

# Trade and Project Financing

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## ***How Do I Get Paid (Methods of Payment)***

Letters of credit (L/Cs) may be used to pay for U.S. exports to Argentina. A number of banks in Argentina open letters of credit once the bank has approved a line of credit for the Argentine importer. Multinationals, large and medium sized firms are still the main users of L/Cs. However, to a lesser degree, small firms also use LCs..

Another payment option may be direct payment from Argentine importers' overseas bank accounts. Bank drafts and documentary collections are also of common use. While they do help safeguard the U.S. exporter's title to goods until payment has been received, all credit and country risk remains with the exporter. There is no obligation for the bank to cover these risks. However, documentary collections are less costly than letters of credit and, where the exporter is comfortable with these risks, they offer a practical and efficient solution, particularly for Argentine subsidiaries of U.S. companies.

According to local sources, the majority of sales to Argentine importers are currently taking place on open account. Small- and medium-sized Argentine companies in key sectors continue to have liquidity, favoring technological upgrades in production lines. As a result, open account sales generally take place between small- and medium-sized firms. U.S. exporters should consider open account payment terms only if they have a great deal of trust in the local importer and feel confident in the client's ability and willingness to pay.

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## ***How Does the Banking System Operate***

In Argentina, Law No. 21,526 of 1977 governs banking activities. Under this law, Argentina's Central Bank (BCRA) is the implementing authority and the regulatory body, which issues standards and controls activities of financial institutions included in the law (authorization and operating conditions within the banking industry; definition of permitted, prohibited and limited transactions; monetary controls; meeting certain operating ratios; information; accounting and control systems; dissolution and liquidation; etc.). In order to operate in Argentina, foreign banks

must register with the BCRA and obtain appropriate authorization prior to engaging in banking activities in the country. In addition, there are minimum capital requirements for these entities to be allowed to do business.

## **Features of the Argentine Financial System**

### *Classification:*

- Commercial banks
  - Government-owned: federal, provincial and municipal.
  - Private local banks with Argentine capital: cooperative banks and non-cooperative banks.
  - Foreign banks: private local banks, and local branches of foreign banks.
- Investment banks
  - Government-owned provincial banks.
  - Local banks with foreign capital.
- Mortgage banks
- Development banks
- Savings banks
- Finance companies
- Savings and loan associations for building homes or other real estate property
- Credit associations
- Representative offices

### *Funding Systems: Main Transactions*

Financial transactions are generally made in pesos (legal tender), U.S. dollars, and government securities. The three segments making up Argentina's financial system are: peso, foreign currency, and the liquid assets under management of all banks in the financial system.

The main transactions are:

- Overdraft
- Promissory notes
- Discount of bills
- Mortgage loans
- Collateral loans
- Consumer loans
- Credit cards
- Demand deposits
- Certificates of deposit
- Common savings deposits
- Deposits in Argentine government securities
- Interbank transactions
- Swaps
- Bankers acceptances
- Spot exchange transactions

- Forward exchange transactions

In the late nineties, there were 120 banks operating in Argentina, whereas today there are approximately 60, after the fallout from the 2002-2003 peso devaluation crisis. However, the financial system is perceived to be healthier than it was in the last decade. Most financial institutions in Argentina plan to continue expanding operations in order to achieve greater financial margins.

Some public banks have improved management quality and, as a result, benefited from a significant increase in deposits over the last few years. Banks currently enjoy higher-quality client-portfolios than in the pre-crisis scenario. Better clients translate into lower credit risk, and as the perception of risk decreases, credit is expected to gradually become more accessible in the medium term.

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### **Foreign-Exchange Controls**

The Argentine Central Bank is the regulatory body that approves foreign exchange acquisition for import-related transactions. For advance payments, Argentine importers must submit customs clearance documents, to include an approved Sworn Declaration of Intention to Import, known by its acronym in Spanish as DJAIs (or "*Declaración Jurada Anticipada de Importación*") to their commercial bank within 360 days from payment as proof that the goods have been approved to enter the market. If products are brought into Argentina as a temporary import, importers must submit within 90 days an interim-destination document for temporary import.

