

An Overview of Foreign Exchange Transaction in Sonali Bank Limited.

Prepared By

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MBA

ID NO: 09364046

An Internship Report Submitted In Partial Fulfillment of the Requirement for
the Degree of Masters of Business Administration (MBA)

Business Administration Discipline

Brac University

May 16, 2013

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Internship Supervisor

Md. Fazley Elahi Chowdhury

Course Instructor, Business Administration Discipline

Brac University

Business Administration Discipline

Brac University

May 16, 2013

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To
The Supervisor,
Brac University,

Sub: Submission of Internship Report on An Overview Of Foreign Exchange Transaction in Sonali Bank Limited.

Dear Sir,

It is a great pleasure for me to submit the internship report, which is a requirement for the MBA program

During the four months internship period, I was assigned to submit the report under the topic of **An Overview of Foreign Exchange Transaction in Sonali Bank Limited (Local Office, Dhaka).**

This report is submitted for partial fulfillment to obtaining the degree of Masters of Business Administration (MBA) from Brac University, which was assigned to me by you.

It has been a fruitful experience for me to work in such an organization and prepare this report. It would be my great pleasure if you find this report useful and informative.

Sincerely Yours,

.....

Md. Shamim Ahamed

ID: 09364046

MBA

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An internship report submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration (MBA).

Md. Fazley Elahi Chowdhury
Assistant Professor
Business Administrative Discipline
Brac University

Supervisor

Acknowledgement

First of all I would like to thank Almighty Allah the merciful, the gracious who has given me the ability, intelligence and energy to complete my Internship Report.

I wish to express my deepest gratitude to my supervisor Md. Fazley Elahi Chowdhury for his cooperation, suggestion, guidance and continuous encouragement throughout the course of the study. His inspiration and careful observation are beneficial to reach at this stage.

I note with great gratitude that the management of Sonali Bank Ltd. extended all types of co-operation during my assignment. My also thanks go to other officers working in the Bank during my data collection for their help in various related issues.

Table of Contents

Chapter	Title	Page
	Executive Summary	01
1.	Introduction	02
	1.1 Background of the Study	02
	1.2 Purpose of the Study	02
	1.3 Scope of the Study	03
	1.4 Limitations	03
	1.5 Methodology	03
2.	Fundamentals	05
	2.1 International Trade & Foreign Exchange	05
	2.2 Foreign Exchange Regulation Act 1947 & Deregulatory Measures	06
	2.3 Exchange Rate Management System	09
	2.4 Convertibility of Currency	10
	2.5 Methods of International Payment	12
	2.6 Foreign Correspondent Relationships and Agency Arrangement	14
	2.7 Letter of Credit: An Overview	16
3.	An Overview of Sonali Bank Limited	19
	3.1 Background of Sonali Bank Limited	19
	3.2 Corporate Information of Sonali Bank Limited	19
	3.3 Visions and Mission	20
	3.4 Commitments	20
	3.5 Management Hierarchy	21

4.	Procedures & Formalities Related with Foreign Exchange Business of Sonali Bank Limited	22
	4.1 Import Trade	22
	4.1.1 Import Process	22
	4.1.2 Import Finance	26
	4.1.3 Exchange Rate	26
	4.1.4 Payment Method	28
	4.1.5 Settlement	29
	4.2 Export Trade	30
	4.2.1 Export Formalities	30
	4.2.2 Export Financing	34
	4.2.3 Export Friendly Environment	39
	4.3 Foreign Remittance	45
	4.3.1 Types of Foreign Remittance	46
	4.3.2 Modes of Foreign Inward Remittance	46
	4.3.3 Cancellation of Inward Remittance	47
	4.3.4 Reporting to Bangladesh Bank about Remittance	47
	4.3.5 Foreign Outward Remittance	49
	4.3.6 Common Modes of Foreign Outward Remittance	50
	4.3.7 Cancellation of Outward Remittance	50
	4.3.8 Opening of Foreign Account	50
5.	Analysis of Import & Export Trade of Sonali Bank Limited	52
	5.1 Commodities Imported & Exported	52
	5.2 Contribution of SBL in Foreign Exchange Business to National Economy	52
	5.3 Activities Taken by Sonali Bank Limited	53
6.	Findings	56
7.	Recommendation	56
8.	References	57
	Appendix A: Management Hierarchy of SBL	58

EXECUTIVE SUMMARY

Sonali Bank Ltd is one of the recognized banks in our country. Banking sector in Bangladesh has been pursuing the policy of expansion and growth of branches. People and the government itself are very much dependent on the service provided by the 57 banks in the financial markets. To know how well commercial banks perform actually

No country can do itself without interaction with other countries in any respect. The main reason behind it is that no country is self sufficient with everything it requires to provide its people. One country can be able to produce some item more in amount than it needs. Given the situation, the item more than necessary needs to be exported to some other country that cannot produce the same as per requirement and vice versa. And this situation leads to international trade, which is executed maintaining some procedures. Everybody though linked with international trade somehow in the globalization era today, does not have a clear knowledge as to what these procedures are like. This study has intended to serve that purpose of giving an overview of import export procedures along with a highlight on foreign remittance and that from Sonali Bank Limited, Local office perspective.

The study is almost all description. The study gives an insight into the procedures and formalities maintained by Sonali Bank Limited in handling international trade-import, export, along with foreign remittance. The study has been conducted largely depending on secondary data sources such as manual, annual reports, bank parikrama and other documents. It is mentioned here that no structured/written questionnaire was used for the purpose to serve.

1. INTRODUCTION

1.1 Background of the Study

As a business banking has had an evolution from pre historic period to the present time. It has developed to this position phase by phase. Now it is in its extreme organized form. It is an essential component of a sound economic system for smooth functioning of fund mobilization. Frankly speaking, it is the mainstream that leads to the economic position of a country. It is considered the lifeblood of an economy. People of all profession are somehow getting benefit out of it.

Now days a sound banking system has become a sine-qua-non for the progress of a country, especially in the arena of globalization today. International trade has peeped to our everyday life. As for example jute produced in suburb areas of Bangladesh is being used in far European countries in the form of bags for shopping. Again the fertilizer and machinery that are being used to produce jute and other agro products are imported from Japan. People working abroad are remitting money into Bangladesh. Given this, close contact with foreign exchange has been a mast. But the general public along with others most likely to get involved in foreign exchange does not have a clear understanding thereof.

Exposing foreign exchange practice is the pursuit of this report.

1.2 Purpose of the Study

The general purpose of this study is to get acquainted with the foreign exchange practice in Sonali Bank Limited of Bangladesh. But the specific objectives are as follows.

- i.** To be acquainted with the import procedures it follows.
- ii.** To have a look at the export procedures it adopts.
- iii.** To get familiar with foreign remittance practices in Sonali Bank Limited.

1.3 Scope of the Study

The scope of this report is confined to foreign exchange practice in Sonali Bank limited. It should only cover how the bank manages import-export process as well as foreign exchange.

1.4 Limitations

Problems are generic to study. That is some shortcoming in report writing and this one is also not exceptional. The study was focusing mainly on foreign exchange practice. Sonali Bank Limited is doing foreign exchange trade through 29 authorized dealers out of 101 branches across the country, one of which is located in Khulna. The internship was settled to Sonali Bank Limited, Local office for the purpose to serve. The main problem posed during the internship was data unavailability. Due to the secrecy, the bank could not provide information very much necessary for the perfect completion of the report.

1.5 Methodology

Research method designs the entire works. An appropriate method has to be developed for completing the work successfully. The core objectives of this study were to know procedures and formalities of foreign exchange business and to find out contribution of the bank in this regard. The study was based on papers and documents evaluation of import and export trade and personal observation. For achieving the core objective, the study was conducted on import and export trade of Sonali Bank Limited.

Two types of data source were identified for collecting necessary data- primary source and secondary source.

After the identification of the data sources, all the relevant and pertinent data was collected. To collect primary data about the foreign exchange business, the internee observed the activities of the officers of foreign exchange department, discussed with them about different aspects and steps of foreign exchange business.

This study was primarily based on secondary data available from foreign exchange department of Sonali Bank Limited, Local office. In addition to these, other necessary information has been collected from annual reports of Sonali Bank Limited, annual Bank Parikhryama and other documents.

