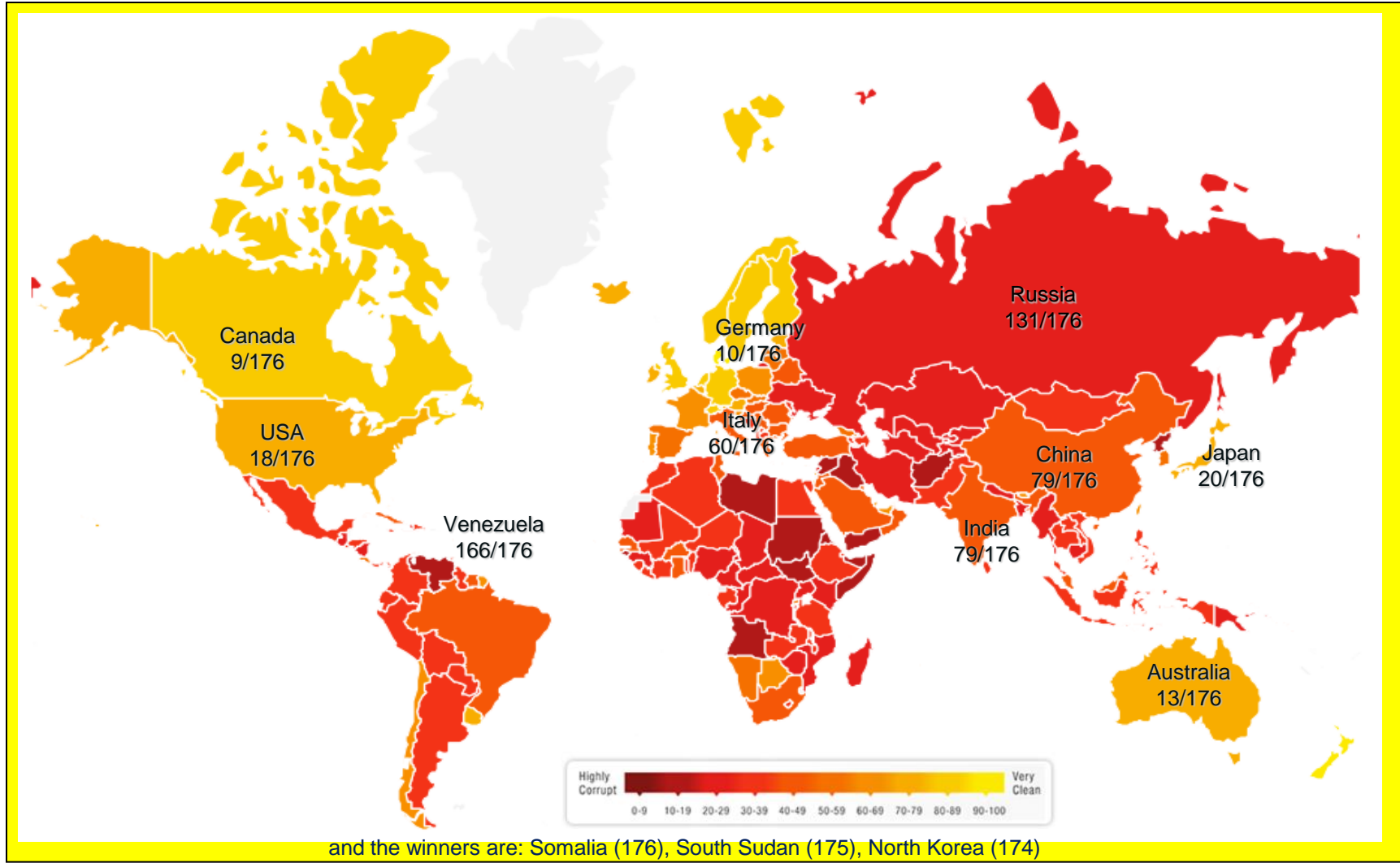




Country and Customer Trading Risks

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Transparency and accountability are critical to restoring trust and turning back the tide of corruption

From: https://www.transparency.org/news/feature/corruption_perceptions_index_2016

- The Country Risk Classification Method measures the country credit risk, i.e. the likelihood that a country will service its external debt.
- The classification of countries is achieved through :
 - (1) the Country Risk Assessment Model (CRAM), a quantitative assessment of country credit risk, based on the payment experience of the Participants, the financial situation and the economic situation, and
 - (2) the qualitative assessment of the Model results, considered country-by-country to integrate political risk and/or other risk factors not taken (fully) into account by the Model.
- The details of the CRAM are confidential and not published.

