Professional Certificate in International Logistics and Transportation

International Trade Finance And Insurance

Acceptance – A written commitment by a bank to honor a draft at its maturity. Related terms: draft, bill of exchange, guarantee. In practice, a seller draws a draft on the buyer; the buyer’s bank “accepts” it, promising payment on the due date. This provides the seller with a negotiable instrument that can be discounted. Challenges include assessing the creditworthiness of the accepting bank and managing foreign-exchange risk if the draft is in a different currency.

Advising Bank – The bank that receives a documentary credit and informs the beneficiary that the credit has been opened. Related terms: issuing bank, confirming bank. The advising bank checks the authenticity of the credit but does not guarantee payment unless it also confirms. Practical use: a Chinese exporter receives a letter of credit (LC) from a U.S. buyer; the exporter’s local bank in Shanghai acts as the advising bank. The main challenge is ensuring timely transmission of documents to avoid discrepancies.

Agency – An arrangement where a party (the principal) authorizes another (the agent) to act on its behalf in trade transactions. Related terms: principal, agent, mandate. An example is a freight forwarder acting as an agent for a shipper to negotiate space with carriers. The agency model can reduce costs but may create liability exposure if the agent exceeds authority.

Allegro – A proprietary electronic platform used by some banks to process trade finance documents. Related terms: e-documentary credit, SWIFT. Traders may submit invoices and shipping documents through Allegro for faster verification. The challenge lies in interoperability with other platforms and the need for staff training on the system’s workflow.

All-Risk Insurance – A cargo insurance policy that covers loss or damage from any cause except those specifically excluded. Related terms: named perils, exclusions. A manufacturer shipping electronics from Japan to Germany may purchase all-risk coverage to protect against theft, water damage, or mishandling. The drawback is higher premium costs and the need to clearly define exclusions such as war or nuclear risk.

Amendment – A change to the terms of an existing documentary credit, draft, or guarantee. Related terms: re-issue, modification. If a buyer requests a longer shipment period, the issuing bank may issue an amendment extending the expiry date. The amendment must be accepted by all parties; otherwise the original terms remain enforceable. Frequent amendments increase administrative burden and can delay payment.

Anchor Institution – A large, stable organization that provides a reliable source of trade finance for smaller firms in its supply chain. Related terms: anchor borrower, supply-chain financing. A multinational retailer may act as an anchor institution, enabling its suppliers to obtain financing against purchase orders. Challenges include ensuring the anchor’s credit rating remains strong and managing the flow of funds across multiple jurisdictions.

Anti-Money Laundering (AML) – Regulations and procedures designed to prevent the use of the financial system for illicit activities. Related terms: KYC, sanctions screening. Banks must screen trade finance customers, verify beneficial ownership, and monitor transaction patterns for red flags such as unusually large shipments from high-risk countries. Compliance costs are high, and false positives can disrupt legitimate trade.

Arranged Export Credit – A financing arrangement where a bank provides a loan to an exporter, often with the backing of a government export credit agency (ECA). Related terms: export credit agency, working capital loan. An Indian textile producer may obtain a 12-month loan to fund production, with the loan guaranteed by the Export-Import Bank of the United States. Risks include currency fluctuation and the exporter's ability to meet delivery schedules.

Assignment – The transfer of rights under a receivable or guarantee to another party. Related terms: novation, factoring. A supplier may assign its receivable from a buyer to a factor in exchange for immediate cash. The factor assumes collection risk but must conduct due-diligence to avoid taking on non-performing accounts. Assignment may be restricted by contractual clauses.

Bank Guarantee – A written commitment by a bank to pay a beneficiary if the applicant fails to fulfill contractual obligations. Related terms: performance guarantee, financial guarantee. In a construction project, the contractor's bank may issue a guarantee to the project owner, ensuring payment for completed milestones. The main challenge is the cost of the guarantee premium and the requirement for collateral.

