An Insight into Import Financing in Bangladesh

Adiba Nazia
Lecturer, Department of Marketing,
Premier University, Chittagong

Abstract

Import financing is a vital requirement of the import firms for smooth handling of operations. Commercial banks of all types are involved in various degrees of import financing based on their availability of foreign exchange and attitude towards risks. Various firms of import financing programs can be availed by the import firms subject to their credit worthiness and bank-client relationship. Bangladesh has to make more import payments to the Asian overseas suppliers than those of suppliers from other developed countries. Import financing problems are found to vary from the bank and client's point of view. Clearly, well-thought policy measures can help the financially unsound import firms to utilize the available import financing facilities in Bangladesh.

Keywords: Creditworthiness, L.C. margin, liquidity of commercial banks, core competencies, PAD, LTR, LIM, charter party and exchange control.

Introduction:

Import financing accounts for the lion's share of a country's foreign trade financing. It needs to be made available by banks on easy terms and conditions to facilitate the smooth import operations in a country. Each import deal has huge amount of financial involvement, which many import firms cannot afford to arrange from their own or institutional fund. This is why, they are to rely heavily on banks or other financial institutions for the supply of import finance. Keeping this in view, most commercial banks have devised import financing programs on various terms and conditions. These banks have designed programs to offer import credit to the clients at various stages of import transaction. In essence, import firms must possess sufficient creditworthiness to make use of the import financing facilities of banks. A cordial bank-client relationship is also a sine-qua-non for availing import financing of the commercial banks.

In Bangladesh, public banks have been working side by side with the foreign commercial banks and local private banks to serve the financial market. Most of these banks are found to offer import credit through the letter of credit mechanism. These banks have established relationship with the foreign banks to handle import financial transactions smoothly and efficiently. The entire import financing operations are guided and controlled by Bangladesh Bank's foreign exchange control operations and import policy.

The Research Problem:

Despite the fact that banks tend to have positive attitude towards providing import credit to the clients because of comparatively less perceived risks in such credit, all import firms cannot avail the import financing programs of banks smoothly as per their needs. The paucity of foreign exchange at the disposal of banks often creates bottlenecks in providing LC-based import financing. In case of margin to be paid to the banks by clients for opening letter of credit, commercial banks are found to show discriminatory behavior. LC margin is found to vary from 10 to 100 percent depending upon the bank-client relationship and perceived risk in each export transaction. Clearly, this is contrary to the interest of small importers and natural justice. The import of goods in planned quantity atthe right time is inhibited due to strict foreign exchange and customs rules. Rathor B.S. and Rathor J.S. (1993) comment that the Government of India has simplified the customs laws and procedures as a part of its trade liberalization policy. But the scenario in Bangladesh is not similar. As a consequence of failure of the importers to import in right time; scarcity is often created in the domestic market of Bangladesh for many essential goods. Many import firms complained that price stability in the market is hampered due to non-availability of import finance from the banking channel. Some banks also experienced liquidity problems making it difficult to assist the import firms financially. In the interest of steady national growth, this problem of liquidity shortage needs to be addressed at the earliest opportunity.

It is true that banks possessing executives with adequate knowledge and strong skill-base in foreign exchange handling are capable of rendering efficient import financing services. The number of bank branches equipped with such core competencies is extremely limited resulting in import financing problem for the clients. Newspaper reports reveal that the import firms are dissatisfied with high interest rate on different types of import financing along with various miscellaneous charges, which definitely lead to the escalation of import costs and resulting eventually in price hike of the imported goods in the domestic market. The inflation witnessed sharp increase during the past days due to increase in the price of imported goods. Under such situation, consumer sufferings can be easily understood.

Bangladesh is an import-dependent country. It has to import goods for catering to the national scarcity in the supply of essential goods, import of raw materials, accessories and machineries to foster the industrialization process. Its import expenditure has been increasing rapidly. In the backdrop of the situation, the country is in need of efficient, diversified, effective and time befitting import financing programs. But at present, it seems to be lacking greatly in the country. It can be said that our banking system is lagging far behind the expectations of our import firms in respect of import financing. Large import firms also allege that their import financing needs cannot usually be met without syndicate import financing.