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- Countries categorised by rank: 0 = no risk; 7 = highest risk

Country	Score*
Australia <small>High Income OECD Country not reviewed or classified.</small>	
China	2
India	3
Japan <small>High Income OECD Country not reviewed or classified.</small>	
South Korea <small>High Income OECD Country not reviewed or classified.</small>	
USA <small>High Income OECD Country not reviewed or classified.</small>	
Thailand	3

* As at 27 January 2017 – risk classification for these nations unchanged since 2011

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AUSTRALIA		OECD high income		GNI per capita (US\$)	
Ease of doing business rank (1–190)	14	Overall distance to frontier (DTF) score (0–100)	80.14	Population	24,127,159
Starting a business (rank)	7	Getting credit (rank)	6	Trading across borders (rank)	95
DTF score for starting a business (0–100)	96.47	DTF score for getting credit (0–100)	90.00	DTF score for trading across borders (0–100)	70.65
Procedures (number)	3	Strength of legal rights index (0–12)	11	<i>Time to export</i>	
Time (days)	2.5	Depth of credit information index (0–8)	7	Documentary compliance (hours)	7
Cost (% of income per capita)	0.7	Credit bureau coverage (% of adults)	100.0	Border compliance (hours)	36
Minimum capital (% of income per capita)	0.0	Credit registry coverage (% of adults)	0.0	<i>Cost to export</i>	
				Documentary compliance (US\$)	264
				Border compliance (US\$)	749
Dealing with construction permits (rank)	6	Protecting minority investors (rank)	57	<i>Time to import</i>	
DTF score for dealing with construction permits (0–100)	84.39	DTF score for protecting minority investors (0–100)	60.00	Documentary compliance (hours)	4
Procedures (number)	11	Extent of disclosure index (0–10)	8	Border compliance (hours)	39
Time (days)	121	Extent of director liability index (0–10)	2	<i>Cost to import</i>	
Cost (% of warehouse value)	0.9	Ease of shareholder suits index (0–10)	8	Documentary compliance (US\$)	100
Building quality control index (0–15)	14.0	Extent of shareholder rights index (0–10)	5	Border compliance (US\$)	525
		Extent of ownership and control index (0–10)	4		
		Extent of corporate transparency index (0–10)	9	Enforcing contracts (rank)	3
Getting electricity (rank)	47	Paying taxes (rank)	26	DTF score for enforcing contracts (0–100)	79.00
DTF score for getting electricity (0–100)	82.31	DTF score for paying taxes (0–100)	85.62	Time (days)	402
Procedures (number)	5	Payments (number per year)	11	Cost (% of claim)	23.2
Time (days)	75	Time (hours per year)	105	Quality of judicial processes index (0–18)	15.5
Cost (% of income per capita)	12.4	Total tax and contribution rate (% of profit)	47.5		
Reliability of supply and transparency of tariffs index (0–8)	7	Postfiling index (0–100)	95.34	Resolving insolvency (rank)	18
				DTF score for resolving insolvency (0–100)	78.79
Registering property (rank)	51			Time (years)	1.0
DTF score for registering property (0–100)	74.17			Cost (% of estate)	8.0
Procedures (number)	5			Recovery rate (cents on the dollar)	82.5
Time (days)	4.5			Strength of insolvency framework index (0–16)	11.0
Cost (% of property value)	5.2				
Quality of land administration index (0–30)	20.0				

From: http://www.doingbusiness.org/reports/global-reports/~/_media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-Chapters/DB18-Country-Tables.pdf

