INTERNATIONAL TRADE AND FINANCE MASTERCLASS

PART 14 OF 25 · SECTION VI: CAPITAL MARKETS AND INTERNATIONAL FINANCING

PART 14

WORKING CAPITAL MANAGEMENT IN INTERNATIONAL OPERATIONS

The cash conversion cycle across currencies, countries, and legal systems — country payment norms, banking constraints in China, Brazil, India, and Nigeria, global cash architecture, notional pooling, and releasing trapped cash from subsidiaries.

IN THIS PART

- The international cash conversion cycle
- Country payment norms — Germany to Brazil to Nigeria
- China SAFE, India FEMA, Brazil IOF — banking constraints
- Global cash management architecture
- Notional pooling versus zero-balance pooling
- In-house banking and intercompany netting centers

CASE STUDIES

Each part includes fully worked case studies with detailed calculations, real-world context, and practical lessons for CFOs and finance leaders.

THE INTERNATIONAL CASH MANAGEMENT CHALLENGE

Why International Working Capital Is Fundamentally Different

A domestic US company with twenty subsidiaries all operating in US dollars has a relatively straightforward working capital management challenge. A multinational company with twenty subsidiaries each operating in a different currency, under a different legal system, with different banking infrastructure, and potentially with capital control restrictions on moving money across borders faces an entirely different order of complexity. The key differences are not theoretical — they are operational realities that determine whether cash generated in one country can be used to fund operations in another.

When a subsidiary in Brazil collects cash, that cash is in Brazilian reais, subject to Brazilian IOF tax if moved internationally, potentially restricted by Central Bank of Brazil regulations, sitting in a Brazilian bank account that the parent cannot directly access, and worth a different number of US dollars every single day as the real fluctuates.

Managing that cash — deciding when to move it, how to move it, what to convert it to, and how to minimize the tax and transaction costs — is a full-time treasury discipline that many companies underinvest in until they discover they have tens of millions of dollars sitting idle in subsidiary accounts earning nothing.

Country Payment Norms: What the Data Actually Shows

Country	Typical Terms	Avg Days Overdue	Bad Debt Risk	Key Notes
Germany	30 days	5-8 days	Very Low	Most reliable payers globally. SEPA instant payment highly adopted.
United Kingdom	30-60 days	12-18 days	Low	Late payment legislation exists; small company enforcement limited.
France	45-60 days	15-22 days	Low-Med	Legal 60-day max. Factoring market very mature and liquid.
Italy	60-90 days	35-60 days	Medium	Persistent culture of late payment. Public sector can exceed 180 days.
Brazil	30-90 days	40-80 days	Med-High	Boleto bancario payment system dominant. IOF affects cross-border flows.
India	30-60 days	45-90 days	Medium	Highly relationship-dependent. Large conglomerates pay reliably.
China	60-90 days	30-60 days	Medium	SOEs typically slower than private companies. Capital controls complicate.
Nigeria	30-60 days	60-120 days	High	CBN FX restrictions severely complicate USD payments. LC strongly advised.
UAE/Gulf	30-60 days	10-20 days	Low	Strong banking infrastructure. Government entities pay reliably.
Mexico	30-60 days	25-45 days	Low-Med	SPEI instant payment system excellent. Peso volatility affects planning.

Country-Specific Banking Constraints: The Operational Reality

China: SAFE and Capital Controls

China's State Administration of Foreign Exchange regulates all cross-border capital flows. Current account transactions — trade payments, dividends above certain amounts — are generally permitted with proper documentation. Capital account transactions — equity investments, intercompany loans above thresholds, certain profit remittances — require SAFE approval and can take weeks or months. Companies that fail to plan for these timelines find cash stranded in China when it is needed elsewhere in the group.

Brazil: IOF Tax on Financial Transactions

Brazil levies IOF — Imposto sobre Operações Financeiras — on many financial transactions including foreign exchange operations. When a Brazilian subsidiary converts reais to dollars to pay an intercompany loan or remit a dividend, it may pay IOF of between zero point three eight percent and six point three eight percent depending on the nature of the transaction. For a company repatriating fifty million dollars from Brazil, the IOF alone can cost hundreds of thousands of dollars — a cost that must be factored into the repatriation decision.

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◆ BRAZIL IOF — REPATRIATION COMPARISON
BRAZIL IOF — REPATRIATION OPTION COMPARISON
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Brazilian subsidiary accumulated cash: BRL 180,000,000
USD/BRL rate: 5.00 => USD equivalent: $36,000,000
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OPTION A: DIVIDEND PAYMENT
IOF on FX conversion: 0.38%
IOF cost: $36,000,000 x 0.38% = $136,800
Brazilian WHT on dividend: 0% (no Brazil-US treaty WHT)
Total IOF cost: $136,800
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OPTION B: REGISTERED INTERCOMPANY LOAN REPAYMENT
IOF: 0.38% (if properly registered with BACEN)
Cost: $36,000,000 x 0.38% = $136,800
Same cost as dividend — both are optimal
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OPTION C: MANAGEMENT FEE PAYMENT
IOF on service payment FX: 0.38%
Brazilian WHT on management fees: 15%
WHT cost: $36,000,000 x 15% = $5,400,000
Total cost: $5,536,800 — avoid this route for large amounts
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OPTIMAL: Dividend or registered intercompany loan
Both cost only $136,800 IOF on $36M repatriation
Management fees are suitable only for smaller routine amounts
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Notional Pooling Versus Zero-Balance Pooling

The two primary techniques for centralizing cash across multiple bank accounts are notional pooling and zero-balance pooling. In zero-balance pooling, physical cash is swept to a central header account at the end of each day — subsidiary accounts return to zero every night. In notional pooling, cash is not physically moved. Instead, the bank calculates interest on the combined balance of all accounts in the pool, offsetting credit balances against debit balances without transferring funds. Both approaches reduce the total interest cost, but they have very different legal,

tax, and accounting implications depending on the jurisdictions involved.

