





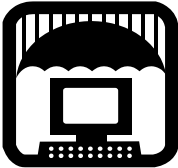
# Partnerships



Transport



Bank



Insurance



Exporter



Credit Bureau





- There are **three** main risks in international trade that must always be taken into account:
  - **Commercial risk**
  - **Country risk**
  - **Currency risk**
- The risks in international trade should never be underestimated
- Risk analysis plays a major role in determining the method of payment to be used for settlement between the buyer and the seller



# Currency risk

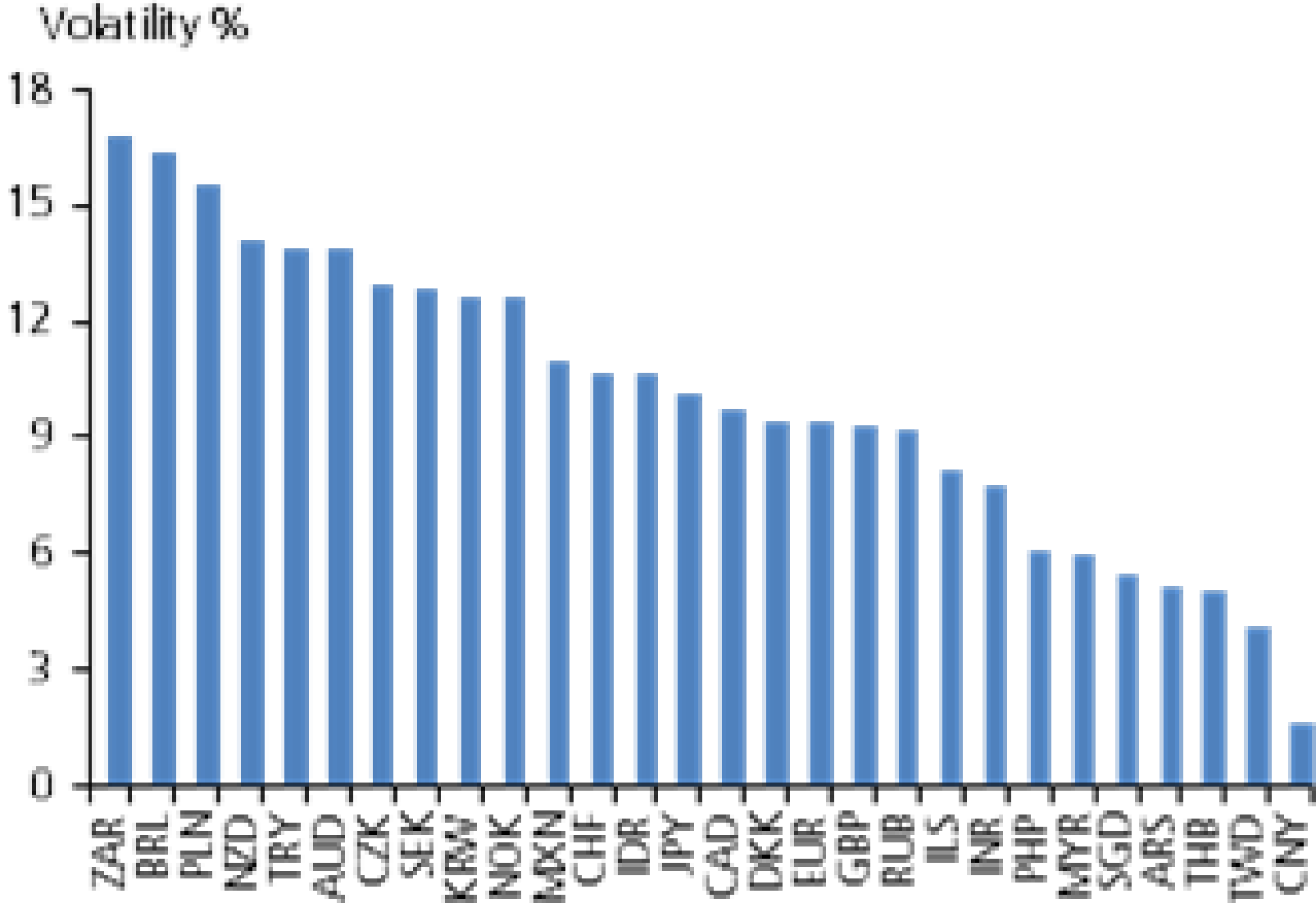


## Effect on companies:

- Lower profitability
- Lower rate of growth
- Loss of competitive position
- Vulnerability to:
  - takeover
  - bankruptcy



# ZAR Volatility



# Forward Exchange Contracts



A forward exchange contract (FEC) is a contract between two parties to exchange a specific amount of currencies, on a specified future date, or between specified future dates at an exchange rate agreed at the time of entering into the contract



# Forward exchange contracts



## Transaction without FEC (Importer)

- You enter a transaction for USD10,000 with a foreign buyer
- The buyer gives you three months credit (90 days)
- Spot rate 11,0000
- ZAR equivalent and expected amount to receive ZAR 110,000
- On due date, spot rate 10,0000
- ZAR equivalent and amount received ZAR 100,000
- A loss of ZAR 10,000





# Forward exchange contracts

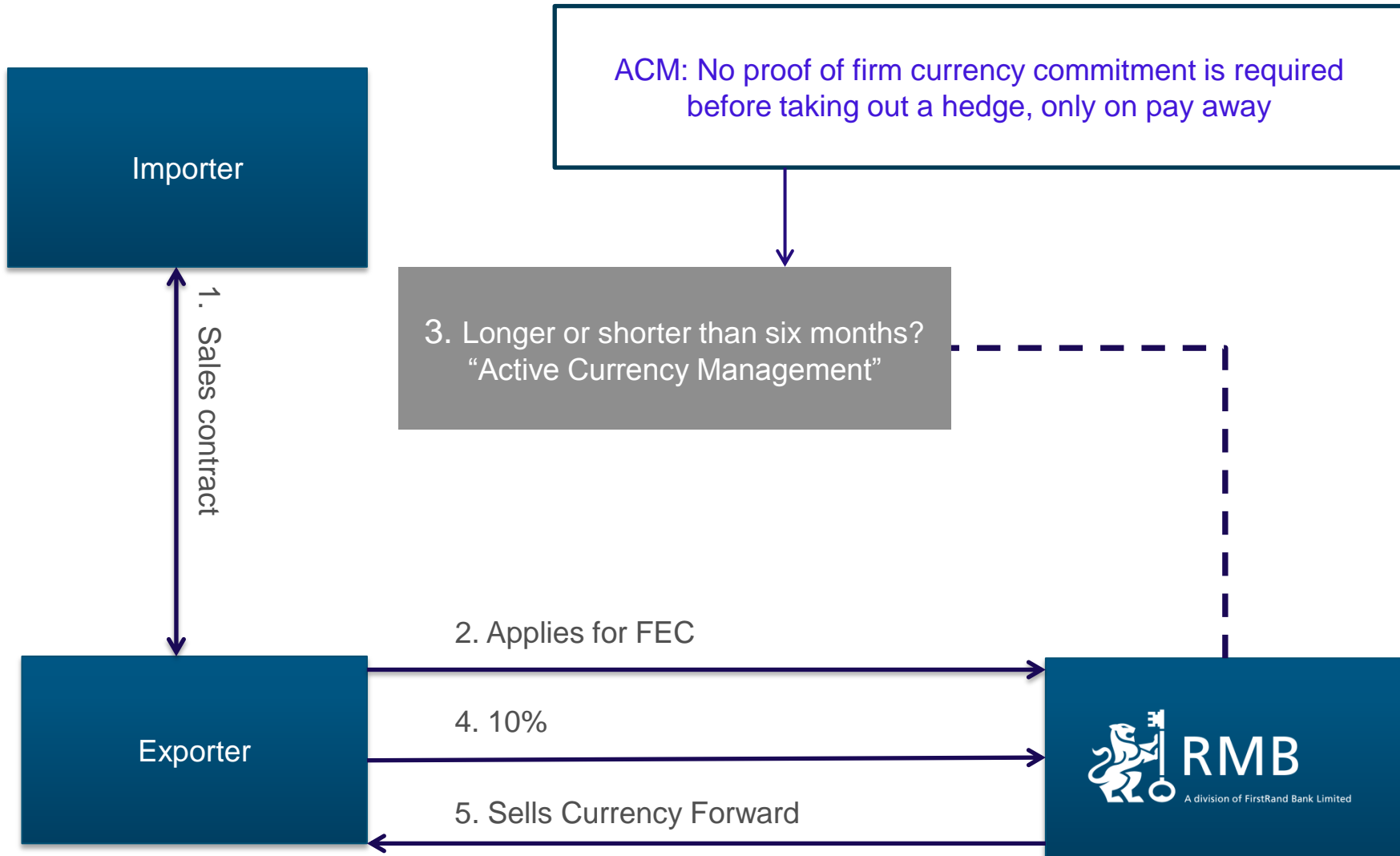


## Transaction with a FEC (Importer)

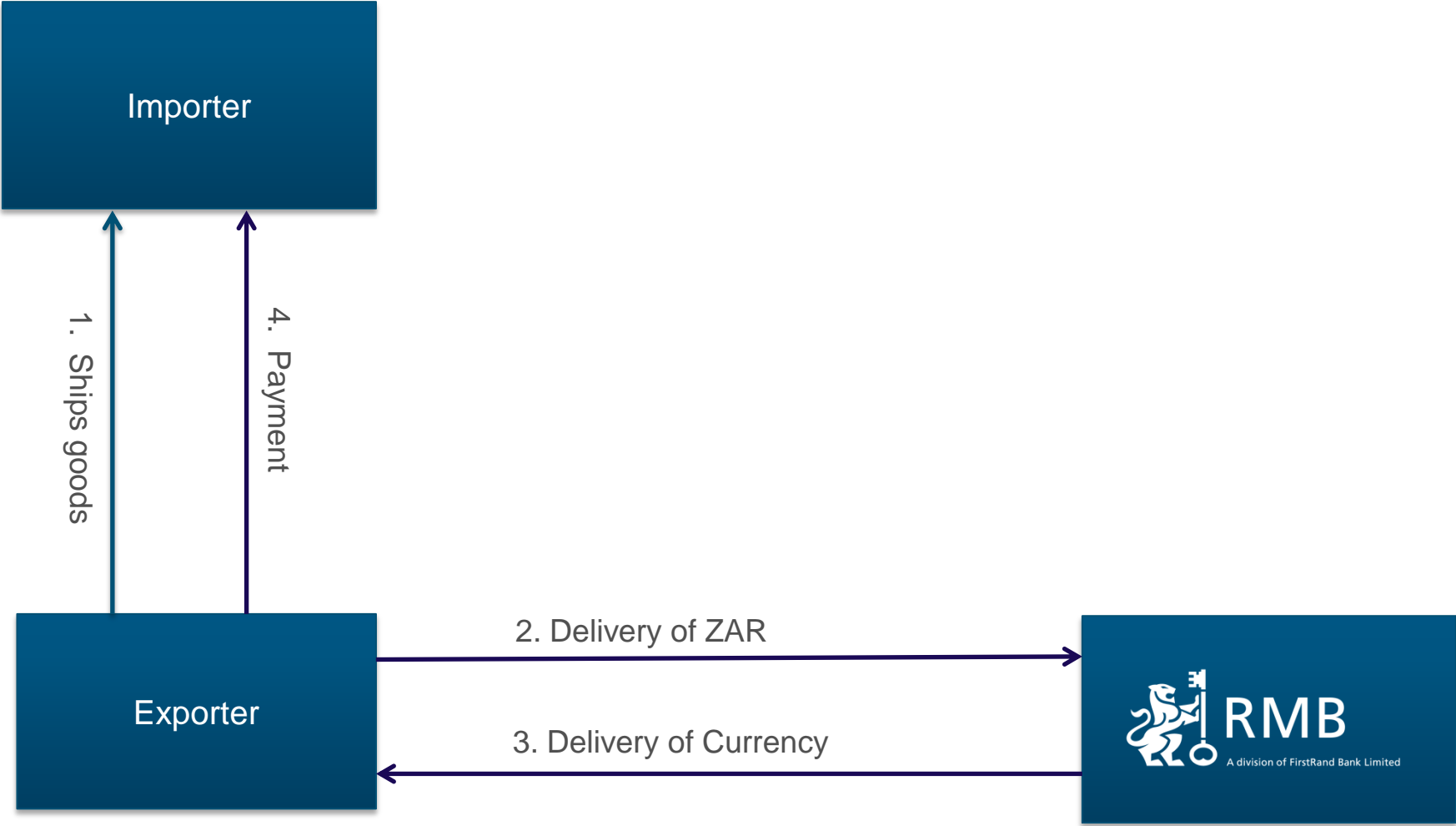
- You enter a transaction for USD10,000 with a foreign buyer
- The buyer gives you three months credit (90 days)
- Spot rate 11,0000. Takeout Forward Cover at 11,2000
- ZAR equivalent and expected amount to receive ZAR 112,000
- On due date, spot rate is 10,0000
- Drawdown FEC at 11.2000
- Receive ZAR 112,000



# Forward exchange flow



# Forward Exchange flow



# Advantages



- Protection from unfavourable movements in future spot rates
- Future cash flows - certain and predictable
- Flexibility resulting from the availability of early drawdowns, extensions and cancellations
- Amounts and delivery dates tailored to meet requirements



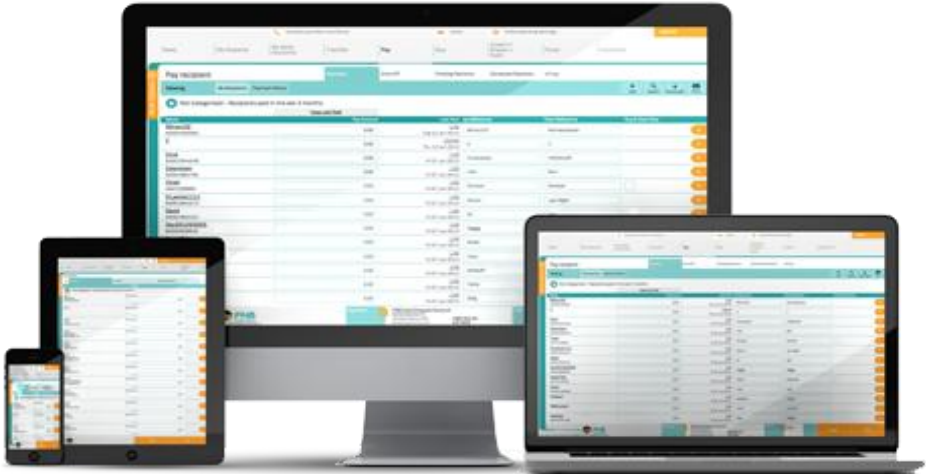
# CFC account



- Importers
- Exporters
- Importers and exporters



# Payment methods





Open account

Buyer



Most secure to buyer

Documentary collections

Documentary credits



Most secure to seller

Advance payment

Seller





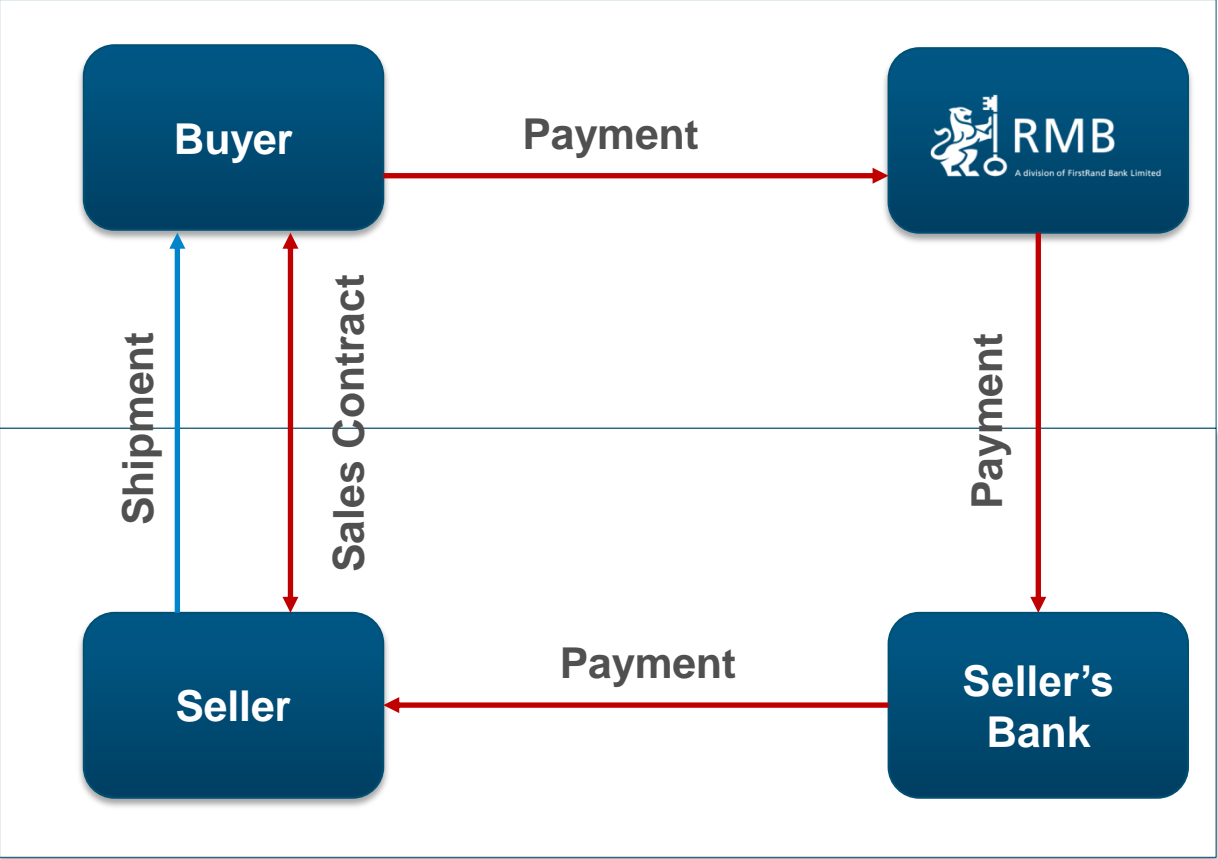
Advance payment



# Advance payment



- Reduces buyer risk
- The seller obtains finance from the buyer





If requesting an advance payment the importer may request that you approach your bank to have them issue an **Advance Payment Guarantee**



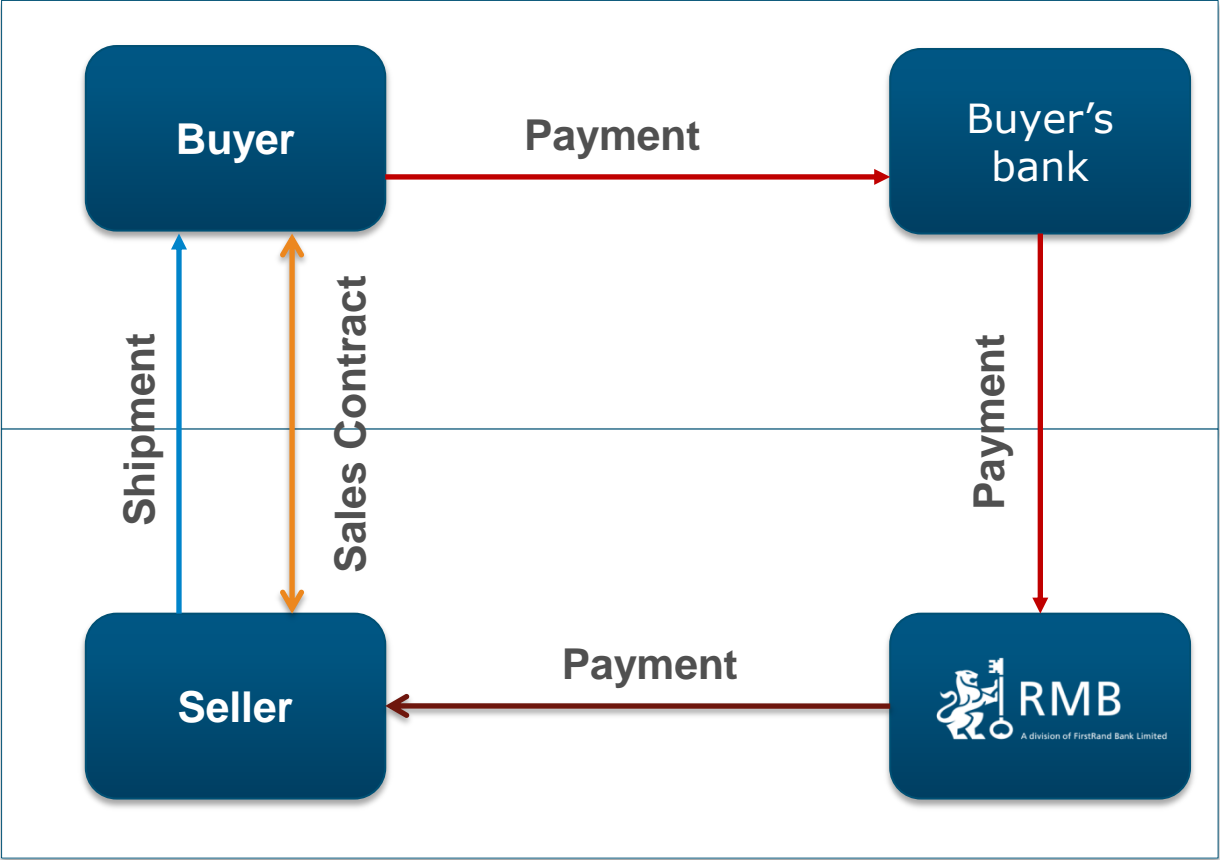


Open account

# Open account



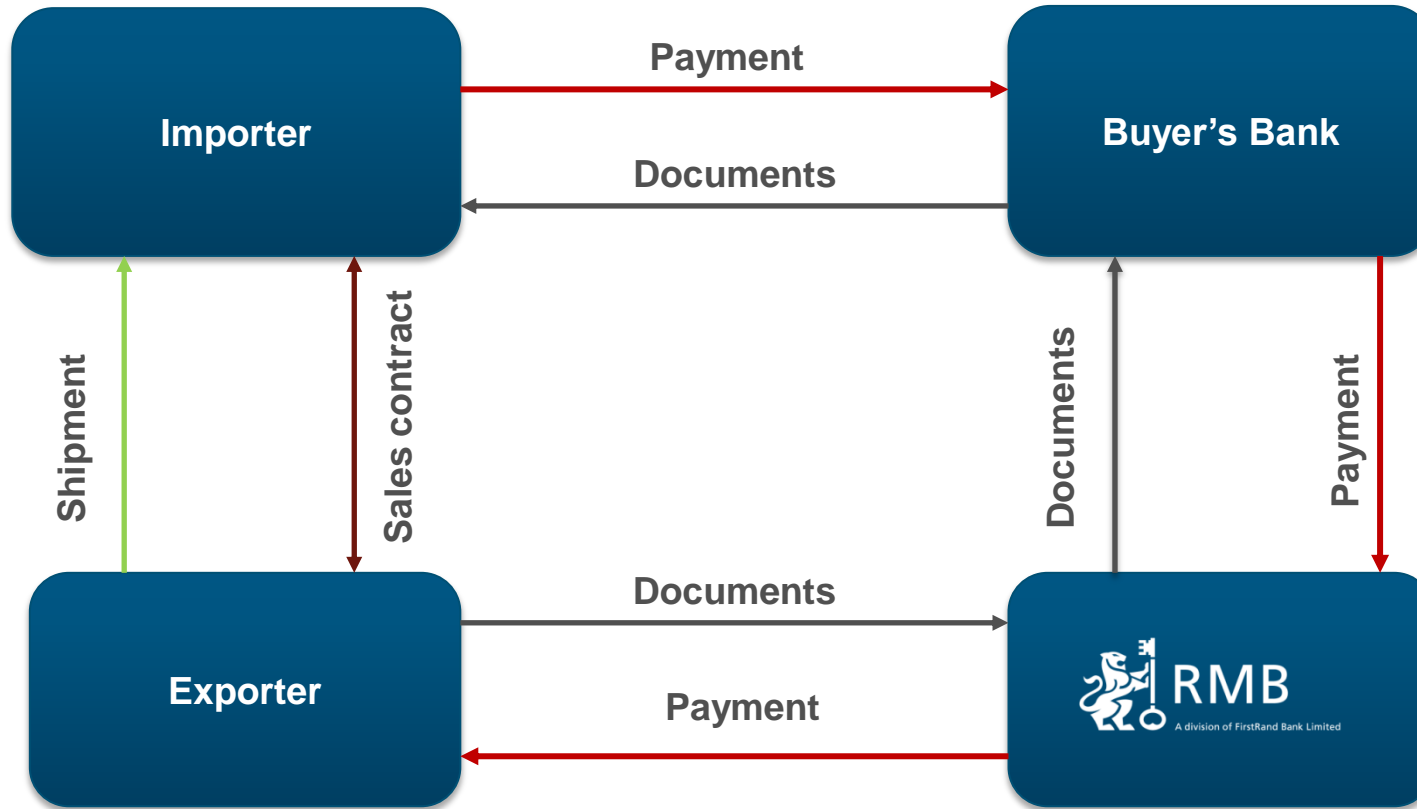
- Eliminates supplier performance risk
- Affords no protection to the supplier
- SWIFT transfer/draft





Documentary collections

# Documentary collections



Documents against payment

Documents against acceptance





## For the drawer (seller)

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- Maintains control over the goods
- Instead of cash on delivery for goods, cash (contracted promise to pay) on delivery for title document
- The bill of exchange is an acknowledgement of debt
- Can be noted and protested for non payment and/or non acceptance
- Settlement is usually quicker than open account if reputable remitting and collecting banks are used
- Accepted bills of exchange can be used to obtain finance

## For the drawee (buyer)

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- Goods can be inspected before payment, provided D/A
- Obtain extended payment terms
- Does not require a banking facility
- Opportunity for refinance

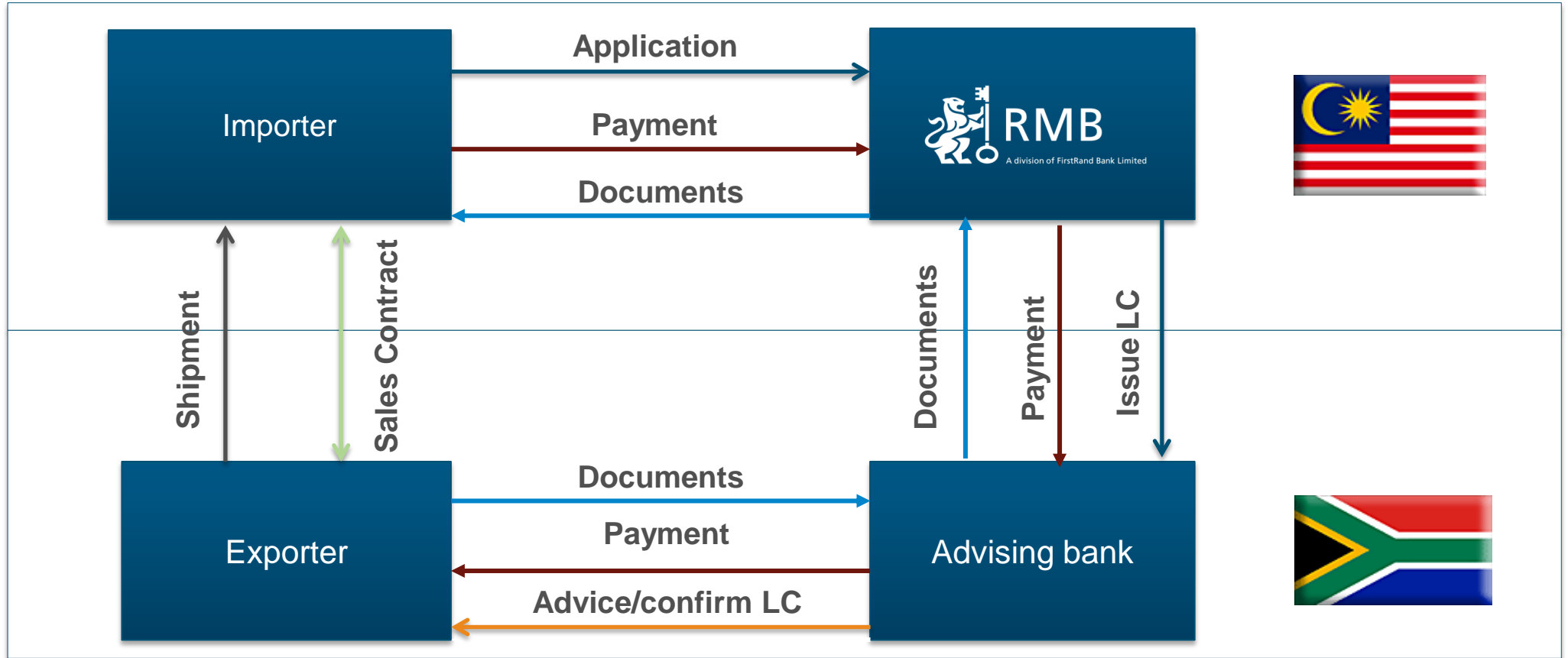




Documentary credits



# Documentary credits





## For the beneficiary (seller)

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- Receives a payment undertaking from the issuing bank instead of the applicant
- Is assured that he will receive payment provided he presents conforming documents
- Payment is reliant only on the documents and not the underlying contract or the quality of the goods. – Production Risk
- It is possible to discount the proceeds where usance credits are used, and in doing so, gives the applicant extended payment terms

## For the applicant (buyer)

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- Can obtain extended payment terms.
- He is protected, in that payment will not take place unless the beneficiary presents correct documentation.
- Time of shipment and presentation of documents can be controlled.





Revocable

**High risk to beneficiary**

Irrevocable and unconfirmed

Irrevocable and confirmed

**Low risk to beneficiary**



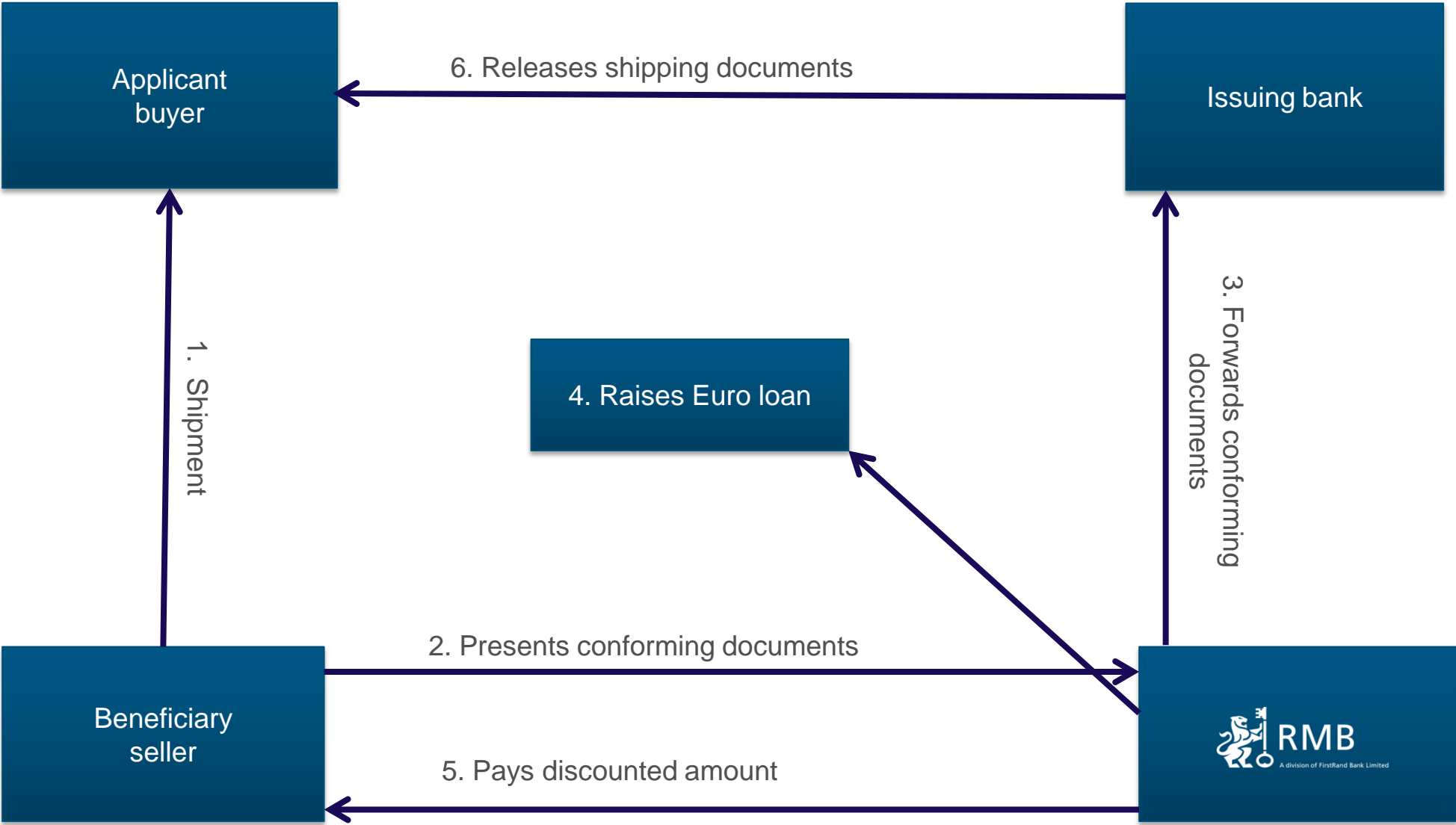
# Discounting export credits



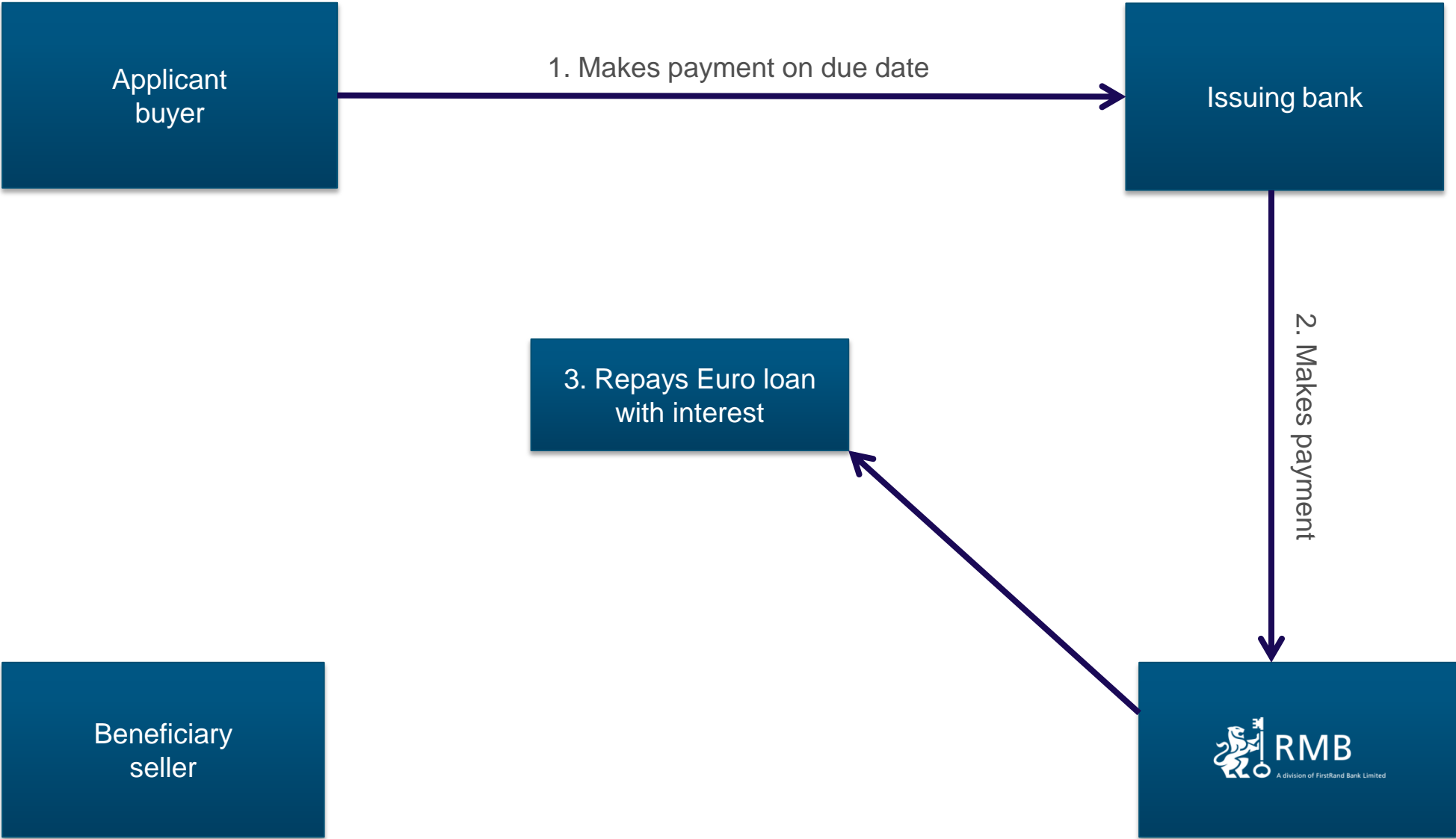
- Post shipment finance
- Finance after submission of a complying presentation under a credit
- Main risk is the exporters non-compliance of the credit terms and conditions
- RMB offers to advance you the letter of credit payment before due date
- Discount rate for foreign currency denominated credit is linked to the LIBOR rate
- Advisable to get discount approval from RMB prior to the issuance of the credit (discount conditions can be applied to requested credit).



# Discounting a confirmed credit



# Discounting a confirmed credit





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