

**A Comprehensive Study on Foreign Exchange Operations
of
Social Investment Bank Limited**

Course title: Internship Report
Course code: BUS 499

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Dear Student

Authorization of the Report.

Here is the report on “A comprehensive study on the foreign exchange operations of Social Investment Bank Limited” that I am assigning you to do for the partial fulfillment of the course BUS 499 which is in general known as Internship Report

You should try your best to prepare this report to be as informative and relevant as possible.

I will be available to help you regarding this report.

Best wishes to you.

Signature

S I Nusrat A Chaudhury
Associate Professor
Department of Business Administration &
Head, Career Counseling Center
East West University
Dhaka

December 21, 2008

S I Nusrat A Chaudhury

Associate Professor
Department of Business Administration &
Head, Career Counseling Center
East West University
Dhaka

Dear Sir,


Submission of Internship report

Here is the internship report on “A comprehensive study on the foreign exchange operations of Social Investment Bank Limited”. I was supposed to prepare this report as a partial requirement of the internship program, an integral part of BBA program of East West University.

As you go through the report you will see that I have tried to collect as much information as possible, through analysis of documents and interviews with concerned people of the bank.

I have employed my best efforts in preparing this report and have the pleasure to submit it. The Preparation of this report has rendered me valuable experience about SIBL and I would like to thank you for giving me the opportunity to gather this valuable experience. I would also be grateful if you have any correction or suggestion on this report.

Sincerely yours,



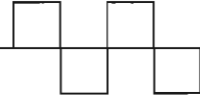
Md. Arafat Islam

2004-2-10-008

Department of Business Administration

East West University

Acknowledgement



Completion of this Term Paper was not a very easy task for me. Many individuals helped me to complete this report. Without their help & sincerity, it was quite impossible for me to finish this report.

First of all, I would like to express my gratefulness to all mighty 'Allah', who has provided me this opportunity to complete this report successfully with sound health & mind.

I must convey my sincere gratitude to my respected teacher Mr. S I Nusrat A Chaudhury who assigned me the report on the topic "A comprehensive study on the foreign exchange operations of Social Investment Bank Limited" and also provided an opportunity to work on such wonderful topic. He also gave me proper guideline about this report and helped me to make some vital corrections. I really want to disclose my heartiest gratitude to him for his valuable advice and time that he gave me, which helped immensely in preparing this report.

I also acknowledge the cooperation of my senior colleagues' at Social Investment Bank Limited. Various people from the Foreign Exchange Department, General Banking and Investment Department provided me all the data and information used in this report. I am sincerely grateful to all of them for their sincere help and support

Finally, again I want to thank my course instructor, who gave me a tremendous opportunity of working and learning about the whole procedure of Foreign Exchange business of Social Investment Bank.

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Executive Summary

Commercial banks in Bangladesh economy are to face an increasing competition for their business in coming days, like any other emerging market economies. Their business is no longer remaining easy as they earlier. The real change in the banking business has started to come with the government's decision to allow the business in the private sector in the middle of the Eighty's. This report is an effort to reflect a clear idea about the strategies, activities, and performance of Social Investment Bank Ltd. regarding foreign trade or Foreign Exchange Business. In this report I tried to find out all sorts of practical dealings that are conducted in case of handling various type of banking activities in each department, specially foreign exchange department, the theoretical aspects, that is what should be the procedures and requirements maintained from first to last, and actual practices as well as the ultimate gain for the bank in conducting financial activities are mainly discussed. The Foreign Exchange department is the vital part for financial intuitions. Values are established for commodities and manufactured goods imported or exported among countries by the means. So it is very important to have an effective and sound management system in foreign exchange business for performing International trade. As a business studies student it is necessary for me to have vast acquaintance regarding foreign trade and I wanted to be acquainted with the whole procedure of foreign trade. This report is an attempt to reflect the position of Social Investment Bank Ltd in the banking industry of the country in respect of its activities in the arena of Foreign Exchange business.



Chapter 1

Introduction

Origin of the Report

Objective of the Report

Scope of the Report

Methodology

Limitations

1.0 Introduction

Commercial banks in Bangladesh economy are to face an increasing competition for their business in coming days, like any other emerging market economies. Their business is no longer remaining easy as they earlier. The real change in the banking business has started to come with the government's decision to allow the business in the private sector in the middle of the Eighty's. This report is an effort to reflect a clear idea about the strategies, activities, and performance of Social Investment Bank Ltd. regarding foreign trade or Foreign Exchange Business.

The Foreign Exchange department is the vital part for financial intuitions. Values are established for commodities and manufactured goods imported or exported among countries by the means. So it is very important to have an effective and sound management system in foreign exchange business for performing International trade. As a business studies student it is necessary for me to have vast acquaintance regarding foreign trade and I wanted to be acquainted with the whole procedure of foreign trade. This report is an attempt to reflect the position of Social Investment Bank Ltd in the banking industry of the country in respect of her activities in the arena of Foreign Exchange business.

1.1 Origin of the Report

This work has been done as a requirement of the completion of our graduation as per the rule of East West University. However, this report has been done exclusively by me to fulfill the requirement of the course BUS 499 which is in general known as Internship Report. I am uttering my heartiest gratitude to honorable faculty Mr. S I Nusrat A Chaudhury, Associate Professor, Business Administration Department, East West University for allowing me to do the report under his supervision. Nevertheless, the report will be prepared on "A comprehensive study on the foreign exchange operations of Social Investment Bank Limited."

1.2 Objective of the Report:

In this report, I have tried to furnish all sorts of practical dealings that are conducted in case of handling various types of activities in foreign exchange department, the theoretical aspects, that is what should be the procedures and requirements maintained from first to last, and actual practices as well as the ultimate gain for the bank in conducting financial activities are mainly discussed. So the purpose and objective of this report can be summarized as follows:

Broad: To portray of the Foreign exchange operations in respect of Import and Export conducted by Social Investment Bank Ltd, Principal Branch, Dhaka

As it is an overall study of foreign trade regarding import & export so I am going to analyze the related factors of export-import business and bank's performance by fulfilling the following objectives including Import-Export procedure. Therefore, my specific objectives are:

Specific:

- To focus on the Brief description of foreign trade.
- To know deeply about Import- Export procedure
- To examine bank's performance in foreign exchange business
- To focus on some other activities of foreign trade
- To specify some findings on given topic
- To reveal some recommendation for better performance in foreign trade

1.3 Scope of the Report

The literal scope of the report is to draw the scenario which will be free from mimic and it will try to come up with its maximum reach by giving the related pictures, rationale and nonetheless the factual information. It did apparently depend on the information that has

been provided by the organization and also the data that has been collected in general. On the basis of all of this a recommendation has been given as well. The report is highlighting the major functional area of foreign exchange department and procedure of import & export. It is not possible to pinpoint the each & every aspects of foreign exchange transactions due to this short span of time.

1.4 Methodology

The report was prepared by gathering following types of data and information:

Primary Sources:

- Observation of banking activities.
- Overflowing Conversation with the in-charge of the foreign exchange department of Social Investment Bank Limited, Principal Branch.
- Working with my own experience while internship program.

Secondary Sources:

- Daily diary (containing my activities of practical orientation in Social Investment Bank Ltd) maintained by me,
- Various publications on Bank
- Websites,
- Annual Report of the bank
- Personal investigation with bankers,
- Different circulars issued by Head Office and Bangladesh Bank

1.5 Limitations

There were certain things in making a report like this one, which was creating problems for me in doing the necessary works, and there are many other things, which will be

counted in order to make it a successful report. But as we all know there is a dark side of the moon we have to consider the following limitations or boundaries:

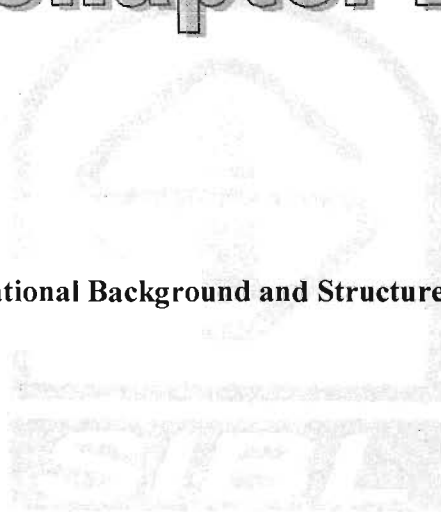
- Every voucher, statement, maintaining of register etc. are done by manually, for which it is not possible for me to collect information on right time.
- The branch is a busy branch and more so, shortage of manpower in foreign exchange department of the branch, I could not get information as required my study although they have good intention to provide.
- Two-month time is not sufficient to have practical knowledge and prepare a report such a big subject like foreign exchange.
- While collecting data they did not disclose much information/data due to the secrecy of the organization.
- Lack of perfect co-ordinations in the different sectors of the report.
- I have the lacking of understanding many terms and conditions of many of the report materials and other related stuff for the lack of experiences in the related field.





Chapter 2

Organizational Background and Structure of SIBL



2.1. Historical Perspective

Social Investment Bank Limited (SIBL) was incorporated as a public limited company on 5th July, 1995 under Companies Act, 1994 and, started its commercial operation on November 22nd, 1995 as a private sector commercial bank based on Islamic Shariah having authorized capital of Tk. 1,000.00 million and paid up capital Tk. 200 million. The bank was established under the leadership of Prof. Dr. M. Mannan, founder Chairman of the bank on the basis of integrated three sector model: formal, non-formal and voluntary sector of the economy with the very phrase, "Targeting Poverty" for achieving a goal of participatory economy for a caring society.

SIBL started its journey with the concept of 21st century Islamic participatory three sector banking comprising Formal, Non-Formal & Voluntary Sector. While Formal Sector deals in general commercial banking with latest technology as a scheduled bank, Non-Formal Sector deals in family Empowerment Micro-credit, Micro-Enterprise and SMEs financing with a view to poverty reduction and unlock the potentials of the "missing middle" who had not been properly addressed by the Corporate Banking Sector. Under Voluntary Sector, the bank is doing "Welfare-banking" through its Cash Waqf Scheme, an innovative financial product for social capital mobilization introducing for the first time in the history of banking.

2.2 Nature of Business

Social Investment Bank Ltd is a three sectors joint-venture Islamic commercial Bank. The three sectors are as follows:

Formal Sector: In the formal corporate sector, this Bank would, among others, offer the most up to date banking services through opening of various type of deposit and investment and accounts, financing trade, providing letters of guarantee, opening letters of credit, collection of bills, effecting domestic and international transfer, leasing of equipment and consumers' durable, hire purchase and installment sale for capital goods,

investment in low-cost housing and management of real estates, participatory investment in various industrial, agricultural, transport, educational and health projects and so on.

Non-Formal Sector: In the in-formal non-corporate sector, it would, among others, involve in opening and introducing various savings and micro-credit investment and custom-tailored group programs, design for small entrepreneurs, marginal farmers, land less laborers, unemployed educated youth/semi-skilled people, etc.

Voluntary Sector: In the voluntary/third sector, it would, among others, involve in the development and management of WAQF and MOSQUE properties, management of inheritance properties, joint-venture project for management of Hazi affair, development and management of non-profit foundations, charitable trusts and organizations, development and management of funds involving of women and non-Muslim minorities and so on.

2.3 Organizational overview

The Bank was incorporated in Bangladesh in the year 1995 as a banking company under the companies Act, 1994 with all types of commercial banking services as provided by all the Banks. Besides as a matter of policy the Bank conducts its business on the principles of Musharaka, Murabaha, Bai-Muazzal and Hire Purchase transaction approved by Bangladesh Bank. The Bank is one of the interest-free Shariah based Banks in the country and its modus-operandi are substantially different from those of other conventional commercial Banks.

2.3.1 Head Office & Branches

The Head office of the bank is situated at 15, Dilkusha C/A, Dhaka, Bangladesh. There are 28 branches of the bank situated in different locations of Bangladesh. The principal branch of the Bank is also situated at 15, Dilkusha C/A, Dhaka, Bangladesh.

2.3.2 Capital Structure

The authorized capital of the bank is BDT 1,000.00 million (1,00,00,000 ordinary shares of Tk. 100 each) and paid up capital of the bank stood at BDT 585.00 million in the year 2004. It was further raised to BDT 1,170.00 million (1,17,00,000 Ordinary shares of Tk.100 each) on 28.06.2007 through public issue of right shares 1:1 at par.

2.3.3 Management of SIBL

To run an organization very smoothly, the management plays a vital role and the strength of an organization depends on the strength of its management. The management of Social Investment Bank Limited is very much capable to handle every challenge to achieve organizational goal by utilizing its human resources and organizational processes.

The names of various departments of SIBL Head Office are mentioned below:

- Investment department
- International department
- Financial administration department
- Human resource department
- Information technology department
- General service department
- Branches development department
- Internal control and compliance department
- Board division

2.3.4 Capital Structure of SIBL

The components of capital structure of SIBL are Paid up Capital, Statutory Reserves, Retained Earnings, Provision on Investment, 1% provision on unclassified investment, Investment Loss Off-setting Reserve, Exchange Equalization, Proposed Bonus Share, Right share and others.

The paid up capital of the bank stood at Tk.585.00 million in the year 2004 that was further raised to Tk.1170.00 million (1,17,00,000 Ordinary shares of Tk. 100 each) on 28.06.2007 through public issue of right shares 1:1 at par to maintain minimum Capital Adequacy ratio of 9%.