Bill of Lading (B/L) – A legal document issued by a carrier that serves as a receipt for cargo, evidence of the contract of carriage, and a document of title. Related terms: sea waybill, clean B/L. A buyer in Brazil may present the original B/L to the bank to obtain payment under a letter of credit. Discrepancies between the B/L and the commercial invoice can cause payment delays.

Blanket Bond – A surety bond that covers multiple transactions or contracts over a set period. Related terms: surety, performance bond. A logistics provider may obtain a blanket bond to guarantee compliance with customs regulations across many shipments. The challenge is monitoring the aggregate exposure to ensure the bond limit is not exceeded.

Bonded Warehouse – A secured storage facility authorized by customs where imported goods may be held without payment of duties until they are re-exported or released. Related terms: customs bond, deferred duty. A importer of luxury watches can store the inventory in a bonded warehouse to improve cash flow. Risks include theft, damage, and strict compliance with customs reporting.

Beneficiary – The party entitled to receive payment or performance under a trade finance instrument. Related terms: applicant, drawer. In a documentary credit, the exporter is the beneficiary. The beneficiary must present compliant documents to receive payment. Misidentification of the beneficiary can lead to legal disputes and payment delays.

Bill of Exchange – A written order from one party (drawer) directing another (drawee) to pay a specified sum to a third party (payee) on a fixed date. Related terms: draft, acceptance. Bills of exchange are commonly used in European trade, allowing sellers to obtain financing by discounting the draft with a bank. The challenge is that the drawee may refuse to accept, creating credit risk for the holder.

Cash-in-Transit Insurance – Coverage for loss or damage to money, securities, or valuables while being transported. Related terms: armored transport, policy limit. A courier moving cash between a retailer's store and bank may be covered by cash-in-transit insurance. The insurer assesses risk based on route, security measures, and historical loss data. Premiums can be high for high-risk routes.

Certificate of Origin (CO) – A document certifying the country where the goods were produced, often required for customs clearance and preferential tariff treatment. Related terms: preferential origin, chamber of commerce. Exporters obtain a CO from a recognized authority; the importing customs authority uses it to apply duties. Errors in the CO can lead to penalties or loss of preferential rates.

Charter Party (CP) – A contract between a shipowner and a charterer for the hire of a vessel or part of its cargo capacity. Related terms: voyage charter, time charter. A commodity trader may enter a CP to secure a bulk carrier for a grain shipment. The CP outlines freight rates, lay-days, and demurrage clauses. Misinterpretation of lay-day calculations can cause costly disputes.

Clean Bill of Lading – A B/L that states the cargo was received in apparent good order without any damage or irregularities. Related terms: claused B/L, discrepancy. Banks prefer a clean B/L for documentary credit payment because it reduces the risk of hidden damage. However, carriers may issue a clean B/L even when minor surface damage exists, leading to later claims.

Collateral – An asset pledged to secure a loan or guarantee. Related terms: security interest, margin. In trade finance, exporters may pledge inventory or receivables as collateral to obtain a working-capital loan. The challenge is accurately valuing collateral and ensuring the pledged assets are free from prior encumbrances.

Commodity Credit – Financing provided to producers or traders of specific commodities, often backed by the commodity itself. Related terms: warehouse receipt, repo. A coffee exporter may receive a loan against stored coffee beans, with the beans serving as collateral. Commodity price volatility can affect the loan's value and increase risk for lenders.

Confirming Bank – A bank that adds its own guarantee to a documentary credit issued by another bank, thereby assuming payment risk. Related terms: issuing bank, advising bank. An exporter in Brazil may request a confirming bank in the United States to mitigate the risk of the foreign buyer's bank defaulting. Confirmation raises the cost of the credit due to additional risk premium.

Consignee – The party named to receive the shipment of goods. Related terms: shipper, notify party. The consignee may be the buyer or a third-party logistics provider. In a letter of credit, the documents must name the correct consignee; otherwise, the bank may refuse payment. Coordination between shipper and consignee is essential to avoid mismatched documentation.

