BACB

Securing safe payment from Libya for the provision of goods and services

December 2017

Background

The prevailing uncertainty in Libya is clearly problematic for those companies that are looking to export goods and/or services to the country and making sure they get paid in full in accordance with the transactional agreement.

If a company has its own physical operations in Libya then receipt of payment in Libyan Dinars is always an option if:

- The company's local liabilities are of a scale that could use the Dinars, and
- It is prepared to take the credit risk on domestic Libyan banks, and
- If it is prepared to take the currency risk if and when it wants to convert the money to hard currency and remit the funds overseas.

For those companies who want paying immediately in hard currency there are other factors to be considered, the most important of which is that access to foreign currency is controlled by the Central Bank which prioritises and controls the timing and release of funds.

Options for Securing Safe Payment

There are four primary methods of payment for international trade:

- Cash-in-Advance
- Letters of Credit
- Documentary Collections
- Open Account

Depending on whether you are an exporter or an importer each of these payment methods provides a certain level of security that the transaction will be favourably concluded.

For an exporter, they want to get paid as soon as possible, preferably when the order is placed or before the goods are despatched. For an importer, they want to receive the goods as soon as possible but to delay payment for as long as possible, preferably until they have resold the goods or used them to generate income to pay the exporter.

Depending on the risk appetite of both parties a method of payment for the transaction(s) in question will be agreed.

Least Secure			Most Secure
Open Account	Documentary Collections	Letter of Credit	Cash in advance
Exporter			
Importer			
Cash in advance	Letter of Credit	Documentary Collections	Open Account
Least Secure			Most Secure

Cash-in-Advance

With cash-in-advance payment terms, an exporter can avoid credit risk because payment is received before the ownership of the goods is transferred. Requiring payment in advance is the least attractive option for the importer.

Libyan buyers may insist on receiving an Advance Payment or Performance Guarantee before they will pay up-front. BACB is able to issue such Guarantees on behalf of the exporter and his bank, and if the Libyan importer/buyer is a BACB customer, we can issue the Guarantee directly, thus removing an additional layer of red tape, costs and taxes to the exporters.

Letters of Credit (LCs)

LCs are one of the most secure instruments available to international traders. An LC is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the LC have been met, as verified through the presentation of all required documents. The buyer establishes credit and pays his or her bank to render this service. An LC is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. An LC also protects the buyer since no payment obligation arises until the goods have been shipped as promised.

BACB is able to confirm (and discount if required) Letters of Credit issued by a range of Libyan banks, as well as issue LCs on behalf of it Libyan clients. Note - over half of BACB's Trade Services Department are CDCS and/or CSDG accredited; the only two internationally recognised qualifications in Letters of Credit, Standby letters of credit and Guarantees.

Documentary Collections (DC)

A DC is a transaction whereby the exporter entrusts the collection of the payment for a sale to its bank (remitting bank), which sends the documents that its buyer needs to the importer's bank (collecting bank), with instructions to release the documents to the buyer for payment. Funds are received from the importer and remitted to the exporter through the banks involved in the collection in exchange for those documents.

BACB banks a number of Libyan corporates, with which we can process collections directly thus assisting in speeding up the payment process. For non-client business, BACB is able to process the collections through our extensive correspondent banking network and receive payments on behalf of the exporter.

Open Account

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days. This is one of the highest risk options for an exporter and one of the most advantageous options to the importer in terms of cash flow and cost. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques. When offering open account terms, the exporter can seek extra protection using export credit insurance.

Consignment in international trade is a variation of open account in which payment is sent to the exporter only after the goods have been sold by the foreign distributor to the end customer. An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold. Clearly, exporting on consignment is very risky as the exporter is not guaranteed any payment and its goods are in a foreign country in the hands of an independent distributor or agent. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

BACB is able to mitigate the risk for the exporter by offering a Payment Guarantee or Receivables Financing Programme where the importer is a major Libyan corporate.

For more information please contact:

Jeff Fallon
Head of Trade Finance

BACB
8-10 Mansion House Place, London EC4N 8BJ
T. +44 20 7972 6360
M. +44 7876 864809 jeff.fallon@bacb.co.uk
SWIFT BACMGB2L