[Appendix 3 page-42, Table-1: Comparative position of Capital of the year 1999 to 2005]

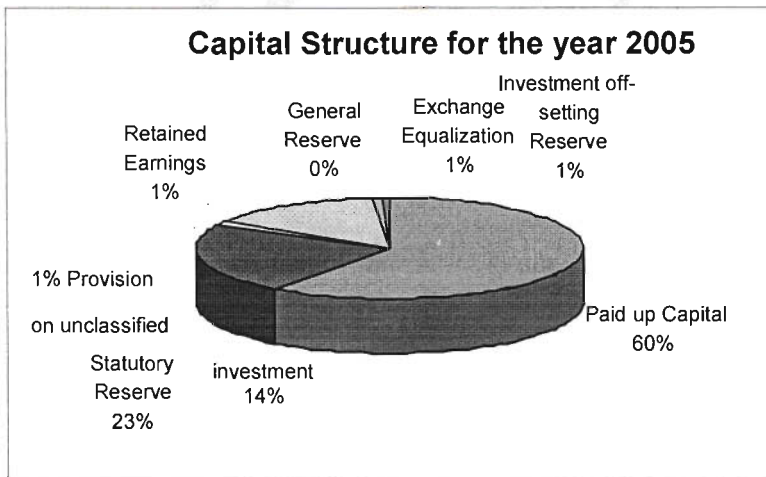


Fig-1: Capital structure for the year 2005
(Source: Annul report of SIBL - 2005)

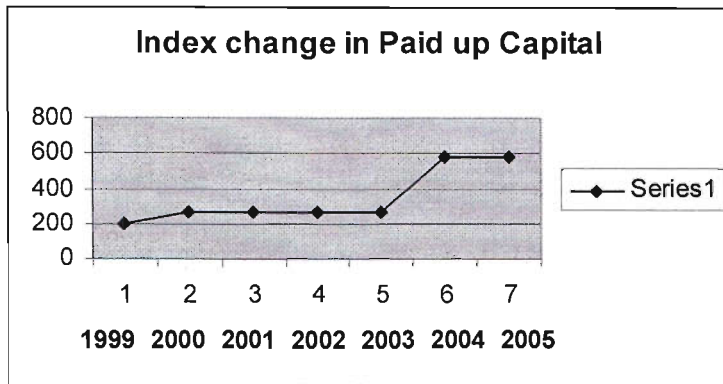


Fig-2: Capital structure for the year 1999- 2005
Source: Annual report of SIBL 1999-2005

2.3.5 Liquidity

Liquidity is maintained in the form of cash in hand and balance with Bangladesh Bank and balance with Sonali Bank including foreign currency notes. Balance held with other banks and financial institutions are also taken into consideration. The table below shows the cash in hand (of SIBL) and balance with Bangladesh Bank and Sonali Bank & Balance with other banks and financial institutions:

[Appendix 7 page-43, Table-2: Trends of cash in hand, balance with Bangladesh and other banks]

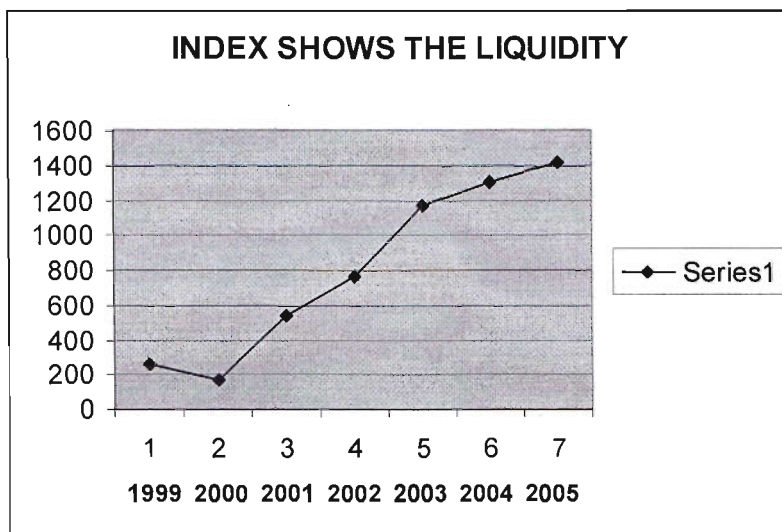


Fig-3: Liquidity position for the years 1999- 2005
Source: Annual reports of SIBL 1999-2005

2.3.6 Assets

Assets of SIBL includes cash in hand, cash with Bangladesh Bank and Sonali Bank, balance with other banks and financial institutions, money at call and short notice, investments, fixed assets and other assets. Among of the above components of the assets; Cash in hand, Cash with Bangladesh Bank, Fixed assets and other assets like Stationery, Stamps, Profit receivables, Godown rent, Insurance premium and corporate tax, Balance with other banks and financial institutions, Money at call/ short notice, Investment on bills and discounted and purchased are the elements of earning assets.

[Appendix 8 page-43, Table-3: Trends of the assets of the bank includes cash in hand, balance with Bangladesh Bank and other banks and financial institutions, investments, fixed assets and other assets]

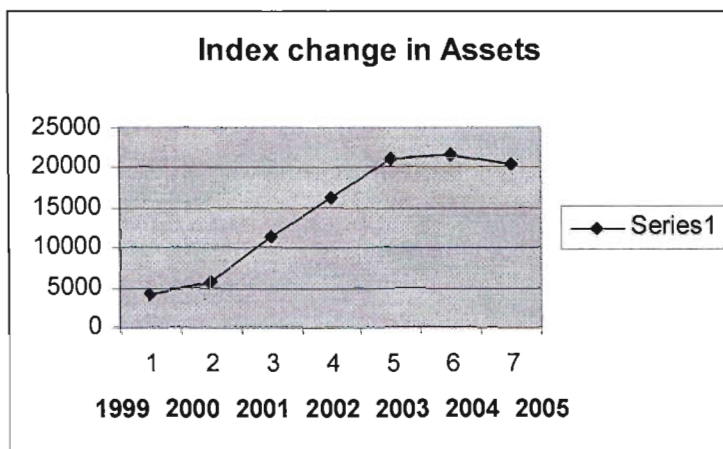


Fig-4: Assets' position for the years 1999- 2005
Source: Annual report of SIBL 1999-2005

The estimated average of the value of the variable of total assets of the bank measured in terms of arithmetic mean is 14,358.91 million taka and estimated deviation of the values of the variable from its central value measured in terms of standard deviation is 7365.81. Compound growth rate of the variable has been calculated 30.00359

2.4 Mission & Vision of the bank

Social Investment Bank Limited has completed its successful existence and it has taken some missions.

The corporate missions of the bank are as follows:

- To provide excellent quality products and services that will encourage savings.
- To become trustworthy to the depositors and the borrowing customers.
- To assist the business development of private sector institutions, industry, and household(s).
- To provide high quality corporate finance to the formal sector through participatory market mechanism with collateral(s).
- To monetize to the non-corporate finance in the non-formal sector through non-market and participatory custom-tailored micro-level credit package without collateral(s).
- It also emphasizes on a reasonable return from its investment to satisfy the shareholders.
- Achieving sustainable Participatory economy, Social Security, and peace for the society.

The corporate **vision** of the bank is “**Working Together for Caring Society**”. The bank believes in togetherness with its customers, in its march towards growth and progress with services.

2.5 Correspondent Banking Relationship

SIBL has a very strong Correspondent banking network around the globe. The Bank has SWIFT, Bi-lateral Key exchange with renowned Banks around the world. SIBL are capable to carry out International Exchange Business with most of the global trading regions. SIBL have 24 Nostro correspondent Banks. SIBL earn profits and rebates on

overseas business through these our strong correspondent relationship with overseas Banks we enjoy credit lines of substantial offered by SIBL different correspondents, which helps SIBL honors the Bank LCs and fulfill their commitments aboard

2.6 Corporate Governance

In recent times, corporate governance has been considered most essential aspect for efficient management of a business house. SIBL gives much emphasis on the corporate governance in promoting a sound management. The objective of the Bank is to comply with all regulatory requirements, ensure equitable treatment of all stakeholders. It confirms full and fair disclosure of financial and other material information and show respect for norms of business ethics and social responsibility. The Board of Directors, Executive Committee, Audit Committee and other committees of the management perform their respective tasks with accountability and transparency. Besides, to support and enhance the practice of corporate governance, Board Audit Committee has been formed according to BRPD Circular No 12 dated 23-12-2002 of the Bangladesh Bank. The main function of such committee is to ensure smooth compliance with all rules and regulations, policies and procedure within the Bank



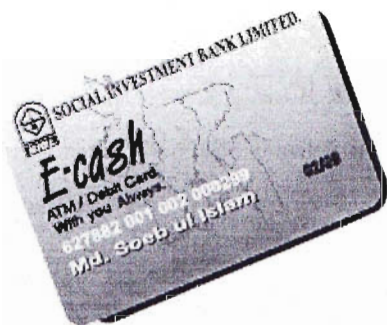
2.7 E-Age Banking

Any Branch banking

Recently the Bank has introduced Online Banking amongst 20 branches of SIBL through which our customers have access to their access from another branch.

ATM (Debit Card)

SIBL has introduced E-Cash ATM Debit Card service since June 2004 through E-Cash ATM booths within Dhaka, Chittagong, Sylhet, Rajshahi and Cox's Bazar city. Any body, who has a Current/Savings/Short Notice Deposit Account at our any branch, he/she can apply for E-Cash ATM Debit Card from that branch. He/she also can apply for one or more ATM Card against a single deposit account as mentioned above. Customer can get 24-hour Cash Withdrawal service including holidays. Customer can pay Grameen, Aktel and City Cell mobile phone bill through E-Cash ATM Booth.



Online Banking

SIBL is providing Online Banking Service to its clients since January 2004. The Bank has deployed this On-Line Banking system through V-Sat communication. The Information & Communication Technology (ICT) Department is closely monitoring the online transactions. Everyday the designated officers check and monitor the online related equipments like V-Sat, Router, Switch etc. to ensure uninterrupted online operation at branches. Online Transactions are executed by the PcBANK2000 integrated banking software through a secured database and worldwide tested V-Sat Communication Link.

Region	Transaction Type	Service Charge
Intra City	Cash Withdrawal/ Cash Deposit	Free
	Fund Transfer	Tk 10+ VAT for transaction up to 25,000/- Tk 15+ VAT for transaction 25,001/- to 50,000/- Tk 20+ VAT for transaction 50,001/- to 1,00,000/- Tk 30+ VAT for transaction 1,00,001/- to 5,00,000/- Tk 40 + VAT for transaction above 5,00,000/-
Inter City	Cash Withdrawal / Cash Deposit / Fund Transfer	0.05% of Transacted amount + VAT but minimum Tk. 30/- + VAT

Charge for each Account Statement through Online is Tk.10/-. Customers can Deposit/Withdraw money from any of our branches or Transfer money within our branches. Prompt Service. Saves time and effort of the customers

Branches having Online facilities

1. Principal Branch, Dhaka
3. Dhanmondi Branch, Dhaka
5. IDB Bhaban Branch, Dhaka
7. Uttara Branch, Dhaka
9. Babu Bazar Branch, Dhaka
11. Nawabpur Road Branch, Dhaka
13. Agrabad Branch, Chittagong
15. Haliashahar Branch, Chittagong
17. Bogra Branch, Bogra
19. Rajshahi Branch, Rajshahi
2. Gulshan Branch, Dhaka
4. Foreign Exchange Branch, Dhaka
6. Mirpur Branch, Dhaka
8. Panthapath Branch, Dhaka
10. Moulvibazar Branch, Dhaka
12. Sylhet Branch, Sylhet
14. Jubilee Road Branch, Chittagong
16. Khatungonj Branch, Chittagong
18. Khulna Branch, Khulna
20. Sirajgonj Branch, Sirajgonj

2.8 Ancillary Services

Locker Service:

Safe locker service is available at SIBL's Dhanmondi Branch & Gulshan Branch. The locker room has also an attached dressing room. Client may keep his/her valuable ornaments, documents etc. into the locker against a nominal yearly fee.

Utility Bill Receive:

In the formal corporate sector, this Bank would, among others, offer the most up-to date banking services through collection of bills like as gas bill, WASA bill, Bangladesh Telephone & Telegraph bill and Electric bill.

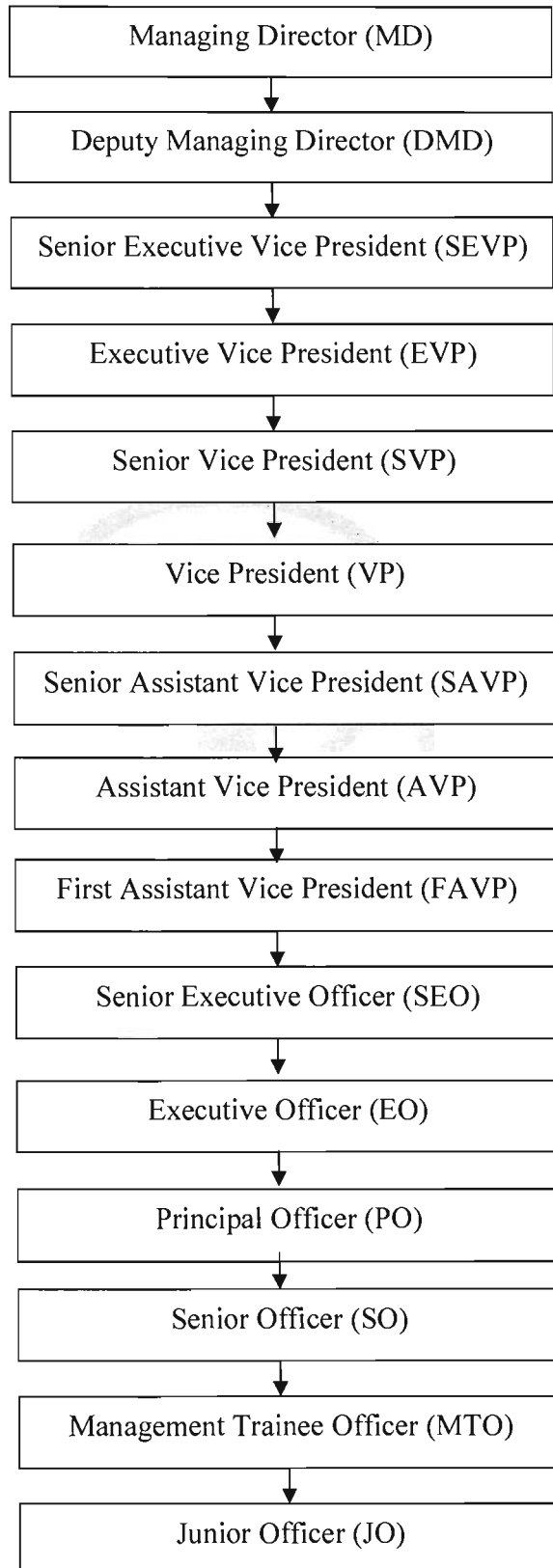
Guarantee Issue:

SIBL also provides various types of guarantee issue services

Consultancy:

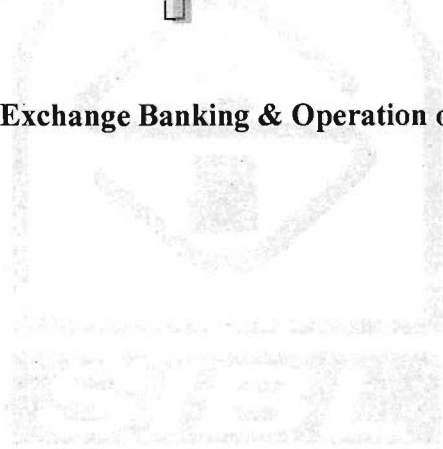
This bank also provides different types of consultancy services to different types of clients

2.9 Organizational Hierarchy of Social Investment Bank Limited



Chapter 3

Foreign Exchange Banking & Operation of SIBL



3.1 Foreign/ International Trade:

Foreign/International trade is the exchange of goods and services across international boundaries or territories. In most countries, it represents a significant share of GDP. While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact. Increasing international trade is the primary meaning of "globalization".

