



الأكاديمية المالية
THE FINANCIAL ACADEMY

SAUDI
EXIM
بنك التصدير
والاستيراد السعودي



**CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)**

A learning curriculum issued by both
Saudi EXIM Bank & the Financial Academy
First Edition – 2025

Note from the publisher

This document is intended to provide general guidance for businesses and practitioners to raise their financial literacy and develop their capacity to access export finance and insurance. This document contains information that was current as of the date of publication. With this in mind, all information that is contained herein is subject to change and update without notice. While the publisher has made every effort to ensure the accuracy of this publication, neither it nor the author can accept any legal responsibility for the consequences that may arise from the provided general guidance. This document is not a substitute for professional advice. When professional advice is required, the services of a competent service provider should be sought.

Copyright© 2025 Saudi EXIM Bank. All rights reserved

Preface

Ever since its establishment, the Saudi EXIM Bank, has played a significant role in enabling Saudi Exports and contributes to achieving the objectives that were set by our wise leadership of increasing the non-oil exports and diversifying our national economy.

In addition to its crucial role of bridging the finance gaps for exporters and providing them with credit insurance to raise their competitiveness, the Saudi EXIM Bank has also extended its positive contribution to the Saudi business community through advisory and Non-Financial Services (NFS) which aims to increase the readiness of exporters to access finance, credit insurance and export markets.

With this in mind, this guide was prepared to pave the way for exporters and financial institutions to identify financing opportunities and manage risks, as well as to clarify the steps and tools to maximize the benefits of available products and solutions. This guidebook presents important concepts and practices as part of the bank's efforts to transfer knowledge and enhance financial literacy.

Acknowledgment

ABDULRAHMAN SALEH ALOTAIBI

Enterprise Services and Solutions Director Saudi EXIM Bank

This guide has been written by Abdulrahman Saleh Alotaibi, Enterprise Services and Solutions Director at the Saudi Export Import Bank (Saudi EXIM) as part of the bank's Non-financial Services (NFS) project which he is managing since January 2024. He is the author of "Export Business Development – A guide to International Markets" and "The Business Developer – Opportunities and Strategies for Sustainable Business Success". He has more than 18 years of experience in delivering solutions and managing projects within business planning, operations, finance, international business development and capacity building. He holds a Master of Business Administration (MBA), certified Trade Finance Professional (CTFP) by the International Chamber of Commerce (ICC) Academy, certified Global Business Professional (CGBP) by NASBITE International and on Market Analysis Tools by the International Trade Centre (ITC).

This guide was reviewed by:

Shahbaz Syed

Credit Risk Executive Advisor at the Saudi Export Import Bank (Saudi EXIM).

Feras Nasrallah

Director General of Business Enablement & Studies at the Saudi Export Import Bank (Saudi EXIM).

Thomas Hausner

Lending Executive Advisor at the Saudi Export Import Bank (Saudi EXIM).

Contents

Introduction	7
Chapter 1: Determining a Business's Financial Needs	10
About Chapter 1	10
Learning Objectives	10
Introduction to Export	11
I. Understanding the Challenges of Export Finance	11
II. Clarifying a business's financial standing	14
III. Costs and benefits of finance	16
IV. Finance for Exporting vs. Export Financing	16
V. Determining what financing is needed	16
1) Working Capital - your day-to-day operating costs	16
2) Fixed assets	18
3) Marketing cost	18
4) Financial cushions	18
Summary	20
Questions	21
Multiple Choice Questions (15)	21
True & False Questions (10)	24
Chapter2: An Overview of Financial Institutions	26
About Chapter 2	26
Learning Objectives	26
Commercial Banks	26
Development Banks	27
Islamic Banks	27
Specialized Financial Institutions	27
Government Agencies & Business Support Organizations	29
Export Credit Guarantees	29
Alternative Sources of Fianance	29
How to select the right Financing Source	30
Summary	31
Tips	31
Questions	32
Multiple Choice Questions (15)	33
True & False Questions (10)	35
Chapter3: Preparing to Access Finance	37
About Chapter 3	37
Learning Objectives	37
Preparing To access Finance	37
Timing For Accessing Financing	37

Contents

Pre-Shipment Finance	37
Post- Shipment Export Finance	38
The Process of Applying For Finance	39
Summary	43
Questions	45
Multiple Choice Questions (15)	45
True & False Questions (10)	46
Chapter4: Payment Methods and Instruments	50
About Chapter 4	50
Learning Objectives	50
Methods Of Payment In International trade	50
Bank – Facilitied Payments	51
Risk Ladder	51
Payment Guarantees	53
Letters Of Credit	58
Bills Of Exchange	59
The Impact Of Digital Technology	59
Summary	60
Questions	62
Multiple Choice Questions (15)	63
True & False Questions (10)	65
Chapter5: Trade And Export Finance Solutions	67
About Chapter 5	67
Learning Objectives	67
Pre- Shipment Finance	68
Export Receivables – Backed Financing	68
Warehouse Receipt	68
Pre-Payment Financing	68
Summary	79
Questions	80
True & False Questions (10)	83
Chapter6: Export Credit Insurance Solutions	85
About Chapter 6	85
Learning Objectives	85
Export Credit Insurance Solutions	85
Summary	93
Questions	95
Multiple Choice Questions (15)	95
True & False Questions (10)	97

Chapter7.: Managing Financial Obligations	99
About Chapter 7	99
Learning Objectives	99
Financial Practices to Ensure Loan Repayment	100
The Rescheduling Advantage	103
Summary	104
Questions	105
Multiple Choice Questions (15)	105
True & False Questions (10)	108
Glossary	110
References	115

Abbreviations

Abbreviation	Full Form
BRR	Borrower Risk Rating
CGBP	Certified Global Business Professional
CFO	Chief Financial Officer
CTFP	Certified Trade Finance Professional
D/A	Documents Against Acceptance
D/C	Documentary Collection
D/P	Documents Against Payment
ECI	Export Credit Insurance
EWCF	Export Working Capital Financing
EXIM	Export-Import Bank (e.g., Saudi EXIM Bank)
FOB	Free on Board
IMF	International Monetary Fund
IsDB	Islamic Development Bank
ITC	International Trade Centre
JIT	Just-in-Time
KYC	Know Your Customer
L/C	Letter of Credit
LER	Loan Exposure Risk
MBA	Master of Business Administration
NBFIs	Non-Bank Financial Institutions
NFS	Non-Financial Services
OECD	Organization for Economic Cooperation and Development
RAAC	Risk Assessment Acceptance Criteria
SAR	Saudi Riyal (Currency)
SCF	Supply Chain Finance
SMEs	Small and Medium-sized Enterprises
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UCP	Uniform Customs and Practice for Documentary Credits (e.g., UCP 600)
VAT	Value-Added Tax

Introduction

With every stage of a business's growth, its management must assess how much risk they will take on so they can reach new markets and customers. Close to home, it is second nature to understand a company's buyers, suppliers and lenders. But going out further into the world introduces more unknowns. Thankfully, by researching and planning, they can minimize their risks by using certain tools and solutions designed to facilitate international business growth. The more often companies export, the better they are placed to have increased total sales, optimized production, and increased competitiveness. International trade strengthens local economies and develops businesses across the world. Overall, this generates more job opportunities, investment flows and economic growth.

Despite the clear benefits for businesses to export, initial discussions of the idea of exporting amongst companies who haven't started yet reveal common concerns that could hold businesses back from growing into new markets can be summarized as follows:

- Gaps in understanding financing options and solutions.
- Business plans or budget designed for domestic sales only.
- Perceived high transaction costs.
- Fear of non-payment without any recourse to collect.
- Worries over extended credit terms.

While these may feel like initial constraints, once unraveled, they show the potential ahead. Exporting may seem complicated and risky at first, but it also rewards businesses with more opportunities to grow and innovate. The positive prospects make it worth the investment in time and other resources.

A successful export transaction means that businesses will diligently go through the following stages:

1. Market analysis
2. Prospecting for customers.
3. Setting up/ negotiating deals.
4. Shipping goods.
5. Getting paid.
6. Providing follow-up and after-sales services.

Businesses need to ensure that they have sufficient funds to venture into new markets while minimizing their risk. That's where trade finance, export finance, trade insurance and export credit insurance play a vital role. Each of these products/ solutions provides different benefits to strengthen exporters' bottom lines with the right product, lender, repayment schedule and insurance package.

Many businesses around the world are using commonly accepted payment systems and processes that can easily be adopted. With the right tools, businesses can become more competitive and create revenue growth while managing the business risks.

For example, if a business needs cash to fulfill orders or expand operations, its management will approach lending entities. In return, lenders are more likely to include foreign receivables and inventory in the company's borrowing base when it has adequate insurance. Overall, the business can open itself up to more financing and even better cash flow. There is a growing support by various government entities and business support organizations to facilitate and encourage exports from local businesses including small and medium-sized enterprises (SMEs). After all, when they thrive, they contribute even more to a nation's economy. In most countries, they have a range of organizations to help accessing markets, find foreign buyers and overcome trade barriers. Even better, lenders and other institutions help with the needed funding to grow and can provide solutions to protect businesses to be more competitive.

Trade finance plays a critical role in facilitating international trade, which is why countries support the establishment of banks, export credit agencies, and foster partnership with multilateral and international financial institutions. Each chapter ahead unveils how to assess the financial needs of a business as well as an overview of the institutions that offer financial solutions. Next, a review of how to prepare a business to access trade or export finance and how to make the right choices for transactions. Finally, a detailed look at the various finance and insurance products one can tap into, plus how to prepare a repayment plan and manage financial obligations. Ultimately, this guide aims to position international business leaders so they can understand the various international trade payments' methods, financial products and trade insurance solutions. Better understanding of these solutions should raise the business readiness to access finance and trade insurance which can be instrumental in enabling entering new markets and acquiring more international market shares.



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 1

DETERMINING A BUSINESS'S FINANCIAL NEEDS

About Chapter 1

This Chapter of this training material focuses on providing a structured approach to understanding how businesses assess their financial requirements before engaging in export activities. Exporting presents numerous challenges, from managing cash flow to securing appropriate financing. This chapter is designed to help businesses and professionals navigate these complexities efficiently.

This Chapter covers key financial concepts, including:

- The importance of financial planning in export operations.
- Identifying different types of financing available to exporters.
- Evaluating a business's financial standing before seeking financing.
- Managing working capital and fixed assets efficiently.
- Understanding export financing mechanisms.

Through case studies, exercises, and real-world examples, learners will be able to apply theoretical knowledge to practical scenarios. This chapter also includes multiple-choice and true/false questions to reinforce understanding and ensure retention of key principles.

Learning Objectives

At the conclusion of this Chapter, you will be able to:

- Understand the financial needs of an export business.
- Distinguish between finance for exporting and export financing.
- Assess financial resources and determine appropriate financing options.
- Develop strategies for financial planning to support export growth.
- Apply knowledge through real-world case studies and exercises.
- Evaluate knowledge through multiple-choice and true/false questions.

As a result, international trade transactions require finance products that factor in multiple-party transactions and contracts, various currencies, and larger orders. All this relies on documents that verify that each party has met the conditions of performance despite greater distances and longer lead times.

Having a financial plan protects a business's viability when transactions get delayed by factors beyond the company's control. Ideally, each party of a transaction aims to mitigate economic risk and create rewarding relationships that help them all thrive. That's the goal of every successful enterprise.

To achieve this goal, there are a number of entities that provide financing. These range from development and commercial banks to non-bank institutions, export-import banks and credit guarantee agencies. Each offers a specific solution depending on how a business chooses to finance its growth into international markets.

At times, businesses of any size might be discouraged from approaching banks or prefer not to deal with them due to inaccurate assumptions about the requirements or because of previous experiences where their applications were rejected. Some enterprises may not have the minimum requirement to borrow, or the available credit may not meet their needs. With this mindset, alternative forms of finance could be more appropriate and affordable for them.

When it comes to finance challenges, businesses, by their own actions, can compound the problem. Unfortunately, a lack of technical capacity to prepare, maintain and present convincing business plans, financial statements and bankable proposals can severely limit an enterprise's potential to access finance.

Taking the time to prepare effective requests for financing can make a difference in the rate of success. Enterprises may fail to address the concerns of lenders. This can inadvertently reinforce lenders' concerns and perpetuate restricted access to financing.

When enterprises do approach financial institutions, they may not properly describe their borrowing needs – even basics information such as amount, and timing/duration of the loan required – due to a lack of experience or confidence. At the same time, owners may not know that alternative forms of finance and supporting mechanisms exist, which can be more appropriate and cheaper than loans.

In addition, financial difficulties are not uncommon, particularly in the early stages of a start-up or project. For businesses that have a record of delays in repayment, defaults or other derogatory information in credit reports, the challenge in accessing financing is further amplified. In such instances, preparing compelling funding proposals is all the more critical.

Key Points:

- Longer delivery distances and payment timeframes: Exporting goods internationally often involves longer shipping times and extended payment terms, which can strain cash flow.
- Exchange rate risks and exchange controls: Fluctuations in currency values can impact profitability, and some countries impose restrictions on currency exchange.
- Limited and costly dispute settlement and legal recourse options: Resolving disputes in international trade can be expensive and time-consuming.
- Different laws, regulations, cultures, and languages: Navigating foreign legal systems and cultural differences can complicate transactions.
- Trade barriers and political issues: Tariffs, quotas, and political instability can disrupt trade.

Case Study:

Company A, a small manufacturer of electronics, decided to export its products to a new market in South-east Asia. However, due to a lack of understanding of the local regulations and currency exchange controls, the company faced delays in receiving payments. Additionally, a sudden devaluation of the local currency reduced the company's expected profits. This case highlights the importance of understanding the financial challenges associated with exporting and planning accordingly.

Exercise:

1. Identify Risks: List three potential financial risks your business might face when exporting to a new market.
2. Mitigation Strategies: For each risk identified, suggest one strategy to mitigate it.

Clarifying a business's financial standing

Before deciding which route to pursue, businesses must look at and clearly understand the company's financial situation. By doing this homework before borrowing, chief financial officers (CFOs) can save from unnecessary borrowing and lost-opportunity costs. Going into talks with lenders well prepared will be worth the time investment.

Before they decide to borrow, CFOs look at a variety of options of where they can raise funds without incurring interest and other borrowing costs. This exercise can also reduce the amount they need from external sources.

An assessment of operations and financial position may reveal untapped sources that can minimize the amount a business needs to borrow. Ensuring the efficient use of financial resources creates good management habits so make it part of a continuous improvement process, even when funds are not needed.

For example, businesses may have excess inventory of raw materials or products, outstanding receivables or freedom to negotiate delayed payments terms with suppliers. This creates access to cash that can be redirected into preparing for export markets. Perhaps old equipment or unwanted assets could be sold to another company or a scrap yard. By cleaning their house, the business's management set themselves up for their next phase of growth.

Establishing financial guidelines can track the health of your enterprise by periodically producing management reports and financial information as often as needed. For instance, financial ratios compare or benchmark a business against its competitors. This important indicator helps lenders and investors determine the projection of the company's performance. These measures add value to a firm whether it is going up for sale to a new buyer, attracting investors or approaching lenders. Incorporating them into management practices gives transparency to all parties when building trust.

Overall Conclusion on Clarifying a business's financial standing

Before securing export finance, businesses must evaluate their financial position. This involves:

- Reviewing financial statements to assess profitability and liquidity.
- Identifying current assets and liabilities to determine available working capital.
- Evaluating creditworthiness and financing eligibility.

Example:

Company B, a textile exporter, reviewed its financial statements and realized it had excess inventory and outstanding receivables. By selling off unused inventory and collecting overdue payments, the company was able to fund its export activities without taking on additional debt.

Exercise:

1. Financial Health Check: Review your company's financial statements (income statement, balance sheet, and cash flow statement). Identify areas where you can improve cash flow, such as reducing inventory or collecting receivables.
2. Financial Ratios: Calculate your company's current ratio (current assets ÷ current liabilities) and debt-to-equity ratio (total liabilities ÷ total equity). What do these ratios tell you about your company's financial health?

I. Costs and benefits of finance

Borrowing money comes at a cost. No matter which route a company chooses, borrowing funds requires paying interest, which can add up quickly and takes away from cash flow. Also, most loans come backed with some form of collateral. Defaulting on a debt could result in losing whatever pledged assets are put on the table.

Yet thoughtful, prudent and sustainable borrowing can boost the health and financial state of a business – if reasonable debt limits are set and some of that borrowing capacity is reserved to overcome times of difficulty. Generally, the less a company leverages itself, the lower its risk in difficult times.

Assessing financing has many advantages, especially if a company is poised for growth. For one, it gives the flexibility to seize specific opportunities. When one has an optimal balance between liabilities and equity, it can cost less to finance some assets and operations with debt rather than equity. When a CFO finances a firm through equity, they give away part ownership in the business which is only recoverable by buying out a partner later. Meanwhile, the cost of borrowing reduces profits but does not dilute equity ownership.

When enterprises cultivate good management behaviour to qualify for bank loans, they improve their operational efficiencies, develop better corporate governance and improve their management systems. Overall, it steps up the operations of the business. Borrowing from a traditional bank that monitors business operations can result in better discipline over the long term – making a company more successful.

However, loans are not the only way to raise capital. If business operators, for any reason, couldn't access bank loans, they can offer equity to new partners, venture capitalists or angel investors. This dilutes their ownership stake, diminishing their managerial control, depending on the amount of equity sold. On the upside, equity investors provide enterprises with new business knowledge, management skills and potentially, access to new markets. They want the company to succeed, sometimes even more than the founders do.

In short, lenders give access to capital with the goal of getting their capital back with interest counting on the ability of the business to thrive and pay back; owners profit directly based on the enterprise's success overall.

Key Points:

- Costs of borrowing: Borrowing money comes with interest payments and collateral requirements. Defaulting on a loan can result in the loss of pledged assets.
- Benefits of borrowing: Thoughtful borrowing can boost a company's growth, improve operational efficiency, and provide flexibility to seize new opportunities.
- Equity financing: Selling equity can dilute ownership but provides access to new business knowledge, management skills, and markets.

Case Study:

Company C, a food processing company, needed funds to expand its export operations. The company decided to take a bank loan instead of selling equity to avoid diluting ownership. The loan allowed the company to purchase new equipment and increase production, leading to higher export sales. However, the company had to ensure it could meet the loan repayments without straining its cash flow.

Exercise:

1. Cost-Benefit Analysis: Suppose your business needs SAR 100,000 to expand its export operations. Compare the costs and benefits of taking a bank loan versus selling equity. Which option would you choose, and why?
2. Debt Management: Create a repayment plan for a SAR 100,000 loan with a 5% interest rate over 5 years. How will this impact your company's cash flow?

II. Finance for Exporting vs. Export Financing

Finance for exporting involves funding a new venture that moves a company away from a domestic-focused business model to an export-based one. It counts on creating and executing a financial plan for the successful conduct of international trade.

By contrast, export financing (or export finance) relates directly to business transactions and/or export orders. It includes a series of short-term financing mechanisms that involve techniques that banks, credit agencies and business support organizations use to enable exporters' operations.

For example, a business may need:

- To adapt a product or service to meet the standards of a new market.
- Funds for market or feasibility analysis, fact-finding trips, international marketing or other pre-shipment activities.
- Services that will help in mitigating risk to do business in a part of the world that is subject to political and economic uncertainty.
- Short-term financing, granting extended payment terms to foreign buyer until payment is received.

Meanwhile, trade finance offers short term and transaction-based funds or instruments. It aims to meet the financing requirements of importers and exporters with a cost-effective alternative to borrowing from other traditional lenders.

Typically, trade finance products and services focus on:

- Providing cash flow or working capital.
- Facilitating or expediting payments.
- Financing based on an expected export sale or shipment.
- Providing credit to a buyer to make the transaction more attractive.
- Mitigating against a variety of complex risks inherent in international trade, such as non-payment, political or foreign exchange risk or loss or damage of goods in transit.

Financing exports can use a broad range of public and private sector sources, in addition to any funds provided through a company's own resources.

Types of financing	Sources
Equity-based	Personal savings, retained profits, sale of assets, venture capitalists, family members and friends.
Debt-based	Bank loans, bonds, financial leases, credit lines,
Trade finance	Letters of credit, factoring, forfaiting and invoice discounting.
Government aid	Grants and other incentives to boost economies.

CFOs tend to consider the pros and cons of each type of financing to determine how much money the business will raise from each source or a blend of debt- and equity-based sources. In each case, he or she will assess the cost of the financing option, its availability, qualification criteria, lending period, type of product and the company's creditworthiness.

CFOs tend to consider the pros and cons of each type of financing to determine how much money the business will raise from each source or a blend of debt- and equity-based sources. In each case, he or she will assess the cost of the financing option, its availability, qualification criteria, lending period, type of product and the company's creditworthiness.

Key Points:

- Finance for exporting: Funding a new venture that moves a company from a domestic-focused business model to an export-based one.
- Export financing: Short-term financing mechanisms that enable exporters to fulfill orders and manage cash flow during the export process.
- Trade finance: Focuses on specific transactions, providing working capital and mitigating risks through instruments like letters of credit and bills of exchange.

Example:

Company D, a furniture manufacturer, needed funds to adapt its products to meet the standards of a new European market. The company used export financing to cover the costs of market research, product adaptation, and pre-shipment activities. Once the products were ready for export, the company used trade finance to secure payment through a letter of credit.

Exercise:

1. Scenario Analysis: Your business has received a large export order but lacks the funds to produce the goods. Which type of financing (finance for exporting, export financing, or trade finance) would you use, and why?
2. Financing Options: Research and list three financial institutions in your country that offer export financing. What are their eligibility criteria and interest rates?

III. Determining what financing is needed

When businesses face financial difficulties, especially during the early stages of a start-up or project, the high cost of borrowing may discourage them from taking on more debt. Further, the loan application process can provide the enterprise's management with an opportunity to understand the overall health of the business and what can be leveraged to increase its chances to access finance.

For those with a limited credit history, it may feel like breaking new grounds to ask for funds or increase the amount requested. For businesses with a history of delays in repayment, defaults or other deficiencies on their credit history, the challenge in accessing financing is further amplified. In such instances, it is even more critical to prepare compelling funding proposals.

It is vital to estimate how much financing a business needs and when the funds must flow in to support a productive and efficient operation. Wise CFOs know how to strike a balance for a company to make the most from the funds it has available. If the number is too low, a business could miss an opportunity to enter a new market or start an account with a better supplier. However, if it's too high, a company gives up too much equity or drowns in debt, losing the business they worked hard to build. Borrowing costs can also rise via penalties and premiums if one repays a loan early to regain control or buys back equity later.

Additional factors can make it difficult for enterprises to borrow from traditional financial institutions. During economic crises or times of high interest rates, these sources of finance may exercise overt caution when dealing with enterprises, which may seem risky to them.

Seeking the right amount will communicate exactly what is needed and reflect competence that will instill confidence in lenders and investors. This also manages the level of risk without exposing the business to additional problems.

Begin with a careful analysis of financial statements and projections. To do this, gather income statement, balance sheet, statement of cashflows and statement of retained earnings to identify the amount of money required in key areas.

1. Income statements break down total sales and total expenses.
2. Balance sheets lay out what a company owns (in terms of assets) and what it owes to lenders, suppliers, employees, tax authorities, etc. (liabilities) and shareholders.
3. Statement of cashflows provides details on the sources and uses of cashflow indicating the strength and weakness of cashflow generation as it relates to the core activities of the business; operating, investing and financing.
4. Statement of Retained Earnings reflect earnings accumulated since the company began operations. This money drives growth (working capital) and buys fixed assets (equipment, machinery, etc.).

Next, set business objectives and plans for the next phase of growth. This will determine the fixed asset expenditure and amount of marketing budgeted to forecast the amounts needed.

When preparing a borrowing request, these four components matter the most:

1) Working Capital - your day-to-day operating costs

Working capital is a financial measure of a business's liquidity to run daily operations based on the difference between current assets and current liabilities. Current assets consist of cash and other assets that could be converted into cash within a year. These include cash, equivalents of cash, marketable securities, accounts receivables and inventories.

Meanwhile, current liabilities are defined as short-term debts and obligations that must be paid within an operating year. They include accounts payable, wages, taxes and notes payable.

Working Capital is calculated by finding the difference between current liabilities and assets as recorded in the balance sheet:

$$\text{Current Assets} - \text{Current Liabilities} = \text{Working Capital}$$

compound their financial woes. Even more seriously, they could fail to address the concerns of lenders thereby making lending to these enterprises an elevated risk.

Typically, working capital increases when current assets have grown or current liabilities have decreased. Continuous working capital (or cash flow) management is vital for the ongoing operation of a business due to the dynamic relationship between current assets and current liabilities.

By managing their working capital efficiently, businesses can continue operations while keeping pace with maturing short-term debt and upcoming day-to-day expenses. This means maintaining enough cash flow to pay salaries, suppliers, taxes and lenders on time. This requires skills to manage inventories, accounts receivable and payable, plus cash.

Ideally, working capital management takes in cash as soon as possible while delaying cash payout as long as possible via legal and negotiated terms. For example, many companies rely on just-in-time (JIT) inventory systems to limit carrying costs on the inventory. By aligning sales projections (timing and volumes) with the arrival of inventory, a business does not hand over money for inventory it will use later. Also, it does not commit warehouse space to goods it may not use for months or years.

Working capital management also identifies the optimal cash balance to meet day-to-day expenses without overwhelming cash-holding costs. That way, enterprises can invest excess cash into short-term facilities without undermining day-to-day operations. In international trade, cash management can require handling multiple currencies and foreign currency accounts, so careful control of receivables (or payables) across international jurisdictions should be exercised.

When it comes to debt management, CFOs should strike a balance between credit terms that increase revenue from high-quality customers and the delayed collection of receivables while offering credit to them. Done right, it keeps the cash flow moving at an optimal pace. Conversely, poor credit management builds up bad debts and write-offs. By monitoring and revising credit policies and customers' payment behaviors, businesses can extend more credit or longer terms to some clients while limiting access to others.

Calculating perpetuity can help determine the present value of a company's predicted future cash flow streams and its terminal value. The perpetuity formula is the following:

Cash flow divided by interest rate

Since every business is unique, no single formula applies for working capital requirements. Each one depends on the enterprise's size, production scale, operating cycle, industry, seasonality, policies and other factors. For example, companies can calculate the marginal cost arising from an increase or decrease in the total production cost by producing additional units or serving fewer or more customers. The marginal cost Since every business is unique, no single formula applies for working capital requirements. The marginal cost allows companies to maximize their profits and production to the point where marginal cost matches marginal revenue. This intelligence helps set fair prices, compare production methods and streamline production lines. The marginal cost formula is the following:

Change in cost + change in quantity = Marginal cost

2) Fixed assets

Fixed assets can be tangible, such as land, buildings and equipment; or intangible, which could be intellectual property (IP) like copyrights, patents or trademarks. These assets fuel the long-term viability of a business so their value must be tracked over a long period, starting with the money required to obtain them.