The above scenario clearly hints that an exhaustive study on import financing in Bangladesh may be undertaken to enrich the existing literature. This induced the researcher to embark upon this study.

Literature Review:

Daniels J.D., Radebaugh L.E. and Sullivan D.J. (2009) define, "Importing is the process of bringing goods, services into a country and results in the importer paying money to the exporter in the foreign country". Import financing is an integral part of import operations, which aims at procuring the needed fund at the right time from the bank or specialized financial institution for meeting the financial obligation to the foreign supplier or export firm for the import of goods. Goldsmith H. R. (1980) opines that at the time of approaching bank for import financing, the firm should give an accurate personal financial statement along with definite projection of cost and profit analysis so as to convince the bank about the firm's capability to avail import financing. In the opinion of Das U.C., Mozumder M. A., Rahman M. M. and Islam S.M. M. (2006), the major portion of import financing is extended through letter of credit which is comprised of the following five major steps:

1) 1) Issuing of letter of credit through issuing bank.
2) Advising of letter of credit through the negotiating bank.
3) Amendment in letter of credit through mutual negotiation between the import and export firms.
4) Presentation of letter of credit through the issuing bank.
5) Settlement of claims of exporter through the issuing bank.

The post-import financing facilities are also rendered by commercial banks. The following four forms of post-import finance are commonly found:

- PAD (Payment against document)
- LTR (Letter against trust receipt)
- HP (Hire purchase)
- Contract sale

Clearly, import firms are to depend on the bank's import financing programs to meet the following import costs:-

- Costs of import goods to be paid to the foreign supplier.
- Freight charges involved in transporting imported merchandise.
- Insurance cost on the imported goods.
- Import duties and port charges for the imported merchandise.
- Commission and other charges to be paid to the C&F agents.
- Internal transportation costs after the clearance of goods from the port to destination.
- Bank's interest and other service charges payable on import financing.
- Margin to be deposited to the bank for the issue of letter of credit.
- Warehousing charges for the imported goods.
- Costs associated to deal with the exchange rate fluctuation risks.

From the above lists of cost heads for imports, it is evident that the financial requirements for imports must be precisely estimated, collected from most appropriate sources that minimize the costs and ensure smooth handling of import transactions of the import firms. However, Khan A.R. (2009) is of the opinion that before extending any form of loan including import financing, bank authority should undertake critical examination of the eight step credit analysis including: "a) collecting loan information of the applicant, b) collecting business information for which loan is sought, c) collecting the primary risks related information, d) assembling all credit information together, e) analyzing sensitive risky credit information, f) analyzing refined and very essential risk information, g) making decision on the basis of loan analysis, h) design the appropriate loan structure according to the positive decision."

Research Objectives of the Study:

This study aims at highlighting the focal aspects of import financing in Bangladesh. Specifically it intends to achieve the following research objectives:

- To bring into focus the different import financing programs offered by the commercial banks of Bangladesh.
- To examine the different categories of import financing payments that is in vogue in the country.
- To analyze the L.C. based import financing performance of commercial banks of the country.
- To identify the problems faced by banks and customers regarding import financing.
- To suggest some measures that may help improve the overall import financing in Bangladesh.

Research Methodology:

In order to conduct the study in compliance with the pre- determined research objectives, the researcher mainly used secondary sources of data. The publications of Bureau of Statistics, Bangladesh Economic Review, Annual Publications of Commercial banks, Bangladesh Bank Reports, research articles and text books concerning the research issue furnished useful secondary data.

The collected data were verified to make sure that these are reliable and usable. The collected data were properly analyzed to derive relevant findings. A standard format was followed to present the findings in a research paper. This article is based on these findings written in a systematic manner.

Importance of the Study:

In view of acute shortage of literature on import financing in Bangladesh, students pursuing higher studies in Finance and Marketing cannot acquire up-to-date practical knowledge on the subject. Hopefully, this study may help to reduce this shortage of literature in the field and is expected to enlighten the students. In fact, import financing programs and practices need to be well-designed to meet the needs of import firms in Bangladesh. The findings of this study may assist in achieving need-based qualitative improvement in the import financing programs and procedures so that large and small import firms in Bangladesh may gain the easy access to the import credit facilities and thereby complete the import transaction properly for the benefit of the import firm and the nation as a whole.