International trade is also a branch of economics, which, together with international finance, forms the larger branch of international economics.

International trade is guided by the rules and regulations of International Chambers of Commerce (ICC) by its various rules like,

- i) ICC Uniform Rules for Collections
- ii) ICC Uniform Customs and Practice for Documentary Credits

Regulation of Foreign Trade:

Traditionally trade was regulated through bilateral treaties between two nations. For centuries under the belief in Mercantilism most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in Britain, a belief in free trade became paramount and this view has dominated thinking among western nations for most of the time since then. In the years since the Second World War multilateral treaties like the GATT and World Trade Organization have attempted to create a globally regulated trade structure.

Free trade is usually most strongly supported by the most economically powerful nations in the world, though they often engage in selective protectionism for those industries which are politically important domestically, such as the protective tariffs applied to

agriculture and textiles by the United States and Europe. The Netherlands and the United Kingdom were both strong advocates of free trade when they were economically dominant, today the United States, the United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves. As tariff levels fall there is also an increasing willingness to negotiate non tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

Traditionally agricultural interests are usually in favor of free trade while manufacturing sectors often support protectionism. This has changed somewhat in recent years, however. In fact, agricultural lobbies, particularly in the United States, Europe and Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services.

During recessions there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the Great Depression leading to a collapse in world trade that many believe seriously deepened the depression.

The regulation of international trade is done through the World Trade Organization at the global level, and through several other regional arrangements such as MERCOSUR in South America, NAFTA between the United States, Canada and Mexico, and the European Union between 25 independent states. The 2005 Buenos Aires talks on the planned establishment of the Free Trade Area of the Americas (FTAA) failed largely due to opposition from the populations of Latin American nations. Similar agreements such as the MAI (Multilateral Agreement on Investment) have also failed in recent years.

Risks in Foreign Trade:

The risks that exist in international trade can be divided into two major groups:

Economic risks

- Risk of insolvency of the buyer,
- Risk of protracted default - the failure of the buyer to pay the amount due within six months after the due date
- Risk of non-acceptance
- Surrendering economic sovereignty

Political risks

- Risk of cancellation or non-renewal of export or import licenses
- War risks
- Risk of expropriation or confiscation of the importer's company
- Risk of the imposition of an import ban after the shipment of the goods
- Transfer risk - imposition of exchange controls by the importer's country or foreign currency shortages

3.1.1 Incoterms

Incoterms simply means International Commercial Terms. These are also known as contract Terms or Trade Terms of Delivery Terms of Sales Terms or Purchase Terms. These terms are use in the field of international trade of foreign trade. These terms have been prepared and named by the International Chamber of Commerce (ICC), Paris, France.

The purpose of Incoterms is to provide a set of international rules for the interpretation of the most commonly used trade terms in international trade/foreign trade. Thus the uncertainties of different interpretations of such terms in different countries can be avoided or at least reduced to a considerable degree. International Chamber of Commerce (ICC) first introduced the Incoterms in the year 1936. After that amendments and additions of the Incoterms were made by the ICC in several times to cope with the changing situations (needs) of the world related to international trade/foreign trade. Present incoterms have been revised by the ICC in 2000 which are known as Incoterms 2000.



There are thirteen incoterms divided in to four categories and four groups. These are as follows

Categories	Group	Terms	Incoterms
Departure	E	1. The seller makes the goods available to the buyer at the sellers own premise or another named place.	EXW EX Works (..named place)
Main carriage unpaid	F	1. The seller is called upon to deliver the goods to a carrier appointed by the buyer	FCA free Carrier (..named place)
		2. The seller should handover the goods for carriage as instructed by the buyer since the buyer would make the contract of carriage and name the carrier.	FAS free alongside shi (named port of shipment) FOB Free On Board (...named port f shipment)
Main Carriage	C	1. The seller has to contract for carriage but without assuming the risk of loss of or damage to the goods or additional costs due to events occurring after and dispatch.	CFR Cost and Freight (..named port of destination) CIF Cost insurance and Freight named port of designation)
		2. The seller should contract for carriage and put the goods on board the carriage.	CIP Carriage and Insurance Paid to.... named place of destination)
Arrival	D	1. The seller has to bear all costs and risks needed to bring the goods to the country of destination.	DAF, Delivered at frontier, (..named place), DES
		2. The seller should handover the goods to the buyer's country.	Delivered Ex ship (...named port of destination) DEQ Delivered Ex. Quarry (..named port destination) DDU Delivered Duty Unpaid (...named place of destination) DDP Delivered Duty paid (..Named place of destination.

3.2 Foreign Exchange Regulation Act, 1947 And Deregulatory Measures

Foreign exchange regulation act, 1947 was adopted in Bangladesh immediately after independence. However a few provisions have been added under the foreign exchange regulation (Amendment) ordinance, 1976. Actually this Act empowered Bangladesh Bank to regulate certain payments, dealings in foreign exchange and securities and the import and export of currency and bullion. Foreign Exchange Regulation Act 1947 was basically passed on 11th march in the year 1947. After 1947, the act was adopted by Pakistan and after 1971 by Bangladesh. The act has 27 sections and a number of sub sections.

The main objectives of the Act are to conserve the limited foreign exchange resources and to ensure that the available foreign exchange is utilized only for priority requirements in the economic and financial interests of Bangladesh and the maintenance of the proper accounting of foreign exchange receipts and payments. Bangladesh Bank reviews the exchange control measures from time to time and revise the instructions on policies and measures, whenever necessary through different Foreign Exchange (FE) circulars. Authorized dealers in foreign exchange are required to bring the foreign exchange regulations to the notice of their customers in their day to day dealings. Actually, all the regulatory amendments or changes are implemented by the authorized dealers at the level where transactions with the customers take place. And so authorized dealers are to ensure compliance with the regulations by the customers.

Bangladesh Bank issues license to deal in foreign exchanges empowered by the Foreign Exchange Regulation Act 1947. Central bank may issue general license or license with authority to perform limited functions only. The authorized dealers must maintain adequate and proper records of all foreign exchange transactions and furnish such particulars in the prescribed returns for submission to the Bangladesh Bank. They should also report to the Bangladesh bank in regard to any attempt of the provisions of the Act.

Since 1976 a lot of reform measures have been undertaken in Bangladesh .On October

20, 1993 Bangladesh Taka was declared convertible on current account transactions and in April, 1994 Bangladesh government has been awarded the status of Article VIII of IMF. The major deregulatory measures and changes taken place during last few years have been pointed out in the following paragraphs.

Bangladesh Bank in exercise of the powers conferred by the Foreign Exchange Regulations Act '47 issued licenses to commercial banks to deal in foreign exchanges. Recently the central Bank also permitted a number of Money Changers to exchange cash foreign currency notes, coins or foreign currency instruments such as traveler's cheques.

With the exception of a few reserved sectors, foreign investors are free to make investment in Bangladesh in industrial enterprises, Non-residents are free to invest in share/securities, with foreign exchange sent or brought in to Bangladesh, Foreign investors are free to remit their post-tax profits and dividend to their own country.

Foreign owned as well as joint venture, industrial units located in Bangladesh may freely borrow funds in foreign currency from abroad. Local banks may extend working capital loans or term loans in local currency to foreign controlled or foreign owned firms operating in Bangladesh.

Annual foreign exchange quota for business travel abroad for the new exporters has been set at US \$ 6000. Merchandise exporters may retain 25% of realized FOB value of their exports in foreign currency accounts.

Incoming passengers may bring in any amount of foreign exchange with declaration in FMJ form at the time of arrival. No declaration is necessary for amounts up to US\$ 5000.

Non-resident foreign currency deposit (NFCD) accounts may now be maintained as long as the account holder's desire.

Persons ordinarily resident in Bangladesh may maintain foreign currency accounts with foreign exchange brought in at the time of their return to Bangladesh from visits abroad.

These accounts are termed as Resident Foreign Currency Deposit (RFCD) accounts.

Bangladesh nationals having bank accounts abroad which were opened while working there may now maintain such accounts even after their return to Bangladesh.

Travel quota entitlement of Bangladesh nationals is set at US\$ 3000 per year for visits to countries other than SAARC member countries and Myanmar. Quota for SAARC member countries and Myanmar is US\$ 1000 for travel by air and US\$ 500 for travel by land route.

A Bangladeshi national returning from abroad may bring into Bangladesh up to 2 kilograms of gold or silver in bullion/ingot from subject to payment duties and taxes as levied by the government.

Education sector was declared fully convertible. Prior permission of Bangladesh Bank is not required for releasing foreign exchange in favor of Bangladesh students studying abroad or willing to proceed abroad for studies.

Authorized Dealers may release foreign exchange up to US\$ 10,000 for medical treatment abroad on the basis of recommendation of the Medical Board constituted by the Health Directorate and cost estimate from the foreign medical institutions.

Remittance of moderate amounts of foreign exchange for family maintenance abroad of Bangladesh nationals are allowed by Bangladesh Bank on written request supported by certificate from the Bangladesh mission in the concerned country.

Bangladesh Bank has stopped sales and purchases with Authorized Dealers of any currency other than the US Dollar and the Asian Clearing Union (ACU) currencies; to encourage the Authorized Dealers to buy and sell other currencies in the inter bank market.

To encourage Authorized Dealers to avoid frequent transactions with central bank and

instead to resort to inter bank deals, Bangladesh Bank has raised its transaction threshold to US\$ 50,000. Bangladesh Bank also widened to taka 0.20 from taka 0.10 the spread between its own buying and selling rates of US Dollar and has left the Authorized Dealers free to quote their own rates for inter bank transactions and transactions with non-bank customers.

Bangladesh Foreign Exchange Dealers Association (BAFEDA) has been formed and a "Code of Conduct" for treasury operations and Inter bank foreign exchange market has been formulated.

Convertibility Of Currency

The financial sector has two major roles in the context of a market-based approach to economic growth. It can link investors and savers efficiently and can be helpful to build up the habits of savings and investments. International Monetary Fund and leading economists in unison have been propagating since the early 70s for the market oriented financial system. Accordingly following the instances of the developed countries, most of the developing nations of the world have taken a lot of reform measures and moving towards market oriented financial system and economic liberalization. Among the South Asian countries, the process of policy reforms began in Sri Lanka in the late 70s supported by the various facilities provided by IMF. Bangladesh have taken a series of reform measures since 1976. Foreign exchange reform in Bangladesh also forms part of overall reform program undertaken with financial support from the IMF and World Bank. The first of these reforms were undertaken from 1988 to 1990 under Structural Adjustment Facility (SAF). The second set of reforms was carried out during 1990 to 1993 under the Extended Structural Adjustment Facility (ESAF). Convertibility of currency is one of the financial reform measures that has been undertaken by Bangladesh government and in 1993 Taka has been declared convertible on current account. One thing should be mentioned here that a single reform measure can not be discussed in isolation of others; it must be discussed in its entirety.

Convertibility is the ability of the owner of the currency to exchange it for other countries. Convertibility (also called free tradability) ensures that every holder of the currency is able to obtain an equal satisfaction from it as he could obtain from other currencies. A currency is said to be convertible when it may be fully exchanged for another currency. Convertibility of currency is not meant for domestic transaction purposes. It is only required for international transactions.

Convertibility of Taka

The financial authority of Bangladesh made the Taka convertible on current account since October 20, 1993 and already awarded Article VIII status of International Monetary Fund. The declaration means a commitment on the part of Bangladesh to allow her citizens to convert the Taka into foreign exchange to meet obligations falling into the category of current account. The declaration did not come about all on a sudden. Preparations for convertibility started a long time back-in the seventies. Since 1976, a lot of economic reform measures were undertaken in Bangladesh. These reform measures include: denationalization and privatization of industries and banks improvement in fiscal management, tariff rationalization, opening to trade regime etc. These have paved the road to convertibility.

Sequencing of reform measures is very important for the matter of achieving desired results for an economy. Real sector reform and financial sector reform should go hand in hand. Internal financial liberalization should be accomplished before external financial liberalization is undertaken. Some east European countries, could not achieve desired results due to improper sequencing of reform measures. Foreign exchanges reform or Taka convertibility on current account has been implemented as the last in the chain of account yet Bangladesh at present can not afford to do it.

Convertibility of Taka has produced mixed results. Foreign investment both direct and

portfolio types have risen. Relaxation of exchange controls by Bangladesh Bank on remittance of profits and dividends to foreign investors have provided incentives to the foreign direct and portfolio investors to invest more funds. It may be expected that as Taka is getting international status and currency management system has improved the foreign private investment as well as the overall investment level will improve soon.

Another great advantage that has been visible after Taka convertibility is the removal of "chilling effect" arises out of unnecessary delay in making a transaction. Now people can complete their transactions within the shortest possible time. On the other hand, convertibility of Taka coupled with low interest rates push the rate of growth of imports upward

Convertibility is not the only engine of growth. It just creates a positive environment to foreign investment, greater flexibility to recognize production techniques with easy access to advanced technology. Other economic and non-economic factors should also be considered for determining the impact of convertibility. For a rapid and balanced development of the economy we need to do much more than conversion-. We need to formulate appropriate fiscal, monetary and other policies having bearing on the country's productive capabilities. We must also improve our managerial and entrepreneurial capabilities, produce good labor force and remove bureaucratic bottlenecks; otherwise expected results can not be achieved.