Investments in a fixed asset require a capacity plan. When estimating how much an asset will be used in, for example, production or manufacturing, CFOs must determine if it will create more capacity or not generate enough profit to warrant its acquisition. If it will result in lost revenue, then questions should arise about this possible investment, especially if coupled with risks related to entering a new market.

Therefore, projections must include estimates of capacity based on qualitative and quantitative forecasting methods. Instead of investing in large, one-off investments, business operators can buy in phases, shortening the projection period and reducing the amount of capital at risk.

3) Marketing cost

Marketing transmits key messages about much more than your product. It speaks volumes about who you are, what you value and how you treat your customers. It helps you to attract and keep customers as you grow your footprint or your product lines.

As you move into new markets, you seek to win customers from other companies and you may only get one opportunity at doing it right. This is your chance to identify a gap they didn't know existed and offer to fill it, solving a problem and winning over their loyalty. By adapting to your new niche and staying attuned to the buyers there, you can offer early adopters an opportunity to try something new or give customers an alternative and a competitive solution.

An in-depth analysis and setting the right marketing mix can drive revenue. Therefore, consider it a worthwhile investment rather than just a cost.

4) Financial cushions

A contingency fund, in case economic circumstances change, prepares businesses when they find themselves unable to pay one debt due to the delay in receiving reimbursement for goods or services.

Having this financial buffer handles emergency situations with relative ease. For example, businesses can use the scenario analysis technique to look at various "what if" situations that could affect targets and derail a company's financial health. Further, a sensitivity analysis measures which variables that will have the greatest impact on the bottom line. Both are based on assumptions and forecasts but it's better to have thought options before a problem arises.

Key Points:

- Estimating financing needs: Businesses must estimate how much financing they need and when the funds will be required. This involves analyzing financial statements, setting business objectives, and preparing a borrowing request.
- Working capital: The difference between current assets and current liabilities, which is crucial for day-to-day operations.
- Fixed assets and marketing costs: Investments in fixed assets (e.g., machinery) and marketing are essential for expanding into new markets.
- Financial cushions: Contingency funds help businesses handle unexpected financial challenges.

Case Study:

Company E, a pharmaceutical exporter, needed to expand its production capacity to meet growing demand in international markets. The company estimated it needed SAR 500,000 for new machinery (fixed assets), SAR 100,000 for marketing, and 50,000 as a contingency fund. By preparing a detailed financial plan, the company was able to secure the necessary financing from a development bank.

Exercise:

1. Financial Planning: Suppose your business plans to enter a new export market. Estimate the amount of financing needed for working capital, fixed assets, marketing, and contingency funds. Prepare a borrowing request based on your estimates.
2. Cash Flow Management: Create a cash flow projection for the next 12 months, considering the timing of your export sales and payments. How will you ensure sufficient cash flow to meet your financial obligations?

Summary

Business financing offers a range of benefits for potential growth into new markets. However, the risks are lower when the enterprise management has a good understanding of the financial position and how much money they should or could borrow.

Before taking on debt, business operators can find savings opportunities by reviewing a series of expenses and measures, including how they manage cash and stock. They can also raise more equity to put the company in a better position before talking with lenders.

Businesses have a range of financing options available to them, from bank loans to equity deals. Further, they can arrange for trade finance to enable international transactions.

Even the exercise of considering financing will lead to an examination of how a business runs, offering fresh insights on how an enterprise could grow.

Tips

Businesses could generate more finance internally from these sources:

Reduce assets:

- Cash in deposit accounts at the bank.
- Marketable securities like treasury bills, stock and bonds.
- Unclaimed accounts receivable, such as invoices, post-dated checks, or promissory notes.
- Debts owed that are due for collection.
- Recoverable bad debts or written-off receivables via a collecting agency.
- Unused stocks of raw materials and commodities.
- Production cuts or changes to lessen the stockpiling of finished goods.
- Raw materials bought on consignment to reduce cash outlay.
- Insurance premiums and other annual services broken into installments at no extra cost.
- Small loans paid off to avoid additional interest costs.

Reduce fixed assets:

- Underused land or buildings, sold or leased back to improve cash flow.
- Outdated machinery, sold or leased back at a lower cost.
- Underperforming investments in other businesses or their subsidiaries.

Increase cash flow via liabilities:

- Lower interest or interest-free options for credits.
- Extended grace periods on loans.
- Rescheduled loan installments.

Reduce debt:

- Set clear credit policies and credit limits for each customer, and ensure all staff enforce them.
- Regularly review your receivables so overdue accounts get collected in a timely manner.
- Calculate if the cost of granting customers credit rises higher than your sales margin.

Improve inventory management:

- Reduce your stocks of raw materials, consumables and commodities to the minimum needed to save on handling, storage, insurance, spoilage and other losses.
- Compute related savings in warehouse space.
- Convert storage space to production.
- Compare the cost of extra labor to speed up production and get paid sooner.

Key Points:

Summary

Businesses must assess their financial needs carefully before borrowing. Understanding the costs and benefits of different financing options is crucial for making informed decisions.

Tips

Businesses can generate internal funds by reducing assets, improving inventory management, and negotiating better credit terms with suppliers.

Exercise:

1. Action Plan: Based on the content of this chapter, create an action plan for your business to determine its financial needs and secure the necessary financing for export activities.
2. Reflection: Reflect on the challenges your business might face when exporting. How can you use the knowledge from this chapter to overcome these challenges?

Questions

Multiple Choice Questions (15)

1. What is one of the extra challenges businesses face when extending beyond their usual markets?

- a) Shorter delivery distances
- b) Exchange rate risks and exchange controls
- c) Faster payment time frames
- d) Limited legal recourse options

Answer: b) Exchange rate risks and exchange controls

2. Which of the following is NOT a common concern for businesses considering exporting?

- a) Gaps in understanding financing options
- b) Fear of non-payment without recourse
- c) Perceived low transaction costs
- d) Worries over extended credit terms

Answer: c) Perceived low transaction costs

3. What is the primary goal of every successful enterprise in international trade?

- a) To maximize profits at all costs
- b) To mitigate economic risk and create rewarding relationships
- c) To avoid all forms of borrowing
- d) To focus solely on domestic markets

Answer: b) To mitigate economic risk and create rewarding relationships

4. Which of the following entities provides financing for businesses extending into international markets?

- a) Development banks
- b) Commercial banks
- c) Export-import banks
- d) All of the above

Answer: d) All of the above

5. What is a common reason businesses may be discouraged from approaching banks for financing?

- a) Banks offer too many financing options
- b) Inaccurate assumptions about requirements
- c) Banks have no interest in international trade
- d) Businesses prefer to use only equity financing

Answer: b) Inaccurate assumptions about requirements

6. What is the first step businesses should take before deciding to borrow?

- a) Approach multiple banks for loans
- b) Clearly understand the company's financial situation
- c) Sell off all assets to raise capital
- d) Increase marketing efforts

Answer: b) Clearly understand the company's financial situation

7. Which of the following is NOT a potential source of internal funds for a business?

- a) Excess inventory
- b) Outstanding receivables
- c) Selling old equipment
- d) Taking on more debt

Answer: d) Taking on more debt

8. What is the formula for calculating working capital?

- a) Current Assets + Current Liabilities
- b) Current Assets - Current Liabilities
- c) Total Assets - Total Liabilities
- d) Current Liabilities - Current Assets

Answer: b) Current Assets - Current Liabilities

9. Which of the following is a benefit of borrowing for a business?

- a) It reduces the need for equity financing
- b) It improves operational efficiencies and corporate governance
- c) It eliminates all financial risks
- d) It guarantees increased profits

Answer: b) It improves operational efficiencies and corporate governance

10. What is the difference between finance for exporting and export financing?

- a) Finance for exporting involves funding new ventures, while export financing relates to specific transactions
- b) Finance for exporting is only for large corporations, while export financing is for SMEs
- c) Finance for exporting is government-funded, while export financing is private
- d) There is no difference between the two

Answer: a) Finance for exporting involves funding new ventures, while export financing relates to specific transactions

11. Which of the following is NOT a type of financing mentioned in the chapter?

- a) Equity-based financing
- b) Debt-based financing
- c) Trade finance
- d) Project finance

Answer: d) Project finance

12. What is the purpose of a financial cushion in a business?

- a) To increase marketing efforts
- b) To handle emergency situations and economic changes
- c) To reduce the need for borrowing
- d) To invest in new markets

Answer: b) To handle emergency situations and economic changes

13. What is the primary risk associated with export receivables-backed financing?

- a) The buyer may fail to pay the goods' value
- b) The buyer may pay in advance
- c) The lender may charge high-interest rates
- d) The exporter may not need the loan

Answer: a) The buyer may fail to pay the goods' value

14. Which of the following is a key factor in determining the amount of financing a business needs?

- a) The number of employees
- b) The business's growth potential
- c) The color of the company logo
- d) The location of the business

Answer: b) The business's growth potential

15. What is the main advantage of using trade credit in international trade?

- a) It eliminates the need for collateral
- b) It makes products or services more attractive to buyers
- c) It guarantees immediate payment
- d) It reduces the need for marketing

Answer: b) It makes products or services more attractive to buyers

True & False Questions (10)

1. Longer delivery distances and payment time frames are extra challenges businesses face when extending into international markets.

Answer: True

2. Businesses that export frequently are less likely to experience increased total sales and optimized production.

Answer: False

3. A lack of technical capacity to prepare convincing business plans can limit a business's ability to access finance.

Answer: True

4. Borrowing money always comes at no cost to the business.

Answer: False

5. Trade finance focuses on the value of goods.

Answer: True

6. "finance for export" involves funding a new venture that moves a company away from a domestic-focused business model to an export-based one.

Answer: True

7. Assets can only be tangible, such as land and buildings.

Answer: False

8. A financial cushion is a contingency fund that prepares businesses for emergency situations.

Answer: True

9. Trade credit is based on pre-agreed arrangements between buyers and sellers and does not require collateral.

Answer: True

10. The longer the operating cycle of a business, the smaller the working capital fund required.

Answer: False



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 2

AN OVERVIEW OF FINANCIAL INSTITUTIONS

Chapter 2 - An Overview of Financial Institutions

Once a business leader has identified a need for borrowing, the next task focuses on finding the right source of funds. It is vitally important to match your needs with the right type of lender to get the best-fitting services and stay on the proper financial track. With so many different kinds of lenders, it helps to know who they are and the types of financial services they normally offer.

A variety of providers of financing each come with their own specialties. Since banks draw their resources mostly from deposits, their regulations restrict how much risk they can take on. Meanwhile, non-bank financial institutions, such as insurance companies, have funds available from private and public savings. Other specialized financial institutions offer specialized products in trade finance, including factor houses. Non-conventional sources of financing, particularly for equity, include venture capitalists and angel investors.

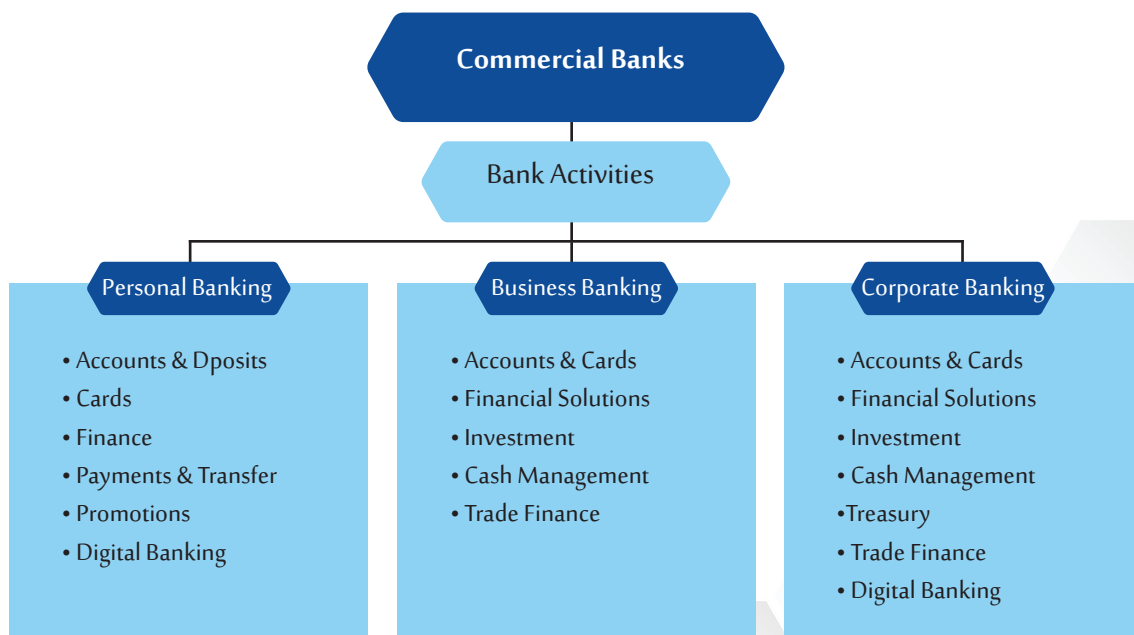
While a business may feel committed to doing business with its usual bank, when it comes to exporting, the range of new transactions opens up the option to deal with any lender that provides trade processing and trade finance services. The following are descriptions of various types of financial institutions presented for comparison and consideration in fulfilling the business needs for financing:

Commercial banks

In terms of capital, commercial banks represent the largest single group of financial institutions in most countries. They come in different sizes: huge multinational and universal; large and domestic, and small, niche operators. As such, businesses can expect different levels of support as they seek to build an export plan.

Generally, they offer these services:

- Lending money against personal security and property (collateral).
- Buying and selling foreign exchange.
- Accepting savings and demand deposits.
- Offering trade finance instruments, such as letters of credit, promissory notes, drafts, bills of exchange and other debt instruments.



Commercial banks are accessible for everyday transactions and seek profitability. They offer competitive terms and typically act fast and with flexibility when making decisions. Yet, due to a lack of recognition in some countries, they might request a larger bank to confirm a letter of credit. This could lead to additional fees so ask about those in advance.

Development banks

While commercial banks primarily focus on providing comprehensive financial services, they serve a broad range of customers seeking profitability. Development banks, on the other hand, concentrate on fostering economic development by financing projects and sectors that contribute to growth within national economies.

Development banks typically offer loans on concessionary terms and targeted forms of financing, such as medium- to long-term products for industrial, agricultural and mining projects in keeping with their mission. Some development banks have expanded their lending portfolios to provide trade finance in the form of short-term working capital for exporters. Some specialized institutions with such offering are import-export banks and Export Credit Agencies, such as The Saudi Export-Import (EXIM) Bank.

While most development banks operate at national level, it is worth noting that some development banks are multi-lateral or international that aim to foster economic growth amongst member nations such as the Islamic Development Bank (IsDB).

Islamic Development Bank (IsDB):

Islamic Development Bank (IsDB) encourage a diverse portfolio of sectors where they allocate their financing, such as Infrastructure A resilient, sustainable infrastructure network plays a crucial role in ensuring the continued economic growth of developing countries, By investing in urban and agricultural development .

The Education is another area are focused by The (IsDB) which is the key to unleashing the potential of future generations, and that's why they fund skills and education training , especially for women and young people in rural areas, that Enables access to the labor market and improves their life prospects .the health sector is a priority area for the (IsDB) . they focus on the prevention and control of both communicable and non-communicable diseases, improving access to and the quality of healthcare services.

Specialized financial institutions

Export-Import (EXIM) banks receive funds from governments. They can offer short-term credit and can afford to take reasonable risks to finance export transactions that other financial institutions may not. EXIM banks can extend guarantees when business operators pitch commercial lenders for trade financing. They also offer export credit insurance and advisory services.

Meanwhile, factoring houses purchase account receivables at a discount considering clients that own the account receivables must prove to be creditworthy.

Leasing companies' free up capital for fixed asset costs by renting out commercial properties, equipment, machinery and vehicles. By dividing an otherwise large expense into multiple rent payments, they can change the trajectory of a business operation. When considering leases, companies need to predict potential future increase of prices versus appreciation of real estate property and other factors.

The Saudi Export-Import Bank (Saudi EXIM Bank) contributes to the diversification of the country's economy by enhancing the global competitiveness of Saudi Arabia's non-oil sectors. Its goal is to empower Saudi exports by addressing critical obstacles, such as financing risks and export barriers, which limit access to international markets. To achieve this, Saudi EXIM offers a comprehensive range of export finance products and credit insurance solutions designed to mitigate risks and support Saudi enterprises seeking to expand internationally. Through these efforts, Saudi EXIM plays a vital role in advancing the nation's economic development by fostering growth in non-oil industries and improving Saudi Arabia's standing in the global economy. The bank also places significant emphasis on supporting exporting companies, particularly small and medium-sized enterprises (SMEs), recognizing their essential contribution to economic growth and diversification.

Considering it a fundamental pillar in the development of the national economy in line with Vision 2030, and recognizing its crucial role in increasing non-oil exports GDP. The SMEs Definition is divided into : Micro- enterprises, the Number of employees: (1 - 5) \sales and revenues of the enterprise no more experiences, as well as introducing than SAR 3 million ,second The Small- enterprises, Number of employees (6 - 49),the Sales and revenues of the enterprise from SAR 3 million to SAR 40 million.

Finally The Medium – enterprises, Number of employees: (50 - 249), the Sales and revenues of the enterprise from SAR 40 million to SAR 200 million.

The Saudi – EXIM. Non-financial services (NFS) aim to provide a variety of programs and solutions dedicated to building the capacity of enterprises to enable the business community to export and import, Saudi goods and services to international markets. Saudi EXIM's NFS include providing studies and consultations, training, knowledge transfer and best practices, export procedures and requirements.

Non-Bank Financial Institutions (NBFIs)

Non-Bank Financial Institutions include insurance companies, currency exchanges, investment funds, venture capitalists and microfinance institutions. Each one has customized services aimed at a targeted customer group. They facilitate bank-related services such as investments, risk pooling, money transfers and market brokering without relying on public deposits.

Conversely, governments plays a significant importance on export due to its role in driving national economies. Their economic development entities develop programs and incentives to encourage businesses to expand the range of goods and commodities sold beyond a country's borders. Banks can facilitate companies' access to available government incentives when discussing financing options.

Lastly, microfinance institutions fill in the gaps for those not usually approved for financing from larger banks. They cater to clients with small scale businesses who want to innovate and improve their operation and profitability. They offer small loans for working capital; secure savings products; streamline loan processes for quicker approval and extend larger loans as past credit gets repaid.

Sources of equity

Any company willing to share its ownership to gain capital has three options to pursue this type of financing. In each case, the enterprise gives up shares in order to get funds and expertise to grow.

First, venture capitalists raise and invest money on behalf of investment funds so they can diversify their portfolio. Funds can be owned by private investors or firms who specialize in this type of financial arrangement. Typically, the fund manager research a company they see as having high growth potential then offer to buy in so its clients can profit from future growth. In return for taking this risk, they expect a high rate of return on their investment.

They tend to favor businesses with a proven track record or innovative leaders who have succeeded before.

Similarly, angel investors are people who have already done well with their own firms. Next, they seek to invest in start-ups or early-stage companies that they see as capable of producing great payouts once they thrive. Unlike venture capitalists, they usually give enterprises more time to test out new approaches and technologies to get results, since they have enough money to carry them through. In the end, they expect company leaders to work hard and respond to their advice.

Finally, a company can raise equity by selling shares to the public on a stock exchange. To make a public offering of shares, a company needs years of operation and a solid track record of growth based on good decisions. Beforehand, firms must get their financial records and other documents in order to meet strict disclosure requirements. With this approach, companies cannot control who buys their shares but can limit how much ownership it is willing to release. Before ceding too much, a company should assess its retention ratio so it keeps enough equity to facilitate growth before giving away too much to shares as dividends. This measures the amount of money needed to reinvest to expand production. Investors also use this ratio to gauge whether investing in an enterprise is worthwhile or not. A high retention ratio indicates a healthier rate of internal reinvestment:

$$[(\text{Net income} - \text{Dividends}) \div \text{Net income}] = \text{Retention ratio}$$

Government Agencies & Business Support Organizations

Often, these funds complement sources of support and export finance available through the public sector. In each case, criteria will vary based on the goal of the fund, such as creating economic impact, job creation or boosting a specific sector to grasp more international demand. Therefore, it helps to continually gauge what options become available to discover when they align a business's requirements.

Government entities can also facilitate access to finance. For example, the funding portal of the Saudi SME Bank links government and private-sector financiers with small and medium enterprises wishing to obtain financing. This resource makes it easy to access funding agencies by providing a marketplace for SMEs financial solutions. It reduces financing costs by saving time and effort.

Users simply log into the online platform, choose the commercial register and fill out the financing application form. From there, the request goes to selected funding bodies who can send back offers. Even the contracting and the financing phase is completed via the portal.

Before jumping at the seemingly best offer, companies should exercise due diligence to match up with a reputable lender with a similar approach and shared interests. This is especially true for emerging exporters.

Export Credit Guarantees

In order to improve chances of financing from banks, companies can get export credit guarantees to provide more re-assurance in high-risk markets. Export credit guarantees come with premiums that can fluctuate with the level of risk involved. With this in mind, there are government-sponsored programs that aim to promote export, making it easy to approach as businesses arrange financing.

One example of this is the financing loan program Kafala, in cooperation with the Saudi Export-Import Bank, which introduced a financing guarantee product to develop and diversify Saudi exports. The Saudi EXIM Bank provides financing via the Kafala program for SMEs via a special affiliation path with lower fees and extended coverage as long as the business has exported for at least one year. This is to contribute to the Kingdom's Vision 2030 goal to empower SMEs and raise their contribution to the gross domestic product.

Export credit insurance solutions are offered by development banks and credit agencies. The Saudi EXIM's export credit insurance solutions are offered to all sectors targeted by the Saudi EXIM Bank. Applicants need to provide proof of customs clearances for products, an external purchase order or a valid contract for the provision of external services. Credit insurance can protect investments and ease lenders' concerns. Insurance agencies may offer risk pooling as a safety net against incurring sudden losses. In these cases, insurers underwrite economic risks associated with damages and losses. While this hedges against possible problems, it is best to assess the cost implications before making a final decision to access certain markets.

Alternative sources of finance

If an established business needs cash quickly, it can borrow against its assets to solve a cash-flow crisis or fill new orders to address a surge in sales. This can occur using receivables financing and inventory (warehouse) financing.

Receivable financing offers a short-term, stopgap measure if traditional loans are not an option. If a business has outstanding receivables (invoices), it can sell them to a third party at a discount. However, the discount rate and service fees could make receivables financing costs higher than a standard loan. To start the process, gather proof for the receivables, like invoices and sales contracts.

The more current the receivable, the greater its value. If it has been outstanding for less than 90 days, the more likely it will secure financing on good terms. Also, the more established the company owing the money, the better the chances that a borrower will get receivable financing at a better value.

Meanwhile, warehouse financing works like a credit line from a bank by using a business's inventory as collateral. Like receivables financing, the process is faster than a loan and is based on the quality and substantial quantity of inventory of ready-for-sale goods. It extends a short-term to provide better cash flow. The borrower simply needs proof of the inventory – from an accredited inspection company or current warehouse receipts – and information about accounts payable to identify prior liens on inventories.

How to Select the Right Financing Source

For businesses new to financing, it may be difficult to decide which financial institution to approach first. Each financial institution has its own criteria for borrowers, risk tolerances and client preferences. It will take time and research to determine if a company fits an institution's borrower's profile, complies with its collateral requirements, loan duration and factors like grace periods, interest rates and other fees.

Therefore, it is best to contact a financial institution as soon as the idea of borrowing more begins. Even if initial conversations don't end up with an arrangement, the knowledge gained will build over time. One never knows if a situation may change, and a business goes back to a funding entity who didn't fit at one time but will as the company evolves and adapts its plans.

Ideally, matching up with the right lender begins a long-term relationship beyond short-term concerns, like maximum loan amounts and repayment schedules, to build continuous and repeat business. The bank's attentiveness to the needs of its clients and quality of its service should rank higher than which one offers the lowest interest rate.

These questions may help guide a decision:

- Are the staff concerned about continued business viability?
- Do account managers offer good service and advice?
- Have others had good experience with this financial institution?
- If it cannot meet your financing needs, does it suggest alternative sources of finance?

Banks and other lenders follow specific processes which may have different evaluation and approval procedures than others. Since this takes time, it is best to find the best fit before beginning this journey. Some lenders require more documentation and collateral, especially if they are relying on customer or investor funds. Understanding the lender's perspective helps prepare for and succeed when submitting financing applications.

Of course, businesses can pursue multiple sources of financing to support various aspects of its plans. For example, an exporter can set up a long-term relationship with its core bank and a transactional approach with other providers for specific overseas payments.

Principally, the type and terms of credit a company seeks should align with a firm's cash cycle and the method of payment used in trade transactions. (See more on this topic in Chapter 4.)

Even severing your domestic banking from international and trade-related banking business makes sense. Although a firm's export business is not distinct from its domestic business, it's easier to understand, attribute and track financial flows via separate domestic and international banking. Further, this way, companies will be less tempted to use domestic business assets and receivables as security against higher-risk export finance facilities.

Exporting requires a long-term outlook, commitment and a solid network of partners, service providers and business associates. While the nature of export finance allows trade bankers to make credit decisions based on specific transactions, more complex deals may be easier to close if you have an operating line of credit in place with your bank. Managing working capital between export credit and domestic facilities - and security or collateral requirements - mitigate exposure on business and assets and provide the freedom to use funds when and where needed.

As exports grow, a company may require the services of a global bank or one based in a key market on top of a primary financial institution. Essentially, it is wise to diversify sources of export finance to suit the current landscape. If a company decides to separate domestic and international business, they can set up a division, or a distinct entity, to manage export operations

Summary

To summarize, businesses can choose from a number of financing sources from financial institutions to angel investors. Some of them are affordable sources of funds, others expect to earn a larger share of future profits; some offer one-stop shopping for financial services, while others have specialized products. Each one offers different levels of expertise and advice that provide value as well.

Export credit guarantee and insurance companies provide coverage for trade risks in exchange for premiums. These guarantees and insurance are useful for securing larger financing from commercial banks. The premium these institutions charge is usually based on their perception of risk of the country where the export goods are destined. If the risk is unreasonably high, your exports may not be eligible for guarantee or insurance coverage.

Tips

Before approaching financial institution:

- Ask partners, associates, suppliers and fellow members of industry associations about their experiences.
- Make a list of their referrals.
- Create a short list based on:
 - Familiarity with your business and industry
 - Relationships with your partners or associated businesses.
 - Their preferences, priorities and the type of borrowers' profile
- Contact the head office of these financial institutions on your short-list to make an appointment.

When approaching financial institutions:

- Prepare for the meeting and arrive on time.
- Present your brochures and business cards.
- Speak candidly about your needs and what you expect from this relationship.
- Ask for details about lending styles, loan requirements and approval criteria.
- Find out how many years of financial statements must show profitability before qualifying.
- Inquire about their experience in handling accounts similar to your business and those in your industry and stage of development.
- Get contact names for at least two people from the financial institution: the credit manager or a senior account officer.
- Assess its solutions for online cash management for easy invoicing, payment collection and payroll services.