Data collected from various sources were processed further for the purpose of the study. Necessary tables have been prepared on the basis of collected data. Analysis of data was done mainly of two key variables- import trade and export trade of Sonali Bank Limited along with a highlight on foreign remittance. The intern has intended to find out the status of import and export trade along with foreign remittance of Sonali Bank Limited on the basis of availability of information during the study.

2. FUNDAMENTALS

2.1 International Trade and Foreign Exchange

International business is all transactions- private and government- involving two or more countries. Private companies venture it for profit while government ones, for the reason else.

Now days it is a vital issue comprising a large and growing portion of the world total business. All companies- large or small are affected by international business consisting of import and export. To operate it effectively, managers must understand these modes of import and export. But there arises a question in what leads one to venturing such undertakings. Companies get involved in import-export business or the objectives shown below:

To Expand Sales

Higher sales in higher profit but sale depends on consumers' interest in products or services and consumers' willingness and ability to buy them. The number of people and amount of their purchasing power are higher for the world as a whole than for a single country. Hence companies increase sales by defining a certain markets in international terms. It is mentioned that many of the largest companies derive half of their sales from outside their home country.

Acquire Resources

Sometimes companies running domestically get involved in foreign business for acquiring capital technologies and information to be used at home with a hope of increased profit margin or cost savings passed on to ultimate customers. Though the underlying factor is profit maximization.

To Diversify Sources of Sales and Supplies

It is the fact that the timing of business cycles results in a wild swing in sales and profits among countries. That's why companies engage in business in different countries. Again companies can avoid full impact of price swings and shortages in any one country by security supplies from many countries.

To Minimize Competitive Risk

Companies harboring a fear that other companies involving in foreign business may gain advantages to promote against them domestically attempt to venture such business just to counter the advantages.

In fact foreign exchange is a part and parcel of international trade- import- export. International traded is the process of movement of goods among countries whereas foreign exchange is the mechanism that carries out the payment from one currency to another. Basically all the instruments that are used for international payment are termed as foreign exchange.

2.2 Foreign Exchange Regulation Act 1947 & 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, Pakistan adopted the act and after 1971 Bangladesh adopted the same act. The act has 27 sections and number of subsections.

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 is responsible for administration to regulation under the act Bangladesh Bank reviews the exchange control measure from time to time and revises the instruction on policy and measures, whenever necessary through different foreign exchange 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 levels where transactions with the customers take place. And so authorized dealers are to ensure compliance with the regulations by the customers.

Bangladesh Bank issue licenses to deal in foreign exchange empowered by the foreign exchange regulation act 1947. Central bank may issue general licenses or licenses 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.

Since 1976 a lot of reform measures have been undertaken in Bangladesh. On October 20, 1993 Bangladeshi Taka was declared convertible on current account transactions and in April 1994 Bangladesh government has been awarded with the status of article viii of ix. 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 regulation act 1947 issue licenses to commercial banks to deal in foreign exchanges. The central bank has permitted a number of money changers to exchange cash foreign currency notes, coins or foreign instruments such as travelers' cheques.

With the exceptions of a few reserved sectors, investors are free to make investment in Bangladesh in industrial enterprises. Foreign investors are free to remit their post-tax profits to their own country.

Non residents are free to invest in shares/securities, with foreign exchange sent or brought into Bangladesh through banking channel. Foreign investors are free to remit their dividend to their own country.

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

Annual foreign exchange quota for business travel abroad for the new exporters has been set at US \$ 6000. Generally, merchandise exporters may retain 50% of realized fob value of their exports in foreign currency accounts.

Importers and entitled for business travel quota @ of 1% of the imports settled during the previous financial year, while the non exporting products are entitled for the business travel quota @ of 1% of their turnover of the preceding financial year as declared in the tax return.

Incoming passengers may bring in any amount of foreign exchange with declaration in FMI form at the time of arrival. No declaration is necessary for amounts up to US \$ 3000.

Non-resident foreign currency deposit accounts may now be maintained as long as the account holder's desire. Bangladesh nationals having bank accounts abroad who were opened while banking there may now maintain such accounts even after their return to db.

Persons ordinarily resident in Bangladesh may maintain foreign value added 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 accounts.

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.

Education sector was declared fully convertible. It is prior permission of Bangladesh students studying abroad or willing to proceed abroad for students.

Authorized dealers may release foreign exchange unto US \$ 10000for 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 amounts of foreign exchange for family maintenance abroad of Bangladesh nationals are allowed by Bangladesh Bank on written request by certificate from the Bangladesh mission in the concerned country.

2.3 Exchange Rate Management System

Exchange rate system is the principal of fixing price of a currency in terms of another. Always one of the most important issues to the policy makers is the degree of exchange rate flexibility that should be permitted. The exchange rate can be viewed as the result of particular period of time. There can also be fixed under some monetary system arrangements. Actually there are lots of arguments and a number of exchange rate systems prevailing in the economics of the world. Basically exchange rate systems can be divided into three broad groups.

i. Fixed exchange rate system

ii. Flexible exchange rate system

iii. Hybrid exchange rate system

i. Fixed Exchange Rate System

The term fixed exchange rate system refers to a system that permits only very small, if any, deviations from officially declared values. A point made in favor of fixed exchange rates is that such a system provides for the discipline needed in economic policy to prevent continuing inflation. That is in a fixed exchange rate system, there should be no tendency for greater inflation to occur in any country than in the world as a whole.

ii. Flexible Exchange Rate System

By flexible exchange rates we mean rates that are completely free to vary, that are the foreign exchange market is cleared at all times by changes in the exchange rate. Under a freely flexible exchange rate system, a depreciation or appreciation automatically corrects a deficit or surplus in a nation's balance of payments respectively in the nation's currency.

iii. Hybrid Exchange Rate System

It refers to adjustable pegs, crawling pegs and managed floating, all of which combine various characteristics of fixed and flexible exchange rates.

Adjustable peg- it requires nations to periodically change per values when in balance of payments disequilibrium.

Crawling peg- it changes per values by small amounts at frequent specified intervals until the equilibrium exchange rate is reached.

Managed floating- in general, its regime is characterized by some interference with exchange rate movement. But, the intervention is discretionary on the part of the monetary authorities. In other words, there are no announced guidelines or rules for interventions, no announced target rates and no announced limits for exchange rate variations. Rather a country may intervene when it judges that it would be well served by doing so. However when countries tend to manipulate their managed floats in order to pursue particular goals at the expense of other countries the behavior is referred to as dirty floating.

2.4 Convertibility of Currency

Convertibility is the ability of the owner to exchange it for other currencies. Convertibility 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 purpose. It is only required for international transactions.

Exchanged Control

In order to maintain the value of the currency in terms of the other currency, a country must endeavor to achieve a favorable balance of payments. So, if the imports and capital outflow is higher than the exports and capital inflows then the excess will have to be paid from its stock of foreign currencies. Exchange control is usually imposed to restrict imports and capital outflows and encourages exports and capital inflows. By definition it is the control of the dealing in foreign currency by the state through the banking system. Residents alone concern it with controlling the purchase and sell of currencies. A currency is not fully convertible when exchange control is operated.

Exchange control, which became common during and after World War II basically to impose control on:

- i. Current account transactions and
- ii. Capital account transactions

Full and Partial Convertibility

Convertibility can be either partial or full. Partial convertibility denotes that the transactions relating to current account are to be made freely that is no exchange control on the transactions of this account. Full convertibility implies that both current and capital account transactions can be done without any intervention from exchange control authority.

Convertibility and Exchange Rate

Theoretically convertibility and flexible exchange rate should move together. But it is possible to have convertibility on the one hand and fixed exchange rate of the currency on the other hand.

Precondition for Implementation of Convertibility

The introduction of currency convertibility is not without risk. Moreover, it must be realized that mere convertibility cannot bring about changes. In order to maximize the benefits, convertibility must be accompanied by liberalization of the countries' trade regime along with some reform measures the other sectors of the economy. The basic requirements of convertibility or more appropriately current convertibility are-

An appropriate exchange rate is fairly important to bring about equilibrium in the BOP. It should be close to a realistic value.

An adequate level of reserve to face cyclical shortfalls in the BOP or temporary trade shocks.

Sound macro-economic policies, which involve the adoption of sound fiscal and monetary policies to maintain a sustainable current account balance.

Incentives to the economic agents to respond to the market price. Domestic producers should be well equipped to harness the benefit of the openness in the economy.

