

Unit 4

International Business Finance

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International Finance

International Finance



International Development Bank
International Development Bank
guarantee loans to private investors.

These are mainly set up to:

- Finance private sector projects and companies in the developing world.
- To mobilize financing, to help private companies in the developing world enter international financial markets.
- To promote the development of the private sector in developing countries by providing long and medium-term financing.

Methods of Payment

To succeed in today's global marketplace and win sales against foreign competitors, exporters must offer their customers attractive sales terms supported by the appropriate payment methods. Because getting paid in full and on time is the ultimate goal for each export sale, an appropriate payment method must be chosen carefully to minimize the payment risk while also accommodating the needs of the buyer. As shown in figure 1, there are five primary methods of payment for international transactions. During or before contract negotiations, you should consider which method in the figure is mutually desirable for you and your customer.

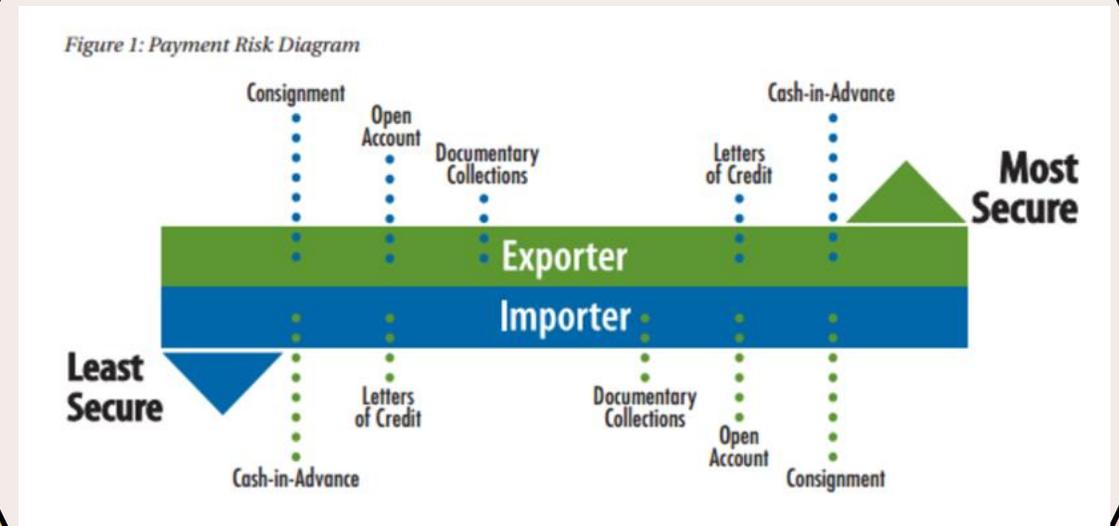


Methods of Payment



Key Points

- International trade presents a spectrum of risk, which causes uncertainty over the timing of payments between the exporter (seller) and importer (foreign buyer).
- For exporters, any sale is a gift until payment is received.
- Therefore, exporters want to receive payment as soon as possible, preferably as soon as an order is placed or before the goods are sent to the importer.
- For importers, any payment is a donation until the goods are received.
- Therefore, importers want to receive the goods as soon as possible but to delay payment as long as possible, preferably until after the goods are resold to generate enough income to pay the exporter.



Cash-in-Advance

With cash-in-advance payment terms, an exporter can avoid credit risk because payment is received before the ownership of the goods is transferred. For international sales, wire transfers and credit cards are the most commonly used cash-in-advance options available to exporters. With the advancement of the Internet, escrow services are becoming another cash-in-advance option for small export transactions. However, requiring payment in advance is the least attractive option for the buyer, because it creates unfavorable cash flow. Foreign buyers are also concerned that the goods may not be sent if payment is made in advance. Thus, exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms.

Cash-in-Advance



Option # 2

Although the exporter will take on credit card processing fees, the popularity of credit cards means that this option can help grow export sales.

Letters of Credit

Letters of credit (LCs) are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped as promised.

Letter of Credit

How a Letter of Credit works

Documentary Collections

A documentary collection (D/C) is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents. D/Cs involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods. Although banks do act as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than LCs.

Documentary Collections

Documentary Collection

Established trade relationships
in economically and politically
stable markets.



Open Account

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days. Obviously, this is one of the most advantageous options to the importer in terms of cash flow and cost, but it is consequently one of the highest risk options for an exporter. Because of intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques covered later in this Guide. When offering open account terms, the exporter can seek extra protection using export credit insurance.