It is often complained that a lot of manipulations occur in the process of import financing. In a bid to overcome this problem, this study may provide invaluable inputs for making right decision at the right time. Moreover, as the maiden research study, this is expected to improve the research capability of the author.

Limitations of the Study:

The study was conducted in the midst of various constraints. The following limitations of the study are worth mentioning:

- It has been found difficult to elicit classified statistics on import financing from the banks. Other publications also do not provide detailed data on various aspects of import financing. This made the research efforts very difficult.
- This study had to be completed in the midst of serious academic pre-occupations of the private university in which the researcher has been working. As such, ample devotion was not possible to complete the study within short time.
- There is a severe shortage of research articles on import financing not only in the context of Bangladesh, but also from the perspective of other countries. This made the task of literature review on the research issue in a systematic way quite arduous.
- The study could not cover all important aspects of import financing of commercial banks operating in Bangladesh due to non-availability of concerned data..

Types of Import Financing Program Offered by Different Commercial Banks:

LC-based Import Financing:

Import financing to the clients is basically extended by means of letter of credit mechanism. Under this method, letter of credit is opened in favor of import firm to provide financial guarantee to the foreign supplier of goods or export firm regarding the payment of necessary import dues to the beneficiary on compliance of certain terms and conditions as stipulated in the letter of credit. To avail LC-based import financing, the importer is required to follow certain formalities as specified in the exchange control rule of Bangladesh Bank.

At first, the import firm has to apply for the issue of Letter of Credit Authorization Form (LCAF) to its bank. The bank will issue LCA Form if it is satisfied regarding the business status and reputation of the applicant. It must be accompanied with the following required documents:

- Pro-forma" Pro-forma Invoice supplied by the export firm or indent issued by indenting firm.
- Import Registration Certificate (IRC) duly renewed.
- Marine Insurance Policy issued by an approved General Insurance Company regarding the coverage of marine risks of the imported merchandise with money

receipt and KHA form.

- Assigned documents of the applicant that the bank is authorized to have the pledge of document and goods covered by the credit.
- IMP form duly signed.
- Attested copy of TIN and Vat Certificate.

Then the bank will evaluate the LCA Form along with the supporting documents to ensure that the financial position and credit worthiness of the importing firm is quite satisfactory and the imported merchandise has good demand in the market. Meanwhile the credit report of the overseas supplying firm will also be procured through the exporters' bank or negotiating bank. Based on satisfactory report from the Trade Financing Department, the bank authority will accord permission to open letter of credit subject to LC margin decided by the bank authority depending upon the bank-client relationship and business reputation of the client.

The finalized letter of credit is then typed in several copies so that this can be sent to the exporters' bank or any other negotiating bank and the import firm. The letter of credit must be signed by the authorized executives of the bank before dispatching it to various parties through registered air mail or any other telecommunication mode. After receiving LC the exporter bank will ask the export firm to verify LC conditions thoroughly to make sure that these are in conformity with the import/export contract. Any point of discrepancies needs to be identified, raised and settled with the import firm through the issuing bank of LC. If all points of disagreement are settled amicably between the export firm and importer, then the exporter will confirm the letter of credit through its bank. The confirmed letter of credit will then guide all phases of the import transaction. In this regard, the export firm should be extremely careful to ensure strict compliance of letter of credit terms and conditions to complete the transaction successfully and receive the payment from importers. The payment is made in foreign exchange as specified in the letter of credit. For this purpose, the importer is asked by the concerned bank to deposit the balance amount after deducting LC margin from total amount of payment to be made to the foreign supplier. The importer is also in need of paying interest due on credit and other charges to the bank. It is the responsibility of the issuing bank to convert the local currency into specified foreign currency for onward payment to the export firm by using banking channel.