Convertibility of Taka

The financial authority of Bangladesh made the Taka convertible on current account since October 20, 1993 and already awarded article status of international monetary fund. The declaration means a commitment of the part of Bangladesh to allow her citizens to convert 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: decentralization and privatization of industries and banks, improvement in fiscal management, tariff rationalization, opening of trade regime etc. these have paved the way to convertibility.

2.5 Methods of International Payment

In international trade, one may come across a number of modes of payment, which are being used for receiving trade proceeds. These are cash in advance, open account, documentary collections and documentary credit. Among these, documentary credits have been observed to be used mostly in our country. The procedures and pros and cons of each of the payment methods have been discussed in the sections that follow:

i. Cash in Advance

In this method of payment, the buyer places the funds at the disposal of seller prior to shipment of goods in accordance with the sales contract, which is certainly to be concluded between importer and exporter before the trade transactions. if the exporter is not sure about the buyers credit or there are other circumstances, which cast doubt on the certainty of getting paid, a last resort is to ask for cash in advance. This may be acceptable to a first class buyer who trusts seller to deliver the goods. In the long run, however, it may not be competitive and buyers will not want to continue importing goods if they can turn to other suppliers offering better terms.

Since this method of payment is expensive and contains a lot of risks on the part of buyer, they may not be willing to accept such terms. Thus it is rarely used in Bangladesh.

ii. Open Account System

At other end of the range payment method is the open account system. This is an arrangement between the buyer and seller whereby the goods are manufactured and delivered before payment is required. Open account provides for payment some stated specific future date and without requiring the buyer to issue any negotiable instrument evidencing his legal commitment. The seller must have absolute trust that he will be paid at the agreed date. Though the seller can avoid a lot of banking charge and other costs, but he has no security that he will be receiving payment in due course. For this reason the exporter may not be willing to accept this sort of mode of payment. This system is also uncommon in Bangladesh.

iii. Documentary Collection

This is an arrangement whereby the goods are shipped and the relevant bill of exchange/draft is drawn by the seller of the buyer and documents are sent to the seller's bank with clear instructions for collections through one of its correspondent banks located in the buyer's domicile. In this method, the export will hand over the shipping documents to his banks and asks it to forward the documents to the buyer's bank, with instructions to release them to the buyer on payment of his invoice. This is called cash against documents. The exporter can also give the buyer trade credit by drawing a bill of exchange on him and requiring him to accept the bill when he collects the documents. This is called documentary collections against acceptance or documents against acceptance because the buyer accepts the bill of exchange.

Though documentary collections are inexpensive and simple to arrange, exporter is required to ship the goods without an unconditional guarantee or promise of payment by the buyer. However, as compare to cash in advance an open account, documentary collections a much more common means of payment.

iv. Documentary Credits

The documentary credit or letter of credit is an undertaking issued by a bank on behalf of the buyer (or for its own account), to pay the beneficiary (exporter) the value of the draft and/or documents provided that the terms and conditions of the credit are complied with. This is the most frequently used method of payment in international trade. Although one of the costliest, it is often considered the most secured because the buyer is assured that the seller will be paid only when the documents representing goods have been delivered. Conversely, the seller is assured that the buyer will receive the documents for ultimate delivery of the goods only when payment has been made. One or more third parties assure the security of the transactions. This is normally the buyers' bank (issuing bank), which issues the letter of credit (L/C) and the sellers' bank (advising/confirming bank), which inform the seller that the L/C has been issued and perhaps adds its confirmation to the L/C (in other words, guarantees the payment if the seller wants to be sure the issuing bank will not default).

In addition to commitment of making payment by a bank to the exporter, the documentary credits provide legal security to involved parties as it may operate within the framework of ICC's (International Chamber of Commerce), Uniform Customs & Practice for Documentary Credits (UCP-600). UCP-600 is an international codification of actual business practice, based on the experience of bankers, exporters and importers. It should be emphasized that the UCP rules apply when the parties in the documentary credit forms have incorporated them. Because of the above mentioned advantages, documentary credits are the most popular mode of payment in international trade. In Bangladesh also, the documentary credit is the most acceptable mode of payment in export and import trade.

2.6 Foreign Correspondent Relationships and Agency Arrangement

Correspondent Relationship

No bank has its own branch network all over the world. To operate interSonali Banking business, it must depend on other foreign banks in different countries without establishing correspondent relationship, a bank cannot advise it import L/C to the foreign beneficiaries, getting export L/Cs or run remittance business

(inward/outward). Correspondent relationship is a relationship established between two banks under which each bank acts as agent bank of their counterpart bank to facilitate all sorts of foreign exchange business.

Factors Considering before Establishment of Correspondent Relationship

Before establishment of correspondent relationship with a new bank, generally following factors are to be considered.

Selection of a Bank to Which Relationship will be Established

First step towards establishment of correspondent relationship is to select a bank from the banker's almanac or other banking publications or sources. Bankers almanac, polks banking directory, bank watch etc are available now via electronic medium, provides financial details, ownership management, branch and subsidiary networks and correspondents.

Rank and Status of the Bank

Secondary see World Bank and country bank of the bank from various banking publications or through internet to assess size and status of the bank.

Financial Statement Analysis

Analysis of auditors' report and accounts/balance sheet/interim statement or prospectus is necessary to assessing bank's management, accounts, capital adequacy, funding or liquidity position etc.

Obtaining Credit Report

To obtain a credit report of the bank, with whom the correspondent relationship are being considered, regarding reputation, credit worthiness, potentials of business, experience in handling international trade transactions and settlement of the clients the banks. Credit report may be collected from the Embassies/High Commission abroad or other correspondents.

Country Risk Analysis

Finally country analysis should be done before establishing correspondent relationship. Country risk analysis is divided by analysis of economic risk and political risk.

Agency Agreement

The agreement under which correspondent relationship is to be established is called agency agreement. Agency agreement may be formal or informal. In a formal agreement, a schedule of agency agreement is to be prepared and signed by the both banks. Many banks do not sign any schedule of agency agreement. They consider that the correspondent relationship has been established when the control documents are exchanged between the two banks.

Special Agreement

In case of need, special agreement is to be made for direct draft drawing arrangement or telegraphic transfer arrangement for inward remittance, bill collection arrangement etc.

2.7 Letter of Credit: An Overview

Definition

Letter of Credit can be defined as a credit contract whereby the buyer's bank is committed to place an agreed amount of money at the seller's disposal under agreed conditions. Since the agreed conditions include, amongst other things the presentations of some specified documents, the Letter of Credit is called documentary Letter of Credit. The uniform customs and practices for documentary credit published by international chamber of commerce (1993) revision: publication no. 500 defined documentary credit: Any arrangement, however named or described, whereby a bank (the issuing bank), acting at request and on the instruction of a customer or on its own behalf,

i. Is to make a payment to or to the order of third party, or is to accept and pay bills of exchange (drafts) drawn by the beneficiary, or

ii. Authorized another bank to effect such payment, or to accept and pay such bill of exchange (draft).

iii. Authorize another bank to negotiate against stipulated documents, provided that the terms and conditions are complied with.

Types of Documentary Credits

Documentary credits may be either:

i. Revocable or

ii. Irrevocable

Revocable Credit

A revocable credit is a credit, which can be amended or cancelled by the issuing bank at any time without prior notice of the seller.

Irrevocable Credit

An irrevocable credit is a credit, which cannot be amended or cancelled without agreement of the concerned parties.

Special Documentary Credit

i. Revolving credit- 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 cumulative or non cumulative.

ii. Transferable credit- A transferable credit is one that can 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 transficiaries such 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 back to back concept the seller as a 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 credit makes provision for pre shipment payment, to the beneficiary in anticipation of his effecting the shipment as per L/C conditions.

v. Red clause- When the clause of the credit authorizing the negotiating bank to provide pre-shipment advance to the beneficiary is printed 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 or deliver the documents for negotiation.

3. AN OVERVIEW OF SONALI BANK LIMITED

3.1 Background of Sonali Bank Limited

Soon after independence of the country Sonali Bank emerged as the largest and leading Nationalized Commercial Bank by proclamation of the Banks' Nationalization Order 1972 (Presidential Order-26) liquidating the then Sonali Bank of Pakistan, Premier Bank and Bank of Bhawalpur. As a fully state owned institution, the bank had been discharging its nation-building responsibilities by undertaking government entrusted different socio-economic schemes as well as money market activities of its own volition, covering all spheres of the economy.

The bank has been converted to a Public Limited Company with 100% ownership of the government and started functioning as Sonali Bank Limited from November 15 2007 taking over all assets, liabilities and business of Sonali Bank. After corporatization, the management of the bank has been given required autonomy to make the bank competitive & to run its business effectively.

