

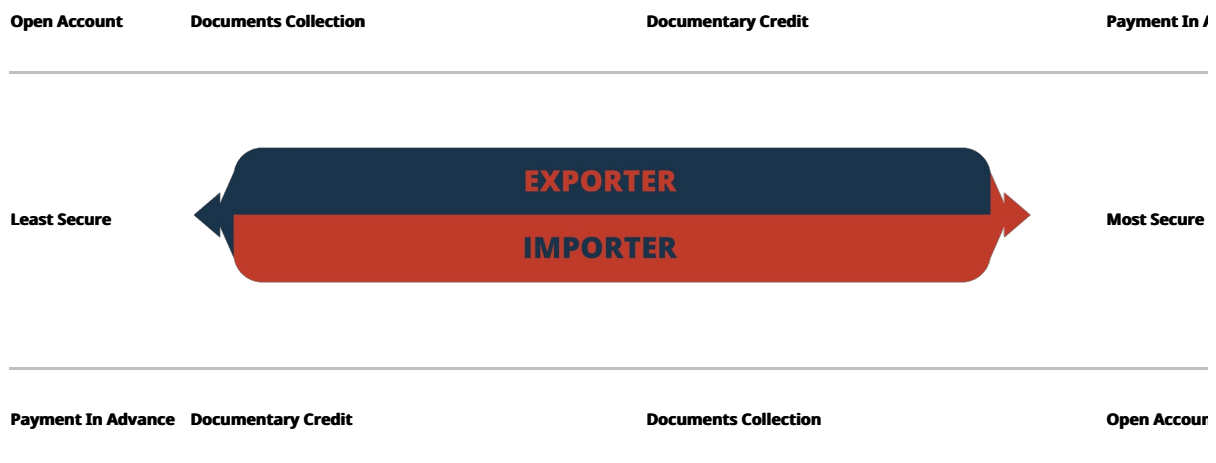
Methods of Payment in Import/Export

Letters of Credit (LC) - A letter of credit is an undertaking by a bank to make a payment to a named beneficiary within a specified time, against the presentation of documents which comply strictly with the terms of the LC. The parties to a LC are usually a beneficiary who is to receive the money, the issuing bank of whom the applicant is a client, and the advising bank of whom the beneficiary is a client. Almost all LCs are irrevocable, they cannot be amended or cancelled without prior agreement of the beneficiary, the issuing bank and the confirming bank, if any. Typically, the documents a beneficiary has to present in order to receive payment include a commercial invoice, international waybill of some kind, and insurance documents. However, the list and form of documents is open to interpretation and negotiation, and there might be requirements to present documents issued by a neutral third party evidencing the quality of the goods shipped, or their place of origin.

Electronic funds transfer (EFT) - An EFT refers to the computer-based systems used to perform financial transactions electronically. Most governments and customs authorities will prefer EFTs, and usually have a designated bank account for all deposits. A government managed bank account has the advantage of enabling transparent monitoring of funds transfer,.

Cash Payment - In very rare circumstances, customs authorities will request cash payments. Though it is becoming less common, cash based payments can occur, especially in the aftermath of rapid onset natural disasters. Wherever possible, cash payments customs clearance should be avoided as they are hard to trace and may lead to fraud. If a cash payment for customs is required, organisations should request a receipt in full, detailing what each individual fee was for and the official within the customs authority with whom the transaction occurred.

Order of Payments and Risk



- **Payment in Advance** - All import duties, fees and handling charges are paid in advance. In the event there are changes to the items, quantities or the overall anticipated fees are incorrect, the entity paying up front bears additional risk. If payment in advance is required, importers should try to use a letter of credit.
- **Documentary Credit** - The technical term for letter of credit.
- **Documentary Collections** - Instruction from an exporter (seller or supplier) to a remitting bank, normally the exporter's local bank, to collect payment immediately or at a future date from an importer (buyer) against delivery of the relevant commercial documents.

Documentary collections function like a letter of credit, however the burden of documentation and values are supplied by the seller/exporter. Importers should still monitor these communications to ensure agreed upon costs are still being used.

- **Open Account** - An agreement between an importer and an exporter whereby goods are supplied on the understanding that payment will be effected at an agreed future date. Payment can be made after goods have been imported. This method is used when there is a high level of trust between exporters and importers.