After these meetings:

- Create a matrix with the pros and cons of the institution.
- Compare your findings then choose the financial institution that best suits your business requirements.

The Questions:

Multiple Choice Questions (14)

1. Commercial banks can offer these services:

- Accepting savings and demand deposits.
- Lending money against personal security and property (collateral).
- Buying and selling foreign exchange.
- All the above.

Answer: d) All the above

2. Export-Import (EXIM) banks receive funds from governments. They can offer:

- short-term credit
- can afford to take reasonable risks to finance export transactions that other financial institutions may not.
- can extend guarantees when business operators pitch commercial lenders for trade financing.
- All the Above .

Answer: d) All the Above .

3. The commercial banks are providing the client with the trade finance products which falls under:

- Personal Banking products.
- Business Banking products.
- Corporate Banking products.
- Factoring .

Answer: b) Business Banking products, c. Corporate Banking products.

4. The Islamic Development Bank (IsDB) is engaged in a wide range of specialized and integrated activities such as:

- Project financing in the public and private sectors.
- Development assistance for poverty alleviation.
- Technical assistance for capacity-building.
- All the above.

Answer: d) All the above

5. The Islamic Development Bank (IsDB) is allocating their financing, and focusing on the following areas:

- Infrastructure.
- Education.
- Health.
- All of the above.

Answer: d) All the above

6. The main definition of the Micro- enterprises in Saudi Arabia is :
- Sales/ revenues of the enterprise, No more than SAR 3 million.
 - Sales/ revenues of the enterprise, No more than SAR 5 million.
 - Sales/ revenues of the enterprise, No more than SAR 15 million.
 - Sales/ revenues of the enterprise, No more than SAR 25 million.

Answer: a) Sales/ revenues of the enterprise, No more than SAR 3 million.

7. The main definition of the Small- enterprises in Saudi Arabia is :
- Sales/ revenues of the enterprise, SAR 3 million - SAR 40 million.
 - Sales/ revenues of the enterprise, SAR 3 million - SAR 140 million.
 - Sales/ revenues of the enterprise, SAR 3 million - SAR 240 million.
 - Sales/ revenues of the enterprise, SAR 3 million - SAR 440 million.

Answer: a) Sales/ revenues of the enterprise, SAR 3 million - SAR 40 million

8. The main definition of the Medium – enterprises in Saudi Arabia is :
- Sales/ revenues of the enterprise, SAR 40 million - SAR 200 million.
 - Sales/ revenues of the enterprise, SAR 40 million - SAR 300 million.
 - Sales/ revenues of the enterprise, SAR 40 million - SAR 400 million.
 - Sales/ revenues of the enterprise, SAR 40 million - SAR 600 million

Answer: a) Sales/ revenues of the enterprise, SAR 40 million - SAR 200 million.

9. The financial institution which provides clients the services of Buying and selling foreign exchange is :
- The Commercial bank.
 - The Development banks.
 - The Leasing companies.
 - Factoring company .

Answer: a) The Commercial bank.

10. The financial institution which is concentrating on fostering economic development by financing projects and sectors that contribute to growth within national economies is :
- The Commercial bank.
 - The Development banks.
 - The Leasing companies.
 - Factoring company.

Answer: b) The Development banks

11. The financial institution which support companies to free up capital for fixed asset costs by renting out commercial properties, equipment, machinery and vehicles. By dividing an otherwise large expense into multiple rent payments.
- The Commercial bank.
 - The Development banks.
 - The Leasing companies.
 - Factoring company .

Answer: c) The Leasing companies

12. Factoring houses purchase account receivables at a discount considering clients that owe the account receivables must prove to be creditworthy.

- a. True
- b. False

Answer: a) True

13. Commercial banks are accessible for everyday transactions and seek

- a. Profitability .
- b. Bank Image.
- c. Market share.

Answer: a) profitability

14. The Saudi EXIM Bank provides financing via the Kafala program for SMEs via a special affiliation path with (.....) fees and extended coverage as long as the business has exported for at least one year.

- a. Lower .
- b. High .
- c. None .

Answer: a) Lower

True & False Questions (9)

1. It is vitally important to match your business needs with the right type of lender to get the best-fitting services and stay on the proper financial track. With so many kinds of lenders.

Answer: True

2. One of Commercial bank services is offering trade finance instruments, such as letters of credit, promissory notes, drafts, bills of exchange and other debt instruments.

Answer: True

3. One of Commercial bank services is buying and selling foreign exchange.

Answer: True

4. The Development banks is concentrating on fostering economic development by financing projects and sectors that contribute to growth within national economies.

Answer: True

5. The Islamic Development Bank encourages a diverse portfolio of sectors but allocates its financing only to resilient infrastructure.

Answer: False

6. the Islamic Development Bank (IsDB) is focusing on the prevention and control of both communicable and non-communicable diseases, improving access to and the quality of healthcare services.

Answer: True

7. Leasing companies' free up capital for fixed asset costs by renting out commercial properties, equipment, machinery and vehicles. By dividing an otherwise large expense into multiple rent payments.

Answer: True

8. The Saudi – EXIM. Non-financial services (NFS) are aiming to focus on the prevention and control of both communicable and non-communicable diseases, improving access to and the quality of healthcare services.

Answer: False

9. Factoring houses purchase account receivables at a discount considering clients that owe the account receivables must prove to be creditworthy.

A. True

B. False

Answer: a) True



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 3

PREPARING TO ACCESS FINANCE

Chapter 3 -Preparing to Access Finance

This chapter aims to provide you with a comprehensive understanding of how to prepare your business to successfully access trade and export finance. You'll learn how to understand lender requirements, craft compelling proposals, identify suitable financial products, and leverage credit insurance to enhance your financing options.

Through case studies, exercises, and real-world examples, learners will be able to apply theoretical knowledge to practical scenarios. This chapter also includes multiple-choice and true/false questions to reinforce understanding and ensure retention of key principles.

Learning Objectives

At the conclusion of this Chapter, you will be able to:

- Understand the importance of timing when accessing export finance.
- Differentiate between pre-shipment and post-shipment financing.
- Learn the key steps involved in the export finance application process.
- Identify the factors lenders consider when evaluating export finance applications.
- Recognize the importance of negotiating favorable terms and conditions.
- Understand the lender's monitoring role after disbursement.

Preparing to Access Finance

Once a company has chosen the bank or financial institution to approach, the next step is to prepare for the lending institution's credit process. Each one follows certain procedures and imposes various requirements for loan applications, including its own guidelines, criteria, document requirements, etc., before deciding whether to grant or deny a financing application.

Naturally, a small short-term loan will require less review and investigation than a long-term commitment for millions. As part of the credit process, banks assess a business's profitability or potential, its prospect of making money and its leaders' competence.

IV. Timing for accessing financing

Knowing when to tap into financing also helps prepare a business for proper cash flow management. While this guide addresses different types of export finance solutions in Chapter 5, it helps to think about timing of different inventory or other expenses when building a relationship with a lender.

Pre-shipment finance covers the requirements arising from new export ventures, including pre-production funding. It extends through to the point when the goods are ready for export but have not yet gone to the buyer. Meanwhile, post-shipment export finance refers to the period between the time the cargo leaves and the company receives payment from the buyer.

Pre-Shipment Finance

If a company needs funding to expand its activities for new export ventures, they can begin with a robust and well-researched export strategy or plan. This relies on an export readiness assessment, current market research, product development plans, export pricing worksheets and financial projections.

Due to the level of detail and risk, developing export business takes more time than closing domestic deals. Obtaining financing for new export ventures requires:

- A cash budget for export development efforts.
- An export financial plan with key export costs.
- A longer-term capital budget as operations expand to exporting.
- Financial projections with anticipated cash inflows and outflows.

If a business identifies an export opportunity and needs funding to produce the goods or services to seal the deal, it must demonstrate that a deal is imminent or closed with a foreign buyer. At times, it will adapt a product or its labeling for this new market. After all, export finance providers will want to have a solid sense about the timing of the deal and if payment and remittance are well-secured.

Post-Shipment Export Finance

In most cases, shipping the goods means that the exporter has fulfilled his commitments laid out in the sales contract and can now claim payment. Even though the money is coming, sellers may need post-shipment financing due to the longer payment cycle or additional costs, such as warehousing upon arrival or overseas commissions.

Of course, the transaction is still subject to some risk while in transit due to potential damage or loss, refusal by the importer to pay once the goods arrive. The cost of financing will vary according to the assessed risk.

At this point, sellers may draw post-shipment financing from one or more of the following sources:

1. **Bank loan:** The seller's bank may be willing to advance funds to the seller, based on the payment undertaking of a deferred payment documentary credit. Banks may also advance payments on export transactions that are covered by export credit insurance. In both cases the payment is secured and serves as collateral for the advance.
2. **Soft loan facility:** Government programs provide low-interest funding and guarantees for exporters. For example, export/import banks may work through commercial banks to provide financial guarantees to exporters.
3. **Factoring:** Sellers may discount their accounts receivables with a factoring house (with recourse).
4. **Acceptance financing and forfeiting:** Sellers can sell their accepted bills of exchange on a secondary market or to a bank or to a forfeiting house (without recourse).

Each of these approaches come with pros and cons, which will be explained in detail in later chapters

Key Points on Pre-Shipment Finance and Post-Shipment Finance:

- **Pre-Shipment Finance:** Covers costs from production to the point goods are ready for export. Requires a detailed export strategy, financial projections, and proof of imminent buyer contracts.
- **Post-Shipment Finance:** Bridges cash flow gaps between shipment and payment. Sources include bank loans, soft loans, factoring, and forfeiting.

Case Study: Pre-Shipment Finance in Action:

A Saudi textile exporter secured a SAR 200,000 pre-shipment finance from Saudi EXIM Bank to purchase raw materials for a large order from Germany. The bank required:

- A signed purchase order from the German buyer.
- Financial projections showing repayment capability.
- Collateral in the form of machinery.

Outcome: The exporter fulfilled the order on time and repaid the loan using the buyer's payment.

Exercise: Timing Analysis:

1. Scenario: Your business has secured an export order but lacks funds for raw materials. Would you seek pre-shipment or post-shipment finance? Justify your answer.
2. Research: Identify two Saudi EXIM Bank products suitable for pre-shipment financing. List their eligibility criteria.

V. The process of applying for finance

In each case, banks look at the extent of the transaction costs associated with providing financing to a business. The higher these transaction costs, the higher the cost of borrowing. Since business loans often consume more time to assess and manage, financial institutions prefer deals that reflect good growth potential at minimal risk. Above all, be realistic and truthful.

Basic steps of securing finance	Criteria for financing
Application	Risk of default
Evaluation	Risk of loss
Negotiation	Risk of tolerance level
Approval	Transaction costs
Disbursement	Business's growth potential
Monitoring	Verifying use of funds

A. Application

The credit application drives the credit process by providing adequate information for credit risk assessment and measurement as lenders get to know the company and its people. Lenders typically look for the five "Cs of credit" to determine the level of risk associated with providing the borrower with the requested funds.

1. **Character** – a business's level of responsibility and willingness to meet their obligations, often based on a credit report and credit score reflecting financial habits.
2. **Capacity** – assessing number and stability of sources of income, total debt service ratio (calculated by adding together debt payments then dividing this total by gross income) to determine repayment capacity.
3. **Capital** – the borrower's investment in their own capital that shows good saving or budgeting habits.
4. **Collateral** – a list of the assets pledged as security that the lender can seize and sell in the event of loan repayment failure, usually not at full value.
5. **Conditions** – the interest rate, the repayment term, the amount and a clear intent for the funds loaned

To increase the odds of success, invest time and effort in a business plan that will convince the lender of your viability as a borrower. It reinforces that a business can implement its operational plan by raising enough money and other resources. A business plan usually contains a company description and history; product rundown; market analysis; plans for marketing, sales, management and finances; plan; and financial statements and analysis.

Also prepare other materials and documents, such as:

- A profile highlighting the owner/CEO's professional experience and achievements.
- A company brochure.
- Proof of ownership, registration and any other related business licenses and permits.
- Details about booked orders with the corresponding proofs like correspondence, quotations from suppliers, draft contracts and purchase orders from buyers, etc.
- Clear company goals and plans with reasonable sales numbers.
- Audited financial statements.

Key Points on the process of applying for finance

Steps to Secure Finance:

1. Application: Submit documents (business plan, financial statements, purchase orders).
2. Evaluation: Lenders assess the "5 Cs of Credit" (Character, Capacity, Capital, Collateral, Conditions).
3. Negotiation: Discuss terms (interest rates, repayment schedules).
4. Approval: Final review by bank committees.
5. Disbursement: Funds released after signing agreements.
6. Monitoring: Lenders track fund usage and compliance.

Example: The 5 Cs of Credit

- Character: A bakery with a 5-year clean credit history.
- Capacity: Debt-to-income ratio of 1:3.
- Capital: Owner invested 30% equity.
- Collateral: Factory machinery valued at SAR 500,000.
- Conditions: Loan used to buy ovens for a confirmed UAE order.

Exercise: Loan Application Simulation

- Student A: Business owner seeking SAR 150,000 for export production.
- Student B: Bank loan officer.
- Use the "5 Cs" to negotiate terms.

Document Checklist: List 5 documents you would submit for a post-shipment loan.

B. Evaluation

Once a business has submitted all the required documents, the lender undertakes a credit risk assessment to identify and control its risks. Mainly, it looks to see if the business has a good credit record; it functions with good business experience and character; and if the proposed project can generate adequate cash flow. Account managers will also look at risks in the business's specific industry and sector and how much collateral is offered compared to the loan request. Most lenders use a credit-scoring process that translates a credit evaluation analysis into an alphanumeric code to clearly show the level of risk. It measures:

- Risk of default via a borrower risk rating (BRR) based on financials, management and market/industry (from AAA for low risk to D for high risk)
- Risk of loss via a loan exposure risk (LER) based on facility transaction and collateral risks (ranging from one for low risk and five for high risk)
- Risk tolerance limit via risk assessment acceptance criteria (RAAC). If within acceptable limits, this loan will be approved.

By understanding how banks evaluate proposals, businesses should highlight their strengths and minimize weaknesses before applying.

C. Negotiation

To compete in the business world, one must minimize costs, especially for financial charges and related costs of borrowing. By negotiating wisely and with confidence, companies face lower fees and charges via advantageous terms. Meanwhile, lenders also aim to boost their profits by earning a good rate of interest on their money while charging fees for services rendered.

Healthy negotiations benefit both parties and reinforce a relationship that develops into a long-term one based on trust as transactions expand. Bankers want to keep good customers as they compete with one another to obtain business. This desire will strengthen a business's negotiating position with more concessions granted favorably. However, it takes time to build this rapport.

By showing up prepared and with realistic expectations, business operators get off on the right foot:

1. Read published reports and the lender's materials to get a sense of its philosophies and practices.
2. Bring all the relevant documents and clearly identify the intent for the borrowed funds, parties in the transaction and payment arrangements.
3. Ask for advice so an experienced banker can advise you of alternatives, such as reducing risks of currency and price fluctuations.
4. Only borrow what is needed for the time required to minimize risk exposure. Clarify what fees will arise and at which point in the loan.
5. Treat the lender with loyalty and professionalism. Doing an assessment and drafting up papers takes time and should only occur if a business has committed to proceeding with the loan.

However, if terms change and another lender offers a more favorable trade finance package, give the first party a chance to respond. Ultimately, a company will make a decision after examining the costs and other facts. The more this can occur with mutual trust, the stronger the borrower-lender relationship and the company's reputation.

D. Approval

Within a bank environment, it takes several steps and individuals to agree to lend out money. With venture capitalists and other sources, it still takes time to decide to proceed. Even a small loan will take time to work its way through the process.

First, the front-line person makes sure they have all the documents and ratings to fully understand the application's creditworthiness and how to get the money back in the case of default. From here, the application may go to a committee, middle manager or CEO, depending on how much money is at stake. The verdict will be captured in a credit memo then go to an expert to confirm the collateral and prepare loan documents. Finally, a senior person and the borrower will sign the loan documents.

Since so many individuals will judge a business's worthiness on paper, having everything in top-notch form always helps. The allies made along the way the first time will only grow the next time one applies – if the loan is repaid as promised.

Not all first-time loan applicants are approved. Each time business operators go through this process, they learn from the experience and use that knowledge to improve their pitch on the next attempt. They can ask the lender to explain its decision and strengthen any weak points the next time. Most importantly, one must get past the rejection and reapply based on that feedback or try another source of financing.

Potential reasons for refusal	Actions for next application
Lack of information	Assemble more robust financial and supporting information.
Poor market prospects	Research more for a deeper knowledge of the market, competitors and impact of technology.
Poor growth prospects	Justify the impact of the loan on business development and future growth.
Lack of business relationships and links	Develop stronger partnerships with funders and other organizations via full disclosure.
Lack of track record in business and/or finance	<ul style="list-style-type: none"> • Demonstrate relationships within your market. • Get references from main suppliers and key customers. • Refer to previous loans and repayment history. • Provide a business plan and leaders' CVs.
Difficulty in quantifying profitability	<ul style="list-style-type: none"> • Demonstrate business experience and years in business. • Show what the business has financed, including wages.
Lack of reserves/ collateral	<ul style="list-style-type: none"> • Show current reserves and where profits have been deployed. • Offer company assets as collateral or a guarantor.
Unclear purpose of loan	<ul style="list-style-type: none"> • Clarify how the loan will be used to deliver a return on investment. • Reassure the money will be spent for the intended purpose.
Uncertain cash flows/ Working capital concerns	Provide a cash-flow analysis to show how working capital and how cash and credit is managed.
Willingness to repay	<ul style="list-style-type: none"> • Lay out a repayment plan and how the loan will improve the business. • Reflect an enthusiasm for the business and its future. • Explain how the firm would handle a worst-case scenario.
Other loan applications	Make only one application at a time and admit if the company has been declined elsewhere.

Key Points on Evaluation, Negotiation & Approval

- Highlight strengths (e.g., confirmed orders, strong cash flow).
- Request lower interest rates or longer grace periods.

Approval Process: Involves multiple stakeholders (credit managers, senior executives).

Case Study: Successful Negotiation

A Saudi dates exporter, negotiated a 1-year grace period on a SAR 100,000 loan by:

- Providing evidence of a long-term contract with a French retailer.
- Offering warehouse receipts as collateral.
- Agreeing to quarterly financial reviews.

Exercise: Negotiation Strategies

Scenario: A bank offers a 10% interest rate. Your business wants 8%.

List three arguments to support your request.

Approval Challenges: Why might a lender reject a loan? List three reasons.

E. Disbursement

The loan agreement is usually a contract. Read it over carefully to confirm:

- The covenants the bank can use to call in the loan.
- Collateral provisions that lay out when your assets can be seized and sold.
- Description of the contracting parties.
- Details of the amount, duration, currency, interest rate, payment schedule, fees or commissions; and penalties for late payment.
- Conditions which the borrower must fulfill before receiving the money.
- The borrower's obligations.
- Who pays settling costs, such as legal expenses or collection costs.
- Rules for dispute resolution.
- National law applicable to the agreement.
- Date and signatures of lender and borrower.

You can also consult a lawyer to review the document before signing it. If it needs amending, both parties have to sign a letter or draw up another agreement with additional clauses.

F. Monitoring

Out of due diligence, the lender will take steps to ensure that the loan will be repaid. A representative from the bank or venture capital firm may regularly call or visit to check in and assess whether the loan proceeds are being spent as promised.

It also includes ensuring that all loan covenants are complied with and deviations, if any are properly documented and approved. This monitoring may also ensure that the value of the collateral does not deteriorate.

Key Points on Disbursement and Monitoring

- Disbursement: Funds are released after signing legally binding agreements.
- Monitoring: Lenders track compliance with covenants (e.g., maintaining liquidity ratios).

Key Points on the process of applying for finance

Steps to Secure Finance:

1. Application: Submit documents (business plan, financial statements, purchase orders).
2. Evaluation: Lenders assess the "5 Cs of Credit" (Character, Capacity, Capital, Collateral, Conditions).
3. Negotiation: Discuss terms (interest rates, repayment schedules).
4. Approval: Final review by bank committees.
5. Disbursement: Funds released after signing agreements.
6. Monitoring: Lenders track fund usage and compliance.

Example: Loan Agreement Checklist

A typical loan agreement includes:

- Repayment schedule.
- Collateral details.
- Penalties for late payments.
- Dispute resolution clauses.

Exercise: Compliance Monitoring

Scenario: Your business used loan funds for marketing instead of production.

- What are the potential consequences?

Covenant Analysis: A loan requires a current ratio >1.5 . Your current assets = SAR 300K, liabilities = SAR 200K. Do you comply?

V. Summary

Knowing when to apply for funding will ensure the business has assessed its risks and understands the timing of the money's arrival to keep operations running smoothly. This could occur when preparing to export or after the goods have left the port.

Seeking funding requires several steps in the process, so planning ahead is key. Businesses can find quick cash if needed, but those options come with more fees and higher rates of interest. However, traditional bank processes take time and need to be accommodated if this approach suits a business best.

Make time to properly prepare an application; await a lender's evaluation; negotiate terms that suit the situation; garner the necessary approvals; disburse the funds; then follow up with monitoring their use.

By diligently meeting the expectations at each phase, business operators will have a greater rate of success at convincing lenders to support their applications. This is based on openness and trust. In each case, this sets the tone for an ongoing relationship that could produce more transactions that lead to even more profits.

Key Takeaways

- Align financing with production and shipment timelines.
- Prepare thorough documentation to pass lender evaluations.
- Build long-term relationships with lenders for better terms.

Exercise: Action Plan

1. Create a 6-month timeline for securing pre-shipment finance, including application, negotiation, and disbursement.
2. Reflect: What is the biggest challenge your business faces in accessing finance? How will you address it?

The Questions:

Multiple Choice Questions (15)

1. What is the primary purpose of pre-shipment finance?
- A. Cover marketing costs for a new product launch
 - B. Fund production and preparation of goods for export
 - C. Pay for post-shipment insurance
 - D. Finance international travel for sales teams.

Correct Answer: B

2. Which of the following is a source of post-shipment finance?
- A. Factoring
 - B. Pre-Export Financing
 - C. Equity investments
 - D. Venture capital

Correct Answer: A

3. The "5 Cs of Credit" include all EXCEPT:
- A. Character
 - B. Credit Score
 - C. Collateral
 - D. Conditions

Correct Answer: B

4. During loan evaluation, lenders assess a borrower's "Capacity" by examining:
- A. Credit history
 - B. Debt-to-income ratio
 - C. Personal reputation
 - D. Political stability of the buyer's country

Correct Answer: B

5. Which strategy would strengthen a business's negotiation for a lower interest rate?
- A. Providing evidence of confirmed purchase orders
 - B. Reducing the loan amount requested
 - C. Avoiding collateral
 - D. Limiting communication with the lender

Correct Answer: A

6. A common reason for loan rejection is:
- A. High retention ratio
 - B. Lack of collateral
 - C. Strong cash flow projections
 - D. Established export track record

Correct Answer: B

7. Which clause is typically included in a loan agreement?

- A. Employee training requirements
- B. Penalties for late payments
- C. Marketing strategy guidelines
- D. Product design specifications

Correct Answer: B

8. A lender monitors compliance by checking if the borrower maintains a:

- A. Current ratio above 1.5
- B. Marketing budget under 10% of revenue
- C. Employee turnover rate below 5%
- D. Inventory turnover ratio of 3

Correct Answer: A

9. Which Saudi EXIM Bank product is designed for pre-shipment needs?

- A. International Buyer's Credit
- B. Working Capital Financing
- C. Export Credit Insurance
- D. Supply Chain Finance

Correct Answer: B

10. Which document is NOT required for a loan application?

- A. Audited financial statements
- B. Purchase orders from buyers
- C. Employee attendance records
- D. Business plan

Correct Answer: C

11. Acceptable collateral for a loan could include:

- A. Future sales projections
- B. Machinery and inventory
- C. Unconfirmed purchase orders
- D. Marketing brochures

Correct Answer: B

12. The interest rate on a loan is influenced by:

- A. The borrower's creditworthiness
- B. The style of the company logo
- C. The number of employees
- D. The age of the CEO

Correct Answer: A

13. Misusing loan funds for unauthorized purposes may result in:

- A. Extended repayment terms
- B. Immediate loan recall and penalties
- C. A higher credit score
- D. Additional grants from the lender

Correct Answer: B

14. A “grace period” in loan terms refers to:

- A. Time allowed to correct compliance issues
- B. A discount on the interest rate
- C. A period before repayments begin
- D. Flexibility in collateral requirements

Correct Answer: C

15. A covenant requiring a borrower to maintain a current ratio >1.5 ensures:

- A. Sufficient liquidity to meet short-term obligations
- B. High employee satisfaction
- C. Compliance with environmental regulations
- D. Expansion into new markets

Correct Answer: A

True & False Questions (10)

1.Pre-shipment finance is used to fund production and preparation of goods before they are shipped.

Answer: True

2.The 5 Cs of Credit include Credit Score as a key criterion.

Answer: False

3.Factoring is a common source of post-shipment finance.

Answer: True

4.Lenders do not require collateral for export financing.

Answer: False

5.A grace period allows borrowers to delay repayments without penalties after the repayment schedule begins.

Answer: False

6.Saudi EXIM Bank's Working Capital Financing is designed for pre-shipment needs.

Answer: True

7.Covenant monitoring by lenders focuses on maintaining a current ratio above 1.5.

Answer: True

8.Employee attendance records are critical documents for a loan application.

Answer: False

9.Misusing loan funds for unauthorized purposes can result in immediate loan recall.

Answer: True

10.Negotiating lower interest rates requires demonstrating confirmed purchase orders or strong cash flow.

Answer: True



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 4

PAYMENT METHODS AND INSTRUMENTS

Chapter 4: Payment Methods and Instruments

For businesses who have trustworthy systems close to home, it may seem simple to extend those processes to international deals. However, due to several factors, many aspects of commercial transactions become more complicated with international trade. For example, businesses could experience these challenges:

- Non-payment or late/partial payment due to buyer insolvency, bad faith or goods damaged, lost or stolen during transit.
- Bank's insolvency or lack of response.
- Rising interest rates on loans backing a transaction.
- Fraud.
- Fluctuations in exchange rates that can wipe out projected profits.

These types of challenges can be overcome by businesses who prepare for these moments.

No matter which payment arrangement a business chooses, the process will go more smoothly if they work with credit-worthy buyers. Confirming the creditworthiness of the buyer beforehand makes it easier for the exporter to secure financing; get adequate insurance on transactions; discount invoices as needed; and qualify for guarantees from banks and government entities.

To ascertain this information, exporters can turn to bank reports; ask for trade references; check international credit information sources, the buyer's national trade consulate, chambers of commerce and other trade support institutions. Several online sources can also give clues.