Sonali Bank Limited is governed by a Board of Directors consisting of 11(Eleven) members. The Bank is headed by the Chief Executive Officer & Managing Director, who is a well-known Banker and a reputed professional. The corporate head quarter of the bank is located at Motijheel, Dhaka, Bangladesh, the main commercial center of the capital.

3.2 Corporate Information of Sonali Bank Limited

Corporate Profile

Name of the Company	: Sonali Bank Limited
Chairman	: Dr. A.H.M. Habibur Rahman
CEO and Managing Director	: Pradip Kumar Dutta
Company Secretary	: Zaheed Hossain
Legal Status	: Public Limited Company
Genesis	: Emerged as Nationalised Commercial Bank in 1972, following the Bangladesh Bank (Nationalisation) Order No. 1972(PO No.26 of 1972)
Date of Incorporation	: 03 June, 2007
Date of Vendor's Agreement	: 15 November, 2007

Registered Office	: 35-42, 44 Motijheel Commercial Area, Dhaka, : Bangladesh
Authorised Capital	: Taka 2000.00 core
Paid-up Capital	: Taka 1125.00 core
Number of Employee	: 21,839
Number of Branches	: 1200
Phone-PABX	: 9550426-31, 33, 34, 9552924
FAX	: 88-02-9561410, 9552007
SWIFT	: BSONBDDH
Website	: www.sonalibank.com.bd
E-mail	: itd@sonalibank.net.bd

3.3 Visions and Mission

Vision

Socially committed leading banking institution with global presence

Mission

Dedicated to extend a whole range of quality products that support divergent needs of people aiming at enriching their lives, creating value for the stakeholders and contributing towards socio-economic development of the country

Slogan

Your trusted partner in innovating banking

3.4 Commitments

In Serving Customers

Customer-first

Quality-focus

Credibility & secrecy

In Serving the Bank

Loyalty

Total commitment & dedication

Excellence through teamwork

In Carrying Ourselves at Work

Discipline

Honesty & Integrity

Sincerity

Caring

Creativity

3.5 Management Hierarchy

All the posts of the bank are of executive and officer. The management hierarchy of Sonali Bank Limited has been shown in appendix-A

4. PROCEDURES AND FORMALITIES RELATED WITH FOREIGN EXCHANGE BUSINESS OF SONALI BANK LIMITED

4.1 Import Trade

While doing import-export or overseas business, some difficulties may arise. Because the person who buys goods and who sells goods are of different countries, problem may arise. However the transactions occur through different currencies. To settle any problem related with international trade, international chamber of commerce has established some rules and regulations, which have to be followed throughout the world. These regulations are called UCPDC (Uniform Customs & Practice for Documentary Credit). According to UCPDC importer must open an L/C for importing anything from abroad. Now import process is depicted phase by phase from practical viewpoint.

4.1.1 Import Process

(a) At the very beginning, the buyer and seller indifferent countries communicate personally or through agent/indenture about the buy and sell.

(b) Upon discussion the exporter prepares a pro-forma invoice stating quality, quantity, unit price, total value, transshipment or otherwise, and sends it to the importer.

(c) The importer satisfied upon the terms and conditions, puts signature mentioning 'accepted' on the invoice, resulting in a contractual binding. Then the importer applies to the bank for opening a L/C submitting invoice thereto.

(d) Banks make the compliance of the products imported with harmonized system code. H.S.C matching, the bank issues LCAF for the importer to fill in the bank also requires the importer to submit the following documents:

- i.** Valid I.R.C issued by CCI & E
- ii.** Income tax paid certificate mentioning tax incorporation number
- iii.** Membership certificate of local trade association
- iv.** Vat registration certificate
- v.** Trade license
- vi.** Declaration of assets and liabilities
- vii.** Insurance cover note with money receipt
- viii.** IMP form dully filled in and signed

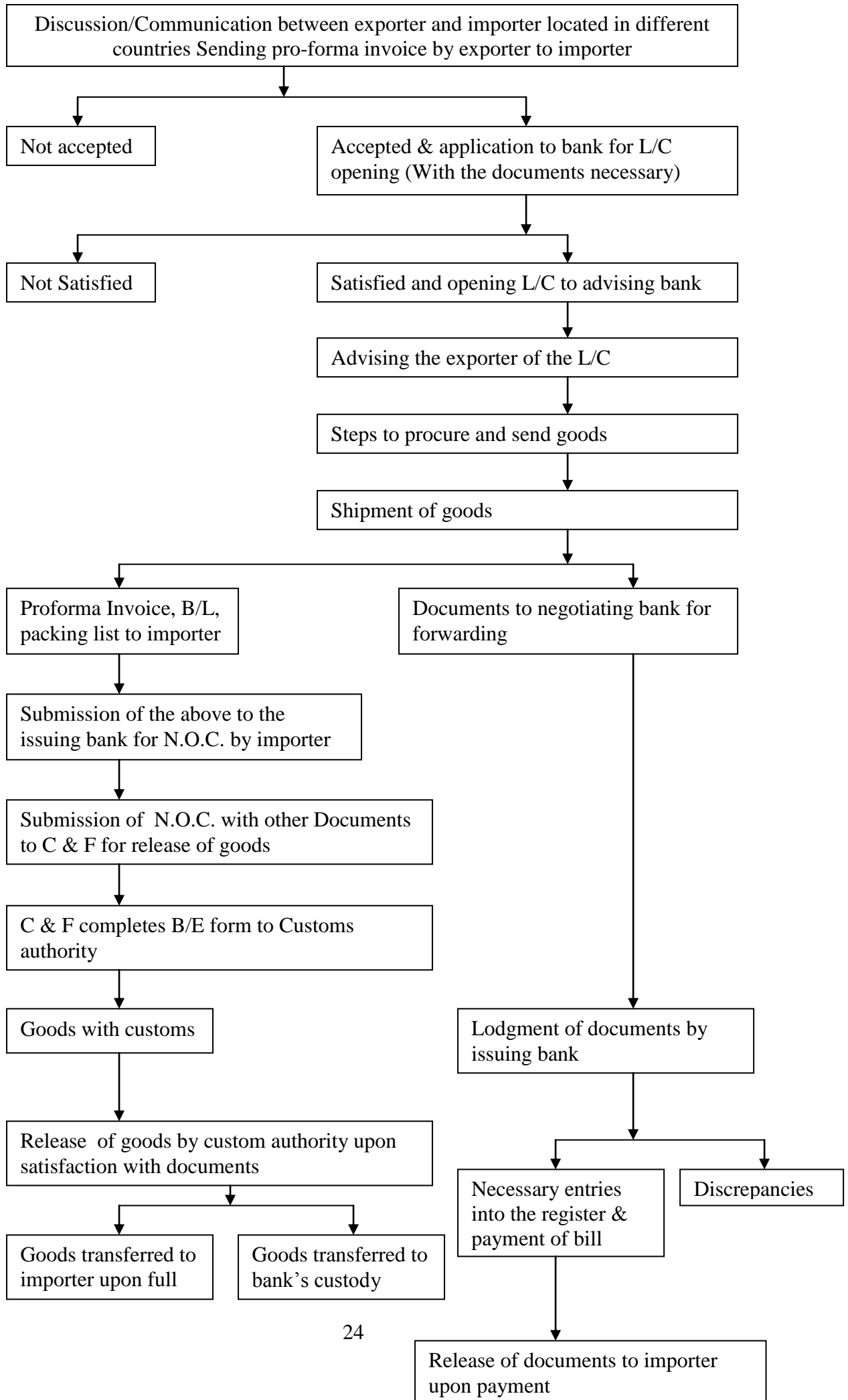
ix. Upon receipt of the above mentioned documents the bank issues an L/C for relative document charges and sends it to the advising bank in beneficiary's country to pas the L/C to the beneficiary

x. Upon receipt of the L/C the exporter carries out all formalities required exporting goods

xi. He collects goods and takes arrangements for shipment

xii. The shipping company issues bill of lading upon taking delivery of the goods on board for necessary charges

Chart 1: Flow chart of Import Process (from Practical view point)



Exporter informs the importer about the shipment of goods along with an invoice, B/L and packing list if any. On the other hand, he submits the following documents to the negotiating bank are forwarded to the issuing bank, which performs lodgment upon receipts of the documents forwarded. Upon arrival of the import documents from negotiating bank, the dealing officer of the issuing bank sees whether the documents are complied with L/C terms and conditions. If so, necessary entries are made in the register to complete the lodgment. Before lodgment, the following documents are checked:

- i.** Bill of exchange
- ii.** Commercial invoice
- iii.** Packing list
- iv.** Bill of lading
- v.** Certificate of origin
- vi.** Inspection certificate
- vii.** Shipping advice
- viii.** Negotiating bank's forwarding

Otherwise discrepancies are shown and informed to the negotiating bank for the knowledge of the exporter within a certain/reasonable time. A list of discrepancies is given in appendix-A. The payment is held up till then and the issuing bank can cut \$ 50 from the original bill the issuing bank makes payment to the negotiating bank after correction through negotiating bank.

