TRADE FINANCE

CASH FLOW
Consultancy

Trade Finance is a facility to meet the cash flow gap between purchase of goods and subsequent sale of goods by an Importing business.

The Trade Financier will raise a Letter of Credit (LOC) in favour of the supplier in order to purchase the goods on behalf of their client. To protect their investment the Trade Financier will hold title to the goods until the facility is repaid.

Once the goods are delivered the client will sell the goods. It is usual practise where the financier would only get involved with pre-sold goods. Hence, it requires the client to hold confirmed purchase orders for the goods.

Also the goods should be finished products and quick selling items. It would not be a suitable form of finance where the client was purchasing components which they would then make into something else as the resale value of the product is unreliable, hence putting the financier's security at risk, should the client be unable to complete their part of the process.

The Trade Financier will usually draw a Bill of Exchange on their client for payment to be made by an agreed date. For added security, some financiers would link the Trade Finance with an Invoice Finance facility. In this case the client sells the goods and assigns the invoices to the Invoice Financier. The prepayment percentage of it is then paid directly to the Trade Financier to repay their facility.

Benefits :

- Gives a business up to 100% funding for confirmed purchase orders.
- Unlike other forms of finance (i.e. Overdrafts& loans),the finance facility could automatically grow with the business and its turnover grows, on a deal by deal basis.
- Trade Finance is not a loan facility; hence it would not create an entry of debt on the company's balance sheet.
- Gives huge opportunity to negotiate favourable terms from suppliers by paying earlier.
- Provides the businesses the ability to react quickly to market opportunities, whilst keeping both debtors& suppliers under control.

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