Accounts Receivable Financing: Exporting to Africa

Contributed by Gregg Elberg
Thursday, 22 March 2007

Accounts Receivable Financing: Exporting to Africa explores how to extend credit and get paid for your exports to Africa. The government of the United States of America supports the export of goods and services to Africa with many interrelated programs.

{mosbotwordcount}

Several agencies of the US government support departments that have mandates to help you increase your export sales and minimize risks with regard to the sales of products and services to Africa. These departments exist within US agencies such as the Export-Import Bank of the United States, the Department of Commerce, and the Overseas Private Investment Corporation. All are supported by a relatively recent law called: The African Growth and Opportunity Act. The African Growth and Opportunity Act (AGOA) was signed into law by President Bush on May 18, 2000 as Title 1 of The Trade and Development Act of 2000. The Act offers tangible incentives for African countries to continue their efforts to open their economies and build free markets.

{bot_wrgoogle}The African Growth and Opportunity Act (AGOA) has been modified three times to increase exports to Africa.

In the first modification, AGOA was changed in to substantially expand preferential access for imports from beneficiary Sub-Sarahan African countries in several ways: 1) The term “fabric” was previously interpreted by U.S. Customs as excluding components that are “knit-to-shape” (i.e. components that take their shape in the knitting process, rather than being cut from a bolt of cloth); now knit-to-shape apparel will qualify for AGOA benefits. 2) The definition of hybrid cutting was broadened to include cutting of fabric in the U.S. and/or AGOA countries. 3) The volume cap on duty-free treatment for apparel made from fabric made in AGOA regions or, for lesser developed beneficiary countries from fabric made anywhere was doubled. 4) Botswana and Nambia were specially designated as less developed countries.

In the second modification, AGOA’s periods for preferential treatment for African imports to the US were expanded.

In the third modification, known as AGOA “1V” was expanded and liberalized again. In essence, US laws were created to increase US exports to Africa and imports from Africa to the US.

Pursuant to AGOA the US organized a U.S.-Sub-Saharan Africa Trade and Economic Forum hosted by the Secretaries of State, Commerce, Treasury, and the U.S. Trade Representative. The Forum serves as the vehicle for regular dialogue between the United States and African countries on issues of economics, trade, and investment. This fosters a unique cooperation between US agencies, African countries, and US businesses that desire to increase export sales to Africa with minimal risk.

How does this work? It involves the Export Assistance Centers of the US

Department of Commerce to assist you with your marketing and sales efforts to Africa and financial support from the Export-Import Bank of the United States to Banks that participate in and finance the export of goods and services to Africa in a variety of programs.

The Export Assistance Centers are part of the U.S. Commercial Services which is the trade promotion of the International Trade Administration (a part of the US Department of Commerce). Their mission is to provide 1) market research in the form of country specific commercial guides; 2) industry sector analysis; and 3) internal market insight reports. They provide trade counsel and advocacy through every step of the export process. They sponsor trade events that promote your product or services to qualified African buyers. They provide introductions to qualified buyers and distributors. They will help settle disputes and negotiate tariff issues. Once described as “glorified matchmakers” they will go as far as possible to help you export safely to Africa- even to the US Ambassador to facilitate these objectives, if appropriate.

And they help with the nuts and bolts of exporting to Africa such as setting up meetings for you with up to 5 prospective buyers per day, selecting drivers, translators and hotels. When you go to Africa to sell your goods or services you will not be making a cold call; you will be meeting with pre-qualified people when you participate in this program- all at a nominal cost to cover the agency’s expenses.

It is necessary for you to actually travel to Africa and meet face to face to successfully export to Africa. This is a cultural necessity. African businesses do not operate like American businesses where we trust negotiations conducted over the telephone and internet, and often transact without ever meeting the buyer or seller.

What exports are needed in Africa? You can read the research reports to find out specifically what is in demand. At the top of the list you will see products that purify water. Africa has a huge water infrastructure need. There is also a great interest in security related devices such as high tech devices to prevent theft of vehicles and increase recovery of stolen vehicles. Textile manufacturing equipment and telecommunications equipment also head the lists. Certain medical devices are also in demand.

What are some of the challenges regarding creating or increasing your export sales to Africa? It is difficult to qualify buyers; there are limited credit reporting facilities in Africa; African companies’ auditing and accounting systems are not “world class”. And it is difficult to ascertain who will actually pay as promised in you negotiations. To minimize these risks it is prudent to work with the Export-Import Bank and their correspondent banks and insurance brokers for international trade transactions to Africa.

There are specific Export-Import Bank standards for short-term and medium term credit; these may be located on their website at exim.gov. Financing guarantees and insurance are available for short term financing in 44 Sub-Sarahan African countries. They facilitate more competitive terms for African buyers. After the US correspondent bank has reviewed and approved you for financing, you can use these guarantees and insurance to minimize your accounts receivable financing risk when extending credit to African buyers. This applies to transactions wherein you have successfully delivered your products or services to African purchasers.

Unfortunately, there presently is no way to insure against contract frustration, also known as transactional risk. In other words, you take the risk of default if a prospective African buyer cancels the transaction before it is completed. You are at risk regarding disputes such as delivery or product specifications until they are resolved. And you cannot avoid devaluation of currency as a political risk either.

On the other hand, commercial risks such as insolvency, bankruptcy and protracted default are covered risks utilizing these programs; also covered are political risks such as war, revolution and insurrection.

The bottom line: you can use accounts receivable financing to export to Africa to increase your sales, minimize risks, and increase your working capital when you work with the appropriate US agencies, their correspondent banks and insurance brokers.

Mr. Elberg is a licensed attorney and licensed real estate broker. Gregg Financial Services is a full service brokerage for commercial finance companies and banks that fund B2B businesses. Mr. Elberg arranges funding from $25,000 to $50 million per month at competitive pricing, and works to reduce your financing costs as your company grows. For more information about GFS, please visit our website:
www.greggfinancialservices.com