Consignment – A shipment of goods sent by a supplier to a distributor, where ownership transfers only after the goods are sold. Related terms: sale on consignment, inventory financing. The distributor holds the goods in inventory and may obtain financing against the consigned stock. The primary challenge is tracking sales and ensuring timely reporting of revenue to the supplier.

Cost, Insurance, and Freight (CIF) – An Incoterm where the seller pays for cost, insurance, and freight to deliver goods to the destination port. Related terms: FOB, DDP. Under CIF, the seller must procure marine cargo insurance, providing the buyer with risk coverage up to the port of destination. Mis-selection of insurance coverage can expose the buyer to gaps in protection.

Credit Risk – The possibility that a counterparty will fail to meet its payment obligations. Related terms: default, probability of default (PD). Credit risk assessment is central to trade finance, influencing pricing, collateral requirements, and the need for guarantees. Effective mitigation involves credit scoring, country risk analysis, and the use of insurance or guarantees.

Cross-Border Financing – Funding arrangements that involve parties in different countries, often requiring multiple currencies and compliance with varied regulations. Related terms: FX risk, dual-currency loan. A European importer may secure a loan from a U.S. bank, denominated in USD, to purchase Asian goods. Challenges include managing exchange-rate volatility, differing legal frameworks, and coordination of cross-border documentation.

Customs Bond – A guarantee posted by an importer or broker to assure customs that duties, taxes, and penalties will be paid. Related terms: surety bond, bonded warehouse. Failure to remit duties can result in bond forfeiture and legal action. The bond amount is typically a percentage of the estimated duties and varies by jurisdiction.

Debtor – The party obligated to pay a sum of money under a contract or invoice. Related terms: creditor, obligor. In trade finance, the buyer is the debtor when a documentary credit is drawn. Determining the debtor's creditworthiness is essential for banks when issuing LCs or guarantees.

Default – Failure to fulfill contractual obligations, such as non-payment of a loan or breach of a guarantee. Related terms: event of default, remedy. Default triggers remedial actions, including acceleration of debt, seizure of collateral, or claim on a guarantee. Early detection of default indicators helps mitigate losses.

Documentary Collection (D/C) – A transaction where the seller's bank forwards shipping documents to the buyer's bank in exchange for payment or acceptance. Related terms: sight collection, usance collection. The seller retains control of the goods until the buyer fulfills payment terms. While cheaper than LCs, D/Cs provide less security because the banks do not guarantee payment.

Documentary Credit (Letter of Credit, LC) – A bank's written undertaking to honor a payment to the beneficiary upon presentation of specified documents that comply with the credit terms. Related terms: irrevocable LC, revocable LC. LCs are the cornerstone of secure international trade, allowing parties to mitigate credit and performance risk. Common challenges include document discrepancies, timing mismatches, and cost of issuance.

Discrepancy – A variance between the documents presented and the requirements stipulated in a letter of credit. Related terms: documentary compliance, waiver. Even minor errors, such as a date format, can lead to a refusal of payment. Banks may grant waivers, but this introduces additional negotiation and potential liability.

Domestic Trade Finance – Financing solutions that support trade activities within a single country's borders. Related terms: working capital loan, inventory financing. Although not cross-border, domestic finance shares many instruments, such as letters of credit and factoring, and faces similar challenges like cash-flow constraints and credit assessment.

Due Diligence – The investigative process undertaken to evaluate the creditworthiness, legal standing, and operational risk of a trade partner. Related terms: KYC, AML. Due diligence may involve reviewing financial statements, sanction lists, and supply-chain maps. Insufficient due diligence can expose banks to fraud, sanctions violations, and reputational damage.

Export Credit Agency (ECA) – A governmental or semi-governmental institution that provides financing, insurance, or guarantees to support national exporters. Related terms: political risk insurance, export credit. ECAs can back loans, offer buyer credit, or insure against non-payment due to political events. The primary challenge is the cost of ECA-backed financing, which can be higher than commercial rates.

Factoring – The purchase of accounts receivable at a discount by a factoring company, providing immediate cash to the seller. Related terms: recourse factoring, non-recourse factoring. Factoring improves cash flow but transfers credit risk to the factor unless recourse is retained. Sellers must evaluate the impact on customer relationships and the cost of the discount rate.

