The risks associated with financing the transaction –** the riskier the transaction, the harder and more costly it will be to finance. The political and economic stability of the buyer´s country can also be an issue. To provide financing for either accounts receivable or the production or purchase of the product for sale, the lender may require the most secure methods of payment – a letter of credit or export credit insurance or a guarantee.
- **The need for pre-shipment financing and for post-shipment working capital –** production for an unusually large order or for a surge of orders may present unexpected and severe strains on the company working capital. Even during normal periods, inadequate working capital may curb an exporter´s growth. However, assistance is available through the public and private sectors. A number of those resources are discussed in this chapter.

EXPLANATION OF METHODS AND INSTRUMENTS OF FINANCING USED IN TRADE OPERATION – specifics of export financing

Export financing involves a number of risks that exporters have to deal with. Different approaches and ways of financing exports can contribute to risk reduction, which include the following (Nee, 2014):

- Foreign buyers often press exporters for longer payment periods. Obtaining cash immediately is usually a high priority with exporters. **Converting export receivables to cash at a discount with a bank** is one way to do so.
- Another way is to **expand working capital resources**.
- A third approach, suitable when the purchase involves capital goods and the repayment period extends a year or longer, is to arrange a **third-party financing**. For example, a bank could make a loan directly to the buyer for the product, and the exporter could be paid immediately from the loan proceeds while the bank waits for payment and earns interest.
- A fourth possibility, when financing is difficult to obtain, is to engage in **countertrade**. In countertrade, the company accept goods, services, or other instruments of trade in partial or whole payment for the product. Countertrade, therefore, provides the customer with an opportunity to generate earnings to pay for the purchase.

EXPLANATION OF RECEIVABLE MANAGEMENT

SILESIAN

Most business transactions are carried out on a credit basis. Managers´ decisions regarding accounts receivable must include whether to give credit, and, if so, they must determine eligibility, amounts, and terms. The type of credit terms extended to customers determines the length of time a customer has to pay for the purchase. This, in turn, affects sales volume as following (Shim, 2016):

- A **longer credit term** will probably result in **increased sales**.
- A **shorter credit** term will likely result in **less sales**.

To be successful in managing accounts receivable, the manager must consider whether it is financially prudent to hold receivable balances. The opportunity cost of tying up money in accounts receivable is the loss of return that could have been earned if those funds had been invested in marketable securities. The management of these accounts receivable also involves having appropriate credit and collection policies.

The credit terms have a direct bearing on the associated costs and revenue to be generated from accounts receivable. There are two situations:

- If **credit terms are tight**, there will be less investment in accounts receivable and less bad debt losses, but there will also be lower sales and reduced profits.
- If **credit terms are lax**, there will be higher sales and gross profit but greater bad debts and a higher opportunity cost of carrying the investment in accounts receivable because marginal customers take longer to pay.

Credit References and Credit Policy

Credit references

Retail credit bureaus and professional credit reference services should be used to appraise a customer´s ability to pay. These organizations create reports, which contain information about a company´s nature of business, product line, management, financial statement information, number of employees, previous payment history as reported by suppliers, amounts currently owed and past due, terms of sale, audit opinion, lawsuits, insurance coverage, leases, criminal proceedings, banking relationships and account information (e.g. current bank loans), location of business, and seasonality aspects.

Credit policy of company

A good credit system has the following characteristics (Shim, 2016):

- It is straightforward, clear, consistent, and uniformly applied.
- It is quick otherwise, the customer may do business elsewhere.
- It does not intrude into a customer´s personal affairs.
- It is inexpensive (e.g. there is centralization of credit decisions by experienced staff)
- It is based upon past experience (e.g. examining the characteristics of good accounts, marginal accounts, delinquent accounts, and outright rejected applications). Careful attention is given to the reasons for previous uncollectibility.

Procedures of Managing Accounts Receivable

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

There is some procedures in managing accounts receivable as following (Shim, 2016):

1. Establish a credit policy
2. Establish a billing policy
3. Establish a collection policy

Establish a credit policy

1. A detailed review of a potential customer´s soundness should be made prior to extending credit. The customer´ s financial statements and credit rating should be examined, and financial service reports should be reviewed. The customer´s previous repayment record, the competitive factors of the customer´s business, and the economy must also be considered. Manager want to know whether there is sufficient cash glow to repay the debt.
2. As customer financial health changes, credit limits should be revised.
3. Marketing factors must be noted since an excessively restricted credit policy will lead to lost sales.
4. If seasonal dating are used, manager may offer liberal payments during slow periods to stimulate business by selling to customers who are unable to pay until later in the season. This policy is financially appropriate when the return on the additional sales plus the lowering in inventory costs is greater than the incremental cost of the additional investment in accounts receivable.
5. If the credit standing of a customer is dubious, collateral equal to or greater than the balance of the account should be pledged.
6. Avoid high-risk receivables (e.g. customers in a financially troubled industry or region)

Procedures of Managing Accounts Receivable

Establish a billing policy

1. Customer statements should be sent within 1 day subsequent to the close of the period.
2. Large sales should be billed immediately.
3. Customers should be invoiced for goods when the order is processed rather than when it is shipped.
4. Billing for services should be done on an interim basis or immediately prior to the actual services. The billing process will be more uniform if cycle billing is employed.

