New forms for financing foreign trade

In the 70th, 80th
- breakdown of BW system creating floating of currencies
- penetration of asian c’s to foreign markets
- 80th – longe debt crisis
- oil shocks prices of finished products grew faster that those of raw materials

Old forms were unsufficient in these unstable situations.

Old forms of financing FTO
- banking loans
- drafts
- documentary payments
- buyer/supplier credit

New forms:
- factoring
- forfeiting
- leasing

→ enable exporter to obtain cash immediately & importers to obtain credit

According to the term
- short term – bank loans, drafts, documentary payments, export factoring
- medium/long term – supplier/buyer credit, leasing, forfeiting, consortium banking
- loans, state guaranties, subsidies, counter trade...

According to the subject
- private credit
- state credit

The private credits are not so advantageous as the state ones, for:
- the credit currency faces the exchange rate risks
- floating interest rates
- evaluation of financial ability of an applicant
- evaluation of economic-political factors of a country where the applicant for a credit has his seat

In 1978, OECD countries have agreed upon the unification of conditions for export credits guaranteed and subsidized by governmental authorities. This agreement is called “CONSENSUS” and it involve the following conditions:
- specifies the minimum cash-down payment by importers – when granting officially support loans the in CDP is 15% from the contract value has to be paid in advance
- specifies repayment period (maturity of loan) – two groups – c’s with GNP higher than 5.000$ they can pay the loan back in 5 years, up to 5.000$ pay the loan in 10years
- specifies min. interest rate – in case of official loan it can be concluded only on fixed interest rate, countries make bases for calculating this interest rate for each currency → “commercial interest reference rate (CIRR)
- specifies the so-called tide or concessional aid – connected to the purchase of G/S

Factoring
For financing the periond between the shipment of the merchandise and payment by the importer, an exporter may turn to a factoring company, or a factor. A factor will buy the exporter’s receivables at a discount and assume the risk of non-payment by the importer, as well as the right to payment of the receivables.

Factoring is a contractual arrangement between the exporter and the factor
→ historically joined with domestic market, later it penetrated into foreign markets; nowadays mostly in cross-border trade
→ agreement between a factor & business company, involves terms & conditions under which factoring operation is realized
FACTOR – business activity of a company to take responsibility for collecting account receivables → a.r. that arise under factoring arise exclusively from the payment on open account → this payments differs factoring from others methods
Paying on open account – apposite of paying in advance

Factoring commission involve:
- administrative handling of invoices
- assuming of credit risk

Types of factoring:
Main line factoring – full service factoring – company offer additional services (bookkeeping)
True factoring – non regressive; based upon non recourse factoring agreement
Confidential factoring – factoring company choses only some (first rate) invoices
Regressive factoring – based upon recourse factoring agreement
Single factoring – if the entire F business operation is run only by one factor
Two-factor system – involve two factoring companies
EDI factoring – electronic communication between factoring company & clients

Functions
1. financing function – provides export with finances
2. function of insurance – factor insures company against risk of nonpayment
3. function of guarantee – against nonpayment
4. providing services

FORFAITING
Long term agreement between forfeiter & the exporter; forfeiter buys account receivables directly from the exporter – primary forfeiter
If he buys account receivables not directly from the exporter – secondary forfeiter

Forfaiting commission includes
1. charge for political (transfer) risks
2. for using money (for paying exporter in cash) – interest is adjusted to EURO rate
3. administration

Forfaiting is characterized by:
• medium/long term receivables
• higher risk
• forfeiters don’t offer additional services

LEASING
→ agreement between lessor & lessee
→ lessor is the leasing company; lessee gets the asset for lease
→ lessee has the right to use the asset & in turn pays to lessor regular payment (installment)

According to term:
• financial leasing – long term
• operating leasing – short term

Types of leasing
1. sell & lease back – company sells an asset to an leasing company and leases it immediately
2. revolving leasing – automatic prolongation of the agreement & the asset is automatically exchanged by leasing company when it wears out.
3. run-off leasing – term lease, cannot be cancelled and is taken for a fixed time

Import leasing agreements
More frequent under our conditions than exporter leases company with the licence for FTO makes a contract with foreign exporter for specific asset; FE requires immediate payment. We have not enough funds – apply to leasing company which pays to exporter and we have to pay regular payment to the leasing company.