



## **TRADE FINANCE FAQs**

### **What documentation do I require to open the following?**

#### **A guarantee (Bid Bond, Advance Payment Guarantee, Performance Bond)**

- Pre- printed guarantee/bond application form, indemnity will be included on the form.
- Format of guarantee if available, otherwise we shall use our standard format.
- Bid data sheet (Pages that indicate the place/address of submission, date of submission, Bid opening date, Bid close date or Bid validity Period and Bid Amount.

#### **A Letter of Credit (LC)**

- Duly completed and signed LC application form.
- Up to date Pro-forma invoice.

#### **Documentary Collection**

- Signed application letter on applicant's letterhead clearly stating how the documents are to be handled.
- Mention Set of documents to be sent on collection including in the Application letter and these should include a bill of exchange.

#### **What payment modes are available in international trade?**

- Clean Payment
- Letters of Credit
- Documentary Collection (sight, tenor)
- Open Account
- Advance Payment.
- Standby letter of credit.

#### **Why do I need to have my export Letter of Credit confirmed?**

Confirmation of an export LC is important when we intend to transfer country and bank risk from the issuing bank and country. If you find this necessary, then we need to confirm the LC. In addition, if you need to discount the LC once documents have been presented, then confirmation is a mandatory. The Beneficiary should authorized confirmation of an Export Letter of credit and should be advised why he bank is seeking to confirm an export letter of credit.

### **What is the charge for opening a Letter of Credit?**

The standard charges of opening a Letter of Credit are as follows; -

- Import LC Issuance/Establishment Fee 1% Min. UGX 200,000
  - Import LC Commission (Cash covered) 0.5% per quarter, Min UGX 200,000
  - Import LC Commission (Non-Cash covered) 1.5% per quarter, MinUGX 200,000
  - LC Swift charges USD 55
  - Discrepant Documents USD 100 RVICE BANK TARIFF
  - LC Payment/Reimbursement Fee 0.25% Min UGX 100,000
  - LC Amendment - Terms and Conditions UGX 100,000.
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- Export LC/LC Amendment Advising Charges UGX 100,000
  - Export LC/LC Amendment Advising Charges - Non- CBA Bank Clients USD 100 Plus Swift Charges
  - Export LC Confirmation Fee (With cash margin) 0.5% per quarter Min UGX 100,000
  - Export LC Confirmation Fee (Without cash margin) 1% per quarter, in UGX 100,000
  - Export LC Transfer 0.5% Min UGX 100,000
  - Export LC Document Handling 0.3% Min UGX 100,000
  - Courier Fees (Outside Uganda) USD 65.

### **Can I discount a Letter of Credit without recourse to myself?**

Yes, you can, once the documents have been presented and accepted to mature on a specified due date by the issuing bank, we will analyze the risk on the issuing bank before accepting to discount the LC without recourse.

### **What are the discounting fees?**

Applicable interest (CBR + 4%) and a discounting commission of 1%. Note that the discounting fee of any bill depends on the risk acceptance of the paying party and for an LC bill, it's the issuing bank.

### **Who should bear charges for a Letter of Credit?**

Payment of the LC charges should be stipulated in the contract between the Buyer and Seller and the same transferred to the LC. Charges can be borne by the Applicant or the Beneficiary or shared. Incoterms used in the credit also indicate who is to bear the charges to the credit. The one supposed to bear the bank charges should always be clearly indicated in the credit application form.

### **What is Bill avalization?**

An aval is an endorsement on a bill of exchange or promissory note by the Bank effectively guaranteeing payment at maturity of the Bill of Exchange. To avalize is to give assurance/to guarantee as a third party that at maturity the beneficiary will receive payment for the credit or collection.



### **What is the difference between a Guarantee and a Letter of Credit?**

A guarantee is payable on simple demand of payment with no proof of performance from the beneficiary just a statement that the applicant of the guarantee has defaulted on performance of the bid as stated on the face of the instrument whereas an LC is payable on presentation of compliant documents specified in the LC.