Force Majeure – A contract clause that frees parties from liability or obligation when an extraordinary event beyond their control prevents performance. Related terms: act of God, termination clause. In trade finance, force majeure events such as natural disasters can trigger claim on insurance policies. Determining whether an event qualifies can be contentious and may affect payment under an LC.

Freight Forwarder – An intermediary that arranges transportation, consolidates shipments, and prepares export documentation on behalf of shippers. Related terms: NVOCC, customs broker. Forwarders may also provide trade finance services, such as pre-advice on LCs. The challenge for shippers is ensuring the forwarder's competence and reliability, as mistakes can lead to customs delays and extra costs.

General Average – A principle of maritime law where all parties in a sea venture share proportional loss when part of the cargo is sacrificed to save the vessel. Related terms: salvage, average adjustment. If a ship's crew jettisons cargo to extinguish a fire, the loss is allocated among all cargo owners based on the value of their goods. Insurance policies typically include general average coverage; failure to secure it can result in unexpected out-of-pocket expenses.

Guarantee – A promise by a guarantor to fulfill an obligation if the principal debtor defaults. Related terms: performance guarantee, financial guarantee. Guarantees are widely used in construction contracts and large-scale equipment purchases. The guarantor's credit rating directly influences the cost and acceptance of the guarantee.

HS Code (Harmonized System Code) – An internationally standardized numerical classification system for traded products. Related terms: tariff classification, customs duty. Accurate HS coding determines applicable duties and eligibility for preferential treatment. Misclassification can lead to penalties, increased duties, or shipment holds.

Import License – Government authorization required to bring certain goods into a country. Related terms: quota, controlled goods. Licenses may be mandatory for strategic commodities, such as pharmaceuticals or high-technology equipment. Failure to obtain a license can result in seizure, fines, or denial of entry.

Incoterms – A set of international commercial terms published by the International Chamber of Commerce that define the responsibilities of buyers and sellers. Related terms: CIF, EXW. Incoterms allocate costs, risks, and obligations for delivery, insurance, and customs clearance. Selecting the appropriate Incoterm is crucial for risk management; a mis-chosen term can inadvertently shift unexpected costs to the wrong party.

Insurance Certificate – A document evidencing that cargo or a transaction is covered by an insurance policy. Related terms: policy wording, coverage limit. Banks often require an insurance certificate that matches the terms of a letter of credit. Inadequate coverage or mismatched policy details can cause the bank to reject documents, delaying payment.

Interest Rate Swap – A derivative contract in which two parties exchange interest-payment streams, typically swapping a fixed rate for a floating rate. Related terms: hedging, notional amount. Exporters with floating-rate trade finance may use swaps to lock in predictable financing costs. Swaps introduce counterparty risk and require robust documentation.

International Chamber of Commerce (ICC) – A global business organization that develops rules and standards, including Incoterms and arbitration procedures. Related terms: ICC Arbitration, UCP 600. The ICC's Uniform Customs and Practice for Documentary Credits (UCP 600) governs the operation of letters of credit. Non-adherence to ICC standards can lead to disputes and costly litigation.

Inventory Financing – A loan secured by the value of a company's inventory, allowing firms to free cash tied up in stock. Related terms: warehouse receipt, revolving credit. A retailer may borrow against unsold goods stored in a bonded warehouse. The challenge lies in accurately valuing inventory, monitoring turnover, and ensuring that inventory is not over-collateralized.

Letter of Indemnity (LOI) – A written promise by one party to compensate another for loss or damage arising from a specific transaction. Related terms: indemnity clause, risk mitigation. In maritime transport, a consignee may provide an LOI to the carrier to release cargo without presenting the original B/L. The carrier assumes risk; thus, LOIs are often used when the parties have a high level of trust.

Letter of Credit (LC) – See Documentary Credit. The term is used interchangeably; the definition is provided under "Documentary Credit."