Notably, the import firm may often need post-import finance because of its inability to make due payment. In such case, the import firm may pray any of the following forms of post-import financing facilities subject to compliance of documentary formalities. This should be completed before opening letter of credit for avoiding future eventualities in paying to foreign suppliers. The programs are:

- Loan against Imported Merchandise (LIM): This is basically an import loan provided to the clients against the imported merchandise. Under this arrangement, the bank asks for a margin from the client and the ownership of the imported goods will be retained by the bank until the full payment of loan by the client.
- Loan against Trust Receipt (LTR): In case of inability of a renowned importer to make payment in due date, the bank extends loan against trust receipt.Under this credit arrangement, the import documents are handed over to the import firm without any amount or paying partial amount on the signing of a trust receipt. The import firm commits to make the payment of loan within 60 to 90 days from the sale proceeds of the imported merchandise.
- Hire Purchase: Under this form of financing, the loan becomes operative from the date of purchase of relative foreign currency or from the date of investment of bank funds, as the case maybe and is provided for a period of 180 days to 360 days. The import firm gets the opportunity to pay the loan amount on a fixed installment basis.
- Payment against Document (PAD): This form of import loan is created for 21 days, the time being the tolerance for taking documents for the import firm. If the import firm fails to take delivery of the documents, the imported merchandise can be sold by the bank to recover the loan amount.

Non LC-based Import Financing:

All import transactions do not take place under the coverage of letter of credit. There exists other forms of import financing in the business world, but in all import transactions where foreign exchange transfer is involved, the services of authorized foreign exchange dealing bank are used. The non LC-based alternative forms of import financing are elucidated below:

- **Financing From the importer's own fund:** These are many wealthy import firms possessing adequate foreign exchange in their foreign currency accounts. These firms have accumulated the amount from their profit in import transaction or export transaction or from their purchase of foreign remittance. If such firms have sufficient trading reputations, the foreign supplier may be willing to supply merchandise without LC coverage. In such case, the importer will import the goods by following the import rules or import policy guidelines or enter into import contract without LC coverage. If the supplier does not perceive business risks in such transaction, goods will be shipped as per the contract, documents will be sent to enable the importer in clearing the goods from the port. The import firm will then send the payment from its foreign exchange account by means of draft or pay order by using the bank services.

- **Supplier's credit to the import firm:** There are import firms which are capable of enjoying the supplier's credit facility because of their business acumen or marketing prudence. The supplier may also like to depend on such firms for their export marketing. Under this arrangement, the export firm will supply the goods and send the export documents to the import firm to facilitate clearance from the port. Here the importer gets the opportunity to make the payment after marketing the goods in domestic market within the credit period. This is most beneficial form of financing for the importer, although it enhances the credit risks of the export firm.

- **Import financing under the baggage rules:** Bangladeshi citizens working abroad can import certain goods into Bangladesh at different time intervals under the baggage rules as specified in the import policy. Bangladeshi people travelling abroad are also provided with the opportunity to import certain household, usable goods up to a certain amount provided they stay abroad for certain specified period. This importer pay for the goods by using traveler cheque or foreign exchange that they have earned abroad or foreign currency endorsed in the passport from the domestic commercial bank.

Table-1: Import Payments by Category of Financing:

	Modes of Import Payment	2008-2009 (Taka in crore)	2009-2010 (Taka in crore)	2010-2011 (Taka in crore)	2011-2012 (Taka in crore)	Total of Four Years Import Payment	Average Percentage of Four years
A□ □	Import under Cash (C&F)□	139995.3□	147762.8□	213849.9□	247665.2□	749273.2□	89.20%
B□ □	Import under Loans and Grants (C&F)□	578.0□	376.4□	322.1□	1711.5□	2988□	0.36%
C□	Import under IDB Loan□	4782.2□	5764.9□	9651.3□	13950.7□	34149.1□	4.06%
D□ □	Other Unclassified Imports (C&F)□	509.7□	564.4□	931.5□	862.2□	2867.8□	0.34%
E□	Import of EPZ (C&F)□	8956.0□	9774.9□	15273.1□	16774.3□	50,778.3□	6.04%
□	Grand Total□	154821.2□	164243.4□	240027.9□	280965.7□	840058.2□	100%

Source: Computed from Bangladesh Bank Statistics

- **Import financing under switch trading:** Under switch trading transaction, an import firm enters into import contract with a foreign supplier for the procurement of foreign merchandise. In order to facilitate payment to the export firm from foreign source, the import firm then finalizes another export deal with a foreign buyer and asks the buyer to make the payment to the foreign supplier after the receipt of the merchandise. In such transaction, the import firm can earn certain margin of profit, if the export deal is made at reasonably higher price.

