

## **Governance Structure of Export-Import Services by Commercial Banks in Bangladesh: A Case Study**

Fahim Muntaha,\*

### **Abstract**

*Export import services is one of the important service to earn foreign currency and maintain positive balance of payment. Commercial bank in Bangladesh providing this services to the exporter and importer by following the guideline of Bangladesh Bank. The main objective of this report is to find out whether the governance of central bank is adequate for ensuring perfect and flawless export import service for commercial banks or not. This paper asks two simple questions: first, is the performance of commercial banks related to export and import complying with the governing structure of central bank? Second, do commercial banks face any difficulties to meet the rules, regulations, guideline and requirements provided by the central banks? Thus, our study adds to the growing literature on export import services of commercial banks. While much of the literature should have to focused on the rules and regulation related to export and import services provided by central bank of Bangladesh but because of page limit it is not given here.. So most of the literature has focused on the export import services of commercial banks in Bangladesh. Instead of taking information of all the commercial bank, a case study on Export Import Bank of Bangladesh (EXIM Bank) is taken here to analyze its relevant data. The study could be vast but because of short time frame and accessibility of relevant data have made the article relatively short. The rest of our paper is organized as follows. The next section some practical problems faced by the commercial bank by following the guidelines, rules and regulation provided by the Bangladesh Bank, potential methods for achieving the goals, and the final section concludes.*

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\* Lecturer, Department of Business Studies, ASA University, Dhaka, Bangladesh.

### **System of Governance of CB**

Bangladesh bank as a central bank maintain some crucial relationship with other commercial banks, with public as well a government. In all country there exist an important relationship between central bank and other commercial banks because Central Bank imposes rules and regulations for commercial banks. There exist cooperative relationship but degree of cooperation depends on the country's financial system; if the country is underdeveloped or developing then commercial banks are highly depends on central bank, but if the country is developed then it might or might not happen. But the main thing is Central bank must have to maintain a safe distance from commercial banks to implement rules and regulations perfectly. Actually Bangladesh bank is not independent because Government appoints some representative so that decision of Government can be taken via representative.

In Bangladesh, corporate governance has drawn attention of the policymakers and the regulators following high percentage of classified loans of the private banks in the early 1990s and the 1996 capital market crash. Bangladesh Bank (BB) has brought major changes in the laws to strengthen the banking sector and ensure appropriate governance structure. Generally the functions of a central bank (not all functions are carried out by all banks) are implementing monetary policy, determining Interest rates, controlling the nation's entire money supply, the Government's banker and the bankers' bank ("lender of last resort") , managing the country's foreign exchange and gold reserves and the Government's stock register, setting the official interest rate – used to manage both inflation and the country's exchange rate – and ensuring that this rate takes effect via a variety of policy mechanisms, collects information whether all banks are performing according to rules or not including accounts, money inflows and outflows etc, issue and refuse license to other commercial banks, rescue of the banks, issue bank notes, raise money for Government, regulating and supervising the banking industry etc. Governing structure of Central bank ensure to carry out all of these functions. It also ensures a transparent, responsible and caring way out for the progress of financial institutions, there must be well-clarified, well-defined and generally accepted principles and guidelines. As central bank is the regulatory authority for all commercial banks, it supervise whether all the banks are following the rules, regulations, provisions and guideline when providing banking services or not.

## **Role of Commercial Bank**

Commercial Bank's experience in domestic and international trade financing, small and mid-sized businesses gain a competitive edge in the global import/export business. So they are usually offering a lots of product and services to facilitate export and import are i. Lines of Credit, including Pre-or Post-Shipping Funding to finance related to import transactions and export transactions ii. Documentary Credit Transactions such as Commercial Letters of Credit, Back-to-Back Letters of Credit, Standby Letters of Credit, Banker's Acceptance Discount iii. Export Letters of Credit including Advising, Negotiating and Obtaining Payment etc iv. Documentary Collections such as Import Documentary Collections, Export Documentary Collections, Direct Foreign Collections v. International Remittances and vi Foreign Exchange services.

### ***Export Procedure Followed by Commercial Banks***

The total export procedure is the composition of seven steps followed by commercial banks are observed here. There are completely complying with the guideline provided by the Bangladesh Bank.