The Argentine government restricts the purchase of foreign currency, based on several variables. Amounts of foreign exchange transactions may vary on a case-by-case basis. Argentine companies can perform import payments in four different ways:

- 1) *Advance payments*: before the merchandise is shipped. The commercial bank requests from the Argentine importer the pro forma invoice and exchange purchase ticket. The local buyer has 360 days from shipment date to present the Customs clearance to its commercial bank.
- 2) *Sight payments*: when the merchandise was already shipped and payment is made against documents. The Argentine importer has 90 days from shipment date to present to the commercial bank the clearance for Customs.
- 3) *Credit payments*: delayed payment. The commercial bank requests that the Argentine importer presents the clearance to Customs to keep track of merchandise imported, payments already made, and payments still due.

- 4) *Anticipate the credit payment*: delayed payment. The local buyer pays in full in one single payment. The commercial bank requests that the Argentine importer presents the clearance to Customs to keep track of merchandised imported and all payments made.

Since 2002, Government of Argentina (GOA) regulations require that all exports be assigned a value and that foreign exchange revenues be returned to Argentina. Thus, barter transfers of goods between exporter and importer are not possible. While bartering does not involve a sale per se, the GOA would still expect to see foreign exchange remittance to the local bank based on the value of the goods exported.

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### **U.S. Banks and Local Correspondent Banks**

Citibank is the only U.S.-controlled bank operating in Argentina within the retail segment. American Express Bank, Bank of America, Wachovia Bank, J.P. Morgan Chase, The Bank of New York, and First International Bank are other U.S. banks with subsidiaries or representatives in Buenos Aires.

Most Argentine banks maintain correspondent arrangements with U.S. banks. To obtain a list of Argentine Commercial Banks with Offices in the U.S. or banks operating in Argentina, please review the Argentina Government Portal: <http://www.argentina.gov.ar/argentina/portal/paginas.dhtml?pagina=246> or contact [Marcelo.Amden@trade.gov](mailto:Marcelo.Amden@trade.gov).

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### **Project Financing**

Lack of access to international financial markets has limited project financing in Argentina. The Inter-American Development Bank, the World Bank and some countries have provided limited credits to Argentina. Financing from major developed countries has been blocked due to unpaid debts of Argentina to the Paris Club group of countries. On May 29, 2014, the GOA signed an agreement with the Paris Club of international creditors. Before reaching this agreement Argentina was unable to access national export credits such as those provided by export-import banks from the member countries. The Paris Club accord should make international project financing more readily available in the near term.

External lines of credit are likely to become available for Argentina, after the GOA performs pending payments, as outlined by the referenced agreement, and credit risk procedures are considered. Money inflows to the local market are primarily used to finance Argentine export transactions. Local banks have stressed that the supplier-importer relationship is key, and that the vast majority of financing options have been reduced to financing offered by the foreign supplier. Nevertheless, there

may be some options available to support trade finance for U.S. exports to Argentina, as detailed below.

### **The U.S. Export-Import Bank (Ex-Im)**

As of this writing, the [U.S. Export-Import Bank \(Ex-Im\)](#) is closed for new transactions in Argentina following its failure to settle with bond holdouts and the blockage of its external bond payments by a New York court. No negotiations between bond holdouts and Argentina are currently underway and many observers believe no settlement will be reached until sometime in 2016. Please consult Ex-Im's country limitation schedule from time to time to see whether Exim has re-opened in Argentina. Bank officials express optimism about Argentina and will continue to monitor the marketplace in order to consider future provisions of export financing for U.S. goods and services.

Ex-Im Bank will consider structured financing arrangements such as some project finance, asset-based aircraft leases, and other financing arrangements in key industries, such as mining, that offer a reasonable assurance of repayment, including reliable access to adequate foreign exchange supported by an irrevocable Letter of Credit issued by a bank and/or due from a buyer located in a country where Ex-Im Bank is open without restrictions. In addition, coverage under the Working Capital Guarantee Program may be available for a transaction under the same rubric of payment being assured from outside Argentina.