Letter of Guarantee (LG) – A written assurance issued by a bank that it will fulfill a contractual obligation if the applicant defaults. Related terms: bank guarantee, performance bond. LGs are common in construction contracts where the contractor must guarantee performance. The issuing bank assesses the applicant's credit and may require collateral. The cost of an LG reflects the risk profile and the duration of the guarantee.

Letter of Offer (LO) – A document outlining the terms under which a seller proposes to supply goods or services to a buyer. Related terms: quotation, sales contract. While not a financing instrument, the LO often serves as the basis for opening a documentary credit. Clear, unambiguous language in the LO reduces the likelihood of document discrepancies.

Letter of Intent (LOI) – A preliminary agreement expressing the parties' intention to negotiate a definitive contract. Related terms: memorandum of understanding, pre-contract. In trade finance, an LOI may be required by a bank before issuing a standby LC, indicating that the parties intend to finalize a binding agreement. LOIs are generally non-binding, but they can create expectations that influence financing decisions.

Letter of Undertaking (LOU) – A written commitment by a bank to make a payment or perform an act on behalf of a client, often used in customs contexts. Related terms: customs LOU, bond. A customs authority may request an LOU from the importer's bank to guarantee payment of duties. Failure to honor the LOU can result in the bank's reputation damage and possible legal action.

Margin – The difference between the interest rate charged on a loan and a reference rate (e.g., LIBOR). Related terms: spread, risk premium. In trade finance, lenders apply a margin to compensate for credit risk, country risk, and operational costs. Understanding margin composition helps borrowers negotiate better terms.

Marine Cargo Insurance – Coverage protecting goods against loss or damage while in transit over sea, and sometimes includes inland legs. Related terms: all-risk insurance, named perils. Policy wording must align with the Incoterm used; for CIF shipments, the seller must procure appropriate marine cargo insurance. Gaps in coverage, such as exclusion of war risk, can expose parties to unexpected loss.

Market Risk – The possibility of losses due to fluctuations in market variables such as exchange rates, commodity prices, or interest rates. Related terms: FX risk, price volatility. Trade finance participants often hedge market risk using forward contracts, options, or swaps. Effective risk management requires accurate forecasting and timely execution of hedging strategies.

Negotiable Instrument – A written document guaranteeing the payment of a specific amount of money, transferable by endorsement or delivery. Related terms: bill of exchange, promissory note. Negotiable instruments facilitate trade by allowing the holder to obtain cash before maturity. The main challenge is ensuring the instrument's authenticity and that it meets legal requirements in the relevant jurisdiction.

Non-Recourse Factoring – Factoring where the factor assumes the credit risk of the buyer, and the seller has no further liability if the buyer defaults. Related terms: recourse factoring, credit protection. Non-recourse factoring provides greater cash-flow certainty but commands higher discount rates. Factors must conduct rigorous credit analysis to justify the risk transfer.

Obligation – A legal or contractual duty to perform a certain act, such as payment or delivery. Related terms: liability, contractual duty. In trade finance, obligations may be triggered by the presentation of documents, the occurrence of a shipment, or the receipt of payment. Failure to fulfill obligations can lead to breach of contract and associated penalties.

Open Account – A trade term where goods are shipped and delivered before payment is due, typically within 30, 60, or 90 days. Related terms: trade credit, documentary collection. Open accounts are low-cost for buyers but increase seller risk. Sellers may mitigate risk through credit insurance or by limiting exposure to trusted customers.

Performance Bond – A surety bond issued by a bank or insurer guaranteeing that a contractor will complete a project according to contractual terms. Related terms: bank guarantee, letter of guarantee. If the contractor fails, the bond provides compensation to the project owner. The bond's cost depends on the contractor's credit profile and the project's complexity.

Physical Settlement – The actual delivery of goods or securities to satisfy a contract, as opposed to cash settlement. Related terms: cash settlement, delivery versus payment (DVP). In trade finance, physical settlement may involve the transfer of cargo against a letter of credit. The challenge is coordinating the timing of document presentation with the arrival of goods.