4.1.2 Import Finance

The bank extends several types of post-import loan to the importer.

Import Bill

In case of failure of the importer to pay the bill the bank extends import bill loan package but the goods are kept under the direct control of the bank. Bank terms it as an investment in the form of partnership business under IB. the bank charges a profit rate and it will charge profit only for as many days as the loan is used. Generally, loan is sanctioned for the three months under this investment account.

Postal Import

Upon the failure of the importer to pay the bank yet, the IB is transferred to PI where the investment can last for as long as one year. It requires approval from the head office for the sanction. Profit in this case is charged the same way as in PI. In interest based bank it is termed as LIM loan against import.

Cash Credit

Import finance is also sanctioned under this principal. In this case 100% collateral is required for the importer to get loan inactive under this account. This investment account is adjusted as the importer makes payment.

Pre-Shipment Finance

Pre-shipment is needed only when the importer is required to place with the government before receiving permission.

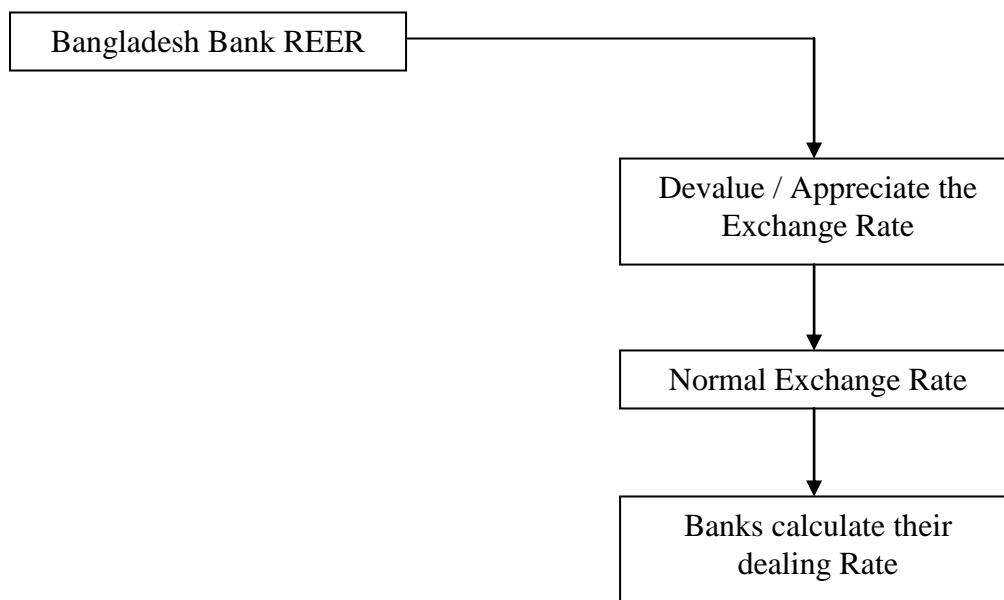
4.1.3 Exchange Rate

Exchange rate is a vital issue in international trade and payment. Generally, two spot rates are available in Bangladesh given floating exchange rate in force now. The two spot rates are selling and buying.

The authorized dealers sell dollar to the customer at higher rate and buys from the same at lower rate. A base rate is maintained on the inter bank market. This base rate is in force in buying and selling of dollars among banks. While buying from the

customer a rate, a bit lesser than the base rate is used. The authorized dealers buy from the customer at lower rates and adds a margin (transportation costs, brokerage fees, and profit) to make it in line with base rate in force in inter-bank. While selling to the customer the AD sells at a rate higher than the base rate. This additional includes transportation cost, profit and brokerage fees. Mentioned that this additional charge varies depending upon the transaction size and the customer relationship with them.

Chart 2: A flow chart of how exchange rate is determined



Bangladesh Bank follows the pegging system of exchange of taka with a basket of foreign currencies. The basket of foreign currencies is determined considering the currencies of major trading partners of Bangladesh. Bangladesh Bank fixes the rate of foreign currency exchange based on the calculation of nominal effective exchange rate and real effective exchange rate.

Then it devalues or appreciates the exchange rate as and when necessary, which in turn result in nominal exchange rate. Actually this is the rate dictated by Bangladesh bank to apply. The commercial bank then adds or deducts as necessary to execute the foreign exchange.

4.1.4 Payment Method

Payment is made under documentary credit. The following five major steps are involved in the operation of a documentary L/C.

- i) Issuing
- ii) Advising
- iii) Amendment
- iv) Presentation and
- v) Settlement

Issuing

Upon the request of the importer, the bank located in importer's country generally opens a L/C behalf of the importer and in favor of the exporter with requiring the importer to submit necessary documents being satisfied with by the bank.

Advising

The issuing bank takes necessary steps to advise the exporter of the L/C through its foreign correspondent known as advising bank generally located in the exporter's country.

Amendment of Credit

Parties involved in a L/C, particularly the seller and the buyer may 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 cancelled 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 cancelled 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 buyers and after⁵ that, has to present the documents evidencing dispatching of goods to the negotiating banks n or before the stipulated expiry date of the credit. After receiving all the documents, the negotiating bank checks the documents against the credit. If the documents are found 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 requirement, either

- i. Effects payment or
- ii. Reimbursement in the pre-agreed manner

4.1.5 Settlement

It 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 arrangement as stipulated in the credit. These are-

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 documents to the issuing bank. If the issuing bank is satisfied with the requirements, the paying bank from the issuing bank obtains payment.

Settlement by Acceptance

Under this arrangement, the seller submits the documents evidencing the shipment to the accepting bank 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 obtain in the pre-agreed manner.

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 a tenor or a sight, 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.

4.2 Export Trade

The imports and exports act, 19*50 regulate the import and export trade of our country. No person who has been granted registration by the chief controller of imports and exports shall indent, import or export anything into or out of Bangladesh. Except in cases of exemption issued by the government. If any person contravenes any provision of the act or any order made under this act is punishable with imprisonment for a term, which may extend to one year or with fine of both.

4.2.1 Export Formalities

There are a number of formalities, which an exporter has to fulfill before and after shipment of goods. These formalities or procedures are enumerated as follows:

Registration of Exporters

The export from Bangladesh is subject to export trade control exercised by the ministry of commerce through chief controller of imports and exports (CCI & E). No exporter is allowed to export to any commodities permissible for export from Bangladesh unless he is registered with CCI & E and holds valid Export Registration Certificate (ERC). The ERC is required to be renewed every year. The4 ERC number is to be incorporated on EXP forms and other papers connected with exports.

Procedure for Obtaining Export Registration Certificate (ERC)

For obtaining Export Registration Certificate, intending Bangladesh 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/

Pabna/Bogra/Rangpur/Dinajpur/, as the case may be, in the prescribed form along with the following documents:

- i.** Nationality and assets certificate of the proprietor/directors.
- ii.** Registered partnership deed in case of partnership concerns
- iii.** Memorandum and articles of association and incorporation certificate in case of limited company.
- iv.** Bank certificate
- v.** Income tax certificate
- vi.** Copy of valid trade license
- vii.** Copy of rent receipt of the business premises.
- viii.** Membership certificate of a trade association
- ix.** Affidavit from a 1st class magistrate
- x.** Any other certificate as required in the policy etc.

Registration/Renewal

On receipt of necessary advice from the offices of the controller/joint controller/deputy controller/assistant controller of imports and exports, applicants for export registration certificate are required to deposit requisite registration fee to the government head of account '42-trade and commerce –fees realized under the imports and exports control act 1950' through Bangladesh Bank/Government Treasury/Sonali Bank. Copies of treasury chalangans showing payment of fees should be sent to the concerned offices of the chief controller of imports and exports for enabling them to

issue export registration certificate. Once registered, exporters are required to make annual payments for having their export registration certificate renewed.