#### **Step 1 - 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, in the prescribed form along with the nationality and assets certificate and other required documents

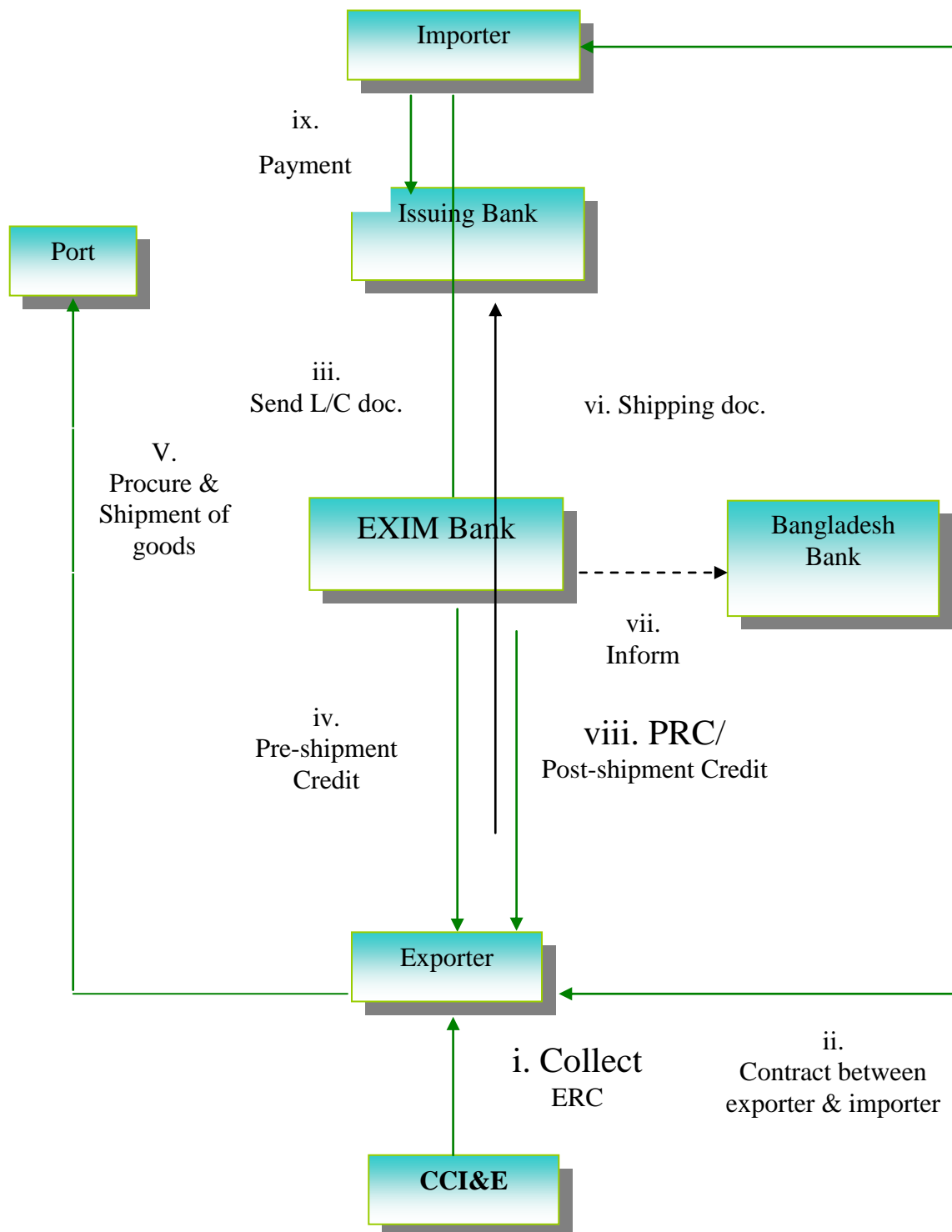
#### **Step 2 - Securing the Order**

After getting ERC Certificate the exporter may proceed to secure the export order. He can do this by contacting the buyers directly or through agent. **Step 3 - Signing the Contract:** After communicating buyer, exporter has to get contracted (writing or oral) for exporting exportable items from Bangladesh detailing commodity, quantity, price, shipment, insurance and marks, inspection and arbitration etc.

#### **Step 4 - Receiving 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 following are the main points to be looked into for receiving/collecting export proceeds by means of Documentary Credit. Terms and conditions should be stated in the contract clearly in case of other mode of payment out of Cash in advance; Open account or Collection basis (Documentary/ Clean).

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**Figure 1: Export Procedure of EXIM Bank**

### Step 5 - 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.

### Step 6 - Shipment of goods

Then the exporter should take the preparation for export arrangement for delivery of goods as per L/C and prepare and submit shipping documents

for payment/ acceptance/ negotiation in due time. Documents for shipment of goods are completely fulfill the requirement of the guideline of Bangladesh Bank.

### **Step 7 - Final Step**

Submission of the documents to the Bank for negotiation bankers used to check the documents as per LC terms. If the bank accepts the document and pays the value draft to the exporter and forward the document to issuing bank that is called a negotiating bank. If the bank does buy the LC then the bank normally acts as collecting bank. After realized the payment by issuing bank as per instruction by Bangladesh bank the commercial banks always report to respective department of Bangladesh bank by mentioning latest payment. Moreover banks has to issue proceed realization certificate of export LC to the supplier/exporter for getting cash assistance. After scrutinizes all the documents. If the documents are clean, EXIM Bank purchases the documents on the banker–customer relationship. This is known as Foreign Documentary Bill purchases (FDBP).

Financing exports constitutes an important part of a bank's activities. Exporters require financial services at four different stages of their export operation. During each of these phases exporters need different types of financial assistance depending on the nature of the export contract. Usually commercial banks in Bangladesh provides two types of credit facilities to the exporter. Firstly, Pre-shipment Credit including export cash credit (Hypothecation), export cash credit (Pledge), xport cash credit against trust receipt, acking credit, back to back letter of credit etc. Secondly Post-shipment including negotiation of documents under L/C; Foreign Documentary Bill Purchase (FDBP);Foreign Documentary Bills for Collection (FDBC) etc.

### ***Import Procedure Followed by Commercial Banks***

The total import procedure is the composition of eight steps followed by commercial banks are observed here. There are completely complying with the guideline provided by the Bangladesh Bank.

### **Step 1 - Registration with CCI&E**

For engaging in international trade, even trader must be first registered with the Chief Controller of Import and Export (CCI&E). By paying specified registration fees to the CCI&E- the importer will get IRC/ERC (Import/Export Registration Certificate) to open L/C with commercial banks.

### **Step 2 - Determination terms of credit**

The terms of the letter of credit are depending upon the contract between the importer and exporter. The terms of the credit specify the amount of credit, name and address of the beneficiary and opener, tenor of the bill of exchange-period and mode of shipment and of destination, nature of credit, expiry date name and number of sets of shipping documents etc.

### **Step 3 - Proposal for Opening of L/C**

To have an import L/C limit an importer submits an application to department to EXIM Bank. The proposal contains full particulars of the bank account, nature of business, required amount of limit, payment terms and conditions, goods to be imported, offered security, repayment schedule etc which are also the pre-requirement of Bangladesh Bank also.

### **Step 4 – Submission of documents by importer to the banker**

For opening L/C, the importer is required to fill up a prescribed application form provided by the banker along with the required documents that are complying with the requirement of Bangladesh Bank.

### **Step 5 - Opening of L/C by the bank for the opener**

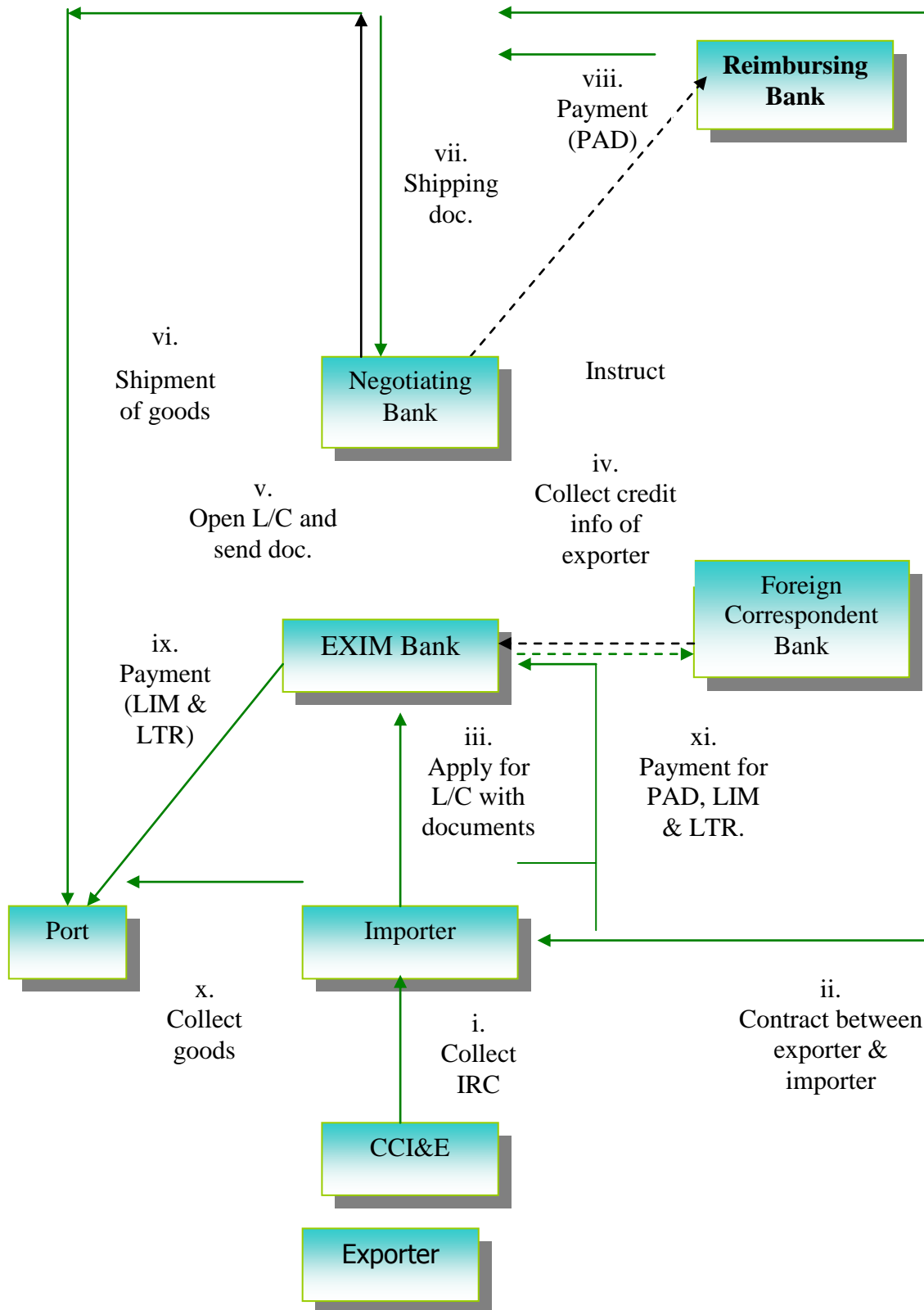
Taking filled up application form from the importer bank collects credit report of exporter from exporter's country through his foreign correspondence there. Opening bank then issues credit by air mail/TELEX/SWIFT followed by L/C advice as asked by the opener through his foreign correspondent or branch as the case may be, at the place of beneficiary. The advising bank advises the L/C to the beneficiary on his own form where it is addressed to him or merely hand over the original L/C to the beneficiary if it is so addressed.

### **Step 6 - Shipment of goods and lodgment of documents by exporter**

Then exporter Ships the goods to the destination of the importer country in this step and sends the documents to the L/C opening bank through his negotiating bank. Generally the documents sent to the opening banker with L/C completely fulfill the requirement of Bangladesh Bank.

### **Step 7 - Lodgment of Documents by the opening Bank from the negotiating bank**

After receiving the documents, the opening banker scrutinizes the documents. If any discrepancy found, it informs the importer. If importer accepts the fault, then opening bankers call importer retiring the document. At this time If discrepancy found but the



**Figure 2: Import Procedure of EXIM Bank**

importer accepts - no problem occurs in lodgment. But if discrepancy found and importer protest then banks send back all the documents to the exporter and request his to make in the specified manner. Here banker is not bound to pay because the documents send by exporter is not in accordance with the terms of L/C. Moreover if documents are OK but

importer is willing to retire the documents, in this case bank is obligated to pay the price of exported goods. Since importer did not pay for bill of exchange, this payment by bank is one kind of credit to the importer and this credit in banking is known as PAD. Again if everything is O.K. but importer fails to clear goods from the port and request bank to clear, in this case banks clear the goods and takes delivery of the same by paying customs duty and sales tax etc. So, this expenditure is debited to the importer's account and in banking it is called LIM.