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Country	China	Japan	S. Korea	India	Thailand	Malaysia	USA	AU
Total Rank	78	34	4	100	26	24	6	14
Trading across borders (rank)	97	51	33	146	57	61	36	95
EX Doc Compliance hours	21.2	2.4	1	38.4	11	10	1.5	7
EX Border Compliance hours	25.9	22.6	13	106.1	51	45	1.5	36
EX Doc Compliance cost (USD)	84.6	54	11	91.9	97	45	60	264
EX Border Compliance costs (USD)	484.1	264.9	185	382.4	223	321	175	749
IM Doc Compliance hours	65.7	3.4	1	61.3	4	10	7.5	4
IM Border Compliance hours	92.3	39.6	6	264.5	50	69	1.5	39
IM Doc Compliance cost (USD)	170.9	107	27	134.8	43	60	100	100
IM Border Compliance costs (USD)	745	299.2	315	543.2	233	321	175	525
Enforcing Contracts (rank)	5	51	1	164	34	44	16	3
Time (days)	496	360	290	1445	420	425	420	402
Cost (% of claim)	16.2	23.4	12.7	31	16.9	37.3	30.5	23.2
Quality of Judicial Process (0-18)	15.1	7.5	14.5	10.3	8.5	12	13.8	15.5
Resolving insolvency (rank)	56	1	5	103	26	46	3	18
Time (years)	1.7	0.6	1.5	4.3	1.5	1	1	1
Cost (% of estate)	22	4.2	3.5	9	18	10	10	8
Recovery rate (cents in the dollar)	36.9	92.4	84.7	26.4	68	81.3	82.1	82.5
Strength of insolvency framework (0-16)	11.5	14	14	8.5	12.5	6	15	11

From: http://www.doingbusiness.org/reports/global-reports/~/_media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB18-Chapters/DB18-Country-Tables.pdf

Major considerations

- Political environment – stable? (<http://info.worldbank.org/governance/wgi/#home>)
- Economically stable?
- Country reputation – honouring foreign debts?
- Ease of repatriation of funds?
- Signatories to international conventions – CISG 1980?
- IP Protection?
- Logistics Performance (<https://lpi.worldbank.org/>)
- Law and language (for business transactions)
- Customs of trade (not customs service) and import rules
- Prohibitions/Restrictions?
- UN sanctions? Self-imposed sanctions (e.g. Australia against Myanmar)?

Major considerations

- Financial standing
 - \$2 shelf company?
- Company background
 - Sources of information: Trade fairs/exhibitions; Trade publications; Embassies and Consulates trade attaché; Friendly competitors; Suppliers, etc.
- Company references
- Judgements against company?
- What terms they are used to trading with
- Who are/have been their suppliers?
- How big/important are they?
- How big are they likely to become?
- How soon?

Major considerations

- What is the level of exposure (\$)?
- Spread risk over several transactions?
- Pricing strategy
- Choice of Incoterms 2010
- Currency exposure
- Delivery considerations
- Competitor activity

Major considerations

- How long should credit be granted for?
- How quickly are funds needed?
- Impact on cash flows
- Working capital implications
- Cost of financing

Major considerations

- The choice of payment method is a function of payment security requirements and the need to make profits
- *A sale is not a sale until the cleared funds are in the bank!!*
- Traditional payment options:
 - Prepayment
 - Letter of credit
 - Bill of exchange
 - Open account
- Non traditional payments
 - Factoring
 - Forfaiting
 - Countertrade
 - Bartertrade

Major considerations

- Review does not necessarily mean change
- What business you are in
- Competitor activity
- Is change needed?
- Who is the price taker and the price setter?
- Trustworthiness of customer
- Improving the company's position
- Making concessions – why?
- Can you afford the business or loss of business

Major considerations

- You cannot manage that which you do not know
- You cannot manage that which you do not understand
- You must be able to understand processes and procedures so you can identify risk triggers and manage risk
- ERM – Enterprise Risk management is about breaking down silos
 - All key stakeholders in a process must be consulted in order to get a cross-organisational view – the only way to manage risks
 - External stakeholders who may be suppliers (goods/services) also need to be consulted
 - The idea is to get an overall picture of the potential risks that need to be managed and this cannot be done in isolation, rather, it needs to be done collectively within the enterprise