Guarantees are governed by URDG while Credits are governed by UCP600.

### **What are promissory notes and are they different from drafts?**

A promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand to the payee, or at fixed or determinable future time, certain in money, to order or to bearer whereas A bill of exchange is essentially an order made by one person to another to pay money to a third person. A draft/Bill of exchange orders a debtor to pay a particular amount within a given period of time—issued by the creditor while a promissory note is issued by the debtor.

How does structured trade finance work?

This is how various financial institutions design trade finance products to meet customer needs i.e. Post import Loan, Pre-export Loan. Short term Capital Financing, Ware House Financing.

This is a term used to describe various financing techniques or even restructuring techniques. Generally, a structure is applied in order to mitigate or transfer unacceptable risk from one party to another.

### **What commodities can NCBA Bank finance?**

Any commodity deemed acceptable as per statutory (URA, B.O.U) department regulations. That is any commodity acceptable by Law and not under banned commodities

### **What instruments does one require for a structured finance facility?**

- Tangible securities where applicable.
- Assignment of account receivables;
- Assignment of inventory through title documents covering merchandise in warehouse or in transit. Such title documents may be warehouse receipts, bill of lading and other related documents;
- Assignment of cash and marketable securities (bonds and stocks)
- Assignment of export contracts; and
- Assignment of documentary letters of credit (LCs)
- A pledge which will be firmly backed by the following;
- Client issuing irrevocable instructions to its buyers requesting them to effect payment into an account designed by the bank; and



- Buyers acknowledging to effect payment in line with the irrevocable instructions.
- Liquid Cash Security.

### **What is the most favorable payment mode for an importer?**

Open account; because it has the least risk to the importer and gives the importer chance to examine the goods received before payment.

### **What is the most favorable payment mode for an exporter?**

Advance payment. The Importer receives payment for goods before shipment of goods. This has a high risk to the importer but the least risk to the Exporter.

### **What risks would one encounter and look out for in International Trade?**

- Country Risks: Political Environment in certain jurisdictions, Economic Environment, Foreign Exchange Restrictions, Solid Legal Infrastructure.
- Foreign Exchange Risks: Volatility of the foreign currency
- Commercial Risks: Trading Partner's track record, Default or termination of Contract.
- Force majeure :i.e. Disasters, pandemics

### **What governs the various trade finance instruments issued in NCBA Bank?**

- NCBA bank policies and procedures.
- Letters of Credit: International Chamber of Commerce's (ICC) Uniform Customs and Practice for Documentary Credits Publication No.600 (UCP 600).
- Documentary Collections: International Chamber of Commerce's (ICC) Uniform Rules for Collections Publication No.522 (URC522).
- Guarantees: International Chamber of Commerce's (ICC) Uniform Rules for Demand Guarantee (URDG) No.758; while ISP98 (ICC Publication No. 590) rules are applied for Standby Letters of Credit.

### **When and why should I use an LC?**

- If buyer or intermediary has no money of his own and would need bank support to carry out the transaction through a Post or Pre-Import Loan.

When the buyer and the seller do not know each other well. The trust between the two parties is little.

- One party or both parties are located in economically or politically unstable country.
- Legislation of one or another country requires the use of the LC.
- Goods are price sensitive or a special order. LC is one way of confirming an order.



A credit is the most secure means of doing international trade because it gives assurance to the seller that he will receive the exact goods agreed with the Beneficiary and in turn the beneficiary is assured of payment for the goods if his/She presentation was complying to the Credit.