Importers and exporters count on trade payment and financing mechanisms managed through banks or specialized financial institutions. These third parties help guarantee both the payment to exporters and the delivery of products to importers. Exporters and importers can also exchange funds directly but only after establishing a stable buyer-seller relationship based on trust.

However, direct methods also require a level of comfort with the risks related to doing business with a particular country or region. This can disappear quickly if the nation faces a political or an economic crisis that unexpectedly devalues its currency, eroding any anticipated profit.

Trade finance mechanisms provide support in four areas:

1. Facilitating payment by securely moving funds across borders in a timely fashion.
2. Financing one or more parties in a trade transaction: importer, exporter or a financial institution, like a bank.
3. Mitigating risk via a trade financing mechanism or insurance.
4. Updating information on the movement of goods and/or the status of related payments.

Overall, payments and dispute resolutions take longer on international transactions so it's wise to set up payment terms that protect profitability if something goes wrong.

Methods of payment in international trade

Enterprises rely on three common methods of payment when engaging in international trade:

- Cash in advance.
- Open account.
- Bank Facilitated payments.

Bank-facilitated payments.(Documentary Credit & Collection)

Each method serves the interests of importer, exporter or both trading partners in varying levels. For example, an exporter will prefer cash in advance as the safest and most secure mode of payment, then documentary credits and open account respectively. In an open account agreement, the exporter takes all the risk by shipping products and awaiting payment at the risk of the buyer defaulting.

These modes of payment impact the cash flow of both parties as well. Exporters want to get paid at the earliest phase of the trade cycle by cash in advance compared to an open account. Meanwhile, their buyers want to ensure the goods arrive as expected and will hold off payment until they have this assurance.

Risk Ladder

The Concept of the Risk Ladder

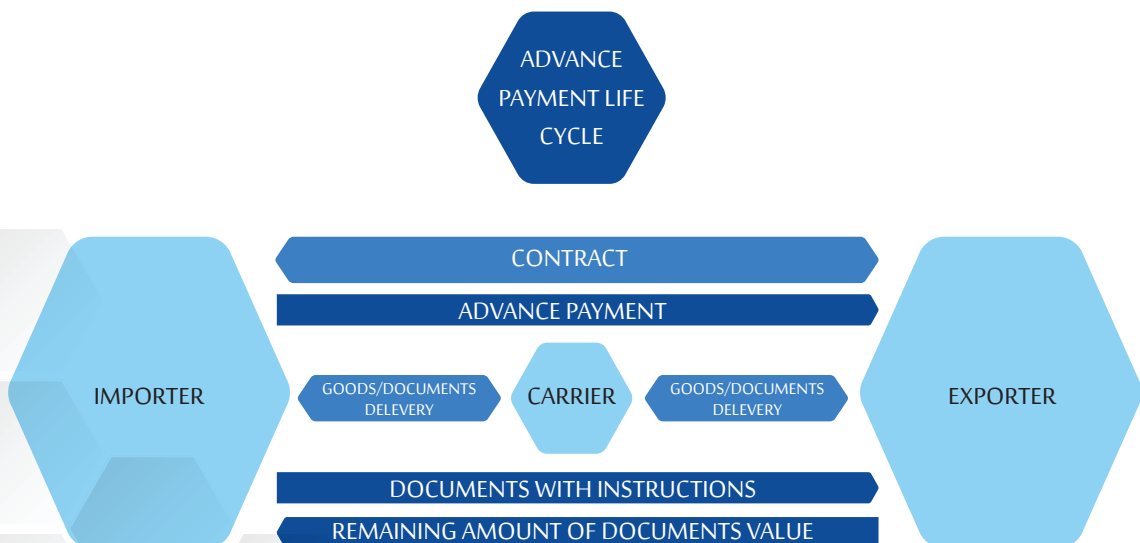
The risk ladder is a popular concept that outlines the fact that **the most secure method of payment for a seller is the least secure for a buyer.**

As a buyer–seller relationship develops, more relaxed terms of payment may be agreed. from the most defensive from the seller’s point of view (payment in advance) to the most risky from the seller’s point of view (open account payment).

It’s logic for exporter’s interest to choose advance payment as a payment tool while for buyer’s interest would be choosing an open account, however, there are some other considerations that will affect this agreement between the exporter and the buyer, for example:

- + The bargaining power of exporter and buyer
- + The type and nature of the transaction and the practice followed in this kind of contracts
- + The value of the transactions.

Cash in Advance (also known as a Customer’s Deposit)



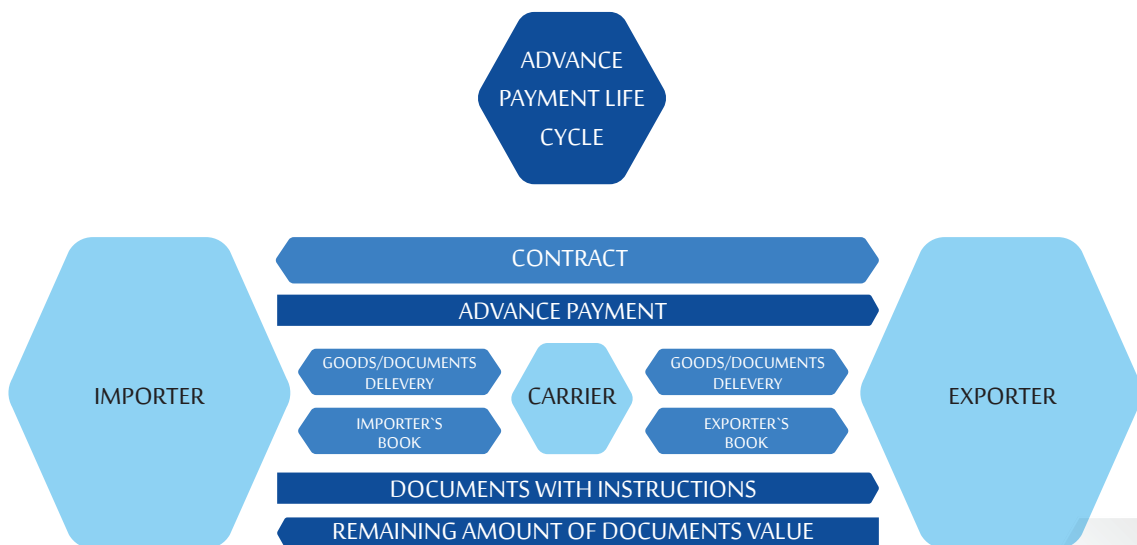
If a seller doubts a buyer's creditworthiness, or worries about getting paid, they can ask for cash in advance. With this facility, full or partial payment is made before shipping goods, so the exporter faces less risk. The buyer can provide funds via an international wire transfer, credit card or online payment system. This option improves the exporter's working capital position since they can apply the early payment to producing the next round of goods to sell.

It can be difficult to convince buyers to pay up front because it may create cash-flow problems for them, especially if the goods arrive late or damaged. Therefore, one needs a solid, trusting relationship with the buyer. Otherwise, they may order from a competitor who offers more favorable terms. A business may forego this option in early exchanges but offer it after establishing a track record of delivering on its promises. However, in some markets, paying in cash is a normal practice and easier to secure.

Since this payment option is more appealing for the exporter than the buyer, it may take more persuasion to agree to this arrangement. Buyers will be more likely to go along with these terms if the goods are in short supply or high demand. For example, if a company orders custom-built machinery, it usually makes a hefty early payment since it would be difficult to sell elsewhere if the deal fell through. For sales like this, exporters can request a deposit or set up a payment schedule at certain production checkpoints.

Further, if a country experiences political instability, buyers may pay early in case traditional money-funneling channels get blocked later. In these situations, banks and insurers are also less likely to offer guarantees, leaving no other choice.

Open account



Under an open account, goods ship directly to the buyer who agrees to pay the exporter within 30 to 90 days. This arrangement favors the buyer while presenting the riskiest option for the exporter. To win customers in a competitive market, exporters tend to adopt an open account model while securing it with other trade financing instruments to mitigate their risk. (These instruments, such as credit insurance and export guarantees, will be explained in detail in a later chapter.)

Open accounts cost less than other options since they eliminate bank charges and other costs related to the other options. The exporter simply sends the buyer the related documents directly. Notably, it makes for the least secure of the different payment methods from the standpoint of the exporter.

For this arrangement to work, the exporter must be in a position to finance the transaction for the period between shipment and payment. Beforehand, they should understand all costs involved in extending credit terms and the cost of protection against payment risks, then factoring them into the price.

On the other hand, the buyer may not accept the shipped goods due to damage or incorrect packaging; they may also deduct partial payment for these conditions even if they didn't stipulate it in a contract. Therefore, it helps to clarify the reasons for which a buyer may or may not withhold payment in the sales agreement.

This can include asking for some form of collateral, bank guarantee or performance bond from the buyer. Securing this type of backup would enhance the negotiating power of the exporter and set the tone for future transactions.

Payment guarantees

A variety of payment guarantees provide the relief of a bank's irrevocable obligation to pay a specific amount of money if its client does not fulfill its contractual obligations. Businesses can choose from several options:

- A payment guarantee backs the seller so the buyer must fulfill the payment obligations outlined in their contract.
- A tender guarantee (also known as a bid bond) covers the organizers' expenses in case a contender revokes their bid or does not accept the offer of an international tenders.
- A performance guarantee strengthens the contractual relationship between a buyer and an exporter by promising specified compensation in case the seller cannot meet the delivery terms or other contractual clauses.
- An advance payment guarantee ensures any pre-payment will be returned to the buyer if the exporter does not follow through on delivery of goods or services.

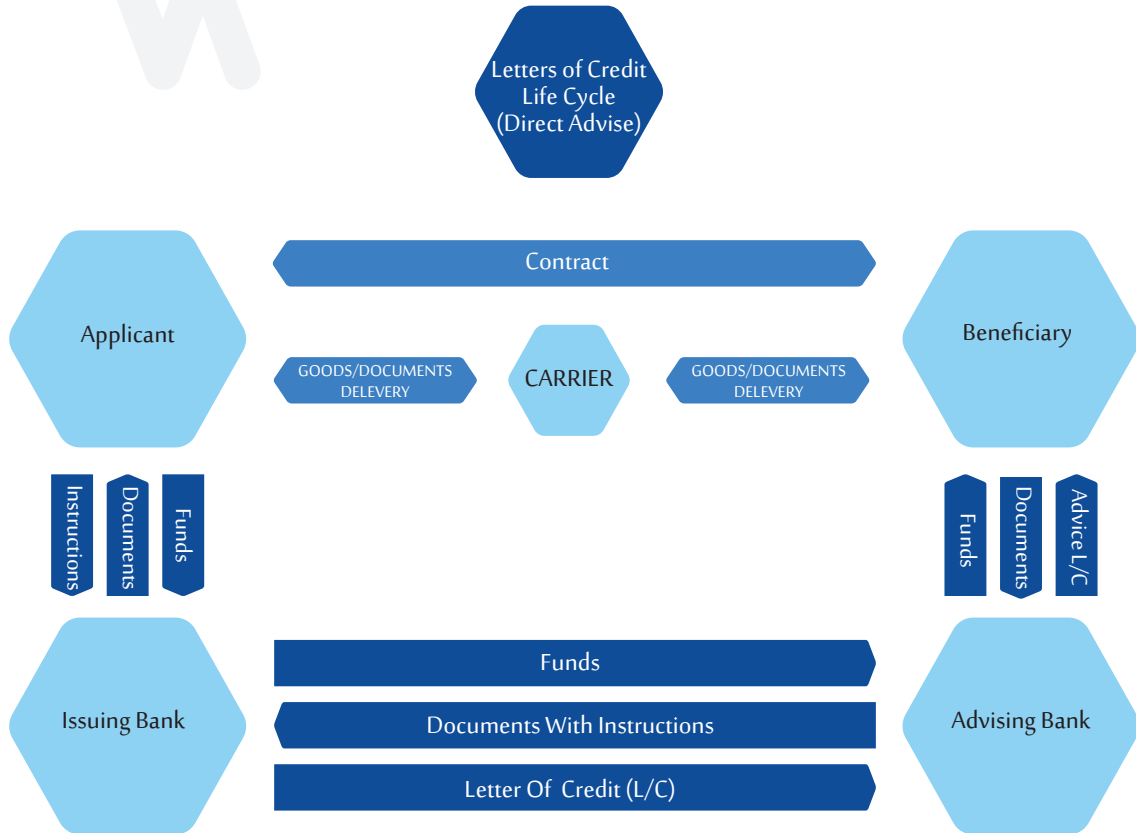
Further, standby documentary credits serve as a guarantee for open-account trading, but not as a means of gathering payments. The bank supports a contract by issuing a "payment of last resort" on a buyer's behalf if they don't pay the exporter.

The credit will specify the documents that must be presented at the buyer's bank to prompt a payment and the value of the credit is calculated based on the nature of the transaction.

Bank-facilitated payments

When banks act as middlemen in an international transaction, they represent value as an additional security of payment. These next examples show the role they play.

Letters of Credit (also known as Documentary Credits)



Letters of Credit rely on a commitment by a bank on behalf of the buyer that payment will come through to the exporter when the terms and conditions of the letter are met. These are highly recommended for newer trade relationships to protect the exporter receiving payment and importer having contractual terms met.

However, the exporter should research the buyer's financial institution to ensure it is credible and can follow through on its promises. After all, an importer's bank may interpret the outcome of a transaction in favor of its customer in times of dispute.

For exporters, letters of credit make it easier to do business due to their:

- Flexibility since their terms and conditions can accommodate all parties' needs.
- Universal use in almost every country in the world, including developing countries.
- Rapid access to funds as soon as documents are presented at a bank counter.
- Extended credit terms of payment to buyers within 30 to 180 days, without damaging the payment's security.

However, they have fallen out of favor with some companies for these reasons:

- They require more than one bank to issue, advise, confirm or negotiate the credit, so commissions and fees add up; yet these costs also ensure higher security.
- The bureaucratic process places the responsibility on exporters to ensure that the documents presented to multiple banks satisfy all requirements.
- Banks will only issue the credit if an exporter complies with all terms and conditions. Therefore, beware of situations with hard-to-attain credit terms and conditions.
- Since banks are only bound by the conditions stated in the letter, they will not factor in the actual delivery of the goods or other aspects of the transaction.

Typically, the transaction unfolds like this:

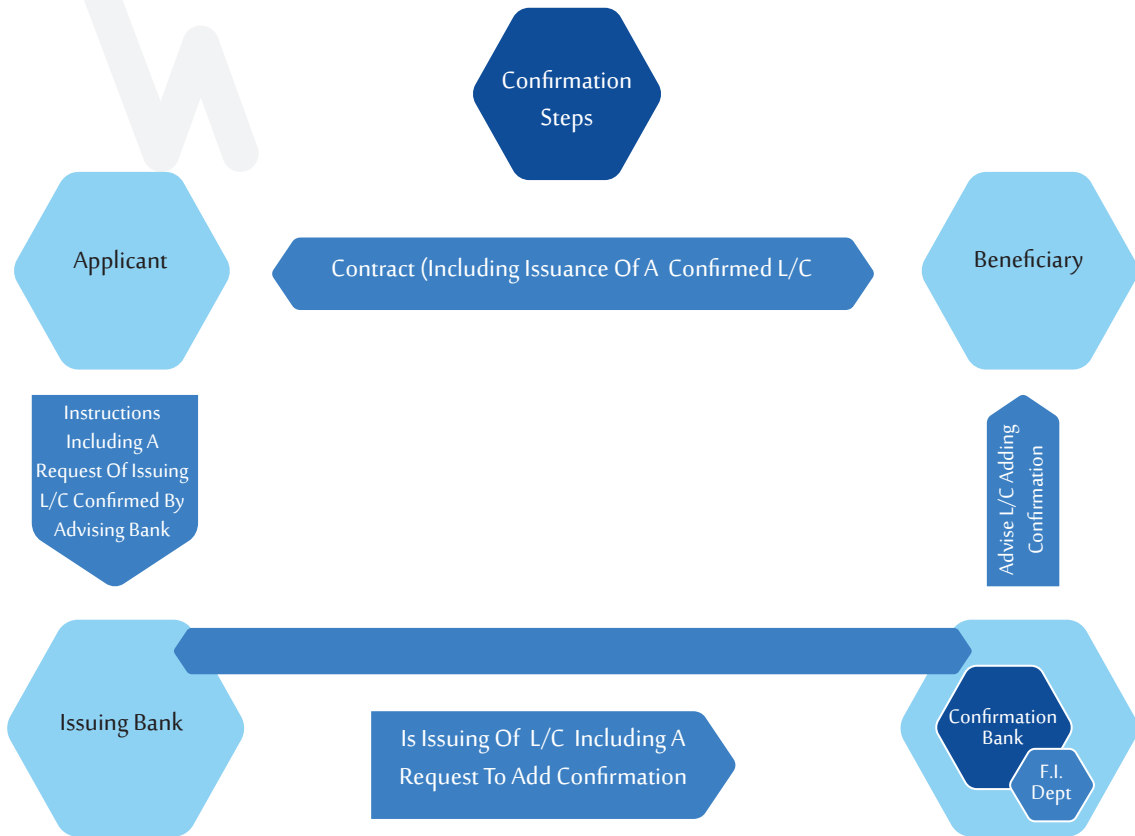
1. An exporter and their buyer agree on contractual terms.
2. The buyer applies for a letter of credit from an issuing bank.
3. The bank assesses the buyer's creditworthiness, approves their application, then forwards the letter of credit to the exporter's bank.
4. The exporter's bank confirms that the letter of credit is properly written. (The exporter's bank can be referred to as the "Advising" bank).
5. Once the letter of credit is confirmed, the exporter ships the goods.
6. The exporter submits the shipping documents (such as invoices, bill of lading, export declarations, shipping receipts and other certificates) to the exporter's bank.
7. The exporter's bank checks the documents for compliance with the terms and conditions of the letter of credit, then forwards documents to the buyer's bank to begin processing payment.
8. The buyer pays their bank, which releases the documents so the buyer can claim their goods.
9. The money gets transferred from the buyer's bank to the exporter's bank.
10. The exporter's bank transfers the money to the exporter.

- In the past Credits may be issued either revocable or irrevocable. According to the UCP 600 ALL credits issued are irrevocable L/Cs. Some Credits were issued revocable in the past giving the ability of cancellation to the issuer regardless the acceptance or non-acceptance of the beneficiary or his bank these kinds of credits includes very high risk to the beneficiary as well as his bank. By using this kind of credits the issuing bank may cancel the credit without a prior acceptance of the beneficiary whom may have taken the necessary arrangement of producing the goods required which may be produced specially for this importer (special order with special specifications) and these goods may not fit or valid for other importers or buyers.

- So these kinds of revocable credits are not issued today in commercial transactions according to the UCP 600.

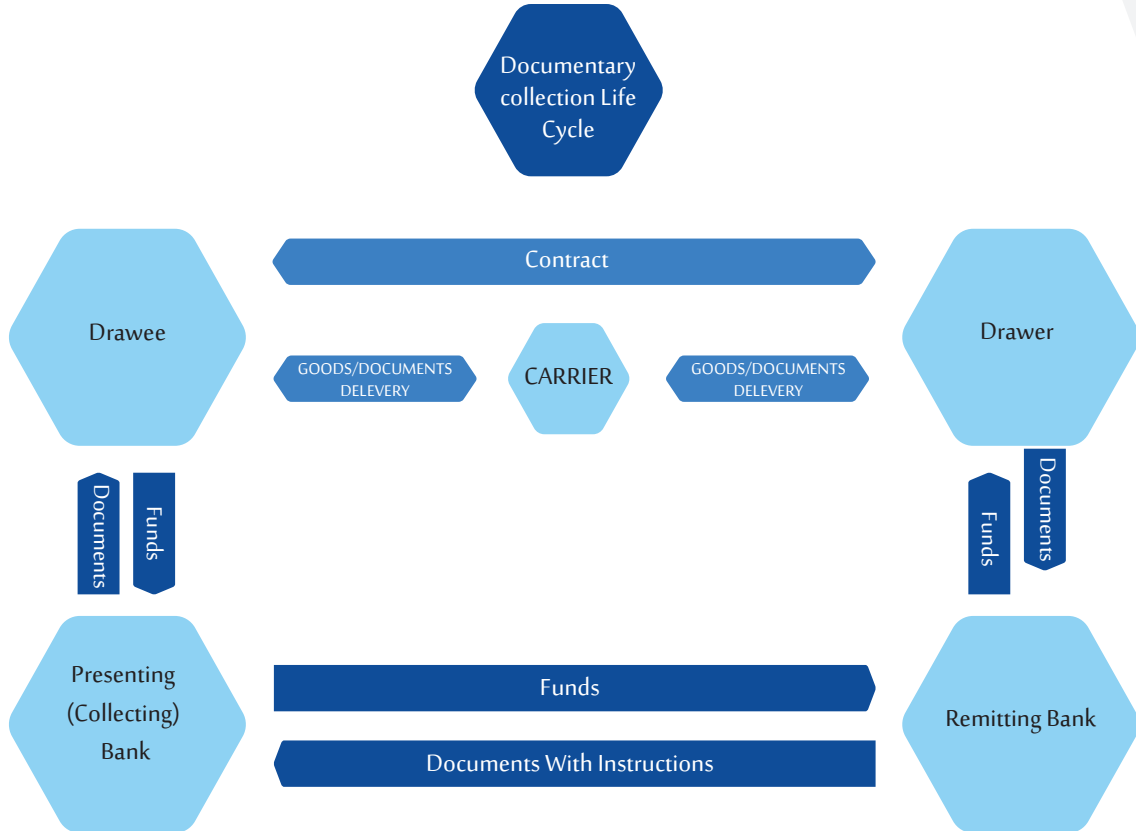
- Consequently irrevocable credits binding a definite undertaking on the issuing bank and once it issued cannot be cancelled without prior permission of the beneficiary (Exporter) or his bank as the case may be. So irrevocable credit gives a reasonable security to the beneficiary the once it issued he will get its value if he present the required documents complied with the credit terms and conditions.

- Confirmed/unconfirmed: Confirmed when a second bank, usually aligned with the exporter, adds its obligation (confirmation, guarantee or assurance of payment) to that of the buyer's bank if there is uncertainty about the credit standing of that bank or if the buyer operates in a country facing political unrest, economic instability or currency devaluation that puts payment at risk. Unconfirmed when advised to the exporter only by their bank without adding its confirmation.



- **Straight/negotiable:** Straight when the buyer's bank honors its drafts to the exporter, and no other party. Negotiable when the buyer's bank must pay the exporter or their bank.
- **Restricted/unrestricted:** Restricted when only the exporter's bank can purchase a bill of exchange; unrestricted when the purchasing bank is not specified. Either way, the exporter can present the bill of exchange to any bank and receive payment.
- **Term/Sight:** Term involves a payment undertaking at a future time (typically within 30 to 180 days of one of the 10 steps), as agreed between the buyer and exporter; sight provides for payment after presentation of the documents and verification that they conform to the terms of the letter of credit.
- **Back-to-back credits:** Consisting of two separate credits in a transaction, with middlemen using one credit as security to issue another in the same transaction.

Documentary collection



Under the terms of a documentary collection (D/C), the exporter may entrust the payment collection to a bank with specific payment instructions. This offers more protection to the exporter than open accounts since payment goes through the banking system, just like letters of credit. Yet, it provides less security to the exporter compared to letters of credit.

In the case of the D/Cs, the banks play a more limited role. First, they do not guarantee payment to the exporter, leaving them at the risk of the buyer's default. This is why D/Cs are recommended only in established trade relationships and in stable export markets. Second, the bank only collects documents on behalf of the exporter, without having to verify them.

These credits offer flexibility to respect the different needs of the parties involved in a transaction. To meet the cash-flow needs of each, trading partners can choose the type of documentary collections to use:

- Documents against payment (D/P), authorizing the collecting bank to release documents to the buyer only against immediate payment.
- Documents against acceptance (D/A), authorizing the collecting bank to release documents to the buyer only when they accept a term bill of exchange payable at a specific date.
- Clean collections, a direct exchange between the buyer and exporter without the leverage of documents, followed up by a request to the bank to collect payment from the buyer or accept a bill of exchange.

Avalization

The term 'avalization' means the buyer's bank undertakes to pay documents amount at maturity date regardless of the buyer's intention or financial position. Avalization is usually requested in deferred payment.

The buyer's bank will add its guarantee and record a liability against the buyer that will remain in place until the bill matures and is paid.

Letters of Credit (also known as Documentary Credits)

While D/Cs are easier to process and cheaper than letters of credit, the relative risk is higher for the exporter. Thanks to the bank, the exporter still has the guarantee that the buyer will not get custody of physical goods unless they endorse the draft. If the buyer does not accept the shipment, the exporter has no guarantee of payment. In this case, they may have to seek out another buyer on short notice, sell them at a discount or spend more money to ship them back home.

This table summarizes the intricacies of each payment option:

Risk for exporter	When advised	Pros	Cons
Cash in advance:			
Low	High-risk export markets	Secure payment before shipment	Buyers may prefer other terms
Letter of credit:			
Equal to buyer's if contract followed	If buyer's bank has solid credit rating	Transactions secured by a third party up to 180 days, flexible terms; quick access to funds at bank counter;	Complex, expensive and time-intensive paperwork; onus to comply with all clauses; interactions with two banks;
Documentary collection:			
Higher than letter of credit	Stable markets and with established partners	Payment backed by a bank; simple process that is quick and costs less than a letter of credit	Bank role is limited; payment not guaranteed
Open account:			
High if buyer defaults on payment	Low-risk transaction or a competitive market to win new business	Builds trade relationships; boosts ability to compete in the global market	High risk of non-payment; extra costs to mitigate risks

Bills of exchange

While some transactions still occur by cash, cheque or e-transfer, this payment instrument creates an unconditional order in writing to pay on demand or on a certain date. It makes exporters feel more secure knowing that payment will be made since their bill of exchange is drawn on a reputable bank rather than directly on their buyer.

If the bill of exchange is due at a future date, it can be discounted with a finance house where it would be traded for immediate cash. It also facilitates documentary credit and documentary collection processes.

Usually, an exporter or their bank issues a bill of exchange and registers it as a legal tender, thus ordering the buyer or their bank to pay a certain sum of money on a certain date. Once the buyer accepts it, the bill of exchange represents proof of the debt on top of any contract or documentary credit.

Bills of exchange can be used with:

- Acceptance letters of credit when the seller presents the relevant documents to the negotiating bank, along with a bill of exchange for acceptance.
- Documentary collections (documents against acceptance) when the collecting bank releases the documents to the buyer against acceptance of the term bill of exchange.

As with the other payment instruments, there are various types of bills of exchange

- Term – The buyer signs “acceptance” on the face of the bill, thus committing to pay the exporter the amount owed in a certain currency by the date on the bill. The bill is either held by the exporter’s bank or returned to the exporter. On maturity, the buyer receives the bill and is expected to pay it.
- Guarantee - Buyers may request their bank to act as the guarantor. This typically occurs if an exporter has doubts about the buyer’s ability to honor the debt or if the buyer is a new client without an established track record. In these situations, sellers may ask for a bank to back the bill of exchange on behalf of the buyer.
- Negotiable - Since term bills of exchange are negotiable, they can be transferred to another party or discounted for immediate payment from a bank or any other party.