From the above table, it is evident that import under cash (C&F) is the main form of financing imports contributing 89.20% of import payment in Bangladesh. It is followed by import of EPZ(6.04%), import under IDB loan (4.06%) and import under loans and grants (0.36%) respectively.

Basically banks provide finance to the import under cash through letter of credit mechanism. Import under IDB loan is used for meeting public sector imports. The export firm operating in EPZ performs import operations under back to back letter of credit facility. Imports under loans and grants are used mainly by the public sector but some private sector import firms also conduct import operation under this financing mode.

Table-2: Import Payments of Bangladesh with top 10 countries

Sl no.	Major countries (In million US Dollar)	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	Total of 5 years	Average % of total 5 years
1	India	3393	2864	3214	4569	4743	18783	13.71%
2	People's Republic of China	3137	3452	3819	5918	6440	22766	16.61%
3	Singapore	1273	1768	1550	1294	1710	7595	5.54%
4	Japan	832	1015	1046	1308	1455	5656	4.13%
5	Hongkong	821	851	788	777	703	3940	2.87%
6	Taiwan	478	498	542	731	792	3041	2.22%
7	South Korea	620	864	839	1124	1544	4991	3.64%
8	USA	490	461	469	677	709	2806	2.05%
9	Malaysia	451	703	1232	1760	1406	5552	4.05%
10	Other countries	10134	10031	10239	15500	16014	61918	45.18%
	Total	21629	22507	23738	33658	35516	137048	100%

Source: Computed from Bangladesh Bank Statistics

Table-2 depicts that China is the main supplying country representing 16.61 percent of total imports for Bangladeshi imported goods during the period from 2007-08 to 2011-2012. India secured second position (13.71%), Singapore third (5.54%), Japan fourth (4.13%) and Malaysia fifth (4.05%) position in respect of supplying imported goods to Bangladesh. In fact, major portion of import expenditures are made to the Asian countries. Affluent western countries occupy insignificant position as the supplying nations of Bangladeshi imported goods. This is mainly because of cost considerations.

Table-3: Import LC opened by Commercial Banks in Bangladesh (In million Taka)

Public Banks				
Name of the Bank	**Import LC Opened**		**Total of Two years**	**Average Percentage**
	2011	**2012**		
Sonali Bank	307478	287287	594765	38.3%
Janata Bank	197285	188283	385568	24.83%
Agrani Bank	268768	189628	458396	29.51%
Rupali Bank	69263	45108	114371	7.36%
Total	842794	710306	1553100	100%
Foreign Banks				
Name of the Bank	**2011**	**2012**	**Total of Two years**	**Average Percentage**
Standard Chartered Bank	126085	169019	295104	29.74%
Habib Bank	3576	2793	6369	0.64%
State Bank of India	2245	4551	6796	0.68%
Commercial Bank of Cylon	19568	23439	43007	4.34%
National Bank of Pakistan	4477	6822	11299	1.14%
City Bank N.A	69699	56193	125892	12.69%
Uri Bank	8678	9747	18425	1.86%
HSBC	195900	278996	474896	47.86%
Bank Alfalah	4899	5496	10395	1.05%
Total	435127	557056	992183	100%

Source: Computed from Bank and Financial Institution Division, Ministry of Finance, GOB Statistics

The above table depicts that two types of commercial banks are involved in opening letter of credit for the import firms of different categories. Four public banks have strong involvements in import LC opening despite some variationsAmong the public banks,Sonali Bank represented(38.30%), Agrani Bank(29.51%), Janata Bank(24.83%) and Rupali Bank(7.36%) of public banks' L.C. opening. Amongthe total contributions of foreign banks in this regard,HSBC accounted for 47.86%,followed by Standard Chartered(29.74%), City Bank N.A.(12.69%), Commercial Bank of Cylon(4.34%) and other foreign banks represented less than 2% of L.C.opening of that category.

