

The other instruments

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The documentary credit is only one instrument among a broad range. Trade finance draws on a set of tools adapted to the different phases and the different risks of commodity transactions.

Pre-financing and prepayment arrangements allow a trader to finance a producer before delivery, against an undertaking to deliver future goods. The trader advances funds to a national oil company, an agricultural cooperative or a mine, which repays by delivering its production at a fixed or indexed price. Such transactions, common in dealings with producer countries in Africa and elsewhere, give producers liquidity and traders secure access to supply. They carry high credit, performance and political risks and raise questions of transparency and indebtedness that Part I will examine.

Inventory financing makes it possible to finance goods held in storage and pledged to the bank, which controls their release. It requires supervision of warehouses, regular valuation of the stock and margin-call mechanisms when prices fall. Inventory fraud, in which the same goods are pledged several times over or do not exist at all, is among the most frequent forms of fraud in the sector.

Asset-based credit lines, known as *borrowing bases*, allow medium-sized and large traders to obtain a global facility whose available amount is calculated periodically on the basis of the value of eligible assets — inventory, receivables, hedged positions — subject to haircuts. They combine the flexibility of corporate lending with the security of asset-backed financing.

Syndicated loans, finally, bring together dozens of banks to finance the major trading houses on the basis of their overall creditworthiness. The large traders renew facilities worth several billion dollars every year, and the signing of these facilities is followed by the market as an indicator of the banks' confidence.¹

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Bank guarantees and standby letters of credit complete the picture. They secure the performance of obligations — payment, performance, repayment of advances — and are called upon in the event of default. They are governed by uniform rules distinct from those applying to documentary credits.²

Instrument	Function	Principal risks
Documentary credit	payment against compliant documents	documentary compliance, documentary fraud, default of the issuing bank
Pre-financing	advance to a producer against future deliveries	producer performance, political risk, transparency
Inventory financing	credit secured on goods in storage	existence and value of the stock, multiple pledging, falling prices
<i>Borrowing base</i>	facility calculated on eligible assets	valuation, haircuts, control of the assets
Syndicated loan	global financing of the major trading houses	trader's creditworthiness, concentration
Guarantee and standby	security for the performance of obligations	abusive call, insolvency of the applicant

1 Notes

1. Trafigura, press releases of 22 March 2023 (refinancing and extension of the European facilities of USD 5.4 billion), 2024 (USD 5.6 billion), 2025 (renewal of USD 5.6 billion) and 10 March 2026 (USD 5.8 billion, including a 365-day tranche refinanced every year, 53 banks); Trafigura, press releases of 2024 and 2025 on the Asian syndicated facilities of USD 3.2 and then USD 3.4 billion (trafigura.com, “Press releases” section). ↩

2. ICC Uniform Rules for Demand Guarantees, 2010 revision (URDG 758), adopted on 3 December 2009 and in force since 1 July 2010, which replace the URDG 458 of 1992 and provide for an examination period of five business days; Centre de droit bancaire et financier, “Garanties bancaires : entrée en vigueur le 1er juillet 2010 des nouvelles Règles uniformes relatives aux garanties sur demande”, cdbf.ch; the International Standby Practices (ISP98) govern standby credits. ↩

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