The impact of digital technology

In recent years, markets need accelerated the digitalization of cross-border and business-to-business (B2B) e-commerce to maintain supply chains in the face of adversity.

Over time, digital developments continue to change the ways companies conduct their trade transactions. More and more, banks and new fintech firms evolve processes to align with a Know Your Customer (KYC) procedure that draws on banks of personal and professional data.

Digitalization provides significant ability to improve operational efficiency as well as assess quality of credit risk within seconds rather than weeks. By centralizing KYC databases, banks can detect compliance issues at cost-effective rates even if a client deals with multiple finance providers. Gone are the days when every lender had to conduct a due-diligence process on each client, driving up time commitments and transaction costs.

For years, enterprises have relied on proven communications methods, such as SWIFT. This secure bank-to-bank messaging system transmits bank instruments, such as payments and letters of credit, between financial institutions. Now, SWIFT’s KYC Registry connects thousands of banks to accelerate the exchange of data and documents. Recently, the platform started managing corporate transactions via its multiple bank relationships. Platforms like this help banks address compliance issues so they feel more confident in supporting exporters.

Further, e-documentation increasingly makes the digitalization of trade processes easier and faster. Naturally, businesses benefit when trade documents and cross-border processes are more streamlined and automated. Previously, preparing, processing and verifying paper-based documents across the trade-finance chain ate up a great deal of time and human capital.

Despite these efforts, many companies have yet to adopt digital documentation even though online platforms more easily connect them with suppliers, buyers and finance providers. These days, more online platforms and portals are developed and driven by financial institutions in cooperation with technology companies. This leads to greater efficiencies by introducing electronic issuances, exchange and documentation of letters of credit.

The digitalization trend also includes internal systems so trade finance applicants no longer need to prepare and manually sign paper application forms. As such, this technology drastically cuts back on the cost and inefficiency of verifying and checking for compliance of external documents since they can be attached to the message.

Even better, application programming interfaces (APIs) gather data from different sources into one place. In the banking sector, this opens up a direct exchange between banks and their clients' interfaces. As a result, banks provide clients with a variety of solutions beyond their in-house versions only.

Improvements of digital operational procedures will result in cost saving and improved the accuracy of credit risk assessments of trade finance applicants by using big data analytics enabled by artificial intelligence tools.

By retrieving data about and from the client, machine learning can improve the due-diligence process thanks to an automated interpretation of all data. This evolution could benefit smaller enterprises since banks may be more willing to consider their applications without having to put in as much research time for smaller loan values.

Additionally, distributed ledger technologies, such as blockchain, can eliminate bottlenecks with letters of credits. Primarily, they build trust between parties by:

- Certifying document origin and accuracy.
- Enabling digital trade finance transactions.
- Digitally identifying stakeholders while addressing KYC compliance.
- Applying 'smart contracts' to automate payment processes.
- Securing efficient transactions with an exchangeable virtual currency.
- Improving the track record of trade transactions thus making the company more attractive for future financing.

To embrace this type of technology, businesses need to invest in technical skills and internal processes upfront; This investment would pay off as more nations are ramping up support measures to lessen this digital gap so it's worth checking to see what resources are available.

Summary

Exporters have a number of different payment arrangement options available to them. In every scenario, a creditworthy buyer eases the exporter's task of obtaining trade finance so it's worth vetting them ahead of time.

Since international trade comes with more risk, establishing good systems beforehand will pay off with more financial stability.

Essentially, there have been three main options for cross-border payments:

- Cash in advance.
- Open account.
- Bank-facilitated payments (Letters of credit and Documentary collection).

Each comes with its own procedures, timelines, pros and cons. However, the digitization of banking and other processes has created new opportunities for businesses to improve their interactions with trade partners and financiers. Cash in advance is the least risky option, while open account terms without security poses the most risk. In circumstances where the exporter must work on cash-in-advance terms, they may find it challenging to get security, such as export credit insurance for that transaction.

Letters of credits appeal more to exporters but require more work and diligence, rewarding them with more security. Documentary collections ease the payment process for both parties but due to the limited bank role, payment is not guaranteed.

Case Study

Comex is an import company, they usually import water pumps from Italy, they decided to reduce costs to enable to offer lower prices as many competitors are exiting in the market and they compete aggressively in prices and method of payments. Comex owners asked the accounting department to provide them with details of the import operation items cost.

After revising all items, they instructed the concerned departments in the company to do the followings for the future shipments :

- Not to issue an insurance policy for each shipment.
- Requesting the supplier to change the terms of payment to be Open Account method instead of Letters of Credit.
- Requesting the supplier to change the shipping delivery to be Free on Board (FOB) delivery term. (Delivery occurs in the port of shipment when goods are loaded on board the buyer`s nominated carrier (vessel) and all costs/risks beyond that point are for the buyer).
- Contracting with another transport company with lower prices.
- Asking their clients to pay an advance payment before shipment against a special discount on the merchandise.

Exercise:

- Describe the advantages and disadvantages for Comex (the Importer) of each of the above decisions .
- Describe the advantages and disadvantages for the Exporter of each of the above actions .

The Questions:

Multiple Choice Questions (15)

1. Which of the following is the safest payment method for an exporter?

- a) Open account
- b) Cash in advance
- c) Documentary collection
- d) Letter of credit

Answer: b) Cash in advance

2. What is the biggest risk of using an open account payment method?

- a) High banking fees
- b) The buyer might default on payment
- c) Currency fluctuations
- d) Delays in product shipment

Answer: b) The buyer might default on payment

3. Which of the following is NOT a payment method in international trade?

- a) Bank-facilitated payments
- b) Open account
- c) Barter trade
- d) Cash in advance

Answer: c) Barter trade

4. The risk ladder concept suggests that:

- a) The seller prefers the most secure payment method while the buyer prefers the least secure.
- b) Payment security remains equal for both parties.
- c) The buyer always chooses the payment method.
- d) All payment methods provide the same level of security.

Answer: a) The seller prefers the most secure payment method while the buyer prefers the least secure.

5. Which factor does NOT influence the trade agreement between an exporter and a buyer?

- a) Bargaining power
- b) Value of the transaction
- c) The weather in the exporting country
- d) Trade practices in that industry

Answer: c) The weather in the exporting country

6. A confirmed letter of credit means:

- a) It is only valid if the buyer confirms it.
- b) A second bank guarantees the payment in case the issuing bank fails.
- c) The exporter can cancel it anytime.
- d) It has no effect on the transaction.

Answer: b) A second bank guarantees the payment in case the issuing bank fails.

7. Which of the following is a key advantage of a documentary collection over a letter of credit?

- a) Payment is guaranteed by a bank.
- b) It involves fewer banking fees.
- c) It is more secure for the exporter.
- d) It eliminates all payment risks.

Answer: b) It involves fewer banking fees.

8. A standby letter of credit serves as:

- a) A guarantee in case the buyer fails to pay.
- b) A direct method of payment.
- c) A replacement for cash in advance.
- d) A faster way to complete trade transactions.

Answer: a) A guarantee in case the buyer fails to pay.

9. Which of these methods is the most beneficial for a buyer (Importer) ?

- a) Cash in advance
- b) Letter of credit
- c) Open account
- d) Documentary collection

Answer: c) Open account

10. An advance payment guarantee ensures that:

- a) The exporter will return pre-paid funds if they fail to deliver.
- b) The buyer will always pay in full.
- c) The bank will cover all losses.

Answer: a) The exporter will return pre-paid funds if they fail to deliver.

11. What role does a bank play in a documentary collection transaction?

- a) It guarantees payment.
- b) It facilitates the collection of payment.
- c) It provides financing.
- d) It purchases the goods.

Answer: b) It facilitates the collection of payment.

12. Which method is commonly used when there is an established relationship and trust between buyer and seller?

- a) Open account
- b) Letter of credit
- c) Cash in advance
- d) Documentary collection

Answer: a) Open account

13. What is the main drawback of using a letter of credit?

- a) It is too risky for the exporter.
- b) It has complex paperwork and high fees.
- c) It does not involve banks.
- d) It provides no payment security.

Answer: b) It has complex paperwork and high fees.

14. Avalization is used to:

- a) Ensure the buyer's bank guarantees payment.
- b) Speed up product delivery.
- c) Reduce currency exchange risks.
- d) Replace documentary collections.

Answer: a) Ensure the buyer's bank guarantees payment.

15. A bill of exchange is used to:

- a) Provide an unconditional order to pay on a future date.
- b) Guarantee shipment of goods.
- c) Act as a form of credit insurance.
- d) Set currency exchange rates.

Answer: a) Provide an unconditional order to pay on a future date.

True & False Questions (10)

1. Open account transactions are the most secure for exporters.

Answer : False

2. Cash in advance can improve an exporter's working capital.

Answer : True

3. A revocable letter of credit can be canceled without the exporter's consent.

Answer : True

4. Documentary collection guarantees payment for the exporter.

Answer : False

5. Political and economic instability can influence the choice of payment method.

Answer: True

6. A Confirmed letter of credit gives an extra guarantee for the importer

Answer: False

7. An advance payment guarantee protects the buyer's prepayment.

Answer : True

8. A bill of exchange is always payable immediately.

Answer : False

9. A letter of credit can be used as a guarantee in case the buyer defaults.

Answer: True

10. Advance payment & Open account do not require any level of trust between parties

Answer: False



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 5

TRADE AND EXPORT FINANCE SOLUTIONS

Chapter 5 - Trade and Export Finance Solutions

Before we go too far into details, let's review the difference between trade finance and export finance. While they both facilitate cross-border transactions, they do it in different ways. Trade finance delivers financial support to help companies during specific transactions and periods of time. In this realm, the funding focuses on the value of goods, not their invoices. They are safeguarded by letters of credit, bills of exchange and bank guarantees. The ultimate goal is to mitigate the risks inherent to international trade to ensure delivery of goods and full payment for those items.

Meanwhile, export finance provides advance or guaranteed payment via finance so exporters can sell goods and services overseas. In short, it mitigates against risks, such as default or delayed payment, via bonds or letters of credit. Some instruments address both concerns, so we are going to look at solutions for businesses of any size and situation. To try to make it simple to follow, this chapter divides content into three categories: pre-shipment finance and supply chain finance.

Pre-shipment finance provides support as companies invest in the working capital, production costs and wages to prepare the goods for export. Conversely, post-shipment finance ensures adequate cash flow until the buyer receives the products and pays the exporter.

This table lays out the main options to give an overview:

Financial instrument	Definition/Mechanism	Risk for the financial institution
Pre-shipment finance		
Export-backed finance	Loan is backed by a pledge assigning receivables from export contract in favor of lender	Exporter may fail to deliver on promises
Warehouse receipt / inventory financing	Inventory is the collateral for the loan; proof is warehouse receipt	Quality of inventory must be safeguarded
Pre-payment financing	Importer borrows to advance payment to exporter; usually applicable when goods are ready to be assembled or shipped; importer transfers the title of the purchased goods to the bank as collateral	Buyer may not pay
Post-shipment finance		
Factoring	Sale of export receivables at a discount (usually from few suppliers/ exporters, many buyers)	Non-payment of receivables by buyer
Reverse factoring	Sale of receivables at a discount (from many suppliers, few buyers)	Non-payment of receivables by buyer
Supply chain finance	Combination of different financing schemes applied at different points of supply chain	Technology-intensive

Pre-shipment finance

Many companies rely on financing before they ship goods, particularly in their early exporting stages, to pay for production and other costs. Naturally, ramping up manufacturing and packaging adds to the financial pressure with the reward yet to come. To relieve this pressure, this section will first cover structured trade finance solutions, then some other options.

Export receivables-backed financing

In this case, the exporter takes out loans or advance payment facilities based on anticipated repayment arising from the sale of the exported goods. The process begins once a buyer places a purchase order.

For example, the lender creates a loan contract for a portion of the production and shipping costs (usually up to 60% of the export sales value), using the ordered goods as collateral. Once the exporter ships the products, the buyer receives them, then pays the lender directly for the sales value of the goods. Finally, the bank remits the proceeds of the sale to the exporter, after deducting the principal and interest payment for the initial loan.

The risk in this type of arrangement occurs if the exporter cannot supply the goods as detailed in the export contract. To hedge against this liability, banks perform due diligence to verify the potential of the exporter to follow through on their promises, based on past records of domestic delivery or personal guarantees backed by assets.

Warehouse receipt (also known as inventory financing)

For this type of transaction, stored goods serve as collateral for a loan. The exporter agrees to keep the goods in a secured warehouse under the control of an independent third party in exchange for a warehouse receipt. This receipt certifies the deposit of goods in meticulous detail in terms of quality and quantity. The warehouse operator ensures the goods remain in good condition based on an agreement with the bank.

Unlike export-backed financing, the lender already has control of the produced goods as collateral rather than relying on the exporter's promise that proceeds of the sale will be used to pay them later.

This form of financing may not be available in some countries, as it requires high standards of physical infrastructure and a legal system that recognizes and enforces the value of the receipts. For it to work well, enterprises need to ensure that the quality of the goods in storage is protected from weather, theft or other crimes. Further, they need expertise from professionals who can assess the value of the goods to satisfy bank requirements.

Pre-payment financing

In this type of deal, the buyer teams up with a bank by agreeing to pay the exporter in advance, thanks to a loan raised from a bank for that specific transaction. In turn, they obtain the title to the goods, which are usually about to be assembled or already stored in a warehouse.

The buyer then transfers its rights to the bank that provided the loan, along with the payment once the exporter fulfills its contract. This arrangement empowers the bank to share the risks with the buyer while reducing the risk of non-payment.

For example, the Saudi EXIM Bank's Pre-Export Finance product provides financing for the purchase of input costs within the production cycle. This includes raw materials, packaging, logistics, services for purchase orders from international buyers. These short-term facilities qualify for extensions or renewals based on the exporter's creditworthiness. The financing covers suppliers' invoices on delivery of purchase orders. The bank will pay the supplier directly or through a Letter of Credit but will only finance up to 90% with the exporter paying the remainder to the bank. The buyer then pays the EXIM Bank and the remaining amount is transferred to the exporter, minus associated fees.

For exporters, this increases their export capacity and makes them more competitive on the global market thanks to extended payment terms. It also improves their negotiation power with suppliers when it lowers the repayment terms on invoices and shortens repayment times. As a result, it improves suppliers' cash-flow position and operational efficiency.

Bank Lines or Facilities

Financing facilities from banks and financial institutions can fund the development of export business for operating costs, the production of goods or services or specific transactions.

To protect themselves and their clientele's cash, bankers may demand full and liquid security and/or require higher fees and interest. Much of this depends on the nature of the opportunity and a company's relationship with its bankers. For businesses, this type of borrowing may bring a level of comfort since it feels like a traditional loan. However, it comes with stringent security requirements and borrowing costs.

Export working capital financing

Another option is export working capital financing (EWCF). It provides funds to exporters to purchase goods and services needed to support export sales. Companies can tap into these funds to buy raw materials, supplies and equipment to fulfill export sales orders via transaction-specific short-term loans and revolving lines of credit. However, this type of financing requires strong guarantees, assets or high-value receivables to proceed.

Trade credit, promissory notes and bills of exchange

In most cases, companies send out invoices for goods and services with the expectation that payment will arrive at the end of the month or within 60 to 90 days. The period between delivery of goods and the actual receipt of the money by the seller is considered credit. Trade credit, however, is a facility based on a pre-agreed arrangement between buyers and sellers. After all, money costs money when it is tied up in raw materials or unpaid bills.

Simple to set up, trade credit is based on commercial practices and trust between parties without pledging assets as collateral or drafting contracts. In international trade, the option to delay payment can make a product or service more attractive than another – often making or breaking a deal. By offering interest-free extensions, exclusive deals or a discount on the invoice value for early payment, a business can outsell the competition.

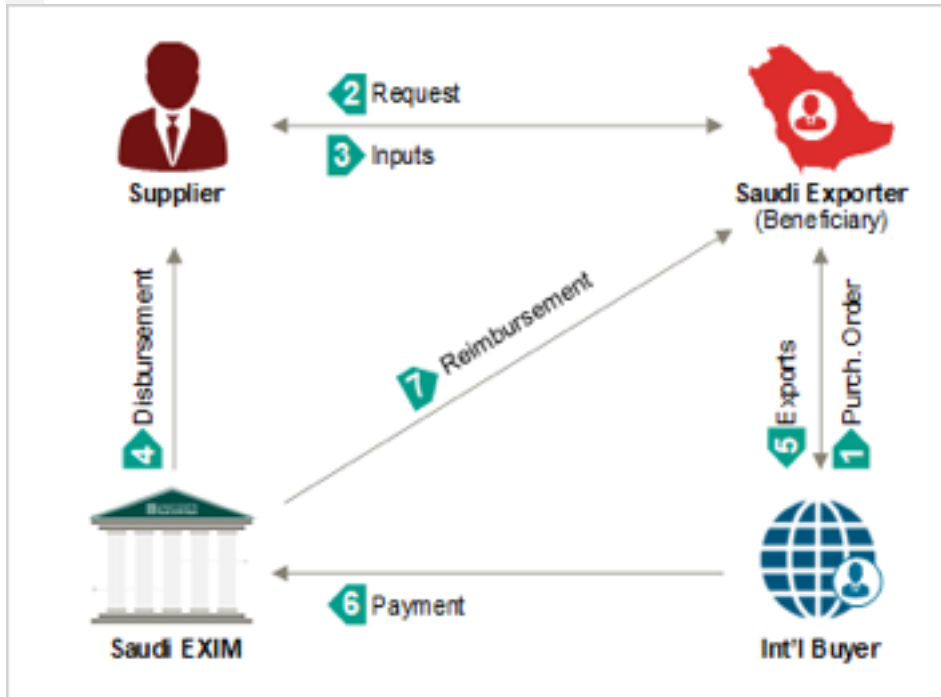
Instead of paying by check or bank transfer, the buyer and seller can agree to a promissory note. In this contract, one party makes an unconditional commitment in writing to pay a sum of money to the other at a specific time under specific terms.

Early in a trade relationship, an exporter may wish to use a bill of exchange instead. This suits a situation where a company is dealing with a new buyer who cannot confirm a solid credit record. A bill of exchange is an unconditional written order between two parties. It requires one of them to pay a sum of money on demand or at a certain date to the other person. For further confidence, it can be guaranteed by the buyer's bank in the form of an aval (a third-party guarantee).

Options with the Saudi EXIM Bank:

The Saudi EXIM Bank offers a number of products to assist with pre-shipment finance. Each one is tailored for specific situations:

- The Pre-Export Financing product provides financing for the purchase of input costs within the production cycle of the exporter (such as raw materials or packaging) from suppliers to meet purchase orders from international buyers. These transactions are structured as short-term facilities. This product targets companies that exhibit the capacity to export and seek financing to increase their foreign markets share.



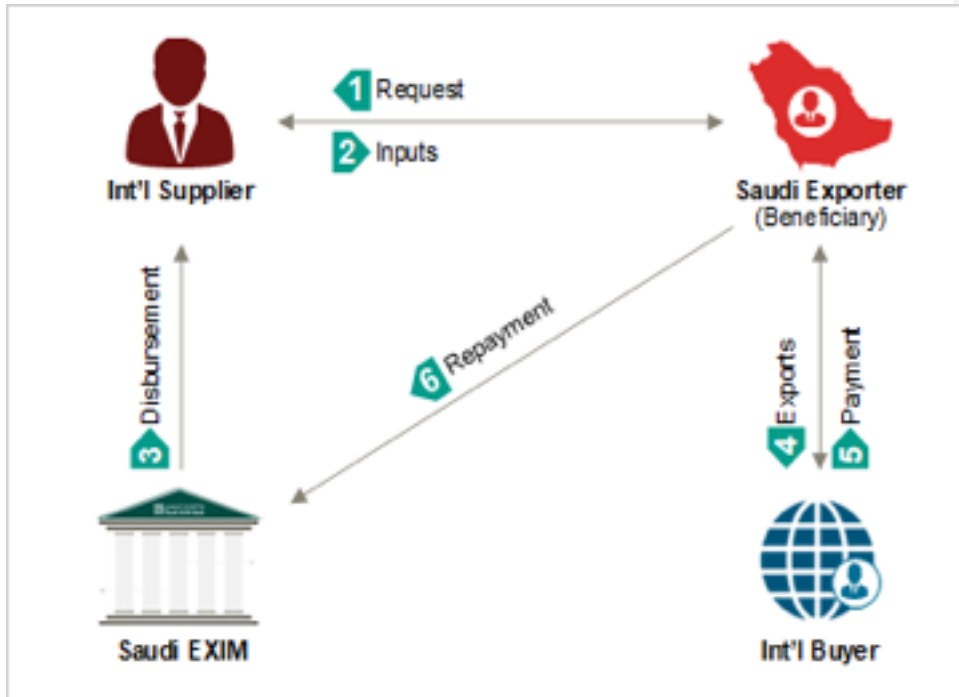
Phases:

1. After signing a purchase order with an international buyer, the exporter shall supply production inputs for use in manufacturing and executing export orders.
2. The EXIM Bank shall directly disburse to suppliers after submitting purchase orders and supplier invoices.
3. The exporter shall assign the export proceeds in favor of Saudi EXIM Bank.
4. The international buyer shall pay the value of exports to Saudi Exim Bank which in turn shall disburse to the exporter after deducting the value of the financing according to the agreement.

Product Advantages

- Increasing the production capacity of Saudi exporters.
- Improving the cash flow management of exporters and their suppliers.
- The financing protects the exporters from the fluctuations in raw material prices in the future through one – time purchase.
- Increase the to attract a new importer to the Saudi market.
- provides financing that enables exporters to purchase production inputs required for .
- The eligibility: All companies in Saudi Arabia
- The Import Finance product finances the purchase of raw materials and intermediate inputs in bulk from international suppliers directly used in the production of Saudi exports. These transactions are short-term facilities lasting up to two years.

Disbursements are made towards invoices from international suppliers for the processing of Saudi Exports. The EXIM Bank will pay the supplier the invoice value, as a direct payment or through a letter of credit, but only up to 90% with the remainder to be paid by the exporter to the EXIM Bank.



Phases:

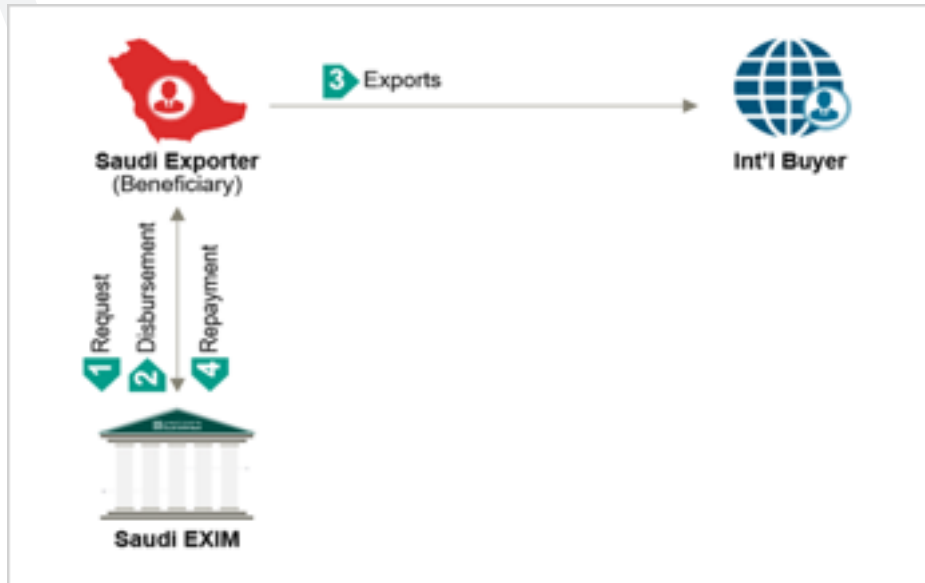
1. The Saudi exporter identifies the need to import raw materials and places an order with an international supplier.
2. The international supplier ships and invoices the exporter for the cost of inputs.
3. The exporter submits documentation certifying delivery of purchased items.
4. Saudi EXIM Bank disburses to the supplier once all the documents are found compliant with the applicable terms.
5. The exporter shall pay the amount of financing to Saudi EXIM Bank according to the agreement.

Product Advantages

- Increasing the production capacity of Saudi exporters.
- Improve terms with suppliers.
- Increase competitiveness of Saudi exporters.
- enable local exporters to acquire international raw materials and help accelerate the production process.

The eligibility: All companies in Saudi Arabia.

- The Working Capital Financing product provides Short-term facilities to boost everyday operations and export-related working capital needs, including purchasing production inputs, producing goods/services, paying overhead costs, etc. In return, beneficiaries can increase their export capacity and competitiveness on the global market.



Phases:

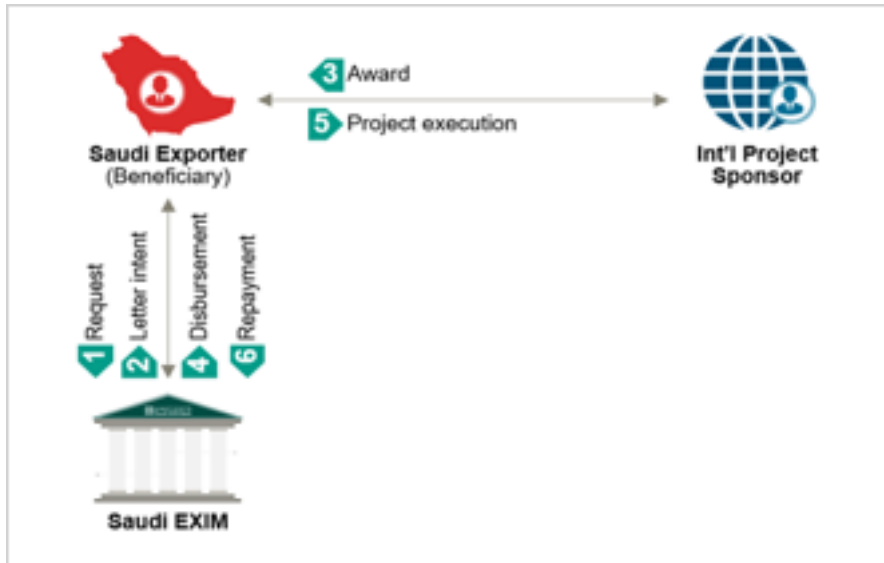
1. A Saudi exporter identifies a short-term working capital need and requests funds from the Saudi EXIM.
2. The Saudi EXIM disburses funds directly to the exporter or the supplier.
3. The exporter uses the funds to generate exports to international buyers then repays the EXIM as per the facility terms.

Product Advantages

- Meeting the short-term general financial needs of exporters.
- Improving working capital management and increasing competitiveness.
- provides liquidity that fulfills short-term export-related needs, thereby boosting export growth.
- Hedging the price fluctuations in raw material .

