



Welcome!

**Today, let us
understand
Basics of
Trade**

Trade Finance



What is Trade Finance?

Trade finance is financing of trade, and it can be both domestic and international trade transactions. A trade transaction involves a seller of goods/services and a buyer. It involves banks, shipping agency and financial institutions who facilitate in transport, providing necessary document and financing for the trade.

Basic Classification of Trade Finance



Export

An export is sale/transfer of any goods or commodity or services, transported/transferred from one country to another country in a legitimate fashion in exchange of Money. Export goods or services are provided to consumers by a foreign nation

Common Banking products – Export Bill Collection, Discounting, Export LC advising, Invoice financing

Basic Classification of Trade Finance



Import

Any goods or commodity or service brought into one country from another country in a legitimate fashion, typically for use in trade. It is a good that is brought in from another country for sale.

Common banking products – Letter of Credit, Import factoring, Import Bill discounting, invoice financing

Types of Instruments



- **Bill of Exchange**
- **Promissory Note**

Bill of exchange

A negotiable instrument is a specialized type of "contract" for the payment of money that is unconditional and capable of transfer by negotiation.

E.g. Cheques, hundis, commercial paper

Types of Instruments



Promissory note

A promissory note, referred to as a note payable in accounting, is a contract where one party (the maker or issuer) makes an unconditional promise in writing to pay a sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee, under specific terms.

Guarantee vs LC



Letter of Credit – Is undertaking to pay on fulfilling the obligation as stipulated in agreement/contract

Guarantee – Is undertaking to pay on a non performance of a contract or agreement

Common documents in Trade



- Commercial invoice
- Consular invoice
- Insurance documents
- Bill of lading or Airway bill or Lorry receipt
- Certificate of origin
- Packing list
- Inspection certificates
- Import permits

Risk associated with Trade



Risk	Description
Credit	Corporate, Bank & Country
Market	FX Fluctuation
Country	Political, Country, Exchange Control
Operational	Documentary, Fraud
Reputational	Reputational



That is all folks for now, more about
Trade in next session

In the next session, will tell you about

- Further about Letter of Credit

**Thank you and will meet you in the
next module.**