

- The exporter's bank forwards the L/C to the exporter.
- The exporter ships the goods according to the terms of the contract.
- The exporter presents the specified documents to the bank for payment.
- The exporter's bank checks the documents to ensure compliance with the L/C. It can then issue payment to the exporter.
- The exporter's bank then forwards the documents to the buyer's bank.
- The buyer's bank also checks the documents for compliance. If satisfied, it can release funds to the exporter's bank.
- The buyer's bank forwards the shipping documents to the importer.
- Finally, with the shipping documents in hand, the importer can take delivery of the goods from the carrier.

On receiving an L/C, the exporter should carefully check its details. The exporter must be satisfied that the credit amount is sufficient and that all of the specified documents can be assembled and prepared in the time allowed for payment. Particular attention must be paid to issues such as the spelling of names, the description of the goods, their quantity, expiry dates, ports of shipment and destination, and insurance specifications.

If an examination of the L/C shows some conditions to be untenable, or if the terms of the sale have changed, the exporter should insist that the importer instruct the issuing bank to make a formal amendment to the L/C before shipment.

## **COLLECTIONS OR BILLS OF EXCHANGE**

Documentary collections are probably the most common form of payment used in international trade. They consist of a bill of exchange accompanied by commercial documents transferring ownership to the importer after payment is made for the goods. In a documentary collection, payment is obtained on submission of commercial documents such as invoices, shipping documents or documents of title. The documentary collection is a relatively secure means of payment because the bank will not release the goods without either payment or a promise to pay from the buyer.

As with an L/C, four players are involved in a collection: the exporter, the exporter's bank, the importer, and the importer's bank. The bill of exchange and related documentation are forwarded by the exporter to the buyer through their banks. The collection order issued by the exporter to the bank lists the documents enclosed and specifies the terms and conditions of payment before the documents are to be released to the buyer. The exporter's bank then contacts the buyer's