The eligibility: All companies in Saudi Arabia .

- Structured Finance for International Projects product covers costs associated with supply, turnkey, construction and technical or consultancy contracts affiliated with an international project. These transactions are Medium to long-term loans to the Sau
- di exporter to implement international export-generating projects or projects that buy from the Kingdom of Saudi Arabia (such as engineering, procurement, and construction contracts). Financing limit for coverage up to 80% of the contract value (to be determined after study).

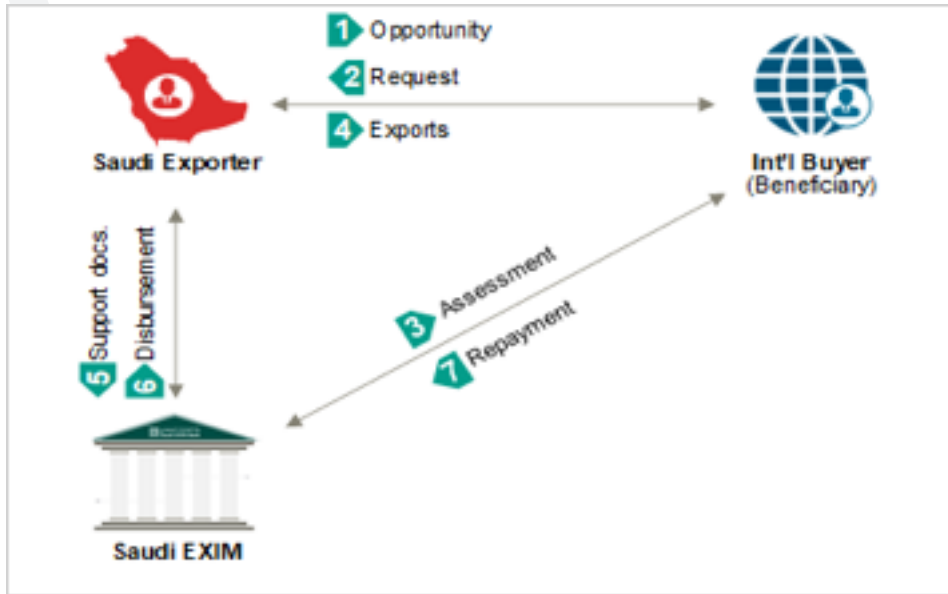


Phases:

1. The exporter shall provide the Saudi EXIM Bank with the project documents, the financing request, and/or a Letter of Intent.
2. The project shall be evaluated by Saudi EXIM Bank and then a Letter of Intent be submitted.
3. After awarding the project to the Saudi exporter, the bank shall disburse to the exporter.
4. The exporter shall implement the project and pay Saudi EXIM Bank according to the agreed financing terms.

Product Advantages

- Improving competitiveness in international markets.
- Expanding the customer base in new and existing markets.
- International Buyer's Credit Product: Financing provided by Saudi EXIM Bank to international buyers to import Saudi goods and services or to supply products and services for international projects that contain Saudi exports. These facilities are offered as short, medium and long-term facilities for buyers in countries to which export is allowed. Financing can be up to 90% of the transaction value (to be determined after study).



Phases:

1. Saudi exporter and international buyer shall identify an opportunity that includes Saudi exports (purchases or projects).
2. After signing the agreement with an international buyer (importer), the buyer shall submit a financing request.
3. Saudi EXIM Bank will study the financing request and the creditworthiness of the international buyer.
4. After the application is approved, the local exporter shall export the final product to the international buyer and submit the shipping documents to Saudi EXIM Bank to get paid for what has been exported.
5. Saudi EXIM Bank will collect the amount from the importer according to the signed agreement.

Product Advantages

- Improving the competitiveness of Saudi exporters by providing credit facilities to their international customers.
- Improving the cash flow management of exporters and importers.
- Reducing the risk of non-payment.
- Expanding the customer base for exporters in new and existing markets.

Post-shipment finance

One of the most critical phases a new exporter will face is sending the first container then awaiting payment from a new customer. Once they get into a routine and have cash flows from international customers, they will build momentum for international business. Thankfully, there are options to overcome cash-flow challenges through financing.

Factoring

To bridge the funding gap, companies can sell export receivables from a few of their suppliers at a discount to a range of buyers. Once the goods have shipped, the exporter can ease cash inflow in a variety of ways.

For instance, the exporter can use an account receivable document as collateral for a bank loan. They can also negotiate a letter of credit that stipulates payment once the goods depart and its bank has received the shipping documents. The exporter gets paid once they confirm that they fully complied with the terms of the letter of credit, even while the goods are still in transit to the buyer.

When the exporter requires short-term funding, they can also use factoring. With this method, an exporter requests that a bank, or a factoring firm, purchase a foreign receivable from an exporter at a fixed rate of discount, in exchange for immediate payment. This is usually an expensive proposition for an exporter, due to the relatively high discount charges.

Factoring transfers the risk of non-payment from the exporter to the “factor” who buys the asset. Since this is an asset sale, not a loan, the company doesn’t take on any debt and no additional liabilities appear on its balance sheet. Factoring transactions tend to be volume sale transactions or recurring arrangements.

Generally, the factor purchases several accounts receivables from a limited number of sellers and collects credit information on a large number of buyers. Since the factors’ risk rest with the buyers, not with the sellers of the accounts receivables, they do extensive due diligence on their creditworthiness.

Banks tend to be selective about any foreign buyer offering discounted receivables in favor of an exporter. To protect themselves from non-payment, they may seek recourse from the exporter in the contract. Often, through a symbiotic business relationship, the factor manages many aspects of an exporter’s business, from invoicing and accounting to debt collection.

Reverse factoring

An alternative, known as reverse factoring, pools or purchases receivables exclusively from a handful of high-quality customers, but owing to many sellers (typically, their suppliers). Reverse factoring lessens the factor’s credit risk and the effort expended on collecting and updating credit information.

In factoring without recourse, the seller of the receivable has no liability if the buyer fails to pay the factor, unless this eventuality is covered in a clause of the contract. Since this condition is more favorable to the exporter, they pay a higher cost for this arrangement.

Discounting receivables

Trade receivables can represent up to 40% of a supplier’s balance sheet, so late payments can take a large toll on companies’ cash flow. To ease the pressure, many forms of commercial and financial documentation sell their invoices, promissory notes, or bills of exchange at a discount to a discount house or a bank. This provides much-needed cash to maintain a business operation, so it can extend credit to its buyers and maintain that relationship.

Typically, the bank or discount house pays the company an amount less than the face value of the instrument, then collects the full amount when the buyer settles the account. It keeps the difference as compensation for providing the cash earlier.

The discount rate varies from one bank to another, based on the invoice amount, buyer’s credit rating, the credit period and other factors. This type of financing works best for customers with a record of paying their bills.

Until it gets paid, the discounter owns the receivable, promissory note or bill of exchange. If they take on full responsibility for collection, the receivable is considered “discounted without recourse.” However, if the company accepts the risk of the buyer defaulting on payment, the receivable is “discounted with recourse.” This option costs less, as it provides additional security if the buyer fails to pay.

This flexible approach unfolds quickly and simply since it does not involve security or special legal documents. However, the discount could go as high as 20 to 30% of the invoice value, particularly with recourse.

Forfeiting (also spelled Forfaiting)

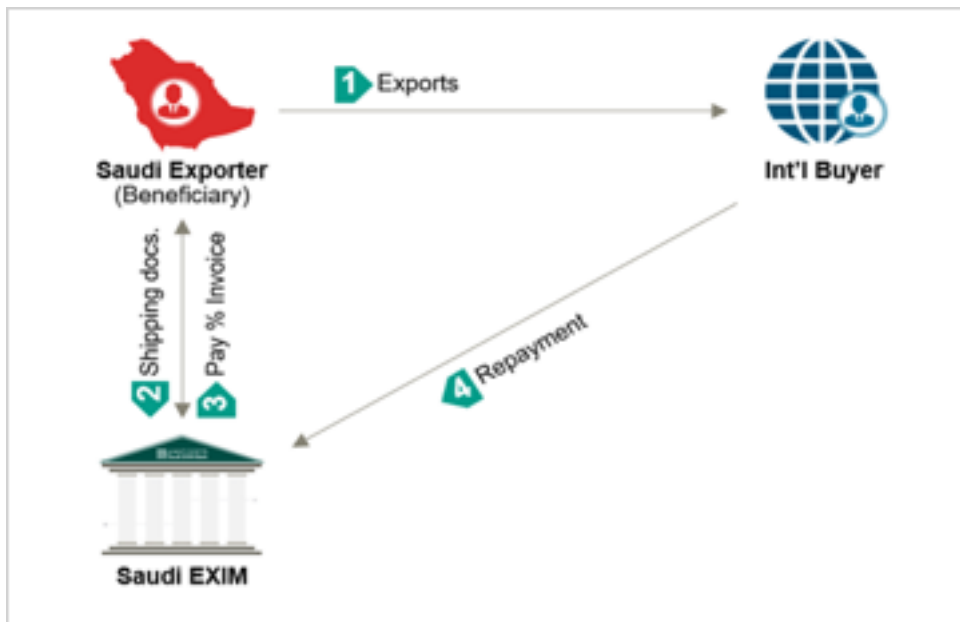
This type of export financing began in Europe and arises from the French expression “à forfait,” meaning to “give up the right.” In this situation, the exporter sells the rights to trade receivables to a forfeiter for instant cash. It is based on fixed-rate financing, with interest charges deducted in advance when discounting a receivable or note. Promissory notes must be provided for each instance of payment over the life of the borrowing period.

Once the exporter gets paid, the bill of exchange becomes a negotiable asset that can be sold to a secondary market based on its face value. A typical forfeiting transaction could involve a number of bills of exchange with different maturity dates reaching as far as three to five years in the future. This also gives exporters the flexibility to provide their buyers with longer credit terms.

Given that the interest is deducted up front and quoted on a discount-rate basis, forfeiting is usually more expensive to the exporter than straight discounting.

Options with the Saudi EXIM Bank:

- The Saudi EXIM Bank's Discounting provides Saudi exporters with financing against their accounts receivable from international buyers, granting them access to liquidity to shore up their working capital. This product is structured as short-term revolving facilities and covers up to 90% of the receivables value. It targets businesses with a track record of export transactions seeking to increase their liquidity and overall exposure to foreign markets.



Phases:

1. The exporter fulfills export orders to international buyers on credit then submits shipping documents to Saudi EXIM.
2. Liquidity against accounts receivable (at a discount) will be disbursed to the exporter upon submission of the purchase order and shipping documents to cover the cash flow gap between the period of the export transactions until the due date of the arising receivable.
3. The value of the invoices is then repaid to Saudi EXIM as per agreed credit terms.

Product Advantages

- Improving the efficiency of working capital management for exporters.
- Giving exporters the opportunity to set flexible payment terms for their customers.
- Increasing the competitiveness of exporters.
- To accelerate the exporter's collection of their export proceeds before their maturity date.
- Accelerate the exporter's collection
- provide the cash liquidity necessary to cover the cash flow gap that exporters may experience between the export period and the collection date.

Supply chain finance

Supply chain finance (SCF) represents significant innovation in international trade. Its technology-based financing option takes into account the unique dynamics of cross-border trade and its complex relationships, differing levels of creditworthiness and market contexts within the international supply chain.

The cost of financing relates directly to the risk of a transaction after taking a holistic view of the various partners, markets and other factors. Thanks to this assessment, businesses in higher-risk markets or positions can get better terms when working with those in more stable locales and/or with better balance sheets. In short, the cost of financing is lowered to reflect the adjusted risk profile of the most reliable and trusted party.

SCF solutions assess both the exporter's receivables and the buyer's payables. Some advanced platforms link to a bank's portfolio of product offerings, transaction and advisory services, and commercial loans, transcending traditional financial boundaries with:

- Faster payment of receivables through on-line discounting of eligible invoices.
- Early cash conversion of inventory, through inventory receipt financing or just-in-time delivery to the purchaser.
- Longer payment terms for payables by financing prepayments and on-line discounting of certain payables.

Overall, these solutions make the supply chain more efficient through cash management, foreign exchanges and on-line platforms that help exporters and their clients. The technology tracks all documents related to a transaction, key dates of clearing customs and proof of delivery.

Typically, supply chain programs begin when a bank attracts a large anchor client it can leverage to bring its suppliers into an SCF program. The financial institution may selectively finance only certain partners or take an "all-or-nothing" approach. For a business to break into an SCF program, they can join a large retailer as a supplier.

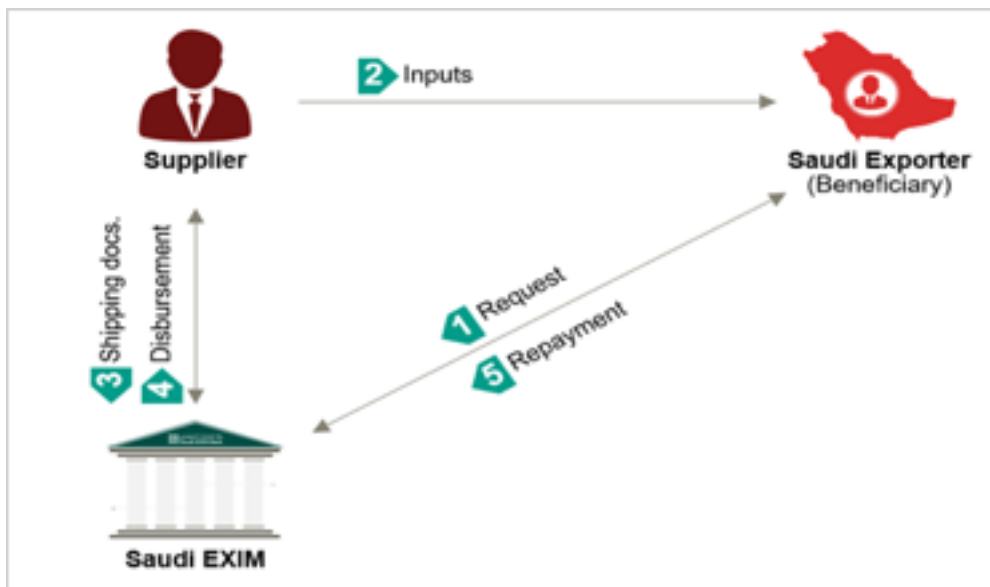
To track success, financial institutions' SCF models measure metrics like days sales outstanding and days payment outstanding and earnings per share. Most advanced SCF programs align with large international banks since they have the technology infrastructure and a strategic commitment to trade and supply chain finance. Certain international financial institutions and development banks may support SCF programs in emerging or developing markets.

For exporters, it decreases overall production costs thanks to better leverage with suppliers to provide immediate payment after delivering goods. They can buy raw materials and pay bills arising from manufacturing and shipping processes. Ultimately, this increases export capacity and competitiveness.

Options with the Saudi EXIM Bank:

- The Saudi EXIM Banks's Supply Chain Finance (SCF) product provides revolving financing for suppliers and Saudi exporters through the purchase of transaction-specific invoices as a short-term facility. This product is ideally suited for creditworthy exporters with large or complex supply chains.

This product targets experienced Saudi exporters with well-established supply chains to assist in managing the payment of account payables to their complex supply chains and extending payment terms.



Phases:

1. The exporter shall provide a list of approved suppliers for production operations related to export.
2. After supply, suppliers shall submit shipping documents to the Saudi EXIM Bank.
3. Saudi EXIM will directly disburse to suppliers.
4. Exporter will pay Saudi EXIM Bank the amount

Product Advantages

- Improving the terms of dealing with suppliers through direct payment by Saudi EXIM Bank.
- Improving the efficiency of production capacity operations and competitiveness to increase market share.
- The product offers export-dependent enterprises short-term revolving financing while handling complicated payments and extended payment terms for supply chain credit accounts
- Improving payment conditions between exporters and suppliers is critical.

Summary

Trade finance focuses on specific transactions to help exporters secure cross-border business by treating goods as collateral. Meanwhile, export finance mitigates risks by weighing the value of invoices and other financial instruments to sell or discount.

Pre-shipment finance addresses financial needs to produce goods for export and for shipping them to international markets. Businesses can turn to export receivables-backed financing, warehouse receipt, pre-payment financing, lines of credit, export working capital financing, trade credit, promissory notes or bills of credit for this phase.

Conversely, post-shipment finance deals with bridging the financial gap while awaiting payment, often via a longer invoicing cycle. By using factoring, reverse factoring, discounting receivables and forfeiting, companies can offer longer payment periods to customers. This can make them more competitive if other enterprises seek payment upon receipt of goods.

Finally, supply chain finance takes a holistic approach to buyers, sellers and lenders. Using technology to better assess risk and market conditions, it makes the process far more efficient, particularly through the use of online platforms. As a result, invoices get paid faster, inventory turns over quicker due to just-in-time delivery systems and payment terms become more flexible.

The Questions:

Multiple Choice Questions (15)

1- The EXIM Bank (Financial Products - Import Finance Product) , One of the main feature that the facility Term is :

- a) Short-term.
- b) Medium – Term.
- c) Long Term .
- d) Long and medium Term.

Answer: a) Short-term.

2- The EXIM Bank (Financial Products - Discounting Product) , One of the main feature that the facility Term is :

- a) Short-term.
- b) Medium – Term.
- c) Long Term .
- d) Long and medium Term.

Answer: a) Short-term.

3- The EXIM Bank (Financial Products - supply chain Product) , One of the main feature that the facility Term is :

- a) Short-term.
- b) Medium – Term.
- c) Long Term .
- d) Long and medium Term.

Answer: a) Short-term.

4- The EXIM Bank Financial Products supply chain Product , , One of the main feature That the Eligibility is :

- a) Companies registered in the Kingdom of Saudi Arabia
- b) Companies registered in the Gulf Area .
- c) Companies registered in the MENA Region.
- d) The entire world countries .

Answer: a) Companies registered in the Kingdom of Saudi Arabia

5- The EXIM Bank Financial Products supply chain Product , , One of the main feature the Financing Limit for Coverage is :

- a) Up to 100% of the value of the supply invoices .
- b) Up to 90% of the value of the supply invoices.
- c) Up to 80% of the value of the supply invoices.
- d) Up to 70% of the value of the supply invoices.

Answer: a) Up to 100% of the value of the supply invoices

6- The EXIM Bank Financial Products is Import Finance Product , One of the main feature the Financing Limit for Coverage is :

- a) Up to 100% of the value of the supply invoices .
- b) Up to 90% of the value of the supply invoices.
- c) Up to 80% of the value of the supply invoices.
- d) Up to 70% of the value of the supply invoices.

Answer: b) Up to 90% of the value of the supply invoices.

7- The EXIM Bank Financial Products is Working Capital Finance Product, One of the main feature the Financing Limit for Coverage is :

- a) Up to 100% of the export working capital needs but not to exceed 90% of the total working capital needs.
- b) Up to 90% of the export working capital needs but not to exceed 90% of the total working capital needs.
- c) Up to 80% of the export working capital needs but not to exceed 90% of the total working capital needs.
- d) Up to 70% of the export working capital needs but not to exceed 90% of the total working capital needs

Answer: a) Up to 100% of the export working capital needs but not to exceed 90% of the total working capital needs.

8- The EXIM Bank , Financial Products Structured Finance for International Projects Product , One of the main feature the facility Term is :

- a) Short-term.
- b) Medium – Term.
- c) Medium and long-term.
- d) All above .

Answer: c) Medium and long-term.

9- Pre-shipment finance provides support as companies invest in:

- a) the working capital.
- b) production costs .
- c) wages to prepare the goods for export.
- d) All above

Answer: d) All above

10- The Saudi EXIM Bank's Discounting provides Saudi exporters with financing against their accounts receivable from international buyers, granting them access to liquidity to shore up their working capital. This product is structured as short-term revolving facilities and covers up to (.....) of the receivables value.

- a) Up to : 90%
- b) Up to : 80%
- c) Up to : 70%
- d) Up to : 60%

Answer: a) Up to : 90%

11- International Buyer's Credit Product: Financing provided by Saudi EXIM Bank to international buyers to import Saudi goods and services or to supply products and services for international projects that contain Saudi exports. These facilities are offered as :

- a) Short term.
- b) medium term.
- c) long-term .
- d) All above

Answer: d) All above

12- Discounting receivables that the bank or discount house pays the company an amount (.....)than the face value of the instrument, then collects the full amount when the buyer settles the account.

- a) Less
- b) Equal
- c) More
- d) All above

Answer: a) Less

13- The Saudi – EXIM. Non-financial services (NFS) aim to provide a variety of programs and solutions dedicated to building the capacity of enterprises to enable the business community to export and import, (.....)goods and services to international markets .

- a) Saudi goods .
- b) Gulf area Goods .
- c) Middle East Goods.
- d) Asian Goods.

Answer: a) Saudi goods

14- (.....) option means that the exporter sells the rights to trade receivables to a forfeiter for instant cash. It is based on fixed-rate financing, with interest charges deducted in advance when discounting a receivable or note.

- a) Forfaiting
- b) Banking
- c) Trade finance.
- d) Leasing

Answer: a) Forfaiting

15- How does export finance primarily help exporters?

- a. By delaying payments to employees .
- b. By providing advance or guaranteed payment for goods exported .
- c. By increasing production insurance costs.
- d. By reducing the admin fees on loans.

Answer: b) By providing advance or guaranteed payment for goods exported.

True & False Questions (10)

1. Line of Credit (Domestic) Product The bank seeks to conduct partnerships and agreements with local financial institutions offering financing solutions that enable local exporters, therefore contributing to the growth of local imports in international markets.

Answer : False

2. Discounting receivables that the bank or discount house pays the company the full amount of the face value of the instrument, then collects the full amount when the buyer settles the account. It keeps the difference as compensation for providing the cash earlier.

Answer : False

3. The Saudi – EXIM. Non-financial services (NFS) aim to provide a variety of sectors where they allocate their financing to Infrastructure.

Answer : False

4. Factoring transfers the risk of non-payment from the exporter to the “factor” who buys the asset.

Answer : True

5. Post-shipment finance deals with bridging the financial gap while awaiting payment, often via a longer invoicing cycle. By using factoring, reverse factoring, discounting receivables and forfeiting, companies can offer longer payment periods to customers

Answer : True

6. the factor purchases several accounts receivables from a limited number of sellers and collects credit information on a large number of buyers. Since the factors’ risk rest with the buyers, not with the sellers of the accounts receivables .

Answer : True

7. Pre-shipment finance addresses financial needs to produce goods for export and for shipping them to international markets. .

Answer : True

8. Discounting receivables that the bank or discount house pays the company an amount less than the face value of the instrument, then collects the full amount when the buyer settles the account.

Answer : True

9. International Buyer’s Credit Product: Financing provided by Saudi EXIM Bank to international buyers to import Saudi goods and services or to supply products and services for international projects that contain Saudi exports. These facilities are offered as short, medium and long-term facilities.

Answer : True

10. Line of Credit (Domestic) Product The bank seeks to conduct partnerships and agreements with local financial institutions offering financing solutions that enable local exporters, therefore contributing to the growth of local exports in international markets.

Answer : True



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 6

EXPORT CREDIT INSURANCE SOLUTIONS

Chapter 6 Export Credit Insurance Solutions

In this chapter, export credit insurance helps exporters mitigate risks in international trade, covering both commercial and political risks. It provides protection in case of non-payment, boosts lenders' confidence, and allows companies to focus on growth while ensuring their transactions are secure. These key points will be discussed in detail throughout the chapter.

Even though most international trade transactions take place based on short-term credit, exporters still face risks beyond what they encounter when selling close to home. As a company begins its export activities, it should take measures to mitigate risks that may arise and can prevent shipment of goods, delivery of services or a loss of customer with a large order. Such a disruption could threaten future export deals and the company's future.

While financing solutions offer some reassurance to stave off potential problems, appropriate credit insurance adds a layer of protection. In the case of non-payment, simply submit a claim and receive payment under the terms of a policy. Further, once a company provides insurance, lenders feel more confident in extending credit.

Typically, export credit insurance (ECI) provides coverage against commercial and political risks. In some cases, the exporter can even give the bank or lender the right to claim any payout from an insurance policy directly what is called as the loss payee amendment to the main ECI policy. By coupling solid financing and suitable insurance, companies can focus more on creating great products and services, then generating sales while knowing they are protected.

Five main reasons motivate exporters to use export credit insurance:

1. Reduce the risk of non-payment.
2. Benefit from credit-management expertise.
3. Secure financing to improve liquidity.
4. Protect against political risks.
5. Become more competitive.

Private insurance companies and governmental export credit agencies offer ECI (also known as trade credit risk insurance) to protect accounts receivable from losses due to payment default, bankruptcy or other conditions beyond their control. This insurance product should not be confused with credit life or credit disability insurance. In those cases, an enterprise shields itself against the risk of loss of income needed to pay debts. Further, political risk insurance from the same insurers can hedge against non-payment by foreign buyers due to their government's actions or inactions. Export credit insurance plays a major role in facilitating domestic and international trade. However, it is particularly effective if an exporter has limited knowledge of the laws and customs of other nations or the reputation and communication style of a new customer. Since shipments and payments take longer, if a customer's debt is insured, an unpaid accounts receivable becomes more secure, like a physical asset. As a result, a lending institution can base a loan upon this asset, allowing the business to defray the expenses of the transaction. Moreover, it can divert those funds to more production of goods or generating more services.

ECI covers these scenarios:

- An international buyer goes bankrupt or cannot pay until after your contractual due date.
- A buyer cannot transfer a payment to the exporter due to issues in the buyer's country e.g. forex transfer restrictions.
- A political situation that delays a targeted delivery date.
- A war, unrests or other political events block usual operations.
- Expropriation of goods by a foreign government.

However, ECI does not cover these situations:

- A country deliberately devaluing its currency, impacting the amount of profit expected.
- A bond holder defaulting on settling their debts.
- Transactions with companies in sanctioned countries.
- Stocks and commodities with prices based on market fluctuations.
- Debts beyond the statute of limitation for debt collection.
- Bribes.
- Retailers seeking coverage for sales to the public, not businesses.
- Suppliers who do not offer open account terms.

Generally, any company selling business to business should do a cost-benefit analysis of risks – such as accounts receivable management, losses incurred, collection and insolvency management – before investing in ECI.

Benefits of export credit insurance

At the macroeconomic level, export credit insurance facilitates international trade flows and contributes to global economic growth. It also creates economic stability by sharing the risks of trade losses with the insurers, who are equipped to absorb them and cede out risks to international reinsurance market. At a smaller level, export credit insurance gives companies a competitive edge. Used properly, it can increase market share, penetrate markets more deeply and grow into new markets with fewer credit concerns.