Establish a collection policy

1. Accounts receivable should be aged to identify delinquent and high-risk customers. Aging is determining the length of time an account is past due. The aging should be compared to industry norms. The longer receivables are outstanding, the higher the likelihood of uncollectibility.
2. Collection efforts should be undertaken at the very fist of customer financial unsoundness. Use collection agencies when warranted.
3. Sell accounts receivable when net saving occur.
4. Credit insurance will protect against unusual bad debt losses.

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

SUMMARY

- An international trade terms of payment refers to the extent to which an exporter would like to be **guaranteed payment before he ships the goods to the importer or to a designated place**.
- The terms of payment used in international transaction will depend on the **relationship between the seller and the buyer**, the **nature of the merchandise**, **industry norms**, the **distance between buyer and seller**, the **potential for currency fluctuation**, and **political and economic stability** in either or both countries.
- There is some terms of payment used in international trade operation, e.g. **advance payments, a letter of credit, documents against payments and documents against acceptance, and open account payments.**
- The companies can distinguish with the current financing or extraordinary financing of trade operation. Com**mercial banks, export intermediaries and government assistance programs** can be classified as financial subjects of international trade.
- Companies can used these methods and instruments for financing trade operation: **current liabilities** (trade credit, bank overdrafts and short-term bank loan, other short-term non-bank liabilities, financing through asset conversion, especially factoring), **long-term liabilities** (long-term loans, capital leases, deferred taxes).
- Receivable management can affects sales volume as providing a longer credit term. Managing accounts receivable consist of **establish a credit policy, billing policy and collection policy**.

THE LITERATURE REVIEW SOURCES

SILESIAN

1. BRIGHAM, E.F., and J.F. HOUSTON, 2016. *Fundamentals of Financial Management*. 2nd ed. Boston: Cengage Learning. ISBN 978-1-305-88721-3
2. GRATH, A., 2016. *The Handbook of International Trade and Finance: The Complete Guide for International Sales, Finance, Shipping and Administration*. 4th ed. Croydon: Kogan Page Publishers. ISBN 978-0-7494-7599-4.
3. HINKELMAN, E.G., 2003. A *Short Course in International Payments: How to Use Letters of Credit, D/P and D/A Terms, Prepayment, Credit, and Cyberpayments in International Transactions*. 2nd ed. California: World Trade Press. ISBN 978-1-885073-64-8.
4. LEVY, A., BOUHENI, F.B., AMMI, C., 2018. *Financial Management: USGAAP and IFRS Standards*. London: John Wiley & Sons. ISBN 978-1-119-52239-3.
5. LUK, K.W., 2011. *International Trade Finance: A Practical Guide*. 2nd ed. Kowloon: City University of Hong Kong Press. ISBN 978-962-937-185-2
6. MULAČ, P and V. MULAČOVÁ, 2007. *Podniková ekonomika*. České Budějovice: Vysoká škola technická a ekonomická. ISB 978-80-903888-0-2.
7. MULAČOVÁ, V. and P. MULAČ, 2013. *Obchodní podnikání ve 21. století*. Prague: Grada. ISBN 978-80-247-4780-4.
8. NEE, P.W., 2014. *How to Get Rich by Exporting: Make it Big in the Export Business*. Boston: The Internationalist. ISBN 978-1495322624.
9. SCHAFFER, R., F. AGUSTI, L.J. DHOOGE, 2014. *International Business Law and Its Environment*. 2nd ed. Stamford: Cengage Learning. ISBN 978-1-305-14301-2.
10. SHIM, J.K., 2016. *Accounting and Finance for the Non Financial Executive: An Integrated Resource Management Guide for the 21st Century*. London: CRC Press. ISBN 978-1-4200-2563-7.
11. SINGH, R., 2009. *International Trade Operations*, 2nd ed. New Delhi: Excel Books. ISBN 978-81-7446-735-5.

THANK YOU FOR YOUR ATTENTION

SILESIAN UNIVERSITY
SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA