Making sure you get paid

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Getting paid can present particular challenges for exporters. This is because the buyer and seller are in different countries, so securing payment or reclaiming the goods can be more difficult. To address this, a number of options are available, all of which reduce the risk of non-payment to varying degrees and in different ways.

Cash in advance

In this simple arrangement the importer (or buyer) pays the exporter in advance for goods or services. All the advantages accrue to the exporter, and all the disadvantages accrue to the importer, who has parted with his money and has no assurance of receiving the goods. More usually, some element of credit will be involved.

Letters of credit (LC)

With other payment methods the exporter and the importer depend on each other for the contract to be properly fulfilled. With a letter of credit (LC), however, the exporter and the importer both have the additional independent assurance of the bank that issues the LC (the issuing bank).

However, the exporter is still at some risk of non-payment if they are unable to meet the terms and conditions of the LC, or if the importer's bank finds discrepancies not previously found by either the exporter or the paying bank.

Collection (term and sight)

This is when the exporter ships the goods before payment but retains control of them until payment (or a legal promise to pay) is received from the importer. The transaction is initiated by the exporter, who despatches the goods to the importer's country. At the same time, they entrust the related documents (which may include negotiable bills of lading) to their bank, for collection of sale proceeds and the delivery of documents to the importer according to the terms of the sales contract. It is important to note that collections do not give the exporter the security of advance payment, and require both exporter and importer to exercise great care in agreeing the detail of the sales contract.

There are three types of collections, each of which provides a different level of protection for the exporter and importer. These are: **clean collection, documentary collection: documents against acceptance (D/A),** and **documentary collection: documents against payment (D/P).**

Open account trading

This applies when the exporter despatches goods to the importer and at the same time sends an invoice for those goods, for payment at an agreed date or after an agreed period. It is commonly used for trade between established pairs of exporters and importers, both of whom tend to operate in stable markets. The arrangement is based primarily on trust and the advantages accrue to the importer, while the exporter takes on all the risk. If the customers do not pay, or if they do pay but their country blocks remittance of funds to the exporter, the exporter has neither the goods nor the money, and may not be able to get their goods back.

ICAEW services

Business Advice Service

Being aware of and understanding the necessary aspects of international trade are critical to a successful business looking to export.

ICAEW's Business Advice Service offers a free, straightforward discussion with an ICAEW Chartered Accountant. There's no obligation after your first free session, just practical thinking to help your business succeed. To find your local ICAEW firm, visit businessadviceservice.com

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