



The
**International
Trade Association**
of Greater Chicago

a

February 22, 2012

***Leveraging Financial
Strategies to Succeed in
International Markets***

What about me?



**Financing
for the
Very Small Exporter**

Outline

- Large is *so* different
- The very small exporter
- The risk/trust dilemma in international trade.
- Trade-finance solutions
- Company A: True story
- How can / get some financing?
 - Jumping through hoops
 - Surviving the meat grinder
 - Life under the microscope

Large is *so* different

- Most of my experience: large infrastructure and industrial projects.
 - Power plants
 - Marine ports
 - Airports.

Airport in Cuba



VIP Lounge



Coal-loading terminal in Chile



Power plant in China



Large is *so* different

- Typically one-off capital projects.
 - Engineering plus equipment packages.
- A \$10-million transaction gets attention.
- A \$300-million transaction – every lender want to be your best friend.

The very small exporter

- Let's say, exporting less than \$2 million per year.
- Could be one person, working from home with family help, buying and selling products made by others.
- When it comes to financing, the very small exporter is looking for some respect, if not love.

The risk/trust dilemma in international trade

- Exporters like to get paid for what they sell.
- Importers like to receive what they pay for.
- Lenders like to be re-paid the loans they make.
- Fear of cross-border risk is nearly universal.
 - Canada often gets a pass on this.

The risk/trust dilemma in international trade

- ❑ Should the exporter offer open account?
- ❑ Should the importer pay in advance?
- ❑ Is there a role for the exporter's bank?
- ❑ Is there a role for government?

Trade-finance solutions

- Exporter offers open account; no export-credit insurance.
 - In effect, exporter is his or her own banker.
 - Additional business opportunity?
 - Differentiation; competitive advantage.
 - Interest income.
 - Entire risk on the exporter; but
 - This may be how the very small exporter begins his or her business.

Trade-finance solutions

- Exporter demands payment up front.
 - Puts entire burden and risk on importer.
 - May hurt exporter's competitiveness.

- Exporter accepts credit cards.
 - Yes, it's done.
 - Unique limitations and risks.
 - Credit limits.
 - Fraud.

Trade-finance solutions

- Letter of credit
 - Directly involves exporter, importer, and their banks.
 - Very secure for both sides.
 - Costs and administrative burdens.
 - Importer must have cash or credit to finance the L/C.
 - Requiring an L/C may hurt exporter's competitiveness.

Trade-finance solutions

- Export-credit financing, for example:
 - Ex-Im Bank lends to the importer; or guarantees a bank loan to the importer.
 - The bank – not the exporter – is the banker.
 - Comparatively complex, but very secure for exporter.
 - Not appropriate for small transactions.

Trade-finance solutions

- Exporter offers open account with export-credit insurance.
 - Enhances exporter's competitiveness.
 - Gap in coverage.
 - Exporter is still playing banker to the importer.
 - Workable if you have lots of cash and don't mind the gap in coverage.

If you don't have lots of cash, how do you grow your export business?

Trade-finance solutions

- Bank line of credit secured by export-credit insurance and/or an SBA loan.
 - Working capital to grow exporter's business more rapidly.
 - Limitations on how credit can be used.
 - Advances against purchase orders and/or invoices.
 - Bank's risk is actually the exporter.
 - In effect, exporter is still playing banker to the importer.

Company A: True story

- Grew exports from zero to \$2 million in two years.
 - Export customers in West Africa.
 - Regular shipments of parts and equipment.
 - Mining and construction.

- Offered open account to customers.
 - Customers paid on time.
 - Exporter not concerned with cross-border payment risk.

Company A: True story

- Initially funded business with savings, credit cards, and pay-day loans.
 - (Sound familiar?)
- Growth constrained by lack of working capital.
- Was there a trade-finance solution?
 - Sort of....

Company A: True story

- Exporter applied for and obtained
 - Ex-Im Bank export-credit insurance
 - Special Buyer Credit Limits for customers.
 - COFACE export-credit insurance
 - Limits for specific customers.
 - To support export of non-U.S. goods.
 - SBA Export Express loan.
 - Bank line of credit secured with credit insurance and SBA loan.

Company A: True story

- ❑ Exporter now able to draw on line of credit against qualified purchase orders and accounts receivable.
- ❑ This new working capital has enabled accelerated growth in sales.

Company A: True story

- Is this trade finance? Sort of....
 - The exporter effectively remains banker to his customers.
 - Credit insurance covers most of his payment risk.
 - The bank is banker only to the exporter.
 - SBA covers most of banker's risk that exporter will mess up.
 - Bank has pledge of proceeds of exporter's credit insurance.
 - Bank has pledges from exporter's customers that all payments will be made directly to the bank.

How can *I* get some financing?

- You need the right bank:
 - A bank that is not scared to death of the wider world.
 - A bank that has experience with export-credit insurance and SBA programs.
 - A bank that will extend credit to a very small exporter, with credit insurance and SBA as security.
 - *P.S. Not all banks (or their branches) are created equal.*

How can *I* get some financing?

Jumping through hoops

- ❑ Ex-Im Bank insurance application.
- ❑ SBA application.
- ❑ Full credit application at bank.
- ❑ Business and personal financial statements.
- ❑ Accounts payable and receivable ageing reports.

How can *I* get some financing?

Jumping through hoops

- ❑ Personal and business tax returns.
- ❑ Professional resume.
- ❑ Authorization for background and credit checks.

How can *I* get some financing?

Surviving the meat grinder

- ❑ Track record.
- ❑ Verifiable business information.
- ❑ Profitable business.
- ❑ Good business credit.
- ❑ Good payment experience with customers.
- ❑ Good personal credit.
- ❑ Export-credit insurers willing to cover your customers.

How can *I* get some financing?

Life under the microscope

- Reporting to the bank.
 - Monthly accounts receivable and payable ageing reports.
 - Monthly purchase order report (i.e., shipment and payment status).
 - Quarterly business financial statements.
 - Annual business financial statements.
 - Annual personal financial statement:
 - Minimum net-worth must be maintained.

How can *I* get some financing?

Life under the microscope

- Documentation for bank to support advances under line of credit:
 - Remarkably similar to letter-of-credit requirements.
 - Prescribed purchase order and invoice formats, signatures, stamps, chops, etc.
- Reporting to Ex-Im Bank:
 - Monthly on-line report of shipments to insured accounts.
 - Monthly payment of insurance premium.

Conclusions

- It's tough to be small.
- Want respect – or love?
 - You've got to earn it.
- There is hope!
 - Find the right bank.
 - Present a well-run, profitable business with a track record and good credit.

Conclusions

- Grit your teeth as you
 - Jump through the application hoops.
 - Survive the credit-approval meat grinder.
 - Run your business under a microscope.
- Worth the effort? Oh, yes 😊

What about me?

Financing for the Very Small Exporter

CONTACT INFO:

Dean Ennes

Ennes International

Financing for International Trade and Investment

(1-708) 445-0053

ennes.intl@sbcglobal.net