Here's how each advantage plays out:

- **Assess customers on an ongoing basis:** Credit departments gauge and manage accounts receivable portfolio risk. By evaluating prospective buyers and monitoring current ones for warning signs of financial instability, ECI providers make risk management more efficient.
- **Pick best-paying customers:** With intelligence from insurance providers, companies extend credit limits to certain customers, solidifying an existing business relationship. On the other hand, exporters can wisely withhold credit from customers on more shaky ground. This avoids bad debts that complicates accounting practices and eat up valuable time trying to collect unpaid accounts.
- **Dive into new international markets:** Once insurance protects receivables against a range of risks, an enterprise can confidently enter emerging markets for new growth and sales. As ECI providers usually have a broader credit experience and a better access to credit info available on international buyers it is in the interest of the exporter to work in close coordination with the ECI provider to manage their international buyers.
- **Build a stronger borrowing base:** Lenders prefer when businesses insure their receivables, knowing their investment is protected from losses due to buyer default or insolvency. Consequently, they may offer more financing at more competitive rates, which can fuel further growth, thanks to better cash flows.
- **Lose debt, gain working capital:** With the safety net of ECI to protect a business from non-payment and loss of capital, a firm becomes free from maintaining higher bad debt reserves. Those funds can now maintain cash flow, secure earnings or extend competitive credit terms to buyers.
- **Create credit policy:** Solid guidelines for an enterprise's payment and credit terms ensure consistency and control. Export credit insurers provide data and advice to make this process easier, including setting parameters for credit on outstanding accounts and the procedures to manage delinquent accounts.

Here's a scenario that illustrates how even a trusted customer could lead to financial trouble and how insurance can help:

- An exporter supplies goods to a buyer on credit, expecting payment within 30 days.
- Unfortunately, the buyer gets into financial difficulty with bad debts and cash-flow problems.
- The buyer becomes insolvent and cannot pay the exporter.
- The exporter files a claim to its credit insurance policy for goods shipped before the coverage was withdrawn, following the policy terms and deductible.

As a result, the exporter can continue trading, sparing it from debilitating bad debts.

Exporters should not become complacent simply because they have purchased export credit insurance. ECI seldom transfers 100% of the risk to the ECI provider as exporter (policyholder) needs to keep a certain percentage (usually 10%) in the limits approved. Even with a suitable ECI policy, exporters should remain vigilant for bad-faith buyers. These individuals may delay payments, believing the exporter will instead collect via an insurance policy. Therefore, it is better not to tell buyers about insurance coverage on any transaction or contract.

Ultimately, ECI carriers may stop approving policies for exporters who routinely do business with risky importers.

Types of export credit insurance

Credit insurance providers offer various products to cater for requirements of businesses' needs. Often, companies can cover their entire portfolio under one comprehensive policy to minimize a wide range of risks across both domestic and export transactions.

Generally, ECI breaks down into these types:

- A whole-turnover policy (also known as a multi-buyer policy), a short-term, renewable solution for multiple buyers or banks, which has better rates.
- A single-buyer policy (also known as a single transaction policy) with a short, medium or long-term arrangement with one buyer or bank for a specific transaction.
- A Documentary Insurance Policy where the default risk of L/C issuing bank is covered for the benefit of the L/C confirming bank or the policyholder.

Multi-buyer policies typically cost less on the insured sales. Comparatively, single-client policies are priced higher based on the perception of greater risk. Often, ECI will favor relationships with established importers but could bundle riskier buyers' deals into a package to balance out the risks more evenly.

With a single-buyer policy, the insurer calculates a single premium as a percentage of the order value it plans to cover. Working on a case-by-case basis, it assesses the risk profile of the transaction, while considering issuing fees and application fees. Interest fees are omitted from this calculation.

In a whole-turnover policy, premiums are based on a percentage of the monthly turnover, determined by the risk profile of all the accounts combined and the exporter's claims record. These charges remain fixed during the entire policy period. Whole-turnover policies tend to cover a larger percentage of transactions. These policies may charge a payable contract fee, but rarely any handling fees.

Steps in the process:

1. Identify an international buyer and secure export credit insurance.
2. Offer credit terms to the foreign buyer.
3. Agree to terms with this buyer.
4. Ship goods and invoice the buyer.
5. Report shipments and pay premiums on the amount shipped.
6. Get paid by the buyer. If the buyer fails to do so, the insurer pays the exporter.

Even with export credit insurance, a policy may not cover the entire amount of a shipment. For instance, a company seeking SAR 1 million in coverage may only qualify for half that amount. This total often excludes annual and per-loss deductible payments. For example, Germany's Export Credit Agency excludes 5% for political risks and 15% for commercial risks, leaving 80% of transaction costs insured. Meanwhile, for a whole-turnover policy, the deduction for commercial risks is 10% (compared to 15% for single transactions), offering protection for 85% of the value of the exports.

Costs of export credit insurance

When setting up coverage, expect to pay separate fees to apply, issue and extend a policy. The cost of your premium for the policy is influenced by:

- The Organization for Economic Cooperation & Development (OECD) Country Risk Classification for the country where goods will land.
- The value of the order.
- Payment terms.
- Steps taken to protect the exporter's receivables.
- The buyer's status as public or private.
- The percentage level of coverage.
- The exporter's experience and track record of collecting payments.
- The claims reserving requirements, admin expenses, etc... of the ECI provider.

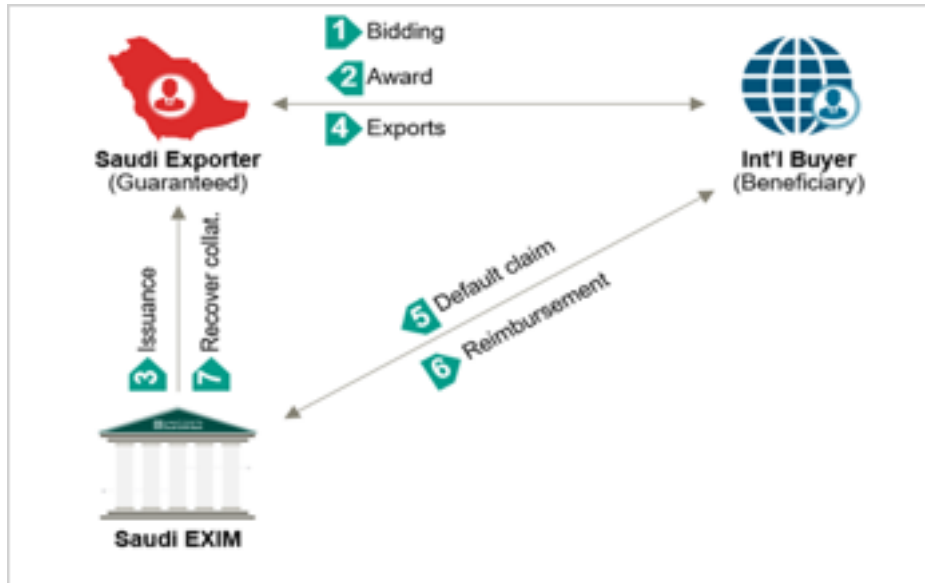
When applying for a credit insurance policy, a business must provide the following information to acquire the most appropriate product:

- The industry sector and the sectors into which its customers sell.
- Its insurable turnover: annual credit sales and the previous year's turnover.
- History of past losses, including details of any bad debts during the previous trading period(s) and any overdue accounts on the books.
- Set up of the credit department and relevant credit policies and processes.
- Credit controls, such as payment terms and steps taken to collect receivables.

Options with the Saudi EXIM Bank:

For Saudi exporters and their lenders, the Saudi EXIM bank offers a range of products to assist with coverage for international trade:

- **A Letter of Guarantee** reinforces Saudi exporters' ability to participate in export contracts, therefore directly supporting Saudi exports. Structured as a revolving facility or contract-specific, it guarantees the repayment of losses to an international buyer in instances of default on any obligations associated with the Saudi exporter under an export contract. This can cover the financial and regulatory requirements of the contract. This product targets Saudi-based companies with well-established financial performance and demonstrated experience and capabilities to effectively fulfill export contracts, particularly those affiliated with international projects. They support a variety of banking instruments: bid bond, advanced payment bond, performance guarantee, warranty bond and retention bond.

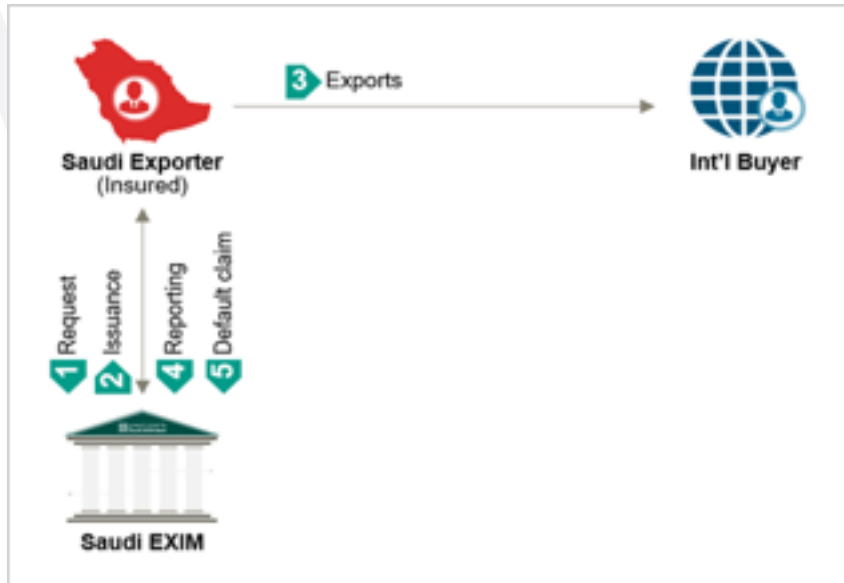


Phases:

1. The Saudi exporter bids on an international project.
2. The project sponsor provides a letter of award to the exporter.
3. The Saudi EXIM issues a letter of guarantee to the exporter for inputs affiliated with the project via a financial institution.
4. The exporter provides input or executes the project while paying quarterly premiums to the EXIM.
5. The project sponsor submits a default claim in the instance of non-performance by the exporter.
6. The Saudi EXIM reimburses the project sponsor for any losses then recovers the collateral affiliated with the letter of guarantee.

Product Advantages

- Enable the exporter to enter into tenders for international projects and implement them.
 - Expanding the customer base in new and existing markets.
 - A secure means of entering tenders and bids that ensures the exporter's fulfillment of contracts.
- **The Export Credit Insurance Policy** product insures the goods and/or services sold by an insured Saudi exporter to international buyer(s). This product covers the pre- and post-export periods for activities, such as the purchase of raw materials, production and provision of services. It provides the Saudi exporter with coverage against the risks of non-payment of the international buyer resulting from commercial or political risks. There are two types of policies:
1. Multi-Buyer Policy: An insurance policy for multiple buyers, renewable annually "Short-term".
 2. Single-Buyer Policy: An Insurance policy issued for single buyer or specific transaction "short-term-long-term".

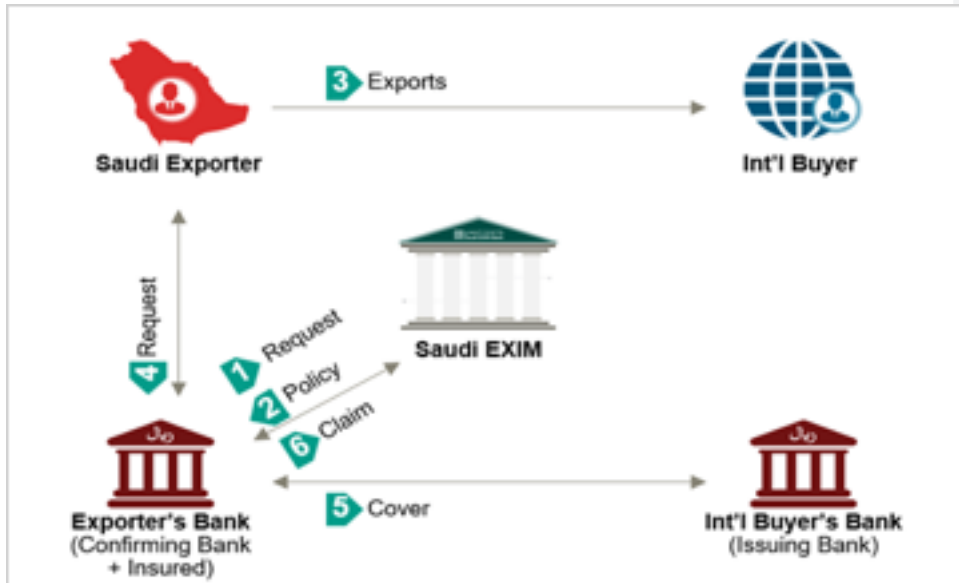


Phases:

- Multi-Buyer: The Saudi exporter will provide information on their company and a list of potential buyers (importers) that they aim to include in the policy. In addition to the expected volume of coverage needed. Saudi EXIM will review the request and submits an offer to the Saudi exporter that includes the approved coverage for each buyer.
- Single-Buyer: Same procedure as above, but information shall be provided for only one buyer (importer).

Product Advantages

- Improving the competitiveness of exporters in international markets.
 - Facilitating the export of small and medium enterprises by providing credit facilities to their customers abroad.
 - Improving the cash flow management of exporters and importers.
 - Reducing the risk of non-payment.
 - Expanding the customer base for exporters in new and existing markets.
 - Coverage Percentage is up to 90% of the transaction value.
- **The Letter of Credit Confirmation Policy** product insures a Saudi financial institution against non-payment by an international financial institution under a letter of credit issued on behalf of an international buyer as payment to a Saudi Exporter for its export sale of goods and/or services.



Phases:

1. The exporter's bank requests a confirmation policy from the Saudi EXIM to be the confirming bank for letters of credit involving Saudi exports.
2. The Saudi EXIM issues an insurance policy to the exporter's bank.
3. The exporter generates exports to an international buyer with the L/C as the payment method then requests the L/C be confirmed by their own bank.
4. The exporter's bank uses its policy to cover the confirmation of the exporter's L/C, assuming the international buyer's risk.
5. In the event of a non-payment, the exporter's bank issues a claim to the Saudi EXIM, who assesses and reimburses the default amount.

Product Advantages:

- Increasing the volume of acceptance of documentary credits.
- Increasing the volume of dealing with customers by enhancing documentary credits in many foreign markets.
- Exchanging credit and financial information.

Making a claim

Understandably, exporters must take all reasonable measures to prevent or mitigate losses that could cost the insurer. As such, due diligence needs occur during each phase of the transaction.

If an exporter is owed outstanding amounts by an international buyer, they should take these steps:

1. Promptly notify the insurer in writing of any circumstances that increase the risk for the transaction and any measures already taken to secure the payment.
2. Get the insurer's consent before shipping any further goods to the buyer.
3. Follow the export credit insurance providers procedures and collect the documentation needed in the event of a claim.

Export credit insurance compared to other options

As discussed in earlier chapters, letters of credit and factoring can also protect accounts receivable. This table compares these options before a further review of the more common options:

	Export credit insurance	Letter of Credit	Factoring without recourse
Risks covered	Insolvency, delayed payment default and political risks	Insolvency, delayed payment default and political risks	Insolvency and delayed payment default
Extra services	Credit information, risk assessment, market intelligence, debt collection	(None) Banks examining the documents to ensure complying with L/C terms and conditions.	Debt collection and credit information
Financing	None, but does support it by lessening risk	(None) The Exporter could ask the bank to discount the accepted bill of exchange, in addition Importer (in most cases) ask the issuing bank to finance a percentage of the letter of credit up to 90%.	Converts trade receivables into cash at a discount
Client relationship	Buyer never informed of credit insurance contract	Buyer acquires letter of credit	Collection of trade receivables by factor may undermine client relationship

Remember, confirmed letters of credit assure payment from the domestic bank in case a foreign buyer or bank defaults on a specific amount for a defined period of time. Unlike credit insurance, the buyer has to request a letter of credit from their bank, thus reducing the buyer's borrowing capacity against their overall credit limit. Further, a letter of credit will only cover a single transaction for a specified buyer. Comparatively, export credit insurance covers all of an exporter's shipments to all buyers. A letter of credit also costs more than an ECI policy in terms of cash and pressure on credit line use for additional security.

Meanwhile, factoring also requires more funding since the exporter pre-finances their receivables with the factor paying a percentage of the face value. This amount is based on an assessment of the credit risk and the underlying payment terms. Consequently, the factor will reclaim the money from the exporter if the buyer does not pay. Together, export credit insurance and factoring can complement and even, at times, substitute each other. In the case of full recourse factoring, it is in the best interests of both the exporter and their factor to buy this type of insurance. For non-recourse factoring, the factor alone may acquire insurance to protect themselves since they carry the full risk of buyer non-payment.

Businesses can turn to other options:

Export credit guarantees

These products provide security for financing transactions from banks and government export credit agencies based on a fee. Unlike insurance, guarantees safeguard export-financing banks from losses related to trade transactions. Without them, banks resist providing financing for risky transactions to new customers in new markets. These guarantees enable small and first-time exporters to obtain pre-shipment and post-shipment short-term credit.

Hedging

In the face of exchange rate volatility or currency risk, companies can use hedging. This technique offsets a currency position with another. In the end, whatever is lost or gained on the original currency exposure returns via a corresponding gain or loss on the currency hedge.

To calculate a hedge ratio, use this formula:

$\text{change in cash value of hedged asset} = \text{Hedge ratio}$

Likewise, an exporter can hedge by arranging exchange insurance (also known as forward contracts) with its bank. Under this arrangement, the bank agrees to exchange the foreign currency at an agreed rate when it is received later. Otherwise, the exporter can buy a futures contract from an organized exchange and lock in the expected future value of its foreign income.

Now, with this full understanding of the steps ahead, exporters can decide where to branch out and share their goods and expertise with the world with less risk.

Summary

Export credit insurance works hand in hand with financing by providing more reassurance to lenders about minimizing a series of risks. Having both layers of protection puts exporters in the best position to succeed.

Primarily, Export Credit Insurance (ECI) offers these benefits, among many others:

1. Reduce the risk of non-payment.
2. Benefit from credit-management expertise.
3. Secure financing to improve liquidity.
4. Protect against political risks.
5. Become more competitive.

By gaining better intelligence about clients, businesses also shield themselves from taking on bad debts and compromising their overall financial health.

Export credit insurance comes in two forms: (1) renewal, short-term, multi-buyer whole-turnover policies and (2) short or longer-term single-buyer policies. They each have attributes that can suit an exporter, although whole-turnover policies tend to cost less.

If ECI doesn't fit, exporters can still seek protection from letters of credit, factoring without recourse or hedging. They also benefit from export credit guarantees offered to banks so they have a greater appetite for seemingly high-risk transactions.

The Questions:

Multiple Choice Questions (15)

1. What is the main purpose of export credit insurance (ECI)?

- a) To guarantee shipment of goods
- b) To protect exporters from non-payment risks
- c) To provide financing to buyers
- d) To replace letters of credit

Answer: b) To protect exporters from non-payment risk.

2. Export credit insurance is most useful when?

- a) Dealing with buyers in well-established markets
- b) Working with new buyers in foreign markets
- c) The transaction value is very small
- d) The exporter prefers cash-in-advance payments

Answer: b) Working with new buyers in foreign markets

3. Who typically provides export credit insurance?

- a) Private insurance companies and government export credit agencies
- b) Only government agencies
- c) Importers' banks
- d) Buyers themselves

Answer: a) Private insurance companies and government export credit agencies

4. Which of the following is covered by export credit insurance?

- a) Bankruptcy of an international buyer
- b) Loss of cargo due to theft
- c) Currency devaluation
- d) Delayed shipment due to weather

Answer: a) Bankruptcy of an international buyer

5. What type of export credit insurance policy covers multiple buyers?

- a) Single-buyer policy
- b) Whole-turnover policy
- c) Letter of credit policy
- d) Documentary credit insurance

Answer: b) Whole-turnover policy

6. Which of the following risks is NOT covered by export credit insurance?

- a) Non-payment due to buyer insolvency
- b) Political instability in the buyer's country
- c) Changes in currency exchange rates
- d) Expropriation by a foreign government

Answer: c) Changes in currency exchange rates

7. What is a major benefit of using export credit insurance?

- a) It eliminates the need for buyers to pay upfront
- b) It allows exporters to secure financing more easily
- c) It replaces the need for international contracts
- d) It removes all business risks

Answer: b) It allows exporters to secure financing more easily

8. Political risk insurance protects against:

- a) Buyer bankruptcy
- b) Fraud by the seller
- c) Payment failure due to government actions
- d) Late delivery of goods

Answer: c) Payment failure due to government actions

9. Which of the following is NOT a reason to use export credit insurance?

- a) Reduce the risk of non-payment
- b) Benefit from credit-management expertise
- c) Increase banking fees
- d) Protect against political risks

Answer: c) Increase banking fees

10. How does export credit insurance impact financing?

- a) Lenders view insured receivables as more secure
- b) It reduces interest rates on bank loans
- c) It eliminates the need for trade finance
- d) It increases the cost of borrowing

Answer: a) Lenders view insured receivables as more secure

11. What is the typical coverage percentage for export credit insurance?

- a) 100%
- b) 50%
- c) Up to 90%
- d) 25%

Answer: c) Up to 90%

12. Which of the following is a step in making an export credit insurance claim?

- a) Immediately shipping more goods to the buyer
- b) Getting the insurer's consent before further shipments
- c) Cancelling the insurance policy
- d) Refunding the buyer automatically

Answer: b) Getting the insurer's consent before further shipments

13. What factor does NOT influence the cost of export credit insurance?

- a) The buyer's financial status
- b) The payment terms of the transaction
- c) The insurance provider's profit margin
- d) The exporter's past claims history

Answer: c) The insurance provider's profit margin

14. The loss payee amendment allows:

- a) The bank to claim insurance payments directly
- b) The exporter to avoid insurance fees
- c) The importer to transfer payment risk
- d) The insurer to withdraw coverage anytime

Answer: a) The bank to claim insurance payments directly

15. Why should exporters avoid informing buyers about insurance coverage?

- a) It violates trade agreements
- b) Buyers may delay payments assuming insurance will cover the exporter
- c) The insurer does not allow transparency
- d) It increases banking costs

Answer: b) Buyers may delay payments assuming insurance will cover the exporter

True & False Questions (10)

1. Export credit insurance can cover non-payment due to war or political unrest.

Answer: True

2. A single-buyer policy is usually cheaper than a whole-turnover policy.

Answer: False

3. Export credit insurance guarantees full payment for exporters.

Answer: False

4. Hedging is a technique used to offset currency risk.

Answer: True

5. The Saudi EXIM Bank offers export credit insurance solutions.

Answer: True

6. A letter of credit and export credit insurance serve the same purpose.

Answer: False

7. Factoring without recourse can complement export credit insurance.

Answer: True

8. Export credit insurance can help businesses expand into new markets.

Answer: True

9. The Export Credit Insurance product covers only the post-export periods for activities

Answer: False

10. The Letter of Credit Confirmation Policy product insures a Saudi financial institution against non-payment by an international financial institution under a letter of credit

Answer: True



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

CHAPTER 7

MANAGING FINANCIAL OBLIGATIONS

Chapter 7 - Managing Financial Obligations

A common theme throughout this guide has been building relationships with lenders and borrowers (usually exporters and occasionally buyers) so both benefit from working together. The best way to create trust begins with making payments to lenders as promised and in a timely manner. This relies on having good systems in place to protect cash flow and ensure viability. While many companies grow into successful corporations, many others struggle to achieve their business objectives. Even early successes can fade if a business grows too fast or takes on too much debt. Adding exporting to its operations can lead to a successful new chapter if managed well.

The difference between success or failure lies in the assessment and management of risk – arising from getting paid (affecting cash flow) or paying money owed to others (debts). As discussed already, these risks occur due to longer shipping and payment periods, currency fluctuations and uncontrollable international events, such as wars or port closures. However, how managers control certain risks depends on how they run a business. This includes:

- Avoiding labor disruptions.
- Keeping production moving smoothly.
- Handling finances well.

The final item is key when it comes to repaying debts so they don't become larger liabilities than intended. After all, borrowing can open up new opportunities and capacity for businesses to improve their liquidity so they can increase their exporting capacity.

Using a liquidity ratio quickly determines a company's ability to finance its short-term debts. A ratio of one (1) or greater reflects that a company can pay its short-term obligations. A ratio of less than one means it will fall short:

divided by total current liabilities = Liquidity ratio

In each case, banks and borrowers clearly lay out each party's obligations in a loan agreement. At the heart of this document, the business takes steps to draw down the loan while following a specific schedule and paying principal and interest. They keep the bank apprised of any changes in financial status by sharing accurate statements and the project that they financed.

However, sometimes conditions change between the signing of the papers and the end of the loan's term. This could be a change in ownership or the need to take on more debt to deal with an unforeseen circumstance. If a business undergoes a major shift, its lender(s) need to be kept informed. Ultimately, it could impact who will be making loan payments or if they can be made at all.

In this case, the contract must be amended to ensure all parties remain on the same page. Both sides have a stake in the completion of this contract and it should not be taken lightly. This is why lenders monitor a business's operation and the status of their collateral, whatever it may be. The sooner the bank learns of a difficulty or change, the sooner it can help find a solution to protect its investment – and that of the enterprise.

Ideally, businesses will stay on good terms with their lenders by creating a reputation as a customer who respects a loan agreement and makes payments on time. By doing so, this repute builds additional, unseen collateral that can lead to better terms on subsequent loans. However, getting into a position to meet those payment schedules takes good planning and practices. To avoid surprises, companies must monitor their cash flow so it remains steady and fueling sustainable growth.

Financial practices to ensure loan repayment

A solid financial strategy and subsequent budget planning helps small businesses thrive so they can navigate the complex financial landscape and competitive environments in international markets. This relies on realistic budgeting, forecasting, goal setting and judicious use of loan funds.

Enterprises can run into repayment problems – then default on their loans – for many reasons, such as underestimating cash payment obligations to suppliers, utilities, taxes, landlords or banks. Sometimes, they use business working capital for emergencies. For wise cash flow management, businesses must develop the discipline to manage cash outflow so it keeps pace with the rate of money coming in. This control applies to scheduling and making loan payments, but also to using loan funds for their intended purpose. For example, if the fund intended for a building expansion goes toward buying a fleet of trucks, the lender will notice the lack of new production space. Without the new revenue arising from more capacity, it will be challenging to repay the loan.

Remember, banks seek credit references each time one applies for a loan. If a business loses credibility with one bank by diverting funds, word will travel to other potential lenders. One loan default can taint a borrowing record for a period of time with credit bureaus. After a default, acquiring loans may cost more due to a higher interest rate, stricter terms and loss of collateral, putting more financial pressure on a business. Therefore, to meet repayment obligations, plan cash flows and inform the lender if any potential problems arise.

