

Questions & Answers
FINANCING AND GETTING PAID

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The following ten questions and answers provide tips on how to work with your banker, how to finance export market development, and how to make sure that you get paid for your services.

1. How can my firm best finance its export market development?

With the exception of capital projects, export-related financing for service firms can be a challenge. Most of the financing available is designed for goods exporters. This typically leaves you with three usual sources of financing for export market development:

- a) Working capital (i.e., the cash available in your firm)
- b) Shareholder's loans (i.e., cash you lend the firm)
- c) Creditor debt (e.g., charging airline tickets on a credit card)

Once you have an export contract, you may be able to get your customers to pre-pay some expenses (e.g., airline tickets, project mobilization payments).

2. What terms should be specified in my contract to make sure I get paid?

The best way to make sure that you get paid is to have a good working relationship with your customers and provide quality service. When you enter into a contract for services, you will also want to have some legal protection in terms of a written contract. Here are some of the items that should be addressed in the contract:

To avoid disputes about completion of contract requirements:

- A precise description of the services to be delivered
- The dates for service completion
- Assignment of responsibility for compliance in the export market

To facilitate the payment itself:

- The amount of payment
- Who is responsible for any applicable taxes
- Specification of any withholds at source
- The currency of payment
- The method of payment (e.g., wire transfer)
- Date the payment is due
- Interest to be paid if the payment is late

To address any payment-related disputes:

- The jurisdictional law that applies to dispute settlement
- Provision for mediation or arbitration

3. What terms of payment should I include?

Service exporters typically extend to their customers an “open account,” meaning that the service is produced and delivered before payment is received. Because of the high level of risk associated with this type of arrangement, all the terms of payments should be mutually understood and agreed before a contract is signed.

It is very helpful to negotiate partial payment prior to final delivery. This protects you from investing large resources in creating the service in cases of default. It also gets the payment authorization process started, which helps to avoid extensive delay in settling the account. Three forms of partial payment are common:

- a) A small payment on contract signature
- b) A mobilization payment at the beginning of a large contract to cover initial travel costs or the purchase of needed equipment
- c) “Milestone” payments as stage of the contracted work are completed

4. How do I arrange for wire transfer or direct deposit?

The most rapid ways to get paid are cash-in-hand or a wire transfer directly to your bank. If you want payment by wire transfer, you will need to supply your customer with the routing information for your bank as well as your bank account number. You will need to obtain the routing information from your banker, and it may include routing through a “correspondent” bank.

You will need to provide at least the following information to your foreign customer:

- a) Bank name
- b) Bank branch transit number, including institution code
- c) Your bank account number
- d) Street address of your bank, including city and country
- e) Telephone number of your bank

You may also have to supply SWIFT information for your bank and/or an intermediary “settlement” bank. SWIFT (Society for Worldwide Interbank Financial Telecommunication) information support the accurate electronic transfer of funds between banks around the world.

Note: Check ahead of time on the fees that the banks in each country will charge. While your own bank may charge a modest \$10-\$15 for receiving a wire transfer, foreign banks may deduct over \$100 in charges when sending the wire transfer. If the transaction fees are high, you may wish to include in the contract that the customer will pay the fees at their end.

5. What support do I need from my banker?

Your banker is a very important partner in your export plans. There are several types of support that will be crucial to your success as an exporter:

- a) Services related to foreign transactions
 - Wire transfer
 - Accounts in different currencies (e.g., US\$)
- b) Financing mechanisms for export market development
 - Operating line of credit or overdraft facility
This would be secured by your accounts receivable, discounted by 10-15 percent.
 - Credit card(s) with high limits
You will need the flexibility to charge multiple airline tickets and other travel expenses without having to first pay down the card mid-month.
- c) Easy access to funds while travelling
You will want access to your funds via online transactions.
- d) Verification of liquidity
You may need your banker to vouch for your firm.

6. How do I develop a supportive relationship with my banker?

Whether or not your bank is supportive will be related to the degree of risk they think is involved and how well they understand your business. You can help reassure your bankers that you are a good risk by:

- Reviewing your export strategy with them
- Supplying them with information about any awards or honours you have received
- Providing them with regular financials showing that you are fiscally sound
- Supplying detailed projections of earnings and cash flow
- Providing them with a list of your major customers or contracts

You may find that it is necessary to meet with more senior bank officials (with higher signing limits) or bank officials specifically responsible for trade financing in order to get the support you need. If your firm is small, be prepared to educate new account managers about the nature of your business at least every year or two.

7. Is there insurance I should consider?

As you move out of your familiar local market, you will encounter a number of risks that could drain your financial resources. Here are some planning steps that you can take:

- a) Reduce any legal liability by acquiring professional liability insurance (if available).

- b) Reduce the likelihood of unexpected travel expenses by paying for trip cancellation insurance, or acquiring insurance (often part of "gold" credit card packages) that covers medical emergencies while abroad or the need for you to return home unexpectedly.
- c) Acquire "key person" insurance (if available) on the major earners in the firm so that cash flow is not disrupted if they become ill abroad.

You may find that you can get attractive terms if you search for insurance policies online.

8. How do I manage foreign exchange risk?

Unless all of your foreign customers are willing to pay you in your own currency, you will run the risk that you will receive less money for your services than you thought you would, once receipts are converted.

Many international contracts are in US dollars or Japanese yen or British pounds. If your contract is in a currency other than your own (or your foreign currency of choice), here are some options:

- Negotiate for payment in a currency that doesn't often fluctuate against your currency.
- Pay your export expenses in the same currency that you are paid to match revenues and expenses by setting up a bank account in that currency (e.g., US dollars).

9. How do I assess my customer's ability to pay?

In many ways, you would assess your foreign customers in the same way that you do domestic ones. The difference is that you are unlikely to have personal knowledge of who is and is not a good risk. Here are some resources to help you:

- Major banks through overseas branches and correspondents
- Other exporters who know the customer
- Credit-check services to investigate and submit a credit report of potential buyers
- The service industry association in your target market (especially if you have become a member)
- Your government's trade officers

10. What do I do if my customer fails to pay?

First, you will need to find out the reason for non-payment. It may be as simple as a misplaced invoice or bureaucratic delays in accessing foreign exchange for payment. It is therefore important to contact your customer directly. Do as much as you can yourself to obtain payment as external methods of collection will cost you money.

If the customer refused to pay because of dissatisfaction with the service, you will need to

address those concerns. If you have met all of your obligations and the customer has no good reason for non-payment, then you have several options:

a) *Collection through persuasion.*

The foreign bank, government finance agency, and/or collection agency are the most likely allies in pressing your claim. Sometimes a letter from your lawyer will yield the same result.

b) *Collection through mediation or arbitration.*

Your lawyer or the International Chamber of Commerce can provide you with information on arbitration options. If arbitration was specified as a remedy in your contract, then you can make use of the International Court of Arbitration of the International Chamber of Commerce.

c) *Collection through the legal system.*

Protest documents are prepared by a notary in the buyer's city establishing your legal rights against the buyer. These documents are recognized by the local courts. The courts could then be used to establish your claim and force payment of your outstanding receivable. If you win the case and the buyer continues to refuse to pay, further court proceedings can be initiated at an additional cost to enforce the initial judgement.