

Advance Payment

As per the payment terms agreed upon by the parties in the sales contract, the buyer makes an advance payment to the seller. The seller then dispatches all shipping documents directly to the buyer for clearance of the goods at the destination.

Advance Payment Cycle:

1. Advance Payment Request by Buyer:

- The buyer submits a request to their bank for advance payment to the seller using the prescribed form (if applicable), providing full details of the seller's bank and attaching a copy of the sales contract.

2. Compliance Checks by Buyer's Bank:

- The buyer's bank verifies that the payment instruction is signed by an authorized signatory according to bank records.
- The bank conducts compliance checks per bank policy, ensuring that all parties involved in the sales contract, the description and origin of the goods, and the routing of the goods comply with regulatory requirements.
- The buyer's bank tracks the transaction to ensure that the corresponding goods are imported within the timeframe stipulated by regulatory policies.

3. Compliance Checks by Seller's Bank:

- The seller's bank requests a copy of the sales contract and performs compliance checks in line with bank policy, focusing on the parties involved, the goods' description, origin, and routing.
- Upon satisfactory completion of these checks, the seller's bank credits the advance payment to the seller's account.
- The seller's bank monitors the transaction to ensure the goods are exported within the time frame set by regulatory policies.

4. Shipment and Document Dispatch by Seller:

- The seller ships the goods and dispatches all shipping documents directly to the buyer.
- The seller submits copies of the required documents, including customs documents, to their bank as proof of export against the advance payment received.

5. Compliance Checks Post-Shipment by Seller's Bank:

- The seller's bank performs compliance checks on the submitted documents as per bank policy, verifying parties, goods description, origin, and routing, and records the shipment against the advance received.

6. Documentation Submission by Buyer:

- The buyer presents copies of the required documents to their bank along with customs documents as evidence of the import of goods.

7. Compliance Checks Post-Import by Buyer's Bank:

- The buyer's bank performs compliance checks on the submitted documents as per bank policy, ensuring the parties, goods description, origin, and routing are correct, and records the shipment against the advance paid.

Reasons for Buyer Agreeing to Advance Payment:

- The seller may demand advance payment when there is a high demand for the product.
- The seller could hold a monopoly in the market.
- The seller may demand advance payment to manufacture goods according to the buyer's specific requirements or to secure necessary financing.
- The buyer may wish to establish a long-term business relationship with the seller.
- The seller may be a subsidiary of the buyer.
- The seller may demand advance payment due to risks associated with the buyer's country.

Risks to the buyer	Risks to the seller
<ul style="list-style-type: none">• Seller's country risk• Performance risk: Seller may not effect or may delay the shipment, may supply inferior quality, may try to re-negotiate the price if market goes up.	<ul style="list-style-type: none">• None
Advantages to the buyer	Advantages to the seller
<ul style="list-style-type: none">• May demand better price / cash discount• Limited bank charges	<ul style="list-style-type: none">• No credit risk• Application of funds