Policyholder – The person or entity that owns an insurance policy and is entitled to coverage. Related terms: insured, beneficiary. In cargo insurance, the exporter is often the policyholder, while the bank may be a loss payee. Ensuring that the policyholder's interests align with the bank's requirements reduces the risk of claim disputes.

Political Risk Insurance – Coverage protecting against losses arising from political events such as expropriation, war, or currency inconvertibility. Related terms: ECA, sovereign risk. Exporters to volatile regions commonly purchase political risk insurance to safeguard investments. Premiums can be high, and policy exclusions (e.g., sanctions) must be carefully reviewed.

Port of Loading (POL) – The location where cargo is loaded onto a vessel for export. Related terms: port of discharge, loading port. The POL is specified in shipping documents and Incoterms; an incorrect POL can cause customs delays or breach of contract. Coordination between the exporter, freight forwarder, and carrier is essential to ensure accurate documentation.

Port of Discharge (POD) – The destination port where cargo is unloaded from a vessel. Related terms: port of destination, unloading port. The POD appears on the bill of lading and determines where customs clearance procedures begin. Misidentifying the POD can result in additional freight charges or detention fees.

Pre-Advising – The process of informing a bank or party about an upcoming documentary credit before its formal issuance. Related terms: pre-advice, documentary credit preparation. Pre-advising allows exporters to prepare documents in advance, reducing lead time. The challenge lies in maintaining confidentiality while sharing sufficient detail for document preparation.

Proforma Invoice – A preliminary invoice sent by the seller to the buyer, outlining the goods, price, and terms before a formal sale occurs. Related terms: quotation, sales contract. Banks often require a proforma invoice to assess the value of a draft or LC. Since it is not a demand for payment, it does not create legal liability for the seller.

Promissory Note – A written promise by one party to pay a defined sum to another at a specified future date. Related terms: bill of exchange, negotiable instrument. Promissory notes are used in trade financing to provide short-term credit. The holder can discount the note with a bank, receiving cash before maturity. Credit risk assessment is essential, particularly when the note is drawn on a foreign entity.

Proof of Claim – A document submitted by a creditor to an insurer or liquidator to assert the amount owed following a loss event. Related terms: insurance claim, loss adjuster. In the context of cargo loss, the beneficiary of a letter of credit must submit a proof of claim to the insurer to recover the insured amount. Accurate and timely submission reduces disputes.

Re-Export – The outbound shipment of imported goods to a third country without substantial transformation. Related terms: transshipment, customs clearance. Re-export can be a tax-efficient strategy when duties are deferred or refunded. However, customs authorities may scrutinize re-exports to prevent duty evasion, requiring proper documentation and compliance.

Revolving Credit Facility – A line of credit that a borrower can draw upon, repay, and redraw repeatedly up to a maximum limit. Related terms: working capital loan, commitment. Exporters often use revolving facilities to finance multiple shipments over a fiscal period. The challenge is managing covenant compliance and ensuring adequate collateral for the facility.

Risk Mitigation – Strategies employed to reduce exposure to financial, operational, or political risks in trade. Related terms: hedging, insurance. Common tools include letters of credit, export credit guarantees, and currency forwards. Effective mitigation requires a holistic assessment of the supply chain and alignment of risk-transfer instruments with business objectives.

Safeguard Clause – A provision in a contract that allows a party to suspend or modify performance in response to unforeseen events. Related terms: force majeure, material adverse change. In trade finance, safeguard clauses can protect lenders from sudden regulatory changes that affect repayment. Drafting precise language is critical to avoid ambiguity and disputes.

Sanctions Screening – The process of checking parties against government lists that prohibit transactions with designated individuals or entities. Related terms: AML, compliance. Banks must screen exporters, importers, and intermediaries against sanctions lists (e.g., OFAC, UN). Failure to screen can lead to fines, reputational damage, and transaction blockage.

Secured Loan – A loan backed by collateral, such as inventory, receivables, or real estate. Related terms: unsecured loan, collateral. Secured loans typically carry lower interest rates due to reduced lender risk. The lender must enforce proper perfection of security interests to protect its claim in case of default.