### **What are the main types of Letters of Credit issued at NCBA Bank?**

- Confirmed v/s Unconfirmed LCs
- Transferable LCs
- Back to Back LCs
- Revolving LCs
- Standby LCs

### **What are the main types of Guarantees issued at NCBA Bank?**

- Bid/Tender Bonds
- Performance Bonds
- Advance Payment Guarantees
- Retention Guarantees
- Customs Bond
- Payment Guarantees
- Immigration Bonds
- Shipping Guarantees

### **What are the payment terms under Letters of Credit?**

- Sight Payment: value of the documents is paid to the beneficiary immediately after the documents have been submitted to the nominated bank, and the nominated bank has determined that the same comply to the LC terms and conditions.
- Deferred Payment: value of documents is paid to the beneficiary on the date calculated pursuant to the formula specified in the LC.
- Acceptance: Traditional form of deferred payment whereby the beneficiary must, along with other documents specified in the LC, submit a bill of exchange whose due date is calculated pursuant to the terms and conditions of the LC.
- Negotiation: This is whereby the nominated bank pays (or promises to pay) the beneficiary the value of the documents (or the bill of exchange) before it receives money from the issuing bank.

### **What payment terms are available under documentary collection?**

- D/P - Document Against Payment: in this instance documents are released by the bank against payment by the buyer/importer



- D/A - Documents Against Acceptance: Documents are released against acceptance of a Tenor/Usance Bill. The buyer accepts the bill by signing on the bill as per mandates held with the bank.

### **What are the features of the Unsecured Bid Bond Program?**

- NCBA account holders.
- Maximum single Bid Bond value: UGX350,000,000.00
- Maximum exposure per client : UGX350,000,000.00
- Maximum Tenor of bond: 360 days.

### **What Financing products are available under Trade Finance at NCBA?**

- Invoice Discounting
- Reverse Factoring
- Distributor Finance
- Pre-shipment/Pre-export Finance
- Post import Finance
- Commodity/Stock Finance

### **What is Reverse Factoring?**

NCBA Uganda Limited is in the process of introducing the product to our key suppliers. Reverse Factoring is an alternative financing solution where a supplier finances their receivables via a process started by the ordering party (Buyer), in order to help their suppliers, receive more favourable financial terms. Recourse is on the Buyer. The aim of the process is to finance the supplier's receivables by NCBA, so the suppliers can access their funds for what they sold immediately (minus an interest that NCBA deducts from the supplier to finance the advance of funds). Reverse factoring permits Buyers to gather all the suppliers to one financier and therefore pay one company (NCBA), which eases the invoicing management and reduces follow up disruptions from various suppliers. The benefit to both parties is that the suppliers gets paid in less than 2 days while buyers can negotiate longer credit days. The financier i.e. NCBA acts as a third party between the buyer and the supplier agreeing to pay off the buyer's invoices while the buyer negotiates for favourable credit terms.

### **What is Commodity Finance?**

This is whereby **NCBA** Bank provides financing for purchase of the commodity that the client trades in and holds the same as security and will only release the commodity against cash inflows from sales of the said commodities or undertakings from reputable off-takers

### **What should I look out for in terms of requirements under Commodity Finance?**



- Tripartite Agreements with Collateral Managers who will hold the commodity in question on behalf of the Bank. Warehouse receipts issued by the Collateral Manager, as proof of receipt of the commodity on behalf of the Bank.
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- Insurance covers for the commodity stored/warehoused.
- Escrow accounts, where proceeds from sales of the commodities are held to pay off any liabilities incurred in the purchase of the commodities. The client will have no access to the escrow account. This account will be wholly managed and run by the Bank.
- Undertakings from final off-takers of the commodity.
- Assignment of proceeds by the borrower.
- Cash margin/borrower's contribution or additional security depending on the commodity in question and the transaction cycle.
- Release of the commodity shall only be done against letters from the bank authorizing release of the held commodity by the Collateral Manager to the borrower.

### **Can I cancel my Letter of Credit after it has been opened?**

Yes, you can. The applicant should present a signed cancellation letter noting the LC reference and amount. As the issuing bank we will send the request to the beneficiary's bank via swift and wait for the beneficiary's response. The LC can only be cancelled if all the parties involved are in agreement to cancel it.

A credit is any arrangement, however named or described that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation. Therefore, a credit will only be canceled if the beneficiary and applicant of the buyer and seller agree to terminate the contract.