3.3 Foreign Trade conducted by Social Investment Bank Ltd.

3.3.1 Letter Of Credit

1. Definition:

Letter of Credit (L/C) can be defined as a Credit Contract whereby the buyer's bank is committed (on behalf of the buyer) to place an agreed amount of money at the seller's disposal under some agreed conditions. Since the agreed conditions include, amongst other things, the presentation of some specified documents, the letter of credit is called Documentary letter of credit. The uniform Customs & Practice for Documentary Credit (UCPDC) published by International Chamber of Commerce (1993) Revision; publication No. 500 defines Documentary credit.

Any arrangement however named or described, whereby a bank (the issuing bank) acting at the request and on the instructions of a customer (the Applicant) or on its own behalf.

- i. is to make a payment or to the order of third party (the beneficiary, or is to accept and pay bills of exchange (Drafts) drawn by the Beneficiary or.
- ii. authorizes another bank to effect such payment, or to accept and pay such bills of exchange (Drafts)
- iii. Authorizes another bank to negotiate against stipulated documents (s) provided that the terms and conditions are complied with.

Types

Documentary Credit may be either:

- i. Revocable
- ii. Irrevocable.

Revocable Credit: A revocable credit is a credit which can be amended or canceled by the issuing bank at any time without prior notice to the seller.

Irrevocable Credit: A revocable credit constitutes a definite undertaking of the issuing bank (since it can not be amended or canceled without the arrangement of all parties thereto), provided that the stipulated documents are presented and the terms and conditions are satisfied by the seller. An irrevocable credit can be either confirmed or unconfirmed depending on the desire of the seller. This sort of credit is always preferred to revocable letter or credit.

Sometimes, letter of credits are marked as either with recourse to drawer or without recourse to drawer.

Special Documentary Credit:

i.**Revolving Credit:** The revolving credit is one which provides for restoring the credit to the original amount after it has been utilized. How many times it will be taking place must be specifically mentioned in the credit. The revolving credit may be either cumulating or non cumulative.

ii.**Transferable Credit:** A transferable credit is one that be transferred by the original beneficiary in full or in part to one or more subsequent beneficiaries. Such credit can be transferred once only. Fractions of a transferable credit can be transferred separately, provided partial shipments are not prohibited.

iii.**Back to Back Credit:** The back to back credit is a new credit opened on the basis of an original credit in favor of another beneficiary. Under to back to back concept, the seller as the beneficiary of the first credit offers it as security to the advising bank for the issuance of the second credit. The beneficiary of the back to back credit may be located inside or outside the original beneficiary's country.

iv.**Anticipatory Credit:** The anticipatory credits make provision for pre shipment payment, to the beneficiary in anticipation of his effecting the shipment as per L/C conditions.

Red Clause:

When the clause of the credit authorizing the negotiating bank to provide pre-shipment advance to the beneficiary is printed/typed in red, the credit is called Red Clause letter of Credit.

Under the above-mentioned clauses, the opening bank is liable for the pre shipment advances made by the negotiated bank, in case the beneficiary fails to repay deliver the documents for negotiation.

Parties to a Letter of Credit :

There are a number of parties involved in a L/C and the right & obligations of the different involved parties also differ from each other

The involved parties can be named below:

- i. Importer/Buyer
- ii. Opening/Issuing Bank
- iii. Exporter/Seller/Beneficiary
- iv. Advising/ Notifying Bank.
- v. Confirming Bank
- vi. Negotiating Bank
- vii. Paying/Reimbursing Bank.

Importer/ Buyer are the person who request /instruct the opening bank to open a L/C. He is also called Opener of Applicant of the credit.

Opening/Issuing Bank: is the bank which opens/ issues a L/C on behalf of the importer. It is also called the importer's Bank.

Exporter/Seller/Beneficiary: is the party in whose favor the L/C is established.

Advising/ Notifying Bank: is the bank through which the L/C is advised to the exporter. It is a bank situated in the exporting country and it may be a branch of the opening bank or a correspondent bank. It may also assume the role of confirming and/or negotiating bank depending upon the conditions of the credit.

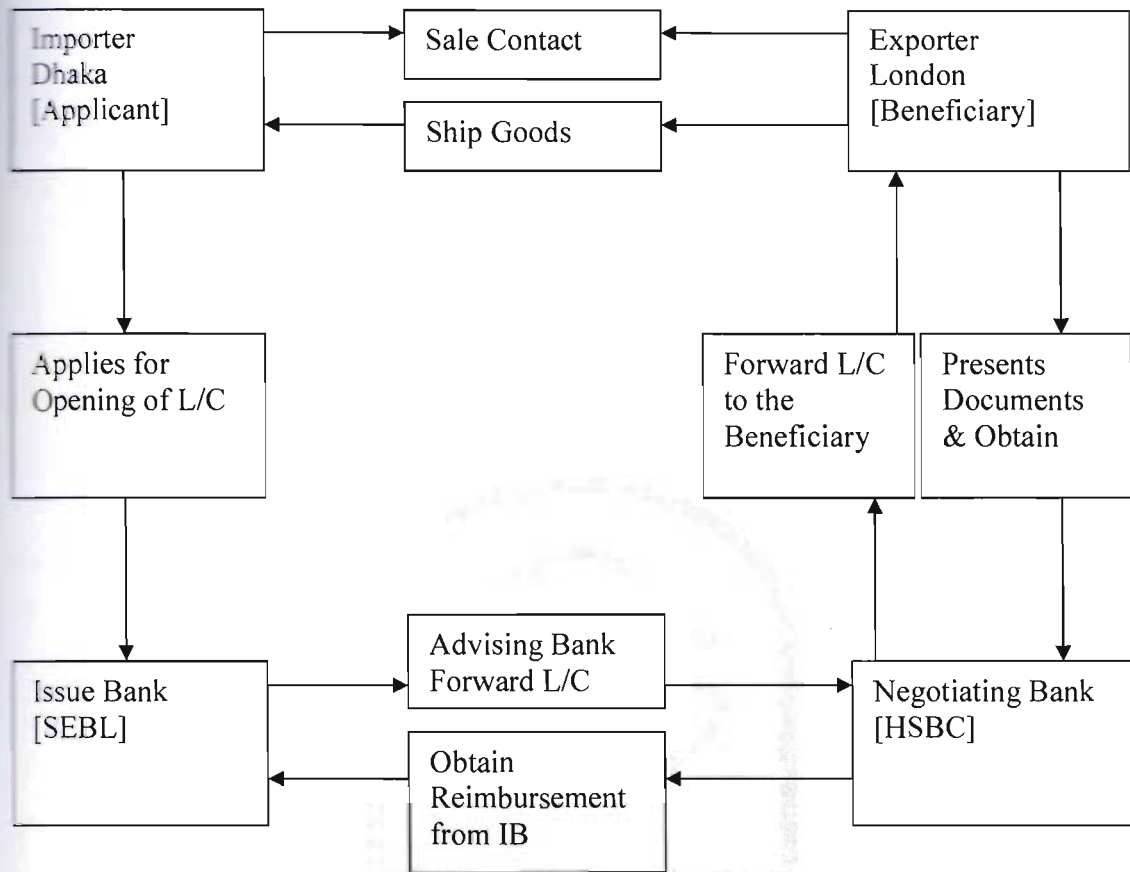
Confirming Bank: is a bank which adds its confirmation to the credit and it is done at the request of the issuing bank. The confirming bank may not be the advising bank.

Negotiating Bank: is the bank which negotiated the bill and pays the amount to the beneficiary. It has to carefully scrutinize the documentary credit before negotiation in order to whether the documents apparently are in order or not. The advising bank and the negotiation bank may or may not be one and the same. Some times it can also be the confirming bank.

Paying/ Reimbursing Bank: is the bank or whom the bill will be drawn (as per conditions of the credit). It is nominated in the credit to make payments against stipulated documents complying with the terms of the credit. It may or may not be the issuing bank. Details regarding the rights and obligations of the different parties involved in the documentary credit operations may be had from UCPDC



LC Mechanism



Operation of Documentary Letters of Credit:

The following five major steps are involved in the operation of a documentary letter of credit.

- i. Issuing;
- ii. Advising
- iii. Amendment (if necessary);
- iv. Presentation; and
- v. Settlement.

Issuing a Letter a Credit: Before issuing a L/C the buyer and seller located in different countries, concludes a 'sales contract' providing for payment by documentary credit. As

per requirement of the seller, the buyer then instructs the bank- the issuing bank- to issue a credit in favor of the seller (beneficiary). Instruction/Application for issuing a credit should be made by the buyer (importer) in the issuing bank's standard form. The credit application which contains the full details of the proposed credit, also serves as an agreement between the bank and the buyer. After being convinced about the necessary conditions contained in the application form and sufficient conditions to be fulfilled by the buyer for opening a credit, the opening bank then proceeds for opening the credit to be addressed to be beneficiary.

Advising a Letter of Credit: Advising through a bank is a proof of apparent authenticity of the credit to the seller. The process of advising a credit consists of forwarding the original credit to the beneficiary to whom it is addressed. Before forwarding the advising bank has to verify the signature (s) of the officer (s) of the opening bank and ensure that the terms and conditions of the credit are not in violation of the existing exchange control regulations and other regulations relating to export. In such act of advising, the advising bank does not undertake any liability.

Amendment of Credit: Parties involved in a L/C, particularly the seller and the buyer can not always satisfy the terms and conditions in full as expected due to some obvious and genuine reasons. In such a situation, the credit should be amended. In case of revocable credit, it can be amended or canceled by the issuing bank at any moment and without prior notice to the beneficiary. But in case of irrevocable credit, it can neither be amended nor canceled without the agreement of the issuing bank, the confirming bank (if any) and the beneficiary.

Presentation of Documents: The seller being satisfied with the terms and conditions of the credit proceeds to dispatch the required goods to the buyer and after that has to present the documents evidencing dispatching of goods to the negotiating bank on or before the stipulated expiry date of the credit After receiving all the documents the negotiating bank then checks the documents against the credit If the documents are found

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in order the bank will pay, accept or negotiate to the issuing bank. The issuing bank also checks the documents and if they are found as per credit requirements, either

- a) Effects payment, or
- b) Reimburses in the pre-agreed manner

Settlement

Settlement means fulfilling the commitment of issuing bank in regard to effecting payment subject to satisfying the credit terms fully. This settlement may be done under three separate arrangements as stipulated in the credit.

These are:

i) **Settlement by payment:** Here the seller presents the documents to the paying bank and the bank then scrutinizes the documents. If satisfied the paying bank makes payment to the beneficiary and in case this bank is other than the issuing bank then sends the document to the issuing bank. If the issuing bank is satisfied with the requirements, payment is obtained by the paying bank from the issuing bank.

ii) **Settlement by Acceptance:** Under this arrangement, the seller submits the documents evidencing the shipment to the accompanied by the draft drawn on the bank (where credit is available) at the specified tenor. After being satisfied with the documents, the bank accepts the documents and the draft and if it is a bank other than the issuing bank, then sends the documents to the issuing bank stating that it has accepted the draft and at maturity the reimbursement will be obtained in the pre-agreed manner.

iii) **Settlement by Negotiation:** This settlement procedure starts with the submission of documents by the seller to the negotiating bank accompanied by a draft drawn on the buyer or any other drawer, at sight or at a tenor as specified in the credit. After scrutinizing that the documents meet the credit requirements, the bank may negotiate the draft. This bank if other than the issuing bank, then sends the documents and the draft to the issuing bank As usual reimbursement will be obtained in the pre-agreed manner.

Some Important Documents of L/C/ Documents used in Operation of L/C:

Forwarding: Negotiating Bank sends the shipping documents to Issuing Bank with the cover of Forwarding Letter mentioning the details of encloses.

Bill of Exchange: According to the section 05, Negotiable Instruments (NI) Act-1881, A "bill of exchange" is an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay [on demand or at fixed or determinable future time] a certain sum of money only to or to the order of a certain person or to the bearer of the instrument. It may be either at sight or certain day sight. At sight means making payment whenever documents will reach in the issuing bank.

Invoice: Invoice is the price list along with quantities. Several copies of invoice are given. Two copies should be given to the client and the other copies should be kept in the bank. If there is only one copy, then its photocopy should be kept in the bank and the original copy should be given to the client. If any original invoice contains the custom's seal, then it cannot be given to the client.

Packing List: Packing list is the letter describing the number of packets and there size. If there are several copies, then two copies should be given to the client and the remaining should be kept in the bank. But if there is only one copy, then the photocopy should be kept in the bank and the original copy should be given to the client.

Bill of Lading: Bill of Lading is the bill given by shipping company to the client. Only one copy of Bill of Lading should be given to the client and the remaining copy should be kept in the bank.

Certificate of Origin: Certificate of origin is a document describing the producing country of the goods. One copy of the certificate of origin should be given to the client and the remaining copy should be kept in the bank. But if there is only one copy, then the photocopy should be kept in the bank and the original should be given to the client.

Shipment Advice: The copy mentioning the name of the insurance company should be given to the client and the remaining copies should be kept in the bank. But if only one copy is given, then the photocopy should be kept in the bank and the original copy should be given to the bank.

PSI (Pre-shipment Inspection Certificate): It is a confirmation that the goods have been inspected prior to shipment and found as per requirement of the client (importer) and as per L/C. It is generally issued by a neutral organization. It is also called CRF (Clean Report of Findings).

Insurance: International trade is very much risk ridden. So it is necessary to insure the goods against the risk of loss or damage. Insurance is a contract whereby the insurer is undertaking to indemnify the assured to the agreed manner and extent against fortuitous losses. Insurance is, therefore, a contract of indemnity.

The document in which contract of indemnity (or, insurance) is embodied is called a policy. The man who undertakes to insure is called insurer. When the insurer will subscribe his name in the policy then he will be called an underwriter. The owner of the goods (which are insured) is called assured. The thing which is assured has in the subject matter of insurance. The interest which the assured has in the subject matter is known as his insurable interest. The payment for which insurer undertakes to indemnify is termed as premium.

Health Certificate/ Phyto Sanitary Certificate/Certificate of Analysis: It is often necessary for shipping documents to contain something more than a certified invoice as evidence of quality in order to meet health requirements in the country of destination or to satisfy the importer about the precise strength or chemical composition of the goods. A 'health certificate' may be required in respect of live animals, meat, hides etc.; while a 'Phyto Certificate' is required for perishable items such as vegetables and a 'certificate of

analysis' may be required concerning the strength of metals or chemical content of some particular types of goods such as drugs

Form – IMP

This form is prepared for maintaining account of the money, which goes out side the country for the purpose of payment. This form is required by Bangladesh Bank. It is an application for permission under 4/5 of the Foreign Exchange Regulation Act, 1947 to purchase foreign currency for the payment of import.

IMP - FORM has four copies:

- i. Original copy for Bangladesh Bank.
- ii. Duplicate copy for authorized dealers. It is issued for processing Exchange Control Copy of bill of entry or certified invoice.
- iii. Triplicate copy for authorized dealers' record.
- iv. Quadruplicate copy for submission to the bank in case of imports where documents are retired.

Following documents are sent with FORM-IMP:

- i. Letter of Credit Authorization Form,
- ii. One copy of invoice,
- iii. Indent copy / proforma invoice.

The following Information is included in the FORM-IMP:

- i) Name and address of the authorized dealer,
- ii) Amount of foreign currency in words and figures,
- iii) Names and address of the beneficiary,
- iv) L/C Authorization Form number and date,
- v) Registration number of L/C Authorization Form with Bangladesh Bank, and Description of the goods



3.3.2 Import Segment

International trade is essential for the prosperity of the trading nations, because:

- i. Very country lacks some vital resources that it can get only by trading with others
- ii. Each country's climate, labor force, and other endowments make it a relatively efficient producer of some goods and an inefficient producer of other good" and
- iii. Specialization permits larger outputs and can therefore offer economies of large-scale production.

IMPORT: Import is the flow of goods and services purchased by economic agents located in one country from economic agents located in another.

IMPORT POLICY Under the Imports and Exports (Control) Act, 1950 the Government of Bangladesh formulates the Import policy through Ministry of Commerce. The existing Import policy (1997-2002) has come into effect from June 14, 1998 to June 30, 2002. **Main Features of Import policy (1997-2002) :**

- a) Import facility through import permit and clearance permit
- b) Import facility through indent and Performa invoice:
- c) Import facility for specimen, advertisement related goods and gifts without permission in a limited amount:
- d) Temporary import facility for re-export:
- e) Import facility through barter:
- f) Joint import facility (group of industrial consumers and commercial importers):
- g) Import facility on the basis of deferred payment and against suppliers credit:
- h) Import on the basis of deferred payment subject to the clearance of BB:
- i) Import to EPZ and export from it beyond the purview of this policy. It will be regulated by respective BB and NBR orders:
- j) Import facility up to \$ 2,000 for actual user without permission:
- k) Import facility on the basis of direct payment in foreign countries:
- l) The number of banned and conditional items has been reduced to 121 from 703:

- m) BEPZA , BSCIC and BOI have been treated as patron organizations in the case of industrial capital machinery import.
- n) Maximum customs duty has been reduced from 45% to 42.5% (now- from 42.5% to 40%) :Nominal tariff rate has been reduced to 20.3%, 1991/92-57.5%):
- o) Import under L/C must be irrevocable. But in case of perishable items like food from \$5.000 transported by road L/C is not required :
- p) Import through LCA form without opening of any L/C: Books Magazines Publications (on the basis of sight draft/Nuisance bill):
- q) Industrial raw materials and capital goods can be imported without opening L/C :
- r) Government sector bodies can be import without any license permit and IRC:
- s) Special import facility for non –resident Bangladeshi scientists, doctors , engineers etc. to import instruments and appliances without any permission:
- t) Facility of imports for exports –oriented industries by govt, foreign exchange rate
- u) L/C on imports of capital machinery and spare parts for new industrial units can be opened without IRC (Import Registration Certificate).
- v) Commercial import by cash payment only.

Import Restrictions:

- i. In the schedule- 1 there is a list of banned items which cannot be imported:
- ii. In the schedule -2 there is a list of restricted items, which import is subject to fulfillment of certain conditions.

3.3.2.1 IMPORT PROCEDURE:

Imports of goods into Bangladesh are regulated by the Ministry of Commerce and Industry in terms of the Import and Export (Control) Act, 1950, with import policy orders issued by annually, and Public Notices issued from time to time by the office of the Chief Controller of Import and Export (CCI & E).

Imports are purchase of foreign goods and services by consumers, firms and Government in Bangladesh. There are some requirements those have to be fulfilled by the importer are as follows:

1. The Importer must obtain Import Registration Certificate (IRC) from the CCI & E by submitting the following papers:

- Up to date Trade License
- Nationality Certificate
- Tax Identification Number (TIN)
- In case of a company, Memorandum & Articles of Association And Certificate of Incorporation
- In case of Partnership concern, Partnership Deed duly registered
- Bank Solvency Certificate
- Photograph of the Importer
- Membership certificate from a valid Trade Association

2. The importer has to contact with the seller outside the country to obtain the Pro-forma Invoice.

Usually an indenter, local agent of the seller or foreign agent of the buyer makes this communication. Other sources are:-

- Trade fair
- Chamber of commerce
- Foreign missions in Bangladesh
- Journals etc.

3. After that the importer accepts the Pro-forma Invoice he makes a purchase contract with the exporter detailing the terms and conditions of the import.

4. After making the purchase contract with the seller the importer goes to an AD (Authorized Dealer) branch of a bank to open L/C which is the main means of payment in

Bangladesh. The other means are Cash in Advance, Open Account, and Collection Methods. It is mentioned in the purchase contract by which payment procedure has to be applied.

Different payment methods are:

a)Cash in advance:

Importer pays full, partial or progressive payment by a foreign DD, MT or TT. After receiving payment, exporter will send the goods and the transport receipt to the importer. Importer will take delivery from the transport company.

b)Open account:

Exporter ships the goods and sends transport receipt to the importer. Importer will take delivery and makes payment by foreign DD, MT at some specified date.

c)Collection methods:

Collection methods are either clean collection or documentary collection.

Again, documentary collection may be document against payment or document against acceptant collection may be document against payment or another is direct collection in which the exporter obtains his bank's renumbered direct collection letter.

The procedure of collection methods:

The exporter ships the goods and draws a draft/bill on the buyer. The exporter submits the draft/bill (only or with documents) to the remitting bank for collection and the bank acknowledges it.

The remitting bank sends the draft/ bill (with or without documents) and a collection instruction letter to the collecting bank.

Acting as an agent of the remitting bank, the collecting bank notifies the importer upon receipt of the draft. The title of goods released to the importer upon full payment or acceptance of the draft/bill.

d) Letter of credit:

Letter of the credit is the well accepted and most commonly used means of payment. It is an undertaking for payment by the issuing bank to the beneficiary, upon submission of some stipulated documents and fulfilling the terms the conditions mentioned in the letter of credit.

5. Requesting the concerned bank (importer's bank/issuing bank) to open an Irrevocable L/C on behalf of importer favoring the exporter/seller.

Papers required at the time of opening an L/C:

- Importer Registration Certificate.
- Trade License.
- IMP Form.
- Letter of Credit Authorization (LCA form)
- Pro-forma Invoice/ Indent/ Contract/ Purchase Order.
- Credit report of the importer.
- Credit report of the seller should be collected from correspondent bank.
- In case of F.O.B. C &F, insurance cover note.
- In case of quota item, quota allocation paper.

Then,

- Bank serves its L/C application form-affixing stamp, which acts as the contract between the importer and the opening bank.
- Importer submits the L/C application form along with Pro-forma Invoice/ Indent, IMP, LCA Form duly signed.

- Bank realizes necessary margin and other charges from the importer at the time of opening of L/C.
- Bank will verify the marketability of the goods to be imported
- Necessary charge documents to be obtained from the importer duly signed.

Accounting Treatment For Opening LIC by SIBL:

- At the time opening of L/C SIBL creates the following Dr. / Cr. Vouchers:

Customer A/C	Dr.
Margin A/C	Cr
L/C opening commission	Cr
Vat on Commission	Cr
SWIFT Charge	Cr
D.H.C	Cr
Stamp in Hand	Cr
Miscellaneous Earnings	Cr



- SIBL also passed the liability vouchers:

Customer's Liability A/C	Dr.
Banker's Liability A/C	Cr.

The Confirmation of L/C:

There are usually two banks involves in a documentary credit operation. The issuing bank and the advising bank which is usually a bank in the seller's country. The issuing bank asks another bank to advise or confirm the credit.

If the advising bank is simply 'advising the credit', it will mention that when it forwards the credit to seller, such a bank is under no commitment or obligation to pay the seller.

If the advising bank is also 'confirming the credit', this mention that the confirming bank, regardless of any other consideration, must pay accept or negotiate without recourse to seller. Then the bank is called confirming bank also.

3.3.2.2 Lodgment and Retirement of Import Bills

On receipt of the L/C from the advising bank the beneficiary/ exporter checks the contents of the same. If it agrees with the terms of contract made with the buyer, the seller processes to shipment of goods. The presentation of documents take place after the shipment of goods has been made. The exporter submits documents to the bank in complete form and in compliance with the credit terms. The exporter's bank examines the submitted documents and if the documents meet the requirement of the credit, they negotiate the documents and give value to the exporter as per terms of the credit. The negotiating bank then sends the documents to the issuing bank.

Lodgment of Import Bills:

After receipt of shipping documents, the issuing bank must examine all documents stipulated in the Credit with reasonable care, to ascertain whether or not they appear, on their face, to be in compliance with the terms and conditions of the Credit. If any discrepancy detected in the documents then the issuing bank will inform the negotiating bank within 7 working days on receipt of import documents as per UCPDC.

After completion of examination of documents and if the same satisfy the requirement of the Credit steps are taken to lodge the import documents in PAD (Pay Against Documents) Accounts.

Voucher to be passed:

i) Reversal of contra liability voucher.

Banker's Liability for L/C.	Dr.
Customer's Liability for L/C.	Cr.

ii) Lodgment Voucher:

PAD A/C (At BC selling rate)	Dr.
Head Office, ID (name of foreign bank) (TT/OD rate)	Cr.
Income A/C Exchange Earnings (difference amount).	Cr.

Documents now are to be stamped with PAD number and entered in PAD register. Relative LCAF is to be endorsed showing the utilization of credit amount. The utilized amount also to be noted in the LC or on the printed format of the LC file IMP forms are signed by the importer are to be filled in at the time of lodgment.

Clean import documents should be lodged within 24 hours on receipt of the same.

Retirement of Import Bills:

On the day of lodgment of import documents, the importer is to be intimated with full particulars of shipment and also is to be advised for retirement of the same against payment. On intimation the importer requesting retirement of the shipping documents against payment to the debit of their account by the bill amount and other charges payable. Bank then prepares cost memo (in printed form) on account of the customer giving detailed head of charges payable as under:

L/C NO.	_____
BILL NO _____ for (currency of the credit)	_____
Converted into @ _____	: Tk
Interest @% from _____ to _____ (days)	: Tk
Commission	: Tk
Agent Chargers (if any)	: Tk
Postage	: Tk
Other Charges (if any)	: Tk

Voucher to be passed:

Importer's A/C	Dr.
Margin on L/C	Cr.
PAD A/C	Cr.
Income A/C – Interest on PAD	Cr.
Income A/C – Charges Commission, Postage etc	Cr.

It is reasonable to calculate interest on PAD from the date of negotiation to date of retirement after deducting margin amount from the bill value

After retirement, documents along with custom copy of LCAF are to be delivered to the importer giving following endorsement:

- (a) Draft/Bill of Exchange is to be endorsed stating "Received Payment.
- (b) The Invoice value is to be certified.
- (c) The Bill of Lading is to be endorsed in favor of importer for taking delivery of goods stating

"Please deliver to order of
M/S....."

Suggested Checklist for Document Preparation and Examination

The Letter of Transmittal Ensure:

- That it is addressed to the bank
- That it has a current date
- That it relates to the Documentary Credit number referenced
- That the documents enumerated are attached
- That the value of the documents and the value mentioned in the cover letter are the same.
- That the bank (if any) remitting documents is acting a Paying, Accounting, Negotiating, or Remitting Bank.
- That the payment instructions are clear and understood
- Whether any discrepancy (ies) has been noted and whether payment, acceptance, or negotiating was effected against an indemnity or under reserve.

The Documentary Credit Ensure:

- That it is the correct referenced Documentary Credit.
- That it is still valid not expired/ cancelled).

- That the available balance in the Documentary Credit is sufficient to cover the value of the drawing.
- That the documents required by the Documentary Credit are presented.

The Draft Ensure:

- That the Draft bears the correct Documentary Credit reference number.
- That it has a current date.
- That the signature and/or the name of the Drawer correspond with the name of the Beneficiary.
- That it is drawn on the correct Drawee.
- That the amount in figures and in words is corresponding.
- That the tenor is as required by the Documentary Credit.
- That there are no restricted endorsement
- That the amount drawn for does not exceed the balance available in the Documentary Credit.
- That the value of the draft and the invoices corresponds.

The invoice, ensure:

- That it is issued by the Beneficiary of the Documentary Credit.
- That the Applicant (the buyer) is indicated as the invoiced party, unless otherwise stated in the Documentary Credit.
- That it is not titled “pro-forma” or “provisional” invoice.
- That the description of the goods corresponds with the merchandise description in the Documentary Credit.
- That no additional detrimental description of the goods appears that may question their condition or value.
- That the details of the goods, prices and terms as mentioned in the Documentary Credit are included in the invoice.
- That any other information supplied in the invoice, such as marks, numbers, transportation information, etc. it is consistent with that of the other documents.

- That the currency of the invoice is the same as that of the Documentary Credit.
- That the value of the invoice corresponds with that of the draft.
- That the value of the invoice does not exceed the available balance of the Documentary credit.
- That the invoice covers the complete shipment as required by the Documentary Credit (if no part shipments are allowed)
- That if required by the Documentary Credit the invoice is signed, notarized, legalized, certified, etc.
- That the correct number of original (s) and copy (ies) is presented.

Transport documents Ensure:

- That the full set of originals issued is presented.
- That it is not a “charter party” transport documents, unless authorized in the Documentary Credit.
- That the name of the consignee is as required in the Documentary Credit.
- That the name of the shipper or his agent.
- That the name and address, if any, of the notifying party is as required in the Documentary Credit.
- That the description of the goods generally corresponds to the description of the goods as stated in the Documentary Credit, and that the marks and numbers as well as other specifications, if any, are identical to those appearing on the other documents.
- That the indication of freight prepaid or freight collects costs, as required by the terms of the Documentary Credit, appears on it.
- That there is no clauses on the transport document that may render it “foul” or “unclean”.

Insurance document Ensure:

- That the policy/certificate/declaration/cover note, as required by the Documentary credit, is presented.