Seller's Credit – A financing arrangement where the seller provides credit terms to the buyer, often supported by a bank's guarantee. Related terms: buyer's credit, trade finance. The seller may receive immediate payment from a bank, which then collects from the buyer on the agreed schedule. The risk lies in the buyer's ability to pay and the bank's willingness to guarantee the transaction.

Standby Letter of Credit (SBLC) – A guarantee issued by a bank that it will pay the beneficiary if the applicant fails to fulfill contractual obligations. Related terms: performance guarantee, bank guarantee.

SBLCs are commonly used in construction contracts and large equipment purchases. They provide a safety net without requiring immediate payment, but they involve a fee based on the amount and duration.

Supply Chain Finance (SCF) – A set of financing solutions that optimize cash flow by allowing suppliers to receive early payment on invoices while buyers extend payment terms. Related terms: reverse factoring, dynamic discounting. SCF platforms integrate with ERP systems to automate approvals. Challenges include onboarding multiple suppliers, managing credit risk, and ensuring regulatory compliance across jurisdictions.

Terms of Delivery – The conditions defining where, when, and how goods are transferred from seller to buyer, often expressed through Incoterms. Related terms: delivery point, risk transfer. Clear terms of delivery prevent disputes over responsibility for freight costs, insurance, and customs duties. Ambiguities can result in unexpected liabilities and increased costs.

Trade Credit Insurance – Insurance that protects sellers against non-payment of commercial invoices by buyers. Related terms: political risk insurance, credit insurance. Policies may cover both commercial and political risks. The insurer may require the seller to conduct credit checks and adhere to underwriting guidelines. Premiums are based on buyer risk profiles and exposure limits.

Trade Finance – The suite of financial products and services that facilitate international trade, including letters of credit, guarantees, factoring, and supply-chain financing. Related terms: documentary credit, working capital. Trade finance bridges the gap between shipment and payment, reducing risk for both exporters and importers. The sector faces challenges such as regulatory compliance, digitization, and evolving geopolitical risks.

UCP 600 (Uniform Customs and Practice for Documentary Credits) – The ICC's set of rules governing the issuance and use of documentary credits. Related terms: ICC, LC standards. UCP 600 defines document compliance, bank responsibilities, and timelines. Non-adherence can lead to disputes and payment refusal. Professionals must stay current with revisions and interpret the rules in the context of each transaction.

Unsecured Loan – A loan that is not backed by specific collateral, relying solely on the borrower's creditworthiness. Related terms: secured loan, risk premium. Unsecured trade financing may be offered to well-established importers with strong financial statements. Higher interest rates compensate lenders for the additional risk.

Usance Letter of Credit – A credit that allows payment at a future date, typically 30, 60, or 90 days after presentation of documents. Related terms: sight LC, time draft. Usance LCs provide buyers with a financing period while assuring sellers of eventual payment. Banks may discount the usance LC, providing the seller with immediate cash, but they charge a discount rate reflecting the time value of money.

Value-Added Tax (VAT) Refund – The reimbursement of VAT paid on exported goods, often claimed by exporters in the destination country. Related terms: tax credit, customs duty. Accurate documentation, such as commercial invoices and export declarations, is essential to claim a VAT refund. Delays in filing or errors can result in reduced refunds or penalties.

Warehouse Receipt – A document evidencing ownership of goods stored in a warehouse, which can be used as collateral for financing. Related terms: inventory financing, receivable. The receipt specifies the quantity, quality, and location of the goods. Lenders may grant loans against warehouse receipts, but they must verify the warehouse's credibility and the security of the stored assets.

Working Capital – The funds required to cover day-to-day operational expenses, such as purchasing inventory, paying salaries, and covering short-term liabilities. Related terms: cash flow, liquidity. In trade, working capital is critical to finance production before shipment and to manage payment cycles. Access to flexible financing, like revolving credit facilities, helps maintain adequate working capital levels.