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CASE STUDY 1

GlobalConsumer Holdings

Releasing $28M of Trapped Cash — A 12-Country Treasury Optimization

Background

GlobalConsumer Holdings had operated for nine years with a completely decentralized treasury function. Each of its twelve country subsidiaries maintained its own banking relationships and cash buffers. When the new CFO conducted a global cash audit, she discovered subsidiaries collectively held forty-two million dollars — of which twenty-eight million was excess to operational requirements and could be centralized or repatriated.

◆ CASH AUDIT — CENTRALIZATION BENEFIT

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GLOBALCONSUMER — CASH AUDIT AND CENTRALIZATION
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EXCESS CASH BY COUNTRY (USD equivalent):
Germany/France/UK (EUR/GBP): $10,900,000 — readily poolable
Australia (AUD): $2,400,000 — sweep to Singapore hub
Brazil (BRL): $2,400,000 — IOF-managed repatriation
Other 8 countries: $4,400,000 — dividend repatriation
China (CNY): $4,800,000 — SAFE approval required
India (INR): $3,100,000 — RBI restrictions
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YEAR 1 CENTRALIZED: $20,100,000
China/India: $7,900,000 — compliance work initiated
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FINANCIAL BENEFIT:
$20.1M invested at 5.2%: $1,045,200/year
Used to pay down revolver at 7.5%: $1,507,500/year
TOTAL YEAR 1 BENEFIT: $2,552,700
Year 2 (with China/India unlocked): additional ~$1,600,000
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CASE STUDY 2

Nexus Technology Group

Notional Pooling — EUR 620,000 Annual Saving From 8 European Accounts

Background

Nexus Technology Group operates eight subsidiaries across continental Europe, all banking with the same global bank. Each subsidiary maintained positive cash balances while the Dutch holding company carried a significant overdraft. The

group was simultaneously paying high overdraft interest on the holding company deficit and earning near-zero deposit interest on the subsidiary balances. A notional pool corrected this with no physical cash movement and no intercompany loan documentation.

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◆ NOTIONAL POOL — ANNUAL INTEREST SAVING

NEXUS — NOTIONAL POOL ECONOMICS
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POOL POSITIONS (EUR):
Germany: +4,200,000 | France: +3,100,000 | Italy: +2,800,000
Spain: +1,900,000 | Belgium: +1,600,000 | Austria: +900,000
Sweden: +1,050,000 | Netherlands HoldCo: -8,400,000
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WITHOUT NOTIONAL POOL:
Credit interest earned: EUR 15,550,000 x 0.05% = EUR 7,775
Debit interest paid: EUR 8,400,000 x 4.20% = EUR 352,800
NET ANNUAL INTEREST COST: EUR 345,025
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WITH NOTIONAL POOL:
Net pool position: EUR 15,550,000 - EUR 8,400,000 = +EUR 7,150,000
Interest earned at pool rate (3.85%):
EUR 7,150,000 x 3.85% = EUR 275,275 EARNED
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ANNUAL SAVING: EUR 275,275 earned - (EUR 345,025) cost
= EUR 620,300 per year
At zero implementation cost — same bank, no documentation
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CASE STUDY 3

03 Atlas Pharmaceutical Group

In-House Bank — $2.4M Annual Saving From Centralizing FX Across 20 Countries

Background

Atlas Pharmaceutical Group had subsidiaries in twenty countries, each managing FX transactions independently with local banks. The result was forty-three different bank accounts, twelve banking relationships, FX trades executed by people with varying sophistication, and no visibility into the group's total FX exposure. The CFO implemented an in-house bank over eighteen months, centralizing all FX execution through a treasury center in the Netherlands.

◆ **IN-HOUSE BANK — IMPLEMENTATION ROI**

ATLAS — IN-HOUSE BANK: FINANCIAL BENEFIT

Annual gross FX volume (all subsidiaries): $280,000,000

BEFORE IN-HOUSE BANK:

Average FX spread paid: 0.75%

Annual FX cost: $280M x 0.75% = $2,100,000

AFTER IN-HOUSE BANK:

Intercompany netting reduces gross volume by 36%

Net FX executed externally: $180,000,000

Institutional spread: 0.12%

Annual FX cost: $180M x 0.12% = $216,000

FX SAVING: $2,100,000 - $216,000 = $1,884,000

ADDITIONAL SAVINGS:

Funding optimization (intercompany loans): $315,000

Bank fee reduction (fewer accounts): $180,000

TOTAL ANNUAL SAVING: $2,379,000

Implementation cost (TMS + legal + 18 months): $820,000

PAYBACK PERIOD: $820,000 / $2,379,000 = 4.1 months