- That the full set of the insurance document issued is presented.
- That the date of issuance or date from which cover is effective at the latest from the date of loading on board or dispatch or taking in charge of the goods, as the case may be.
- That the value of the goods insured is as required by the Documentary Credit.
- That it is issued in the same currency as the Documentary Credit, unless otherwise allowed in the Documentary Credit.
- That the goods description corresponds with that of the invoice.
- That it covers the merchandise from the designated port of embarkation or point of taking in charge to port of discharge or port of delivery.
- That it covers the specified risks as stated in the Documentary Credit and that the risks are clearly defined.
- That the marks and numbers, etc. correspond with those of the transport document.
- That all other information appearing on the document is consistent with that of the other documents.

Certificate of origin Ensure:

- That it is a unique document and not combined with any other document.
- That it is signed notarized, legalized, visited as required by the Documentary Credit.
- That the data on it is consistent with that of the other documents.
- That the country of origin is specified, and that it meets the requirements of the Documentary Credit.

Inspection certificate Ensure:

- That the inspection firm nominated in the Documentary Credit, if any, issued the certificate.
- That it is signed.

- That the certificate complies with the inspection requirements of the Documentary Credit.
- That it contains no detrimental statement as to the goods, specifications, quality, packaging, etc. unless authorized by the Documentary Credit.

Post-Import Financing:

If there is no available in cash in importer’s hand, he can request the bank to grant loan against the documents for the purpose of post import finance. There are two following forms of post import finance available:

- LIM (Loan Against Imported Merchandise)
- LATR (Loan Against Trust Receipt)

LIM: LIM is a facility by the bank to the importer who are in short of fund to retire the import bills and thus to clear the goods from the port authority.

On the arrival of goods and lodgment of import documents, importer may request the bank for clearance of goods from the port (custom) and keep the same to bank warehouse.

LATR: This is another kind of post-import financing. In this system bank handed over the shipping documents to the importer for clearance of the goods from the port authority by signing Trust Receipt. In this case bank takes sufficient collateral security from the importer. Proper sanction from the competent authority is to be obtained by the branch before providing such type of finance.

Accounting Treatment:

- LIM/LTR Creation:

LTR/LIM (Importer) A/C	Dr.
PAD A/C	Cr.

- After payment of the loan or delivery of goods:

Customer A/C	Dr.
LTR/LIM A/C	Cr.
Interest A/C	Cr.

It is needless to say that only deals with the documents, not with goods & services in case of foreign exchange business.

3.3.2.3 Analysis of Import Business of SIBL:

The import business of SIBL stood at Tk.12522.93 million in 2005 as against Tk.13363.07 million in the year 2004 and Tk.1364.35 million in the year 1998.

The estimated average value of the variable import business measured in terms of arithmetic mean is 8763.56 million taka and estimated deviation of the values of the variable from central value measured in terms of standard deviation is 5446.65.24. Compound growth rate of the variable is 39.23717

Index of change in import business has been made taking the year 1999 as the base year. The index shows that import business was increasing gradually up to the year 2003 and started to decrease from the year 2004.

Index of change in import business of the bank for different years are shown in the figure taking the year 1999 as the base year.

Total import business.

<i>Year</i>	Amount in million Taka
1999	1718.60
2000	2983.20
2001	4723.40
2002	11124.85
2003	14908.90
2004	13363.07
2005	12522.93
Compound growth rate(%)	39.23%

Source: Annul report of SIBL (1999-2005)
 [Appendix 2 page-94, Table-2: Total Foreign Exchange business during the period 1999 to 2005]

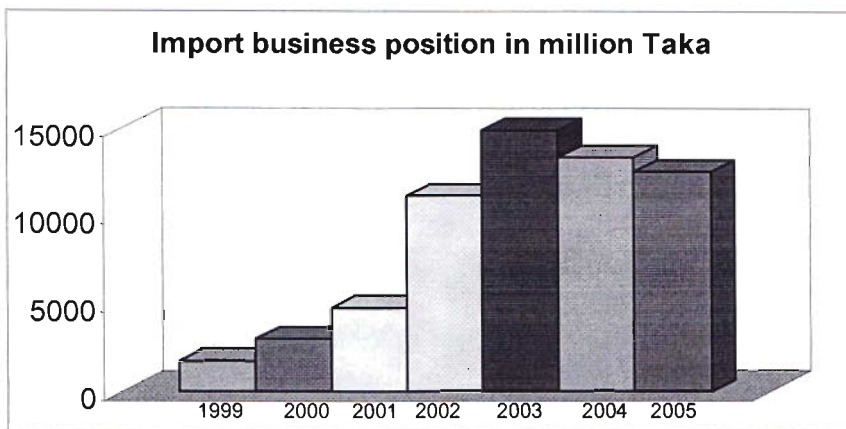


Figure 5: Index of change in import business during the period 1999 – 2005
 Source: Annual report of SIBL 1999-2005

In order to estimate the average rate of increase of import per year, the following regression equation was estimated:

$$Y = -4521349.88 + 2262.79 t \dots\dots\dots [4]$$

Here,

Y = total amount of import

t = Year

The above-mentioned equation indicates that average rate of increase of import was Tk. 2262.79 million per year. This indicates that the bank had been able to sustain positive trend of business during the period 1999 - 2005. The explanatory power of the equation measured in term of R² was estimated at 81% of the variances in the dependent variable as explained by the equation.

3.3.3.1 Export Procedure

Under the export policy of Bangladesh the exporter has to get the valid Export Registration Certificate (ERC) from Chief Controller of Import and Export (CCI&E). The ERC is required to renew every year. The ERC number is to be incorporated on EXP forms and other papers connected with exports.

Registration of Exporters: For obtaining ERC intending Bangladeshi exporters are required to apply to the Controller/ Joint Controller/ Deputy Controller/ Assistant Controller of Imports and Exports, Dhaka/ Chittagong/ Rajshahi/ Khulna/ Mymensingh/ Sylhet/Comilla/Barisal/ Bogra/Rangpur/Dinajpur in the prescribed form along with the following documents:

- i. Nationality and Assets Certificate;
- ii. Memorandum and Articles of Association and Certificate of Incorporation in case of Limited Company;
- iii. Bank Certificate;
- iv. Income Tax Certificate;
- v. Trade License etc.

Securing the Order: After getting the ERC the exporter may proceed to secure the export order. He can do this by contacting the buyers directly or through correspondence.

In this purpose exporter can get help from:

- i. Liaison Office;
- ii. Buyer's Local Agent;
- iii. Export Promoting Organization;
- iv. Bangladesh Mission Abroad;
- v. Chamber of Commerce (local & foreign);
- vi. Trade Fair etc.

Signing the Contract: After communicating with buyer exporter has to get contracted (writing of oral) for exporting exportable item (s) from Bangladesh detailing commodity, quantity, price, shipment, insurance and marks, inspection, arbitration etc.

Receiving the Letter of Credit: After getting contract for sale, exporter should ask the buyer for letter of Credit (L/C) clearly stating terms and conditions of export and payment.

The followings are the main points to be looked into for receiving/ collecting export proceeds by means of Documentary Credit:

- i. The terms of the L/C are in conformity with those of the contract;
- ii. The L/C is an irrevocable one, preferably confirmed by the advising bank;
- iii. The L/C allows sufficient time for shipment and negotiation;
- iv. (Here the regulatory framework is UCPDC-500, ICC publication)

Procuring the materials: After making the deal and on having the L/C opened in his favor, the next step for the exporter is to set about the task of procuring or manufacturing the contracted merchandise.

Shipment of goods: Then the exporter should take the preparation for export arrange for delivery of goods as per L/C and Incoterms, prepare and submit shipping documents for Payment/Acceptance/ Negotiation in due time.

Documents for shipment:

- i. EXP Form,
- ii. ERC (valid)
- iii. Customs Duty Certificate,
- iv. Shipping Instruction,
- v. Transport Documents,
- vi. Insurance Documents
- vii. Invoice,
- viii. Other Documents,

- ix. Bills of Exchange (if required),
- x. Certificate of Origin,
- xi. Inspection Certificate,
- xii. Quality Control Certificate,
- xiii. G.S.P. Certificate,
- xiv. Phyto-sanitary Certificate.



3.3.3.2 Presentation, Examination, and Negotiation of Export Documents.

Presentation of Documents to Bank:

The beneficiary while making presentation of documents should ensure that the same are exactly as called for by the credit and not on their face inconsistent with one another; and that the documents be presented to the bank as possible and, in any case, within the validity of the credit and within the period of time specified or applicable.

The beneficiary must remember that any non-compliance with terms and conditions of the letter of credit or any irregularity in the documents will invite refusal by the bank undertaking responsibility under the credit.

Examination of Documents by Bank:

The issuing bank's undertaking under a letter of credit to pay, accept or negotiate is conditional to the presentation of documents, which are strictly as per the terms and conditions of the credit. A careful examination of documents is, therefore the major plank on which the whole edifice of documentary credits rests.

Banks, therefore, must examine all documents stipulated in the credit with reasonable care. The word 'reasonable care' has not been defined in the UCP. Nonetheless there are commonly of UCPDC.

Check List for Examination of Export Documents by Banks:

- i. Documents should appear on their face to be compliant with the stipulation in the documentary credit.
- ii. Documents are not to be inconsistent with each other.
- iii. Unstipulated documents should not be presented Banks should either return such papers to the presenter or pass them on without responsibility.
- iv. Examination of documents is completed within seven banking days following the day of receipt of documents.
- v. Documents dated prior to the date of credit are acceptable, unless specifically prohibited by the credit.
- vi. If documents other than transport documents, insurance documents and commercial invoice are called for, the name of the issuer, and content (wording or data) are clearly specified If not, banks will accept documents as presented. Even the beneficiary himself may be the issuer.
- vii. Issuers of documents are not described as first class, well know, qualified, independent official, competent, local if used, any issuer other than the beneficiary will be accepted.
- viii. Original credit accompanies the presentation.
- ix. Documents must be presented within the banking hours.
- x. If credit says "original documents" documents produced by reprographic, automated or computerized systems, carbon copies are acceptable if marked ad original and appear to have been signed if required.
- xi. Signature can be by handwriting, perforation, stamp, facsimile, symbol, or any mechanical or electronic method of authentication.
- xii. If credit requires copy (ies), accept documents marked as copy or not marked as original. Copy need not be signed unless specifically stipulated otherwise.
- xiii. If multiple documents requires like "Duplicate", "Two Fold", "Two Copies", only one original and rest copy (ies) is acceptable.
- xiv. If credit requires documents to be authenticated, validated, legalized, certified etc. accept any signature, stamp or label which appears to satisfy it.

Negotiation of Export Documents:

The term 'negotiation' is broadly defined as "the giving of value" and can be applied to transactions of any tenor (sight or issuance).

The issuing bank must reimburse the bank, which negotiates drafts and / or documents drawn under its documentary credit. The credit may be made freely negotiable with any bank or negotiation may be restricted to a bank nominated by the issuing bank.

When the negotiating bank "gives value", it does not receive immediate value it. Consequently, the negotiating bank deducts interest from its payment to cover the period between paying the exporter and receiving payment from the issuing bank.

Accounting Procedure for Negotiation:

If the documents are drawn strictly in compliance with the terms and conditions of the credit, bank may negotiate and pay value of the export bill to the exporter at OD Sight Export Rate (for sight draft), issuance rate (for issuance draft) and passed the following vouchers:

FBP (FC.....Rate.....Taka.....)	Dr.
Packing Credit	Cr.
Project Loan	Cr.
Agent Commission	Cr.
FBPAR (for garments)	Cr.
Other Charges (id any)	Cr.
Party's Account.	Cr.

Accounting Procedure for Realization of Export Proceeds:

On receipt of credit advice of the export bill from foreign correspondent, bank realizes the bill at specified rate and passes the following vouchers:

Head Office A/C (foreign bank as per credit advice)	Dr.
Party's A/C (for foreign bank charges, if any)	Dr.
FBP (reversal of original entry)	Cr.
Income A/C Exchange Earning.	Cr.

Handling of Discrepant Documents:

Discrepancies are a fact of life in documentary credit operations. In two separate surveys carried out by a UK company, SITPRO (the Simpler Trade Procedures Board), during the 1980's involving HSBC (former Midland Bank), the result showed that between 50 and 55 per cent of documents presented under Documentary Credits were rejected upon first presentation. Current worldwide publications quote a percentage rate of between 50 and 75 per cent.

It is quite evident from these figures that the exporters are still incurring extra administration costs, bank charges, loss of interest or additional interest costs and/or more importantly lost income.

By taking care with the production and presentation of documents these losses can be reduced. It is a fact that many exporters do not consult their bank where doubt exists as a consequence of which documents are rejected.

Options for Handling of Discrepant Documents.

1. Correcting the Documents:

If time permits the exporter should re-present their documents with suitable corrections or supply fresh documents to replace those that are discrepant. When altering documents they should be signed by the issuer(s) to denote the correct amendment(s).

Most freight forwarders/shipping companies will arrange to call at the bank themselves to correct any problems with the transport documents rather than have them returned for alteration.

2. Telex for Permission to Pay:

The exporter requests the advising/confirming bank to telex the issuing bank for permission to pay despite the discrepancies noted. As the issuing bank will only be able to authorize such payment on the agreement of the applicant, it is usually wise for the exporter to telex the applicant direct to advise them of the situation and request to respond to their bank. The documents remain with the advising bank until payment is authorized.

3. Negotiation under Reserve:

If Credit available by negotiation, the negotiating bank may negotiate discrepant documents under reserve and send the documents to the issuing bank or any other nominated bank. Such reserve concerns only the relations between the negotiating bank and the party towards whom the reserve was made and the issuing bank or confirming bank, if any, shall not be thereby relieved from any of their obligations.

4. Send the Documents to the Issuing Bank for Settlement:

The exporter requests the sending of the document to the issuing bank on the basis that they represent a presentation under the UCP n and that the documents are not to be released to their customer without an authority to effect payment. This option can be beneficial if there is lengthy discrepancy notice it is not practicable to conduct detailed

correspondence by fax or telex. The exporter should, however, remember that not only are their goods stranded in a foreign country but are his documents if he chooses this option.

5. Direct Presentation to Issuing or Confirming Bank for Settlement:

In this case, the bank gives up its rule and returns the discrepant documents to the beneficiary for direct presentation to the issuing bank or confirming bank. This option is expensive and may create a fresh set of problems for the exporter, if this bank too does not sympathies with him.

