دليل المصدر الناجح - المحاضرة 8

Draft

- A draft, sometimes called a bill of exchange (B/E), Is the instrument normally used in international commerce to effect payment.
- A draft is simply an order written by an exporter (Seller) instructing and importer (buyer) or its agent to pay a specified amount of money at a specified time.
- To become a negotiable instrument, a draft must conform to the following four requirement:
  - - It must be in writing and signed by the maker or drawer.
  - - It must contain an unconditional promise or order to pay a definite sum of money.
  - - It must be payable on demand or at a fixed or determinable future date.
  - - It must be payable to order or to bearer.
  - - There are time drafts and sight drafts.

Documentary Collection (DC)

- • Three types of DC:
  - • Documents against payment (D/P).
  - • Documents against Acceptance (D/A).
  - • Collection with Acceptance (Acceptance D/P).
- About documentary Collections
  - As an exporter, Documentary Collection offers you far greater security than selling on open account, but not as much as a documentary credit.

The advantages and disadvantages

- The advantages:
  - • Straightforward, less expensive settlement process.
  - • Payment is usually quicker than with open account.
  - The documents and thus the goods can be released to the importer simultaneously on payment of the amount owed or acceptance of a draft. This applies where the goods are not addressed directly to the importer in the shipping document or the latter cannot redeem them without the shipping documents.
  - Clear internationally recognized guigelines in the Uniform Rules for Collections (URS), Icc publication no.522.
- The disadvantages:
  - • Payment is not guaranteed as credit, political and transfer risks are not covered.
  - • The payment date is unsure.
  - If the importer refuses to accept the documents or the draft on the due date, losses can be incurred. It may prove extremely costly or even impossible to find an alternative buyer or have the goods shipped back.

• Acceptance Documents against payment (Acceptance D/P)

- The buyer signs a time draft for payment at a later. Goods remain in escrow until payment is made.

Why DC?

- • Easier to use and lower bank fee
- • Collection procedure entails risk
- • Conditions to use DC
  - - No doubt on buyer's integrity
  - - Buyer's country is stable and save
  - - No foreign exchange control\
  - - Goods are marketable (exporter resell goods)

DC Procedure

- • Exporter ships the goods.
- exporter forwards the documents to seller bank (remitting bank), which in turns gives the document to the buyer's bank (collecting bank).
- • Collecting bank informs the importer the conditions of the document or contract.

The trade relationship

- The nature of relationship between the exporter and the importer is critical to understanding the methods for import- export financing utilized in industry

three categories of relationships

- - unaffiliated unknown
  - A new Customer which with exporter has no historical business relationship
  - Requires
    - 1- A contract
    - 2- protection against non – payment
- - unaffiliated known
  - A long-term customer with which there is an established relationship of trust and performance
  - Requires
    - 1- A contract
    - 2- possibly some protectionagainst non payment
- - Affiliated (sometimes referred to as intro – firm trade)
  - A Foreign Subsidiary or affiliate of exporter
  - Requires
    - 1- no contract
    - 2- no protection against non payment

Benefits of the system

- The system (including the three documents discussed) has been developed and modified over centuries to protect both importer and exporter from:
  - - The risk of non completion.
  - - Foreign exchange risk.
  - - To provide a means of financing.

International Trade Risks

- • The following exhibit illustrates the sequence of events in a single export transaction.
- Form a financial management perspective, the two primary risks associated with an international trade transaction are currency (currency denomination of payment) and risk of non-completion (timely and complete payment).
- • The risk of default on the part of the importer is present as soon as the financing period begins.

the trade transaction Time-line and structure

- Time and Events
  - Price quote request
  - Export contract signed
  - Goods are shipped
  - Documents are accepted
  - Goods are received
  - Cash settlement of the transaction

Letter of credit (L/C)

- A Letter of credit (L/C) is a bank's conditional promise to pay issued by a bank at the request of an importer, in which the bank promises to pay an exporter upon presentation of documents specified in the L/C.
- An L/c reduces the risk of non completion because the bank agrees to pay against documents rather than actual merchandise.
- • The following exhibit shows the relationship between the three parties.

parties to a letter of credit (L/C)

- Issuing Bank
  - The relationship between the issuing bank and the exporter is governed by the terms of the letter of credit, as issued by that bank.
  - The relationship between the importer and the issuing bank is governed by the terms of the application and agreement for the letter of credit (L/C).

Document Credit procedure

- 1 Contract of sale
- 2 Request to provide CREDIT
- 3 Credit sent to Correspondent
- 4 Letter of Credit delivered
- 5 Delivery of goods
- 6 Document Presented
- 7 Documents Presented to issuing bank
- 8 Document &Claim Payment