Security and Order

Upon registration, the exporter may proceed to secure the export order. He can do this by contracting the buyers directly through correspondence. Some buyers of goods like jute and jute goods maintain liaison office representatives or local agents who can be contracted to secure a deal. Sometimes, TCB, BJMC and BJMC secure bulk contracts and pass or allocate the contracts to the actual exporters. To locate the foreign buyers the exporters may contract the local chamber of commerce of potential buyers. The export promotion bureau and the Bangladeshi missions abroad are also good sources for securing information on the prospective foreign buyers.

Signing the Contract

The following are the points, which need to be borne in mind while making a contract:

- i.** Description of the commodity

- ii.** Quantity of the commodity

- iii.** Price of the commodity

- iv.** Shipment

- v.** Insurance and marks

- vi.** Inspection

- vii.** Arbitration

Receiving of the Letter of Credit

The following are the main points to be located into-

- i.** The terms of the L/C are in conformity with those of the contract.

ii. The L/C is an irrevocable one, preferably confined by the advising bank.

iii. The L/C allows sufficient time for shipment and a reasonable time for negotiation.

iv. If the exporter wants the letter of credit to be transferable, divisible and advisable, he should ensure that these stipulations are specifically mentioned in the L/C.

Procuring the Materials

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

Shipment of Goods

The following are the documents normally involved at the stage of shipment:

i. EXP form (it must be certified by the bank first and then by the custom authority)

ii. Photocopy of the registration certificate

iii. Photocopy of the contract

iv. Photocopy of the L/c

v. Railway receipt, barges receipt or truck receipt

vi. Shipping instruction

vii. Insurance policy

Preparation of Exports Documents

- i.** Bill of exchange of draft
- ii.** Bill of lading
- iii.** Invoice
- iv.** Insurance policy/certificate
- v.** Certificate of origin
- vi.** Inspection certificate
- vii.** Consular invoice
- viii.** Packing list
- ix.** Quality control certificate
- x.** GSPI certificate
- xi.** Photo-sanitary certificate

At this stage the exporter submits documents for negotiation in order to get proceeds

4.2.2 Export Financing

An exporter requires finance at two stages namely

- i.** Pre shipment stage and
- ii.** Post shipment stage

Pre-Shipment Credit

Pre-shipment credit as the name suggests, is given to finance the activities of an exporter prior to actual shipment of goods for export. The 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 exporter the bank takes into consideration the credit worthiness, export performance of the exporter, 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 and 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 each.

i. 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 1st class exporter. As the bank has got no security in this case, except charge documents and lien of exports L/C contract, bank normally insist 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.

ii. Export Cash Credit (pledge)

Such credit facility is allowed against pledge of exportable goods or raw materials. In this case, credit facilities are extended against pledge of goods to be stored in godown under bank's control by signing letter of pledge and 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.

iii. Export Cash Credit against Trust Receipt

In this case, credit limit is sanctioned against trust receipt. In this case also unlike 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 in trust for the bank. This type of credit is granted when the exporter wants to utilize the credit for processing, packing and rendering the goods in exportable conditions and when it seems that exportable goods cannot be taken into bank's custody. This facility is allowed only to the 1st class party and collateral security is generally obtained in this case.

iv. Packing Credit

In this case, credit facilities are extended against security of railway receipt or steamer receipt, barge receipt, truck receipt evidencing transportation of goods to the 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.

v. Back to Back Letter of Credit

Under this arrangement, the bank finance 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 arises 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 excerpts.

i. That of the actual supplier shall substitute name of the original beneficiary

ii. The credit amount shall normally be lower than that of the original letter of credit. The difference being the amount of profit the exporter expects to earn from the deal.

iii. The back to back letter of credit shall be made valid for shipment and negotiation prior to expiry of the corresponding date.

vi. Advance against Anticipatory Letter of Credit (red clause L/C)

Under red clause letter of credit, the opening bank authorizes the advising bank or 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 or typed in red ink and in green ink on the top of the L/C is called red clause L/c.

The following documents are usually called for depending on the nature of the export credit facilities 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 the signed by the owner of the go-down in case of rented go-down

vii. Documents of title of goods

viii. Trust receipt

ix. Export credit guarantee scheme

x. Export form duly signed by the exporter

xi. EPC/ERF duly certified by Bangladesh bank chance and other documents, if any

Post Shipment Credit

This type of credit refers to 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 manufacture/suppliers. Before extending such credit, it is necessary to obtain report on creditworthiness of the exporters and financial soundness of the buyers as

well as other relevant documents connected with export in accordance with the rules and regulations in force. Banks in our country extend post shipment credit to the exporters through:

i. Negotiation of Documents under L/C

ii. Purchase of DP and AD Bills

i. Negotiation of Documents under L/C

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

ii. Purchase of DP and AD Bills

In such a case, the banks purchase or discount the DP (documents against payment) and AD (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 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.

4.2.3 Export Friendly Environment

To create export friendly environment various steps have been undertaken, resulting in various organizations and incentives around the sole objective to expedite the export business. Below are the major steps among others:

i. Export policy

ii. Promotional organs for export national committee for exports and export council

iii. Export promotion bureau

iv. Export incentive

v. Limit of export credit

vi. Export development fund

vii. Export credit guarantee scheme

viii. Other incentives

Export Policy

Export policy of Bangladesh is formulated by the ministry of commerce to provide the overall guideline and incentives for promotion of export. It has been dedicated to formulate this policy to cover a 5-year period to make them contemporaneous with the 5-year plans and to provide continuity top the policy regime. The existing export policy (1997-2002) has come into effect from 1st July 1998 and remains in force till 30th June 2002. However, the policy is announced, if required. Government may review the policy once in every year and may take decision as deemed fit. The policy is formulated with the following objectives:

i. To achieve higher growth rate of export by increasing export to regional and international markets.

ii. Reduction of trade deficit by achieving export target.

iii. To assist production of export items competitive price to protect existing market and explore new markets.

iv. To make efforts for exploiting new opportunities offered by the liberalization and globalization process in world economy.

v. To diversity and improve the quality of exportable items.

vi. To increase value addition of exportable items by developing backward linkage industries and services.

vii. To simplify the export procedure and rationalize the incentive structure to exporters.

viii. To develop the export trades infrastructure and trained manpower.

National Committee for Export

Headed by the Prime Minister and comprising Ministers of Foreign Affairs, Finance, Commerce, Industries, Planning, Jute and Textile. The committee will review the export situation and provide necessary direction and resolved problems.

Export Council

Consultative body comprising of chambers, exporter's association and institutions of public sector.

Export Promotion Bureau (EPB)

The main functions of EPB are-

- i.** Quota allocation for export of RMG
- ii.** Issuance of GSP certificate of the exporter
- iii.** Participation in international trade fairs
- iv.** Arrangement of fairs and exhibition both at home and abroad
- v.** Arrangement of training programs for boost up export

Export Incentives

To achieve the objectives of the export policy several incentives and facilities have been made available to the exporters. Some of the incentives as offered are described below:

Convertibility of Taka

Taka has been made convertible in the current account from March 26, 1994 in lien with the policy of export-led growth in the liberalized world market. Under this arrangement, exporters are getting following facilities:

- i.** Business travel quota for new exporter
- ii.** Exporters' retention quota
- iii.** International credit card

Fiscal Incentives

Duty draw back-exporters of manufactured products are entitled to draw back after the export is effected the amount of custom duty and sales tax already paid at the time of importing raw materials. Duty may be returned under any of the systems namely actual drawback, national drawback and flat rate drawback.

Duty Free Import of Capital Machinery

100% export oriented industries located elsewhere in the country is allowed to import capital equipment without paying any customs' duty. Bonded warehouse facility has extended towards all industries recognized as 100% export oriented industries. A bonded warehouse is a warehouse under customs' control. Imported raw materials are stored in the bonded warehouse without payment of duty and taxes on the first importation and subsequent exportation of finished goods.

Sale of Goods Rejected for Exportation

20% of the rejected goods of the 100% export oriented industries including leather goods and readymade garments will be admissible for sale in the local market subject to payment of usual duties and taxes.

Duty free Import of Raw Materials for Export Oriented Leather Industries

To encourage increase in production in finished leather and export at competitive prices, customs duty and LCA fees livable on import of wet blue and pickled leather by export oriented leather industries will be exempted.