### **Step 8 - Retirement**

The importer receives the intimation and gives necessary instruction to the bank for retirement of the import bills or for the disposal of the shipping document to clear the imported goods from the customs authority. The importer may instruct the bank to retire the documents by debiting his account with the bank or may ask for LTR (Loan against Trust Receipt).

From the above description it is clear that usually commercial banks in Bangladesh provides three types of credit facilities to the importers such as Loan against Trust Receipts (LTR), Loan Against Imported Merchandise (LIM), Payment Against Documents (PAD).

### **Relations between CB and Commercial Banks in Practice**

In Bangladesh, a very sound export import environment is maintained through the governance of Bangladesh Bank by providing appropriate, definite and identical guideline to all commercial banks. By this study it is found that export and import procedure of commercial banks are completely complying with the requirements of central bank. ADs are perfectly scrutinize all the document required and notify to Banglaedsh Bank rules and regulations. All ADs of commercial banks submit to the Foreign Exchange Operation Department, Bangladesh Bank, Head Office monthly statements showing the total figures of all export bills including partly unrealized relating to all their AD branches outstanding at the end of each month in the proforma prescribed by the 10th of the month following the month to which it relates. Moreover they are following the rules and regulations perfectly when provide financing to importer and exporters as LIM, PAD, LRT, pre-shipment credit or post shipment credit.

In recent years, the export import business is increasing at a faster rate but also facing some obstacles around it they are as per observations. All the branches of commercial banks are not the AD branch, The EXIM Bank LTD, Elephant Road branch is not an AD (Authorized Dealer) branch, so while opening a L/C it's required to contact with the AD which is very time consuming. Again small entrepreneur as importer or exporter has to keep higher margin sometimes 100% regarding opening a



L/C . As a result their services are not diversified in to the small-scale portfolios. This may cause high financial loss in future. Moreover commercial banks in Bangladesh have lack of enthusiastic scheme for exporters and importers.

### **Concluding Remarks**

From this study it is also found that thought there exist lots of provisions to provide credit for the exporters and importers, commercial banks are very restrictive to provide all of this credit facilities. For example 100% foreign owned enterprises in the EPZs known as Type A industries may obtain short term foreign currency loans from overseas banks and financial institutions if it has FC account in AD branch and if assets fully owned by the Type A industry may be lodged as collaterals for such loans; Loan in Taka for procurement of capital machineries for setting up a Type B industry (Joint venture projects), not exceeding the local partners' share of ownership of the unit, may be extended on normal banker-customer relationship. Prior Bangladesh Bank approval should be obtained by the AD while providing foreign exchange for import of the machineries out of the Taka loan. Repayments of the Taka loans along with interests should be received out of the foreign exchange earnings of the unit. ADs may extend credit facilities to Type C industries (100% locally owned) as admissible to such industries outside EPZ. So it encourages only local people in EPZ. Another thing is there are very little governance structure related to the employment of well trained sufficient employee and use of media to advertise facilities offered by the commercial banks to carry out the services to the prospective exporters and importers. Again lack of sufficient and well resourced research and development cell to research and case study may be another reason to make slower implementation of rules and regulations provided by central bank.

To overcome the drawbacks of commercial banks to implement the governance of Bangladesh Bank some important steps can be taken such as proper attempts should immediately taken to convert most of the branches of commercial banks as an AD branch to minimize time lag. Central Bank should revise rules regarding diversified schemes for export and import with fewer margins for L/C and should implement it by the commercial banks for small entrepreneur to target a different segment to increase volume of export and import. Moreover, tight rules and requirements for foreign currency loan should be relaxed and make it easy and simple. Again revised governing structure for implementing efficient and attractive marketing strategy and appearance of the commercial banks in the printing media and electronic media would also increase knowledge of people about foreign trade. Assurance of the

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appointment of sufficient and well-trained employee in commercial banks to provide modified and improved export import services would help all the commercial bank to perform better. And last of all strict rules regarding the establishment of well equipped research and development cell for all commercial banks will help the banks to identify their lacks and thus will help to make faster implementation of rules and regulations provided by central bank. The commercial banks are the key institution to earn foreign currency and facilitate export and import . Moreover their performance related to export and import are improving year by year but to overcome the existing drawbacks and to facilitate this export import services central bank has to put more concentration by ensuring improved governance structure in Bangladesh.

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