Open Account

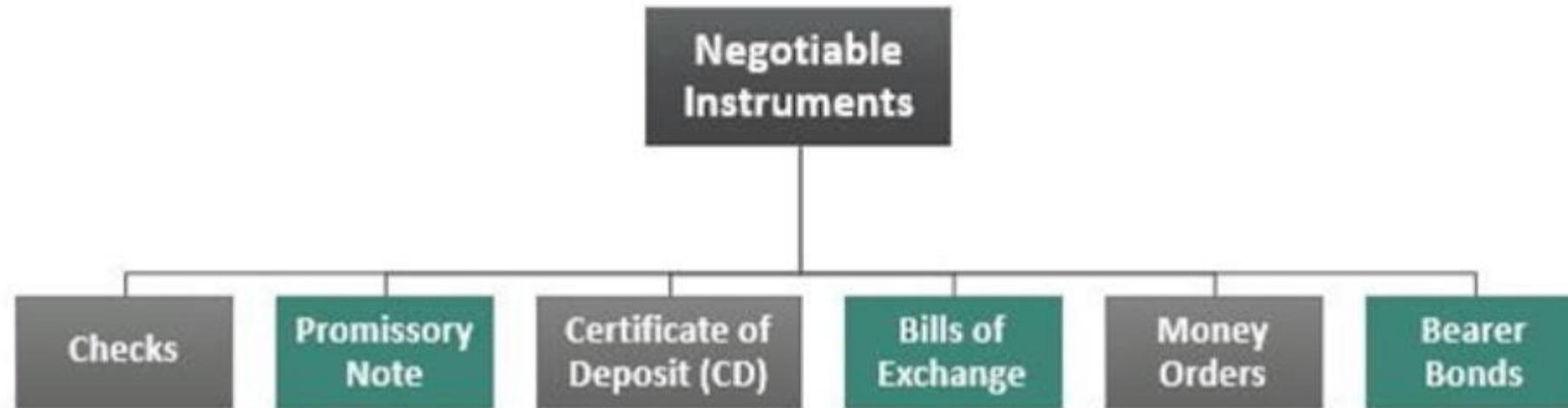
HOW TO
OPEN A TRADING
ACCOUNT



What Is a Negotiable Instrument?

A negotiable instrument is a signed document that promises a sum of payment to a specified person or the assignee. In other words, it is a formalized type of IOU: A transferable, signed document that promises to pay the bearer a sum of money at a future date or on-demand. The payee, who is the person receiving the payment, must be named or otherwise indicated on the instrument.

Types of Negotiable Instruments



Checks

A check is a note containing the amount paid by one party to another party. It includes the bearer's name and account number from which the money would be debited. In addition, it also mentions the name of the payee. As a result, even if the check goes missing, no third party can misuse it. In short, checks are the safest mode of making payments or transferring funds from one party to another.

The diagram shows a check form with the following fields and labels:

- Your Name _____
- Your Address _____
- 123 _____
- Date _____
- PAY TO THE ORDER OF _____ \$ _____
- _____ DOLLARS
- Your Bank _____
- For _____
- 012345678 (ABA/Routing Number)
- 1001001234 (Account Number)
- 0123 (Check Number)

Promissory Notes

A **promissory note** means one party promises to pay a sum of rupees to another party whose name is mentioned on the note along with a fixed future date. Generally, it is used as short-term **trade credit**, and the maker pays the due amount on or before the note's expiry. As a safe mode of transferring money, business people frequently use it to have smooth business transactions.

Individuals or firms can claim the outstanding funds after the expiry of the term in the event of non-payment of the promised money. It is also issued as a **debt instrument**, which corporations use to finance their short-term projects.

Promissory note

For value received, the undersigned promises to pay to the order of BancZone, Inc.

the sum of: *****Ten-Thousand and no/100 Dollars***** (\$10,000.00)

Along with annual interest of 8% on the unpaid balance. This note shall mature and be payable, along with accrued interest, on June 30, 20X8.

January 1, 20X8

Issue Date

Olivia Zavala

Maker signature

Certificates of Deposit (CD)

Banks and financial institutions offer Certificate of Deposit as a financial product. In the process, the customers deposit a certain amount and keep it safe for a fixed tenure while receiving a high-interest rate on the amount in return. The interest rate tends to increase constantly with the increasing deposit span. The individuals can withdraw the amount plus interest once the CD matures. However, in case of early withdrawal, one would need to pay the penalty.