Income Tax Rebate on Export Earnings

50% rebate on taxable income generated from export earnings is exempted though incorporation of new provision of the income tax ordinance.

Cash Incentives

Government used to give cash benefit in lieu of bonded warehouse facility or duty drawback for export oriented domestic textile sector and RMG industries. At 25% compensatory assistance in cash is admissible, in case of imported inputs, if the duty drawback facility has not been utilized or if a garment cum manufacturer of fabrics uses local inputs. For this purpose domestic handloom sector is admissible to get 10% cash incentives. If the exporter is an intermediary buyer, the facility will go the original producer of the import. For quick disbursement of cash incentives to the exporter placement of fund in advance made by the Bangladesh Bank to the head office authorized dealer's bank. Cash incentive is also admissible against export of artificial and natural flower, quilt, leather goods and jute goods at the rate of 10%

Limit of Export Credit

Exporters may obtain export credit from the commercial banks up to 90% to the value of their irrevocable letter of credit. The commerce bank will charge no overdue interest. In case of export against irrevocable L/C on sight payment basis in such cases however the exporters will be required to submit necessary export documents within a specified time.

Export Development Fund

As per agreement between international development association and govt. of Bangladesh, export development fund in foreign exchange have been created in Bangladesh bank to finance import payment against import of raw materials of 100% export oriented industries on sight payment basis. An exporter is eligible to avail of EDF facilities on the basis of the following conditions:

- 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 materials 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 loans is 180 days
- vii.** The exporter can borrow as many times as they likes in a year
- viii.** The interest rates he pays is LIBOR+1%
- ix.** An exporter can borrow an amount not exceeding \$500000 in a single case but outstanding should not be over \$1000000
- 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 exporter and 3.5% for the new exporter for every loan for the client.

Export Credit Guarantee Scheme

The export credit guarantee department of Sadharan Bima Corporation provides guarantee to bankers and exporters against possible losses resulting from the advances given and against the overseas commercial and political risk respectively. Currently three types of guarantee e.g. the export finance guarantee (pre shipment), export finance guarantee (post shipment) and export payment risk policy (comprehensive guarantee) are available to the bankers, the third one is extended to directly exporter.

Other Incentives

i. Reduced airfreight for export of all crash program items including fruits and vegetables

ii. Special premium rebates are allowed on fire and marine insurance covers to export oriented industries of nontraditional items.

iii. Local raw materials used as direct input for export products are regarded as deemed export a quality for all export incentives and benefits.

As mark of national recognition 45 national's trophies are awarded every year to the mostly outstanding exporters in 15 product sectors. The trophy winning exporters are given CIP.

4.3 Foreign Remittance

Foreign remittance refers remittance of foreign currency that is received in and made out abroad. In broad sense, foreign remittance includes purchase and sale of all freely convertible foreign bills and currencies on account of import export, TT and other purposes.

4.3.1 Types of Foreign Remittance

Foreign remittances are of two types-

- i. Foreign inward remittance
- ii. Foreign outward remittance

4.3.2 Modes of Foreign Inwards Remittance

TT, DD, MT, TC are the common modes of foreign inward remittances. Besides, foreign inward remittance also includes remittances on account of export, purchase of bills, purchase of draft, purchase of TC, foreign currency notes and coins, cheque issued on foreign banks in favor of beneficiaries in Bangladesh etc. local currency debit to nonresident taka account constitute inward remittance of foreign exchange.

TT

Cable or telex instructions of payment along with a test number are called TT. Where a foreign bank issues a TT in favor of someone in Bangladesh, it credits the amount, received from the remitter to the Nostro account of its correspondent bank. On receipt of the TT the paying bank in Bangladesh will make payment of the proceeds of the TT in foreign currency or in equivalent Bangladeshi taka to the beneficiary. TT clean purchase rate will be applied for the payment of TT.

Demand Draft

A DD is an instrument in writing containing an order of the issuing bank on the drawee bank to pay a certain amount to the payee or to his order. There are two ways to handle DD/cheque to give value to the beneficiary:

1. Before realization of the proceeds of the instrument (foreign bank proceeds)
2. After realization of the proceeds of the instruments (collection)

Money Transfer

Money transfer is an instrument issued by a remitting bank to the paying bank advising in writing to make payment of certain amount to the specific beneficiary.

Travelers Cheque

It is an instrument issued by bank or company payable to the purchaser on presentation after verifying purchaser's signature.

Purpose of Inward Remittance

Family maintenance, indenting commissions, recruiting agent's commission, realization of export proceeds, donation, gift etc.

4.3.3 Cancellation of Inward Remittance

If an inward remittance already reported to Bangladesh Bank is to be cancelled, either in full or partial, because of non-availability of the beneficiary, the ad must report the cancellation of the inward remittance as are outward remittances on TM form. The return in which the reversal of the transaction is reported should be supported by a letter giving (i) reference of the return in which the inward remittance was reported (ii) name and address of the beneficiary (iii) amount and reason of cancellation (iv) amount of purchase as effected originally.

4.3.4 Reporting to Bangladesh Bank about Remittance

All the foreign exchange transactions of each month on inward remittances have to be reported to Bangladesh Bank through statement along with schedules before stipulated date. Mainly by the following way bank reported to the Bangladesh Bank:

Statement S-1

S-1 is for transactions in all currencies other than transactions with ACU member countries.

Statement S-2

S-2 is for transactions in currencies of ACU member countries.

Statement S-6

S-6 is a foreign currency notes accounts.

There are many report are included in S-1, S-2, and S-6. these are given below by the details.

A-1

If the EXP form is included, then it will be reported in the A-1.

A-2:

If the EXP form is not included, then it will be reported in the A-2.

FCR 1

When most of the people who live in a foreign country and they earn by wages or savings, their list and amount will be entry in this form which is reported to the Bangladesh Bank.

IRV 1

When most of the people whose earning way is different than wages or savings, then their list and amount will be entry in this form which is reported to the Bangladesh Bank. Amounts equivalent to below \$2000 other than for exports. IRV-1 covers purpose codes from 0001 to 5999.

IRV-2

When most of the people whose earning way is different than wages or savings, then their list and amount will be entry in this form which is reported to the Bangladesh Bank. Amounts equivalent to below \$2000 other than for exports. IRV-1 covers purpose code codes from 6001 to 9999.

J-1

When most of the people whose earning way are same like IRV-1 but amounts equivalent to \$2000 and above other than for exports. J-1 covers purpose codes from 0001 to 5999.

J-2

When most of the people whose earning way are same like IRV-1 but amounts equivalent to \$2000 and above other than for exports. J-2 covers purpose codes from 6001 to 9999.

E2/P2

This report is a important payment.

E3/P3

This report has an invisible payment. E3/P3 covers purpose codes from 0001 to 5999.

E4/P4

This report has a miscellaneous payment. E4/P4 covers purpose codes from 6001 to 9999.

Now I discuss what are ACU member countries?

ACU member countries

Its full meaning is- Asian Clearing Union (Countries). Countries are India, Nepal, Sri Lanka, Iran, Bhutan, Maldives and Bangladesh.

4.3.5 Foreign Outward Remittance

All remittance from Bangladesh to foreign country i.e. foreign currency being made out abroad may be turned as foreign outward remittance. Most outward remittances are approved be the authorized dealers following the declaration of taka as convertible for current account payments from March 1994. Bangladesh Bank's prior approval is required only for special cares.

4.3.6 Common Modes of Foreign Outward Remittance

Like foreign inward remittance, TT, DD, MT and TC are the common modes of foreign outward remittance. Authorized dealers in Bangladesh drawn on their correspondents may issue TT, DD, MT and TC. Selling foreign currency notes may also affect outward remittance by as to travelers.

Besides, local currency credited to non-resident taka account of foreign banks or convertible taka accounts constitute outward foreign remittance. Outward foreign remittance also comprises remittance on account of import and private remittance on sundry items.

Purpose of Outward Remittance

Import bills, travels, treatment purpose, membership fees, fees for application, examination fees, registration fees, admission fees, tuition fees, haze, profit and dividend of foreign investment, insurance claim etc.

4.3.7 Cancellation of Outward Remittance

in the event of any remittance which has already been reported to Bangladesh Bank may be cancelled and payment may be made to the applicant by cancellation after observing all existing formalities Bangladesh Bank should be reported about the cancellation of the outward remittance as inward remittance along with all related information.

