

## **Step 8 – Getting Paid**

- Characteristics of a Good International Bank
- How to Evaluate Country Risk Level
- Country Specific Payment Procedures
- Country & Foreign Exchange Risk
- Payment Options
- Qualifying as an IC-DISC
- Export Financing Options
- Where To Get Help



## How to Choose a Good International Bank

Questions to Ask	Yes	No	Comments
Does the bank deal in international transactions? If so, for how long?			
Does it have branches or affiliate banks in other countries? If so, where?			
Does it have an international presence in the countries where you plan to export?			
Does it have international payment procedures? If so, what are they?			
Does it have expertise in international letters of credit (L/C)?			
Is it familiar with specific banking conditions in countries where you plan to export?			
Is the staff willing to assist with personal knowledge and/or advisory reports on banking conditions in countries where you plan to export?			
Is the staff knowledgeable about trade financing and foreign exchange risk issues for small businesses?			
Does it have a working relationship with the SBA International Division and the EX-IM Bank?			

## Country/Political Risk Analysis

Country of Export \_\_\_\_\_

Type of Risk	Low	Medium	High	Comments/Concerns
Country				
Political				

## Country-Specific Payment Procedures

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## Credit Risk

Credit risk ratings are set by three agencies: Standard & Poor's, Fitch & Moody's, and range from AAA-BBB ("investment grade") to BB-D ("speculative grade").

- AAA – BBB = Low to Moderate Risk
- BB-D = Higher Level of Credit Risk or Evidence of Default

Visit these sites as well as Dun & Bradstreet, Graydon and Owens to check the credit ratings of prospective customers and partners.

Company Name	Credit Rating	Comments/Concerns

## Foreign Exchange (FX) Risk

Destination Country \_\_\_\_\_

Currency	Current & Historic Stability	Fluctuation Range	Comments	Management Options

### Current Events That Might Affect Currency Value or Fluctuation Range

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### Ways to Manage FX Risk

- **Spot Market Rate** – Price in foreign currency and demand cash in advance at today's exchange rate.
- **Balance Domestic & Foreign Currencies** – Net out foreign currency receipts with foreign currency expenditures.
- **Hedging by Forward Contract** – Sell a set amount of foreign currency at a pre-agreed exchange rate within the delivery date or the shipment.
- **Hedging by Options** – Similar to hedging by forward contract except that it gives the exporter the right to deliver an agreed amount of foreign currency without the obligation.

**Note:** A qualified international banker can assist with FX risk management



## Payment Options & Risk

Type	Risk Level	Amount at Risk	Time of Collection	Implementation Cost	Compromise with Buyer*
Cash in Advance					
Cash Against Docs					
Docs Against Accept					
Letter of Credit					
Open Account					

\*Most buyers want longer terms and prefer to trade in their own currency.

## **Letter of Credit (L/C) Questions to Ask**

- When should you use an L/C?
- Who pays for the L/C?
- How does the LC cost compare with your risk tolerance level?
- What about amendments and stale documents?
- Are there any prohibited clauses in the L/C such as anti-boycott clauses?
- Who pays for inspections and certificates?

**Note:** SGS (Société Générale de Surveillance) is recognized worldwide as a credible testing/inspection service, and SGS certificates are recognized and accepted as official documents at most global banks.

## **Do You Qualify as an IC-DISC?**

If you are an owner-managed exporting business, you can take advantage of significant savings by creating an interest charge-domestic international sales corporation (IC-DISC).

If you qualify, you can take dividends out of the IC-DISC at a favorable 15% dividend tax rate – a savings of 20 percent off the top rate of 35% on your qualifying income.

### **Benefits of an IC-DISC**

- Permanent 15% tax rate versus 35% tax rate on 4% of export sales
- Permanent tax savings of 20% on DISC taxable income
- One-time tax deferral opportunity
- Ability to leverage cost of capital
- Better ability to facilitate succession or estate planning

### **How it Works:**

- Owner of export company forms a tax-exempt IC-DISC in conformity with the IRS provisions.
- Export company pays a 50% commission to the IC-DISC.
- Commission is expensed by exporting company (the operating entity), which reduces ordinary income.
- IC-DISC is tax exempt and is not taxed on the commission income.
- IC-DISC pays dividends to owner who is taxed at 0%-15% upon distribution of dividend.

Consult your accountant if you're interested in establishing an IC-DISC.

## Financial Assistance for Exporters

### Export Development & Working Capital

- EWCP - Export Working Capital Program
- STEP – State Trade & Export Promotion Program
- MAP – Market Access Program for Branding & Label Reimbursement

Agency	Program	Approved Lender/Organization	Comments
SBA	EWCP		
	Export Express		
	STEP Grant		
EX-IM Bank	EWCP		
FAS	MAP		Agricultural
Bank/Outside Lender			

### Facilities Developing Financing

Agency	Program	Approved Lender/Organization	Comments
SBA	International Trade Loan Program		
Bank/Outside Lender			

### Financing for Your International Buyers

Agency	Program	Approved Lender/Organization	Comments
EX-IM Bank	Single -Buyer Credit Insurance		
	Multi-Buyer Credit Insurance		
	Medium-Term Credit Insurance		For Capital Goods
EX-IM Bank	Medium/Long-Term Loan Guarantees		
EX-IM Bank	Lease Guarantee		
FAS	GSM-102		Agricultural

## Resources

- GlobalEdge (Country Risk) – [www.globaledge.msu.edu](http://www.globaledge.msu.edu)
- Country Commercial Guides - [www.export.gov/name of country](http://www.export.gov/name_of_country)
- Dun & Bradstreet – [www.dnb.com](http://www.dnb.com)
- Fitch – [www.fitchratings.com/](http://www.fitchratings.com/)
- Moody's – [www.moody.com](http://www.moody.com)
- Standard & Poor – [www.standardandpoors.com](http://www.standardandpoors.com)
- Graydon - <http://www.graydon.co.uk/>
- Owens Online - [www.owens.com](http://www.owens.com)
- Creditworthy (list of credit agencies by country) - [www.creditworthy.com/providers/collection\\_f.html](http://www.creditworthy.com/providers/collection_f.html)
- List of Countries by Credit Rating - [en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_credit\\_rating](http://en.wikipedia.org/wiki/List_of_countries_by_credit_rating)
- GT News (World Finance News) - [www.gtnews.com/risk/default.cfm?s2=67](http://www.gtnews.com/risk/default.cfm?s2=67)
- Transparency International (Global Corruption Index) - [www.transparency.org/](http://www.transparency.org/)
- Small Business Administration (SBA) – [www.sba.gov/category/navigation-structure/exporting-importing](http://www.sba.gov/category/navigation-structure/exporting-importing)
- EX-Im Bank – [www.exim.gov](http://www.exim.gov)
- Holmvall, Leif, "Export & Import: Winning in the Global Marketplace"
- Small Business Development Center (SBDC) – [www.cochise.edu/sbdc/](http://www.cochise.edu/sbdc/)