6. Payment under Indemnity:

The exporter can offer to indemnify the advising bank against the risk of non-payment of the discrepant documents. Such indemnity concerns only the relations between the bank and the party from whom the indemnity was obtained and the issuing bank or confirming bank, if any, shall not be thereby relieved from any of their obligations. This works best if the exporter has presented documents to his own banker and they have a facility allowing the issuing of indemnity of this type. Some banks will not accept indemnities at all, so this option may have limited application.

3.3.3.3 EXPORT FINANCING

An exporter requires finance at two stages, namely -

- i. Pre-shipment stage &
- ii. Post-shipment stage

We may classify export finance into two categories

- i. Pre-shipment credit &
- ii. Post-shipment credit.



Pre-shipment credit

Pre-shipment credit, as the name suggests, is given to finance the activities of an exporter prior to the actual shipment of goods for export. The purpose of such credit is to meet

working capital needs starting from the point of purchasing of raw materials to transportation of goods for export to foreign country. Before allowing such credit to the exporters the bank takes into consideration the credit worthiness, export performance of the exporters, together with all other necessary information required for sanctioning the credit in accordance with the existing rules and regulations. Pre-shipment credit is given for the following purposes:

- i. Cash for local procurement and meeting related expenses.
- ii. Procuring & processing of goods for export.
- iii. Packing and transporting of goods for export.
- iv. Payment of Insurance Premium.
- v. Inspection fees.
- vi. Freight charges etc.

An exporter can obtain credit facilities against lien on the irrevocable, confirmed, unrestricted export letter of credit.

Pre shipment credit takes the following forms:

- i. Export Cash Credit (Hypothecation)
- ii. Export Cash Credit (Pledge)
- iii. Export Cash Credit against Trust Receipt.
- iv. Packing Credit.
- v. Back to Back letter of credit.
- vi. Credit against Anticipatory letter of credit.

1. Export Cash Credit (Hypothecation)

Under this arrangement a credit is sanctioned against hypothecation of the raw materials or finished goods intended for export. Such facility is allowed to the first class exporters. As the Bank has got no security in this case, except charge documents and lien of export L/C contract, Bank normally insists on the exporter in furnishing collateral security. The

letter of hypothecation creates a charge against the merchandise in favor of the bank but neither the ownership nor the possession is passed to it.

2. Export Cash Credit (Pledge)

Such credit facility is allowed against pledge of exportable goods or raw materials. In this case cash credit facilities are extended against pledge of goods to be stored in godown under bank's control by signing letter of pledge & other pledge documents. The exporter surrenders the physical possession of the goods under Bank's effective control as security for payment of Bank dues. In the event of failure of the exporter to honor his commitment, the bank can sell the pledge merchandise for recovery of the advance.

3. Export Cash Credit against Trust Receipt

In this case, credit limit is sanctioned against Trust Receipt (T.R.). In this case also unlike in the case of pledge the exportable goods remain in the custody of the exporter. He is required to execute a stamped export trust receipt in favor of the bank, where in a declaration is made that goods purchased with financial assistance of bank are held by him in trust for the bank. This type of credit is granted when the exporter wants to utilize the credit for processing, packing & rendering the goods in exportable condition and when it seems that exportable goods can not be taken into bank's custody. This facility is allowed only to the first class party and collateral security is generally obtained in this case.

4. Packing Credit

In this case credit facilities are extended against security of Railway Receipt/Steamer Receipt/Barge Receipt/Truck Receipt evidencing transportation of goods to the port for shipment of the goods in addition to the usual charge documents and lien of export letter of credit. This type of credit is sanctioned for the transitional period from dispatch of the goods till negotiation of the export documents. The drawings under Export cash credit (Hypothecation/Pledge) limit are generally adjusted by drawings in packing credit limit which is, in turn, liquidated by negotiation of export documents.

5. Back to Back Letter of Credit

Under this arrangement the bank finances export business by opening a letter of credit on behalf of the exporter who has received a letter of credit from the overseas buyer but is not the actual manufacturer or producer of the exportable goods. The letter of credit is opened in favor of the actual producer or supplier within or outside the country. Since the second letter of credit is opened on the strength of and backed by another letter of credit it is called "Back to Back credit". The need for a back to back credit arise because the beneficiary of the original (export) letter of credit may have to procure the goods from the actual producer who may not supply the goods unless its payment is guaranteed by the bank in the form of letter of credit collateral security before opening the letter of credit. The back to back letter of credit must conform to the terms and conditions of the original letter of credit with the following exceptions:

1. Name of the original beneficiary shall be substituted by that of the actual supplier.
2. The credit amount shall normally be lower than that of the original letter of credit, the differences being the amount of profit the exporter expects to earn from the deal.
3. The back to back letter of credit shall be made valid for shipment and negotiation prior to expiry of the corresponding date.

6. Advance against Anticipatory Letter of Credit (Red Clause L/C)

Under Red clause letter of credit, the opening bank authorizes the Advising bank/Negotiating bank to make advance to the beneficiary prior to shipment to enable him to procure the exportable goods in anticipation of his effecting the shipment and submitting a bill under the L/C. As the clause containing such authority is printed in red ink and in green ink on the top of the L/C is called Red clause L/C.

The following documents/papers are usually called for depending on the Nature of the export credit facility to be provided at the pre-shipment stage:

- i. Lien on confirmed/irrevocable and unrestricted letter of credit from a first class Bank.

- ii. Letter of Hypothecation duly stamped.
- iii. Letter of pledge duly stamped.
- iv. Detailed stock statement duly verified by Bank officials,
 - v. Insurance coverage under Bank mortgage clause.
- vi. Letter of disclaimer to be signed by the owner of the go-down in case of rented go-down.
- vii. Documents of title t
- viii. Trust Receipt
 - ix. Export Credit Guarantee Scheme.
 - x. Export form duly signed by the exporter
 - xi. EPC/ERF duly certified by Bangladesh Bank
 - xii. Change and other documents, if any

Post Shipment Credit

This type of credit refers to the credit facilities extended to the exporters by commercial banks after shipment of the goods against export documents. Necessity for such credit arises as the exporter can not afford to wait for a long time for payment to local manufacturers/suppliers. Before extending such credit, it/is necessary to obtain report on creditworthiness the exporters and financial soundness of the buyers as well as other relevant documents connected with the export in accordance with the rules and regulations in force. Banks in our country extend post-shipment credit to the exporters through:

1. Negotiation of Documents under L/C
2. Purchase of DP & DA bills
3. Advance against Export Bills surrendered for collection.

1. Negotiation of Documents under L/C

Under this arrangement, after the goods are shipped, the exporter submits the concerned documents to the negotiating bank for negotiation. The documents should be negotiated strictly in accordance with the terms and conditions and within the period mentioned in the letter of credit.

2. Purchase of DP & DA Bills

In such a case, the banks purchase/discount the DP (Documents against Payment) and DA (Documents against Acceptance) bills at rate published by the Exchange Rate Committee of authorized dealers. While doing so, the banks should scrutinize all the export documents separately and minutely and clear instructions are to be obtained from the drawer of the bill in regard to all important issues related to the negotiation of the bills.

3. Advance against Bills for Collection

Banks generally accept export bills for collection of proceeds when they are not drawn under a L/C or when the documents, even though drawn against an L/C contain some discrepancies. Bills drawn under L/C, without any discrepancy in the documents, are generally negotiated by the bank and the exporter gets the money from the bank immediately. However, if the bill is not eligible for negotiation, he may obtain advance from the banks against the security of export bills. Banks may give advance ranging from 50 to 80 percent of the document's value. In addition to the export bills, banks may ask for collateral security like a guarantee by a third party and equitable/registered mortgage of property.

Export Development Fund

The main objective of creating an Export Development Fund (EDF) at the Bangladesh bank is to assure a continued availability of Foreign Exchange to meet the import requirements of non-traditional manufactured items. This facility is available to the non-traditional exporters, particularly newer exporters, exporters diversifying into higher value exports and exporters diversifying into new markets. An exporter identified above is eligible to avail of EDF facilities on the basis of the conditionality stated below

- i. He must be an exporter of non-traditional manufacturing items.
- ii. The value added of these products could be 20% except in the case of garments where it has to be 30% and above.

- iii. The loan should be utilized in the case of importing raw-material for manufacturing the exportable products.
- iv. The exporter must have an export L/C.
- v. He must create a back to back L/C for importing raw-materials.
- vi. The period of loan is 180 days.
- vii. The exporter can borrow as many times as he likes in a year
- viii. The interest rate he pays is LIBOR + 1%
- ix. An exporter can borrow an amount not exceeding \$ 500,000 in a single case but outstanding should not be over S 10, 00,000.
- x. He has to have Export Credit insurance through E.C.G.S.

As for banker, the EDF allows a spread between 2.5% for the established exporters and 3.5% for the new exporters for every loan for the client.

3.3.3.4 Analysis of Export Business of SIBL:

The overall export business of SIBL is in increasing trend. The total export business in the year 2001 was Tk.6,494.00 million. In 2004 it was Tk.4500.23 million and in 2005 it was Tk.5203.17 million.

The estimated average value of the variable export business measured in terms of arithmetic mean is 2317.22 million taka and estimated deviation of the values of the variable from central value measured in terms of standard deviation is 1956.65. Compound growth rate of the variable is 82.72311. Index of change in export business has been made taking the year 1999 as the base year. The index shows that export business was increasing gradually up to the year 2004 and started decreasing from the year 2005. Index of change in export business per employee of the bank for different years has been shown in the figure taking 1999 as the base year.

Total export business.

<i>Year</i>	<i>Amount in million Taka</i>
1999	139.80
2000	530.80
2001	1440.20
2002	2287.65
2003	4035.90
2004	4500.23
2005	5203.17
Compound growth rate(%)	82.72%

[Appendix 3 page-95, Table-3: Total Foreign Exchange business during the period 1999 to 2005]

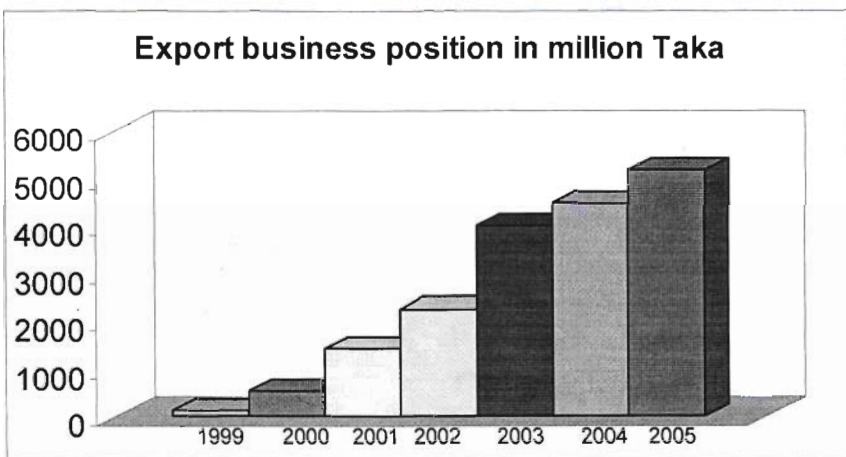


Figure 6: Index of change export business during the period 1999 – 2005
Source: Annul report of SIBL 1999-2005

In order to estimate the average rate of increase of loans and advances per year, the following regression equation was estimated:

$$Y = -1836722.80 + 918.74t \dots \dots \dots [5]$$

Here,

Y = total amount of export

t = Year

The above-mentioned equation indicates that average rate of increase of export were Tk. 918.74 per year. This indicates that bank could sustain positive trend of business during the period 1999 - 2005. The explanatory power of the equation measured in term of R^2 was estimated at 98% of the variances in the dependent variable as explained by the equation.

3.4 Analysis of Remittance Business of SIBL

The remittance business of SIBL is in increasing trend. The total export business in the year 2001 was Tk.31.70 million. In 2004 it was Tk.224.82 million and in 2005 it stood up to Tk.260.40 million.

Total remittance business.

<i>Year</i>	<i>Amount in million Taka</i>
1999	55.70
2000	33.40
2001	31.70
2002	107.57
2003	120.30
2004	224.82
2005	260.40
Compound growth rate(%)	11.83%

[Appendix 4, page-95, Table-4: Total Foreign Exchange business during the period 1999 to 2005]



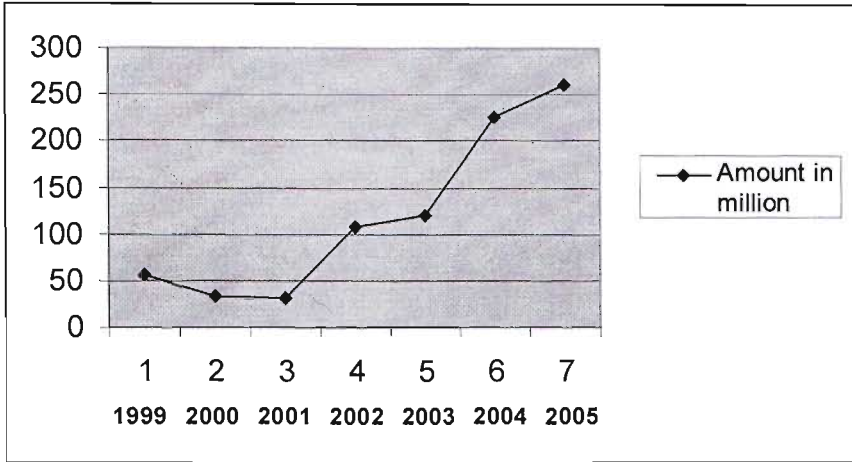


Figure 7: Index of change remittance business during the period 1999 – 2005
 Source: Annul report of SIBL 1999-2005

In order to estimate the average rate of increase of remittance per year, the following regression equation was estimated:

$$Y = -77496.98 + 38.77 t \dots\dots\dots [6]$$

Here,

Y = total amount of remittance

t = Year

The above-mentioned equation indicates that average rate of increase of remittance was Tk. 38.77 million per year. This indicates that bank had sustained positive trend of business during the period 1999 - 2005. The explanatory power of the equation measured in term of R^2 was estimated at 84% of the variances in the dependent variable were explained by the equation.