To calculate simple interest rates on loans, use this formula:

$$\text{Principal} \times \text{rate} \times \text{tenure} = \text{Interest}$$

However, when trading internationally, multiple interest rates coexist in a global economy, due to many factors. These include differences in the position and status of creditors and debtors. The International Monetary Fund (IMF) collects deposit and lending rates to track interest rates, terms and conditions offered by banks, to obtain data on interest rates that reflect actual market transactions. It then sets a “real interest rate” adjusted for inflation as measured by the Gross Domestic Product deflator. Real interest rates are calculated by adjusting nominal rates by an estimate of the inflation rate in the economy. A negative real interest rate reflects a loss in the purchasing power of the principal:

$$(1 + \text{inflation rate}) = \text{Real interest rate}$$

To stay on course, it helps to take a strategic approach to loans as part of a broader financial strategy. Treat borrowing as a means to achieve long-term financial health and growth by setting goals, like improving operations and becoming more competitive. Write out clear business and repayment plans that align with the company's cash flow and financial forecasts.

Finally, only take debt that the company can reasonably manage and use it to create more capacity. That way, the accounting team can make regular, on-time payments within the terms of the loan agreement. In turn, it pays off with a good credit score and history for future loans.

When making these plans, consider these factors:

- A compatible lender with an understanding of the industry.
- The cost of the loan with interest rate, application costs and early-debt repayment charges.
- Repayment terms that give options and flexibility required to match monthly cash flows.
- Reasonable collateral.
- Savings by bundling related products that hold value for the business.

To manage your cash flow better, these tips may help:

1. **Match buyers' payment terms to the cash-flow cycle** – Try to align payment terms offered to buyers with those of a business's suppliers. For example, if suppliers want to get paid within 30 days yet international buyers don't have to settle up for 90 days, cash flow will become strained. To improve it, adjust the terms accordingly so money comes in as it goes out.
2. **Offer discounts for early payments / higher rates for later ones** – Extend early payment discounts to buyers that equal any savings realized within an enterprise's operations. On the other hand, businesses can charge higher rates for longer payment periods. These options create strong incentives for buyers to pay their bills sooner, bringing in the money sooner. If they pursue the second option, their business ends up with extra cash when a payment arrives.
3. **Choose loan amortization periods wisely** – By choosing a longer amortization period on a loan, companies reduce the cost of each payment and gain more financial flexibility. However, they end up paying more over the life of the credit – unless they make extra payments when cash flow is stronger. This gives them the best of both worlds as long as they don't pay penalties for this option.
4. **Record cash-flow projections for the next year** – For companies with seasonal fluctuations, it helps to visualize the ups and downs and plan ahead. Spreadsheet or accounting software can track anticipated monthly cash inflows and outflows. In slower periods, businesses can restrict spending then buy big-ticket items when they have more revenue.

There are three types of tools that can be useful for managing cash flow: accounting software, cash flow planners and dashboards. Accounting software can prepare cash-flow projections, track expenses to avoid late fees, interest and unpaid bills. Combine this intelligence with cash-flow planning spreadsheets to ensure sufficient cash on hand and to avoid a cash flow crunch. Finally, dashboards show bank balances and key performance indicators to instantly show a business's cash position.

By mastering these elements, businesses can grow sustainably, survive economic challenges and seize opportunities that would otherwise pass them by.

Manage risks to mitigate default

Successful business leaders should know about risk and combine a range of talents to ride out challenging times. These include knowledge of the markets and financing, flexibility, perseverance and innovation. They can enhance this know-how by joining trade organizations or chambers of commerce to network with other business leaders and gather relevant market and industry information. However, back in the office, they need to realistically assess the potential missteps ahead by using continuous risk management analysis. This practice identifies those potential challenges, giving companies more time to plan how to handle or manage them.

Generally, business risks fall into two categories: external or internal. External risks arise in situations beyond the control or influence of anyone within a company. For example, a natural disaster can damage a supplier's plant or cut off communication with a key buyer. No one can stop an economic recession or a pandemic. The best a business can do is have insurance in place and be honest with lenders about any disruptions it faces.

A risk management analysis includes:

- A summary of the risk.
- Identifying what elements of it a company can control.
- Listing what event(s) could trigger it.
- Naming who or what will be affected.
- How likely will the risk occur, ranking scenarios from high to low.
- How much would it impact the business, ranking from high to low.

For each item:

- Determine how long it would take to recover in terms of production and cash flow.
- List what actions to make to prevent it.
- List what actions could mitigate it.
- Identify partners who could share the burden, such as lenders, insurers, suppliers, etc.

Conversely, internal risks – also known as operational risks – provide the company’s management with far more control. Even if they cannot prevent them, they can minimize their impact by:

- Developing good business strategies.
- Setting up systems, policies and procedures.
- Monitoring cash flow and liquidity via dashboards and other methods

When done well, these vital steps can put a business on better footing so it is better prepared to face challenging times. By anticipating and managing risks, companies can just reach for a plan its leaders made ahead of time and react with a cool head. If not put in place, they can jeopardize the ability to repay outstanding debts and hurt relationships with key partners.

For example, companies can identify and plan for these issues:

Risk	Cause	Remedy	Examples of tangible actions	Risk level to cash flow
Temporary business interruptions	Power failures, natural disasters, storms or fires	Business continuity plans; business interruption insurance	Purchase of generators; backup production facilities; storage of business records in the cloud	Less if plans are in place; more if interruption goes on longer than planned
Compliance violations	Failure to meet legal and regulatory standards	Evolve to meet current policies, standards and specifications;	Make changes to ensure entry into new markets;	High if products cannot be sold; leading to loan default
Personnel problems	Departure of key personnel; labor disruptions	Monitor productivity and staff turnover rates to identify trends	Exit interviews; attention to staff complaints; and succession planning	Medium; due to potential loss of productivity and extra costs of hiring and training
Security breaches	Cybersecurity breaches; theft; vandalism; break-ins	Security systems for premises and online operations; internal control measures	Monitoring of inventory, assets and system; reconciliation; backup plans for compromised files or equipment	Depends on the level of damage and impact of the loss on operations
Market volatility	Exposure to stocks, commodities and foreign exchanges	Training in managing exchange rate risk	Invest in insurance or other instruments to prepare for this possibility	Depends on the rate and duration of the fluctuation

- There are additional risks that an exporting company could face, such as difficulties in securing export documentation and anomalies like shipment delays. Each one can threaten the financial position of a business and its ability to pay back its creditors. Therefore, to keep up with an evolving world, it is vital to regularly review the risk management analysis and make relevant changes.
- However, if a business cannot adapt quickly enough, it may face the unfortunate situation of needing to default on its payments. When this happens, it may feel best to hold off notifying lenders until a solution appears. Instead, it is wiser to open up to a banker or venture capitalist about the challenge so they know that they may need to change their plans. While the loan still stands, you can work together to find a flexible way to work with the cash flow available.
- A bank prefers to get its funds back rather than going through the tedious and costly exercise of seizing assets or collateral or even pushing a company into receivership. After all, it affects that business's bottom line if it sells them off at a loss. They have a vested interest in keeping a business on its feet and producing goods to generate more revenue. Ideally, it will offer options to improve liquidity, even if it means establishing new terms for the loan.

Typically, lenders prefer these options:

- 1) **Rescheduling** – By extending the loan duration, businesses get a grace period before resuming their payments. In this case, the original loan agreement and its security arrangements stay the same. The bank must draw up a new document to modify or add provisions to the existing agreement as needed. In the end, the borrower pays extra fees, charges and legal expenses.

The Rescheduling advantage:

- will give the borrower a new chance to across the period of his business financially difficulty.
- The lender can take the opportunity to enhance the lender collateral
- The lender will maintain the loan Principal .
- High level of customer caring will build a future good relation .
- Enhance the level of the performing portfolio.
- Decreasing the level of bad debts loan Rescheduling.
- Avoiding an extra provision.
- The lender can apply the same approach with cluster finance which Promote the lender image in the market.

- 2) **Restructuring** – This is often a last resort before receivership and is more complex. This arrangement can include rescheduling or converting the outstanding unpaid principal into another type of facility or into equity in the borrowing company. Often, the changes impact more sections of the loan agreement, such as extending the payment schedule, increasing the principal, charging a new interest rate and/or seeking additional collateral.

Ultimately, it is in the best interest of the bank to reclaim its funds and for the business to settle its debts. Achieving these goals will allow the company to borrow again as needed and prove it deserves the chance to use financing to grow and develop new products and markets.

The Restructuring approach should considering that :

- The borrower has no room of cash currently to pay .
- The Lender had consumed all legal process to collect the money .
- The lender by this way is saving a big portion of bank provision to be deducted from the lender revenue
- The lender is reducing the bad debts portfolio.

Summary

The repayment of loans ensures a good credit rating for a business and ensures better relationships with lenders for future borrowing to fuel future growth and success. Having a good reputation can lead to more lending opportunities during the next chapter of the company's growth journey.

In many ways, borrowing can produce better cash flow by tapping into relevant pools of financing offered by banks. Businesses benefit from setting up systems to monitor cash flow, making them more prepared for shortfalls and seasonal changes.

While some external risks are beyond a company's control, other internal ones can be managed well by identifying and assessing risks then planning how to cope with them.

When roadblocks occur, keeping a lender informed helps them become part of a possible solution. As a result, they can amend the lending terms to provide cash flow relief.

Conclusion

Building an export business from an existing predominately domestic sales focused enterprise has so many potential rewards – for both the business, its staff, suppliers, customers and the country where it is based. It can boost sales and revenues to new heights while bringing more prosperity overall. However, the more wisely the business plan is built and executed, the higher the rate of success.

Many of the concepts covered in this guide may have been new at the outset. By this point, every reader should have a stronger understanding of the many options available to help develop a business with wider reach. By gauging their actual needs, enterprises can borrow only what they need to achieve specific goals. Knowing when to turn to traditional banks or when to look elsewhere also provides a clear path forward.

Either way, planning ahead in terms of financial practices and creating a strong credit history also help. The timing of a loan can make all the difference, alongside the evaluation and negotiation of financing. Once the funds flow, it's also vital to monitor payments and projects to stay aligned.

Thankfully, businesses have a wide array of payment methods to protect them as they do transactions farther from home. Each comes with its own risks and rewards in terms of timing and possibility of default. Therefore, the value of financing and credit insurance products really come into play. They work together to ensure streamline cash flow and trust between trading partners – creating stronger relationships that lead to more deals.

Behind it all, a business's relationship with its lenders ranks just as highly. Working together with transparency, both sides of the equation benefit from increased equity and the possibility of future loans to fuel more growth. Even as the digital economy and financial ecosystem evolve from traditional methods, that trust remains at the core.

Whether businesses use trade finance for specific transactions or export finance via invoices and other financial instruments, they adapt to work with the right product for them. Likewise, they may use pre-shipment financing to boost capacity or post-shipment choices to extend credit to international buyers. Finding the right fit and executing it well can create more confidence.

Of course, much of this relies on having the right credit insurance products in place as well. Again, businesses can set up plans per transactions or take a more multi-deal approach with a whole-turnover policy. By balancing costs with their needs, enterprises safeguard their futures while embracing new opportunities.

inally, this all relies on the timely repayment of any obligations. By managing cash flow and financial planning, any business can keep its promises to its creditors and avoid defaulting on their payments. It begins with initial planning and follows the export cycle listed at the start of this guide:

1. Setting up deals.
2. Shipping goods.
3. Getting paid.
4. Providing follow-up and after-sales service.

By now, these steps should be familiar, given the knowledge shared in these pages. Once a company has gone through them all, it becomes easier to build on the momentum. Realizing how to manage the risks thanks to various partners makes it even more achievable.

The Questions:

Multiple Choice Questions (15)

1. Enterprises can run into repayment problems – then default on their loans – for many reasons, such as:

- a) underestimating cash payment obligations to suppliers, utilities, taxes, landlords or banks.
- b) Sometimes, they use business working capital for emergencies.
- c) Mismatching between company assets and liabilities .
- d) All above .

Answer: d) All above

2. The best practices that business can manage better cash flow by:

- a) Match buyers' payment terms to the cash-flow cycle.
- b) Offer discounts for early payments / higher rates for later ones.
- c) Choose loan amortization periods wisely.
- d) All Above.

Answer: d) All above

3. Banks prefers to get its funds back one of the best options is rescheduling through give the client:

- a) A grace period to repayment.
- b) By extending the loan duration.
- c) Annual installment .
- d) All above .

Answer: d) All above

4. The company's management with far more control of operational risks \ Even if they cannot prevent them, they can minimize their impact by:

- a) Developing good business strategies.
- b) Setting up systems, policies and procedures.
- c) Monitoring cash flow and liquidity via dashboards and other methods.
- d) All above.

Answer: d) All above

5. The Restructuring approach should consider that:

- a) The Lender had consumed all legal process to force him paying.
- b) The lender by this way is saving a big portion of bank provision to be deducted from the lender revenue
- c) The lender is reducing the bad debts portfolio.
- d) All above

Answer: d) All above

6. The Rescheduling of bank debts advantage:

- a) will give the borrower a new chance to across the period of his business financially difficulty.
- b) The lender can take the opportunity to enhance the lender collateral
- c) The lender will maintain the loan original.
- d) All Above

Answer: d) All above

7. There are three types of tools that can be useful for managing cash flow:

- a) accounting software.
- b) cash flow planners and dashboards.
- c) Accounting software can prepare cash-flow projections.
- d) All above

Answer: d) All above

8. One of the best practices businesses can manage better cash follow by Match (.....)' payment terms to the cash-flow .

- a) Buyers
- b) Sellers
- c) Suppliers
- d) Labors

Answer: a) Buyers

9. Divided by total current liabilities = Liquidity ratio the best ratio is :

- a) Above 1.
- b) Less than 1.
- c) Equal 1.
- d) Less than 2.

Answer: a) Above 1.

10. If the Liquidity ratio equal or above one that means the company will (.....) to meet their obligation.

- a) Fall .
- b) Succeed.
- c) Need to rescheduling their obligations.
- d) Need to restructuring their obligations

Answer: b) Succeed

11. Banks prefers to get its funds back one of the best options is (.....) through give the client a grace period to re-payment.

- a) Rescheduling.
- b) Restructuring.
- c) Legal action .
- d) Bank Settlements .

Answer: a) Rescheduling

12. Which factors affect a business's cash flow directly ?

- a. Customer payment terms.
- b. Loan interest rates.
- c. Employee job satisfaction.
- d. Currency fluctuations.

Answer: A) Customer payment terms

13. What is the key function of managing financial obligations in a proper way ?

- a. Avoiding communication with staff .
- b. Delaying loan repayments
- c. Monitoring cash flow regularly
- d. Ignoring future marketing plan .

Answer: C) Monitoring cash flow regularly

14. This is often a last resort before receivership and is more complex. This arrangement can include rescheduling or converting the outstanding unpaid principal into another type of facility or into equity in the borrowing company.

- a) Rescheduling.
- b) Restructuring.
- c) Legal action .
- d) Bank Settlements.

Answer: b) Restructuring

15. Which of the following is a key external risk for a business?

- a. Changes in Management.
- b. A Client going bankrupt.
- c. A changing in the country litigation.
- d. Company Poor financial management.

Answer: B) A Client going bankrupt.

True & False Questions (10)

1. For banks that prefer to get their funds back, one of the best options is rescheduling through give the client a big discount of the principle of loan.

Answer: False

2. If the Liquidity ratio equal or above one that means the company will be able to meet their obligation in a smooth way

Answer: True

3. Banks prefer to get its funds back, one of the best options is legal action .

Answer: False

4. The Client going bankrupt is considered one of the main external risk for a business cash flow cycle .

Answer: A) True

5. The liquidity ratio supports the business, by assessing the short-term financial obligations.

Answer: True

6. The Return on investment ratio financial ratio helps the company to determine the ability to pay short-term debts.

Answer: False

7. The Poor cash flow management leads the company probability of default on the loan repayment .

Answer: True

8. Risk management is the process to identifying , measuring , evaluating risks and addressing tool and technique to mitigate risks arises .

Answer: True

9. The Monitoring of cash flow closely is one of the key parameter of managing a company financial obligations .

Answer: True

10. Employee satisfaction is the main factor that directly affects a business's cash flow.

Answer: False



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

GLOSSARY

Glossary

Accounts receivable - the money owed to a business by customers that the business expects to collect on a future date.

Advising bank - the bank through which a letter of credit is given to the beneficiary or exporter. This role includes authenticating the letter of credit's origin from the issuing bank.

Assets - anything owned, whether in possession or by right to take possession, by a person or a company, the value of which can be expressed in monetary terms. Fixed assets are purchases for continued and long-term use in earning profit in a business, such as land, buildings, machinery, etc. Current assets are continually turned over in the course of a business during normal business activity stock, cash and work in progress.

Balance sheet - an itemized statement that lists how much a business owns and owes at a given moment of time. The value of what a company owns must equal the total of its debts and net worth.

Business plan - a document determining the technical feasibility and financial viability of planned activities or business transactions.

Bad-debt reserves - funds set aside as reserve for bad debts.

Beneficiary - exporter benefiting from pre-shipment finance facility.

Bill of exchange - an unconditional order to pay, required under Documentary Credits, a specified sum on demand at a future date to offer additional legal protection for an underlying financial obligation.

Capital - resources that will yield benefits and create wealth over time.

Cash flow - the availability of cash coming or going from a firm during a given period of time.

Cash flow statement - a document that reflects the amount of cash that comes in and how much cash is needed within a period of time.

Central bank - a banking institution granted the exclusive privilege to implement the monetary policies and to manage the country's currency and money supply.

Collateral - an asset pledged as security for a credit, lease or other commitment or liability and forfeited to the lender if the borrower fails to honor its obligation.

Collection turnover - the average time for a business to receive payment for receivables.

Commercial bank - a privately owned financial institution that provides a wide variety of banking services, including trade finance products.

Commercial invoice - a bill that reflects the transfer of goods from seller to buyer.

Commercial risk - the risk that the customers cannot pay outstanding invoices due to financial and business reasons.

Commercial risk - the risk that the customers cannot pay outstanding invoices due to financial and business reasons.

Contract - a legally binding agreement between two or more parties.

Cost of production - the sum of the costs of materials, labor and overhead going into the manufacture of goods or fulfillment of a service.

Credit - a debt given to customers when they make a purchase with a promise to pay later

Creditworthy - an entity for which the risk of default on a debt is considered low.

Currency - the money used in exchanges, with an assigned value and authorized by law.

Current assets - valuable resources or property of a company – such as, inventories, and prepaid expenses – that could be turned into cash or used in the operation of the company within one year.

Current liabilities - any liability which must be honored within one year, like dividends, taxes, accounts payable and payroll.

Credit insurance – coverage to reimburse money owed, protecting the business if a customer of a policyholder becomes insolvent or fails to pay within the terms of a contract.

Credit limit – the fluctuating amount granted to each customer up to which the insured business can claim should something go wrong.

Credit default insurance - coverage provided by an insurer against the default of the international buyer in fulfilling its financial obligations towards a beneficiary.

Debt – a duty or obligation to pay money, deliver goods, or render service.

Default – a failure to pay loan interest or loan principal on schedule.

Discount - the amount of money deducted from the face value of a negotiable instrument.

Discounting receivables - a procedure when an exporter sells to an approved foreign buyer, creating a receivable, then sells it to a bank at a discount to the value of the invoice or receivable.

Documentary Credit (see Letter of Credit)

Documentary collection - an instrument in which a bank acts as collecting agents on behalf of the exporter, sending payment once the stipulated set of documents have been received.

Exporter - a company selling goods and/or services to an international buyer.

Export credit agency - government agencies or departments that promote, facilitate, finance and generally support export activities.

Export credit guarantee - an assurance provided by a government agency that safeguards banks against losses that could arise from financing export transactions.

Export credit insurance - a policy to cover some of the riskier areas faced by exporters due to commercial or political changes

Export finance - supports that helps companies with the transactional aspects to sell goods and services overseas, including a series of short-term financing mechanisms.

Exports - all goods leaving a country that are properly cleared by customs authority.

Factoring - a financing technique in which an exporter agrees to sell foreign receivables to the factor at a fixed interest rate, usually without recourse to the exporter in the event of non-payment.

Forfait discounting - a method of discounting without recourse where the exporter sells its receivables to a forfeiter, who takes over the risk of non-payment.

Foreign exchange rate - the rate at which a unit of one nation's currency is converted into another nation's currency.

Forfeiting (or forfaiting) - a form of financing in which medium-term financial obligations are sold at a discount at a fixed rate of financing, usually on a non-recourse basis.

Guarantee - a promise or assurance by a person or institution to pay a loan if the borrower fails to meet its obligation.

Hedging - activities undertaken to eliminate exposure or minimize losses that may arise as a result of fluctuations in foreign exchange rates.

Inconvertibility of exchange – when one currency cannot be exchanged for another due to foreign exchange regulations, high volatility, political sanctions or other factors.

Insolvency - when a business cannot raise enough cash to pay its bills or outstanding debts as they come due.

Issuing bank - the buyer's bank, which issues a letter of credit to the beneficiary or exporter through a bank in the exporter's country.

Interest - a charge paid by a borrower to a lender for the use of the lender's money.

Interest rate - the amount of interest charged for borrowing a particular sum of money over a specified period of time.

KYC – Know Your Customer application assessment process based on data from a Customer Reputational and Transaction Integrity (CRTI) review by a Bank.

Letter of credit (L/C) - A payment mechanism issued by a buyer's bank to a seller, guaranteeing payment to the seller when they fulfill the terms and conditions specified in the letter. It usually contains a brief description of the goods, the documents required, shipping date and an expiry date after which payment will no longer be made.

There are different types, based on the level of security they grant the beneficiary (seller).

- **Irrevocable:** This cannot be modified or cancelled without the agreement of all the parties concerned.
- **Revocable:** This may be modified or cancelled by the issuing bank at any time and without notice to the beneficiary. However, payments negotiated within the terms of the credit before receipt of the revocation or amendment notice from the issuing bank remain binding for all parties.
- **Confirmed:** When a second bank, usually aligned with the exporter, adds its obligation (confirmation, guarantee or assurance of payment) to that of the buyer's bank if there is uncertainty about the credit standing of that bank or if the buyer operates in a country facing political unrest, economic instability or currency devaluation that puts payment at risk.
- **Unconfirmed:** when advised to the exporter only by their bank without adding its confirmation.
- **Revolving:** Issued only once, this credit facility allows a company to finance its current needs on a short-term basis, up to a certain specified maximum amount. The borrower can borrow, repay and borrow again during the specified period under the same terms without another letter being issued.
- **Straight/negotiable:** straight when the buyer's bank honors its drafts to the exporter and no other party; negotiable when the buyer's bank must pay the exporter or their bank.
- **Restricted/unrestricted:** restricted when only the exporter's bank can purchase a bill of exchange; unrestricted when the purchasing bank is not specified.
- **Term/Sight:** term involves a payment undertaking at a future time (typically within 30 to 60 days) as agreed between the buyer and exporter; sight provides for payment after presentation of the documents and verification that they conform to the terms of the letter of credit.

Liquidity - a company's ability to meet its current obligations or pay its debts within one year by using its current assets.

Line of credit - the commitment of a financial institution to a borrower to extend credits under certain conditions up to an agreed amount for a specified period of time, renewable at the lender's discretion.

Loan - money lent with interest.

Open account terms - payment terms under which the exporter extends financing to the buyer, funding an entire transaction.

Opportunity cost - potential benefit lost or sacrificed by choosing one course of action while forgoing a competing course of action.

Political risk – the risk of non-payment due to events outside the policyholder or customer’s control, such as wars, disasters or economic difficulties.

Post-shipment finance – short-term credit covering the company’s financial needs for the period following the shipment of goods to ensure sufficient liquidity until the buyer receives and pays for the products.

Pre-shipment finance – short-term financing advanced to the exporter to support the costs of activities undertaken prior to shipment of the goods and to provide additional working capital.

Principal - the total amount of money being borrowed, on which interest payments are calculated.

Profit and loss statement (also known as a P&L statement) - a financial statement that summarizes the revenues, costs and expenses incurred during a specific period of time.

Promissory note - an unconditional written promise, issued and signed by the debtor, to pay on demand or at a fixed future date a stated amount of money to a specified person.

Purchase order - a commercial document issued by a buyer to a seller indicating the type, quantity and price of goods and/or services ordered.

Risk - the threat or probability that an action or event will adversely or beneficially affect an organization’s ability to achieve its objectives.

Security - financing or investment issued by a firm or government agency that denotes an ownership interest and provides evidence of a debt, a right to share in the earnings of the issuer or a right in the distribution of a property, such as bonds, debentures, options and shares, but not insurance policies.

Trade credit – credit extended to a buyer from an exporter based on mutual trust and interest.

Trade finance - supports for companies so they can trade domestically or internationally.

Venture capital - financing provided in exchange for advice and an ownership stake in a business or project.

Working capital - the difference between a company’s current assets and current liabilities to finance the operating cycle of a business.



CERTIFIED EXPORT FINANCE
AND INSURANCE PROFESSIONAL
(CEFIP)

SAUDI
E»XIM
بنك التصدير
والاستيراد السعودي

REFERENCES

References

- Export Credit Insurance: Minimizing Risk in the Global Marketplace, Export-Import Bank of the United States, 2020
- Export Finance Guide, The Team Canada Inc (TCI), 2003
- Export Finance & Payments, ITC SME Trade Academy, International Trade Centre, Switzerland, 2018
- Approaching Banks for Financing, ITC SME Trade Academy, International Trade Centre, Switzerland, 2018
- Export Business Development – A guide to international markets, by Abdulrahman Alotaibi, 2021
- Five 5 tips to manage your cash flow, Business Development Bank of Canada, <https://www.bdc.ca/en/articles-tools/money-finance/manage-finances/5-tips-manage-cash-flow>, 2024
- A Guide to Trade Credit Insurance, Allianz Trade, https://www.allianz-trade.com/en_US.html, 2024
- How to Access Trade Finance: A Guide for Exporting SMEs, International Trade Centre (ITC), Switzerland, 2009
- The SME Banking Knowledge Guide, International Finance Corporation (IFC), USA, 2009
- Trade Credit Insurance, Peter M. Jones, The International Bank for Reconstruction and Development/ The World Bank, 2009
- Organisation for Economic Co-operation and Development's SME and Entrepreneurship Papers, No. 24: Trade finance for SMEs in the digital era, 2021, <https://dx.doi.org/10.1787/e505fe39-en>
- Saudi Export Guide, 1436 - 2015, Second Edition, by Saudi Export Development Authority
- Saudi EXIM Bank's Product Guide, The Saudi Export-Import Bank, 2024
- Tips on Planning Your Export Finance, Enterprise Ireland, 2012
- Top 10 Questions from Small Businesses About Export Financing, Export-Import Bank of the United States, 2024
- Guide to International Trade and Finance, by Paul Cowdell and Peter McGregor, The London Institute of Banking & Finance, 2016
- The Handbook of International Trade and Finance, by Anders Grath, Fourth Edition, London; Philadelphia: Kogan Page, 2016.
- Trade Credit Insurance Guide, by the Association of British Insurers, 2016
- Trade Finance Guide - A Quick Reference to U.S. Exporters, U.S. Commercial Service, United States Department of Commerce, 2022
- Guide to Trade Finance, Deutsche Bank AG, Germany, 2020
- Finance Guide for SMEs, Saudi Small & Medium Enterprises General Authority, 2022.