Visit the Ex-Im Internet site at <http://www.exim.gov/> for 24-hour access to Ex-Im and its programs, or call their toll free telephone number (800) 565-EXIM.

### **Small Business Administration (SBA)**

The [Small Business Administration \(SBA\)](#) has an Export Working Capital Program to support small and medium-sized exporters. However, it is governed by the same principles that currently prevent Exim from operating in Argentina.

For information about this program and to find your local SBA district office, call 1-800-U-ASK-SBA or search the SBA web site at <http://www.sba.gov/>. The U.S. Export Assistance Centers (USEAC) of the U.S. Department of Commerce can also provide information on this program. For a list of USEACs call 1-800-USA-TRADE or go to <http://export.gov/usoffices/index.asp>.

### **Overseas Private Investment Corporation (OPIC)**

The [Overseas Private Investment Corporation \(OPIC\)](#) offers assistance to U.S. private investors in the form of political risk insurance, as well as loans and loan guarantees for their direct investment in Argentina. OPIC's main programs are:

*Investment Insurance:* Provides insurance against the risks of currency inconvertibility, expropriation, and the loss of assets or income caused by political violence. Coverage is available for new investments and for investments to expand

or modernize existing operations.

*Investment Programs:* Medium- to long-term financing for sound overseas investment projects is made available through loan guarantees and direct loans. Loan guarantees generally range from \$10 million to \$75 million, and direct loans generally range from \$2 million to \$10 million. Direct loans are reserved for projects involving small businesses or cooperatives. OPIC's financing commitment may range from 50 percent of total project costs for new ventures to up to 75 percent for expansions of existing operations with maturities of five to twelve years (and in some cases longer).

Contact: <http://www.opic.gov/>. Information officer: (202) 336-8799, Fax: (202) 408-5155. There is an automated information service via a fax retrieval line: (202) 336-8700.

OPIC is currently closed to new Argentine transactions. Please consult them in early 2016 to determine whether they have reopened.

## Leasing

The passage of Leasing Law No. 25.248 in 2000 raised the stature of leasing as a financing option. Leasing operations in Argentina currently account for USD \$1.5 billion, mostly of equipment leasing operations. Leasing activities increased approximately 57.2 percent in 2014 year-on-year. Industry experts anticipate that leasing will continue to expand, and become a more popular financial instrument. According to Argentina's Leasing Association, financing through leasing for SMEs increased 74 percent in the past three years and leasing to private individuals increased 200 leasing in the same time period. Leasing is mainly used in the transportation, logistics and automotive sector, purchase of industrial equipment, construction machinery, agricultural machinery, technology and telecommunications equipment and real estate. Some of the perceived advantages of leasing entail: installments which are fully deductible from capital gains taxes, no property taxes or taxes on interest, VAT applied proportionately on installments rather than up front, and accelerated depreciation.

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## Web Resources

- Trade Finance Guide: A Quick Reference for U.S. Exporters, published by the International Trade Administration's Industry & Analysis team: <http://www.export.gov/tradefinanceguide/index.asp>
- Export-Import Bank of the United States: <http://www.exim.gov>  
- Country Limitation Schedule: [http://www.exim.gov/tools/country/country\\_limits.html](http://www.exim.gov/tools/country/country_limits.html)
- OPIC: <http://www.opic.gov>

- Trade and Development Agency (USTDA): <http://www.tda.gov/>
- SBA's Office of International Trade: <http://www.sba.gov/oit/>
- USDA Commodity Credit Corporation:  
<http://www.fsa.usda.gov/cc/default.htm>
- U.S. Agency for International Development: <http://www.usaid.gov>
- Multilateral Development Banks (World Bank, Inter-American Development Bank): The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the World Bank and the Inter-American Development Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the World Bank (<http://export.gov/worldbank>) and to the Inter-American Development Bank (<http://export.gov/idb>).

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