3.5 Total Foreign Exchange Business of SIBL

The total Foreign Exchange Business includes import, export and remittance which stood at Tk.17986.58 million in 2005 as against Tk.1442.25 million on 1998.

Total Foreign Exchange Business

<i>Year</i>	Amount in million Taka
1999	1914.10
2000	3547.40
2001	6195.30
2002	13520.07
2003	19065.10
2004	18088.12
2005	17986.50
Compound growth rate(%)	52.28%

Source: Annual report of SIBL (1999-2005)

[Appendix 1, page-94, Table-1: Total Foreign Exchange business during the period 1999 to 2005]

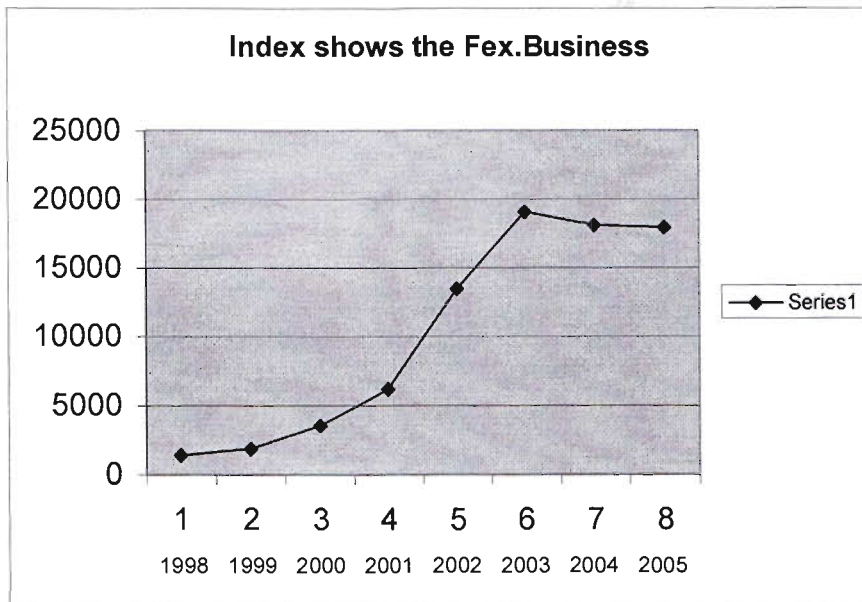


Figure 6: Index of change in Foreign exchange business during the period 1999 – 2005
Source: Annual report of SIBL 1999-2005

In order to estimate the average rate of increase of foreign exchange business per year, the following regression equation was estimated:

$$Y = -6435569.66 + 322.30 t \dots\dots\dots[3]$$

Here,

Y = total amount of foreign exchange business

t = Year

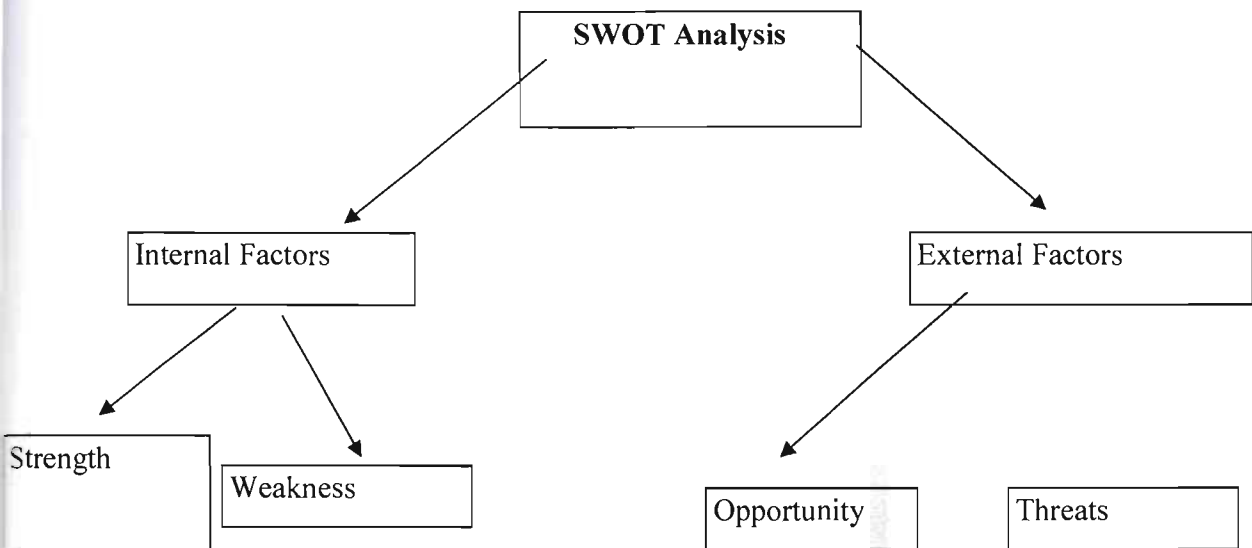
The above-mentioned equation indicates that average rate of increase of investment were Tk. 322.30 million per year. This indicates that bank could sustain positive trend of business during the period 1999 - 2005. The explanatory power of the equation measured in term of R² was estimated at 88% of the variances in the dependent variable as explained by the equation.

Chapter 4

SWOT Analysis

4.0 SWOT Analysis

Not surprisingly, in the competitive arena of marketing, SOWT analysis is a must based on product, price, place and promotion of financial institutes like private bank. From the SWOT analysis we can figure out ongoing scenario of the Bank. So, to have a better view of the present banking practices of Social Investment Bank Limited, SWOT analysis was found to be very necessary.



In SWOT Analysis Two Factors act as prime movers:

- Internal factors which prevail inside the concern which include strengths and weaknesses.
- On the other hand another factor is external factor which act as opportunity and threat.

4.1 Strengths:

The main strengths, as observed during the study include the following:

- Usage of faster PC Bank Software, Leads Foreign Exchange module
- Efficient Administration
- Cooperation with each other

- On-Line Banking, ATM Card service
- Membership with swift
- Good Banker - customer relationship
- Strong financial position
- Energetic as well as smart work force

4.2 Weaknesses:

Based on observation and analysis, the following weaknesses were observed:

- Reluctance to Advertising campaign
- Existing manual vouching system
- Shortage of Branch
- Lack of Consumer Credit Scheme.
- People are discouraged to deposit as SIBL is listed as a problem bank by Bangladesh Bank.
- SIBL, which is committed to avoid interest, can't invest the permissible part of its statutory liquidity Reserve and short Term liquidity surplus in the inter bank money market.
- This Bank can not invest in all those economic sectors, which are prohibited by the law of Islam.

4.3 Opportunities:

The opportunities for the bank, as opined by concerned peoples are stated below:

- Huge Business Area
- Growth of Sales Volume
- Introducing any Branch Banking through Online
- A large portion of our population is Muslim and they prefer Islamic Banking rather than Conventional Banking.

4.4 Threats:

The possible threats that this bank may encounter are the following:

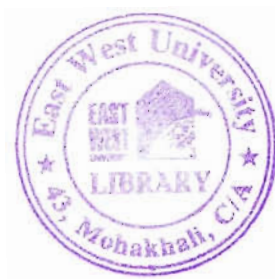
- Different services of Phone Banking /Home Banking by other banks
- Default loan
- Entrance of new Private Commercial Banks
- Higher competition among the banks
- Political unrest

Chapter 5

Summary of Findings

Recommendation

Conclusion



5.1 Findings

By working in foreign exchange department of Social Investment Bank Ltd Principal Br., the following matters have been observed:

1. Social Investment Bank Ltd follows the rules and regulations of import-export policy and Bangladesh Bank Exchange Control Regulation Act.
2. As per instruction of Bangladesh Bank copy of Bill Of Entry has to be submitted to Bangladesh Bank immediately after arriving of the goods. But in most cases the importer is very much reluctant to submit the copy of Bill Of Entry to the Social Investment Bank. As a result banker facing very awkward position to Bangladesh Bank.
3. As per Bangladesh Bank regulation Export Proceeds are to be repatriated within 21 days. But it is observed in some cases repatriation delayed. For which branches are facing problem with Bangladesh Bank.
4. Every bank has to report foreign exchange transaction to Bangladesh Bank. SIBL Principal Branch is not apart from this. For this branch they have to submit the report within 5 days.
5. It is mandatory to obtain CIB report of the client from Bangladesh Bank. Some times it is very much hassle and take much time to get for the bank. And sometimes supplied wrong information about the clients' CIB report. For which normal business transaction hampered.

6. It is observed that the exporters are very much eager for receiving incentives from Bangladesh Bank rather vary much reluctant to fulfill bank's rules and regulations.

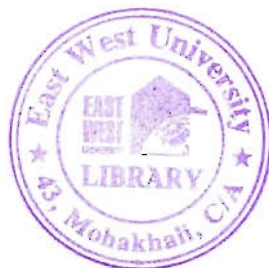
For come items it is not possible to comply with Bangladesh Bank rules regarding export procedures. For example- submission of duplicate copy of EXP Form within 14 days of shipment of goods.

5.2 Recommendations:

- i) As per existing exchange control regulation, no discount is allowed from the export bill. But sometimes the buyer on a flimsy ground claim discount otherwise they reframed from making payment of export bill. For this it is delayed to have export proceeds from abroad. So Bangladesh Bank should allow some discount to gap the export proceeds easily.
- ii) There are so many buying houses are working in our country. Our exporters are very much dependent on buying house to get the export order. These buying houses are charging commission on every export bill. There is no statistics in our country from the part of Bangladesh Bank or Govt. side how many buying houses are working in our country and how much money they are earning from export bill. So, Bangladesh Bank loosing foreign country. Therefore, Bangladesh Bank should keep strict control and policy over the activities of buying houses.
- iii) The major portion of foreign exchange earnings of Bangladesh comes from RMG & Knit wear products. Bangladesh Govt. provides lower percentage of incentives to the exporters of RMG & Knitwear then that of India, Pakistan, and Srilanka. For this Bangladeshi exporters can not compete with the exporters of our neighboring countries in respect of coding the price of products. So, Bangladesh govt. should increase the percentage of incentives to boost up export.
- iv) As per instruction of Bangladesh Bank copy of Bill Of Entry has to be reported to Bangladesh Bank within 120 days of delivery of the goods. But importers do not submit the bill of entries within stipulated time to the respective branch for their onward submission to Bangladesh Bank. As a result banker facing very awkward position to Bangladesh Bank. In this respect my observation is that immediately after clearance of the goods from

the port authority, the C & F agent should submit a copy of bill of entry to the Bank directly.

- v) As per Bangladesh Bank regulation Export Proceeds are to be repatriated within 21 days. But it is observed that in some cases repatriation delayed. For which branches are facing problem with Bangladesh Bank. So it should be extended up to 30 days.



5.3 Conclusion:

Over the last decade, the Foreign Exchange Market has become more diverse as well as much larger. Although in the past, commercial banks dominated the market, today participants also include commercial as well as investment banks, Foreign exchange dealers and brokerage companies, multinational corporations, money managers, commodity trading advisors, insurance companies, governments, central banks, pension and hedge funds, investment companies, brokers/dealers, and other participants in the inter-dealer market. In addition, the size of the Foreign exchange market has grown as the economy has continued to globalize. The value of transactions that are settled globally each day has risen exponentially—from \$1 billion in 1974 to \$1.9 trillion in 2004. The increased complexity of the market and higher trade volumes have necessitated constant changes in trading procedures, trade capture systems, operational procedures, and risk management tools. This research report is an empirical study on foreign exchange practice at Social Investment Bank Limited. Social Investment Bank Ltd is an emerging bank. The bank has only completed ten years of banking services. It is well positioned to meet the challenges of 2007 and will continue to strive to innovate and capture opportunity for growth and value creation.

In the present situation world is surviving a commercial age. Banks are working as a media to help people doing businesses. On the other hand no country is self sufficient. One country can't produce all the things they need for consumption. They have to depend upon other countries to meet these requirements. They import goods, which they can't produce and export those, which are in abundance in their country. But there is uncertainty in these international transactions. Most of the cases the exporter & importer don't know each other. Then they need someone who will be undertaking the responsibility for the payment of these transactions. Commercial Banks then come ahead to help them in this situation by issuing L/C (Letters of Credit) for the importer. In this report the issues of remittances create increasing amount of attention in recent years for the significant contribution in our national economy by increasing our foreign currency

reserve. Our government gives most emphasis on foreign remittance to keep macro economic balance.

In this report I tried to find out all sorts of practical dealings that are conducted in case of handling various type of banking activities in each department, specially foreign exchange department, the theoretical aspects, that is what should be the procedures and requirements maintained from first to last, and actual practices as well as the ultimate gain for the bank in conducting financial activities are mainly discussed.

Social Investment Bank Ltd started with a vision to be the most efficient financial intermediary in the country and it believes that the say is not far off when it will reach its desired goal. SIBL looks forward to a new horizon with a distinctive mission to become a highly competitive modern and transparent institution compellable to any of its kind at home an abroad.

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Appendices

Appendix 1

Table 1: Total Foreign Exchange Business

<i>Year</i>	Amount in million Taka
1999	1914.10
2000	3547.40
2001	6195.30
2002	13520.07
2003	19065.10
2004	18088.12
2005	17986.50
Compound growth rate(%)	52.28%

Source: Annul report of SIBL (1999-2005)

Appendix 2

Table 2: Total import business.

<i>Year</i>	Amount in million Taka
1999	1718.60
2000	2983.20
2001	4723.40
2002	11124.85
2003	14908.90
2004	13363.07
2005	12522.93
Compound growth rate(%)	39.23%

Source: Annul report of SIBL (1999-2005)

Appendix 3

Table 3: Total export business.

<i>Year</i>	<i>Amount in million Taka</i>
1999	139.80
2000	530.80
2001	1440.20
2002	2287.65
2003	4035.90
2004	4500.23
2005	5203.17
Compound growth rate(%)	82.72%

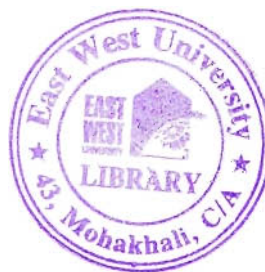
Source: Annual report of SIBL (1999-2005)

Appendix 4

Table 4: Total remittance business.

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1999	55.70
2000	33.40
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2002	107.57
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2005	260.40
Compound growth rate(%)	11.83%

Source: Annual report of SIBL (1999-2005)



The End