PINNACLE SECURITIES LIMITED AMSTERDAM, HOLLAND

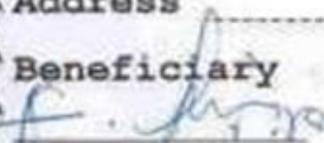
(A SUBSIDIARY OF PINNACLE SECURITIES COMPANY (PTY) JO'BURG, SOUTH AFRICA)
MARK HOUSE CENTRAL STATION BOIJVERD AMSTERDAM NETHERLAND
WWW.PINNACLESECURITIESLTD.COM
info_pinnacle@financier.com

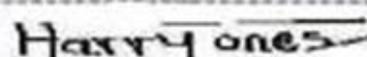
Certificate of Deposit

This is to Certify that the Beneficiary is legally assigned to claim/pertain on the said vault content with his/her deposit clearance particulars as follows:-

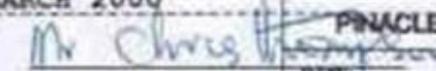
Security Code TWS/0025789 Transaction Code TXT-507
Certificate Of Deposit Code TWS/JTK/REF 202 Deposit Code 9MMC/PXP-992LP
Series NNM/PNC/024 Number PNC/1997/REF.PXP
Content Value PERSONAL VALUABLES Date Of Deposit 15TH MARCH 2000
Purpose Of Deposit SAFEKEEPING Depositor MR. HARRY JONES
Address REPUBLIC OF KUWAIT

Beneficiary MR. HARRY JONES Date 15TH MARCH 2000


CHAIRMAN


HARRY JONES
DEPOSITOR




DIRECTOR OF OPERATIONS

| |
|---------------------|
| PINNACLE SECURITIES |
| DATE: _____ |
| SIGN: _____ |
| SOUTH AFRICA |

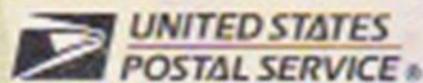
Bills of Exchange

Bills of Exchange are similar to promissory notes and can be used for national and international trade. Using this instrument, one party promises to pay the sum of money to another party or any other person on a fixed future date. The person it is endorsed for is the drawee, who has a valid claim on the bill writer or the drawer for the amount mentioned on the bill.

| | |
|--|---|
| <i>Exchange for</i> <u>US\$25,000.00</u> | No. <u>CI-00888</u> |
| | <u>March 15</u> <u>20</u> <u>01</u> |
| <i>pay to the order of</i> <u>UVW Exports</u> | <i>of this First of Exchange (Second Unpaid)</i> |
| <i>the sum of</i> <u>Twenty Five Thousand U.S. Dollars</u> | |
| | <u>Drawn under documentary credit No. SB-87654 of The Sun Bank, Sunlight City, Import-Country, dated January 26, 2001</u> |
| <i>To</i> <u>The Moon Bank</u> | <u>UVW Exports</u> |
| <u>5 Moonlight Blvd.</u> |  |
| <u>Export-City and Postal Code, Export-Country</u> | |

Money Orders

It is a substitute for the check for making payments on-demand. In a money order, the amount is specified. To process the money order, the payer has to pay the amount to a financial institution beforehand and a small processing fee. In return, the financial institution issues the money order. It has long been the traditional way of transferring money from one party to another with utmost security guaranteed. These are the best mode of money transfer for those who do not possess a bank account.



CUSTOMER'S RECEIPT

SEE BACK OF THIS RECEIPT
FOR IMPORTANT CLAIM
INFORMATION

**NOT
NEGOTIABLE**

Pay to **U.S. Department of Homeland Security**

Address **USCIS**

Filing Address for Form I-765

KEEP THIS
RECEIPT FOR
YOUR RECORDS

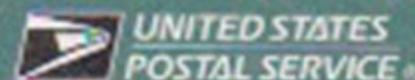
Serial Number
26530649741

Year, Month, Day
2021-02-11

Post Office
064160

Amount
\$1.00

Clerk
9



POSTAL MONEY ORDER

Serial Number
26530649741

Year, Month, Day
2021-02-11

Post Office
064160

U.S. Dollars and Cents

\$1.00

Amount
One Dollar and 00/100 *****

Pay to **U.S. Department of Homeland Security**

Address **USCIS**

Filing Address for Form I-765

Micro **N00123123123 (Your SEVIS ID Number)**

From **Your Name as Appears on Passport**

Address **Your U.S. Mailing Address**

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SEE REVERSE WARNING • NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS

⑆00000800 2⑆

2653064974 1⑆

Bearer Bonds



These are the unregistered bonds issued by the Government or Corporate, and as the name suggests, the bondholder is entitled to get a coupon and principal payment thereon. The issuer doesn't keep the record of the original bond owner. Whoever has physical possession of the bearer bonds will be treated as the legal owner. Therefore, there is a huge risk of loss, theft, or otherwise the destruction of these bonds.