4.3.8 Opening of Foreign Account

SBL opens foreign account. Foreign account is used for receiving foreign currency from abroad or for sending the currency to abroad. It can be used in favor of a person or in favor in export.

Following papers are required to open a foreign account.

i) Exporter's foreign currency account opening form (application form, two signature cards duly filled in and signed with authenticated seal and introduction).

ii) Two copies of passport size photographs of each operation.

iii) Export registration certificate.

iv) Attested photocopy of the membership certificate of the concerned association such as BGMEA.

v) Export precedes realization certificate regarding the utilization of foreign currency.

In case of Limited Company following should be submitted.

vi) Memorandum and Articles of Association of the company.

vii) Power of attorney.

viii) Resolution of incorporation.

ix) Certificate of commencement of business.

x) List of Directors

xi) Trade License.

5. ANALYSIS OF IMPORT & EXPORT TRADE OF SONALI BANK LIMITED

5.1 Commodities Imported & Exported

SBL performs a pivotal role in economic development through import and export of various commodities.

The items imported include rice, wheat, maize, fertilizer, bran wheat, soybean cake, oil cake, coconut oil, mustard, lentils, fruits-mango, grapes, orange, chilies, onion, garlic, ginger, turmeric, readymade garments, parts accessories and reconditioned truck, poultry feed, one-day-old chicken, papers, radio, cassette, machinery and toys.

The items exported include jute, shrimps and grind bone and the like.

5.2 Contribution of SBL in Foreign Exchange Business to National Economy

In the quest of her economic development, Bangladesh is striving hard through adopting various policies and strategies. But, the achievement is much below expectations. This suggests that the country have yet to develop a suitable policy package for sustained growth and development. In this connection, it may be mentioned that export has now-a-days becomes a very popular slogan among the development economists and policy makers showing a causal relationship between export and economic development. That is higher rate of export growth indicates higher rate of economic growth.

SBL plays a very important role in the economic development of the country by facilitating and providing support to exporters. Due to liberal credit to export sector the bank has been able to handle export trading since its inception.

Our banking sector comprising 4 government banks, 5 specialized banks, 30 private banks and 10 foreign banks, is playing a pivotal role for the development of the

national economy, resulting in a high GNP growth rate, and for the contribution to foreign trade remittance as well.

Due to geographical percussion worldwide in 2002, such as US attack on Iraq along with it the outbreak of SARS virus and 'bird-flue' has devastated the world economy as a while, affecting the global output and trade growth. As a result economy as whole, affecting the global output and trade growth. As a result downfall in the import export trade follows in Bangladesh. But at the middle and end period of the year, international trade started to accelerate again.

Above all, the bank is exposing on a positive indication in the banking sector towards the improvement through providing banking service.

5.3 Activities Taken by Sonali Bank Limited

with strategic alliance across nations to achieve the mission of meeting the challenge of the new millennium, the SBL is pursuing a business objective of the touchstone of speed, reform and advancement focusing on its comprehensive banking business. The continuous growth of information technology and the introduction of various new dimensions to solve a problem have made the banking sector very information intensive.

Banks have an additional responsibility of marketing for their raw materials as well as for finished products that is to attract deposits on one hand and to attract borrowers and users on the other. This double sided nature of banking business make marketing problems that are more complex than those that are normally faced in commercial concern. Furthermore bank deal in money, which is the classical, undifferentiated product and the only way to secure any competitive edge, is through the range and quality of service they offer.

To market service SBL finds out as much as possible on what and how it is selling. It strongly believes that perfect delivery of badly conceived service is as disastrous as a bad delivery of a perfectly designed service. It always tries to convey a well-designed

and desirable corporate image through a suitable channel to the target client to ensure that they get the right message.

Banking can be considered as an industry whose service components are greater than product components, and thus image is exceptionally valid in this trade. Already SBL has been able to build up image in the market place because of its non-price competition like quality of services, clientele atmosphere and branch layout.

SBL considers its customers as the heart of the organization. It always takes into consideration customer interest. For this, it charges fees and commission low as much as possible compared to other banks. Customers are getting service at lower price. In case of import finance, it charges profit only for as many days as the loan is used and the rest taken in advance is given back, which is known as rebate, but not available in other bank. Again it simply charges profit. But in interest-based banks, compound interest prevails, which is being, criticized everywhere even by the economists and policy makers- national and international everywhere. SBL is one-step ahead in this perspective. It strongly believes that maintaining good bank-customer relationship can provide superior service. Before opening a L/C, a certain percentage of the L/C value is deposited with the bank. This is known as L/C margin. This margin is determined by bank-customer relationship.

To facilities export it provides a set service to exporters. Such as foreign documentary bill purchase, foreign documentary bill collection, export L/C advice, with considerable low fees and charges. It has made liberal credit policy to export for providing support to exporters.

SBL has been equipped with modern technology to facilities import and export. It has also become a member of SWIFT. SWIFT is a member owned co-operative, which provides a fast and accurate communication network for financial transactions such as L/C, fund transfer etc.

From the analysis it is very obvious that the performance level of SBL is going upward in this sector and that from absolute perspective. But in comparison to that of others its performance is not close to competition. It is also lucid that its performance

is increasing on and it is a good indication and inspiration for the bank to that to promote in the future, no doubt.

6. FINDINGS

1. 100% L/C margin is a must for perishable goods meaning importers of perishable goods are switching to other banks for opening L/C.

2. L/C margin varies from 10%-50% for non perishable goods depending upon the relationship between customer and bank.

3. Rebate system is practiced. That is, the bank first charges profit for the whole year at the beginning on the amount the bank has already sanctioned but adjusts later only charging for as many days as the loan is used and refunds the rest.

4. It simply charges profit on the amount it sanctions unlike other banks that charges compound interest rates.

7. Recommendation

Sonali Bank Ltd should improve the standard of their foreign exchange transaction although its current foreign exchange transaction are moderately well as compared with other banks within the industry. This bank follows the basic rules in formulating their exchange process, Training and development of foreign exchange, and ensures the sound foreign exchange operations of the bank.

8. REFERENCES

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APPENDIX-A

Management Hierarchy of Sonali Bank Limited

Board of Directors

SI No.	Name	Designation
1.	Dr. A.H.M. Habibur Rahman	Chairman
2.	Ranjit Kumar Chakraborty	Director
3.	A.S.M Nayeem	Director
4.	Md. Nazibar Rahman	Director
5.	Shekhar Dutta	Director
6.	Mrs. Salima Ahmad	Director
7.	Md. Mahboob Hossain	Director
8.	Md. Shaheb Ali Mridha	Director
9.	Kazi Tariqul Islam	Director
10.	Md. Enamul Haq Choudhury	Director
11.	Dr. Zaid Bakht	Director
12.	Pradip Kumar Dutta	MD & CEO

APPENDIX-B

Common Discrepancies Check List

1. Clause (unclean) bill of lading
2. Charter-party bill of lading (unless stipulated in the L/C)
3. On Board notation of bill of lading undated/unauthenticated
4. Shipment effected from port other than that stipulated in the credit
5. Goods shipped on deck (unless stipulated in L/C)
6. Full set of bill of lading of presented
7. Certificate of country of origin not provided
8. Certificate notifying insurance company of shipment not presented
9. weightment certificate not presented
10. Cuttings/alterations in documents no authenticated
11. Documents inconsistent with each other
12. Description of goods on invoice differs from that in the credit
13. Weight differs between documents
14. the amounts shown in invoice and bill of exchange differ
15. Shipping marks and numbers differ between documents
16. Credit (L/C) amount exceeded
17. Credit (L/C) expired
18. Documents not presented in time/state bill of lading
19. Late shipment
20. Short shipment
21. Absence of documents called for in the credit
22. Bill of exchange drawn on a wrong party
23. Bill of exchange payable on an indeterminable date
24. Bill of lading, insurance documents or bill of exchanging are not endorsed correctly
25. Absence for signature, where required, on documents presented
26. Bill of lading does not evidence whether freight is paid or not
27. Packing list not submitted
28. Transshipment effected not being covered by the L/C terms

- 29.** Notify party differs/not as per L/C stipulation
- 30.** Third party bill of lading or short form bill of lading submitted
- 31.** Inspection certificate no submitted
- 32.** Unit price not mentioned in invoice
- 33.** Description of documents on collection schedule differs with documents presented
- 34.** Fumigation/Health certificate not submitted
- 35.** Forwarder's cargo receipt no acceptable (unless provided in the L/C)