Table-4: Import LC opened by Commercial Banks (Private Banks) in Bangladesh (In million Taka)

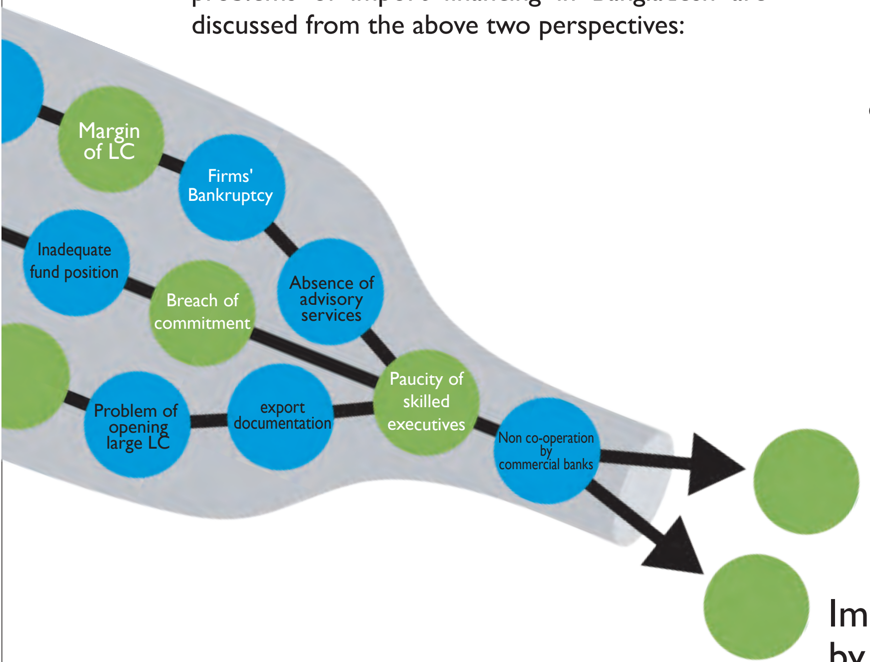
Name of the Bank	Import LC Opened		Total of Two years	Average Percentage
	2011	2012		
Pubali Bank	90569	108120	198689	4.61%
Uttara Bank	33038	35419	68457	1.59%
AB Bank	79463	100370	179833	4.18%
The City Bank	43474	58420	101894	2.37%
Islami Bank	301207	284587	585794	13.6%
IFIC Bank	71517	80710	152227	3.53%
UCBL	90920	94844	185764	4.31%
ICB Islami Bank	549	992	1541	0.04%
EBL	100639	103171	203810	4.73%
NCC Bank	55044	45283	100327	2.33%
Prime Bank	174384	168532	342916	7.96%
Southeast Bank	99509	111537	211046	4.9%
Dhaka Bank	71377	76650	148027	3.44%
Alarafa Islami Bank	76112	71930	148042	3.44%
Social Islami Bank	34975	42712	77687	1.8%
Dutch Bangla Bank	83434	108878	192312	4.46%
Merchatile Bank	95008	113434	208442	4.84%
Standard Bank	45356	48500	93856	2.18%
One Bank	53831	57690	53831	1.25%
Exim Bank	128446	143314	271760	6.31%
Bangladesh Commerce Bank	7389	5426	12815	0.29%
Mutual Trust Bank	36945	39426	76371	1.77%
Premier Bank	44165	35357	79522	1.85%
Bank Asia	99414	106746	206160	4.79%
Trust Bank	38429	43138	81567	1.89%
Shahjalal Islami Bank	82341	111837	194178	4.51%
Jamuna Bank	55907	57705	113612	2.64%
Brac Bank	5610	11203	16813	0.39%
Total	2099052	2208241	4307293	100%

Source: Computed from Bank and Financial Institution Division, Ministry of Finance, GOB Statistics

It is found from Table-4 that twenty eight commercial banks in Bangladesh played very crucial role in opening letter of credit for the import firms. Among them, the share of Islami Bank of Bangladesh was (13.6%), Prime Bank (7.96%), EXIM bank (6.31%), Southeast Bank (4.90%) Merchantile Bank (4.84%), Bank Asia (4.79%), EBL (4.73%), Pubali Bank (4.61%), Shahjalal Islami Bank (4.51%) and AB bank (4.18%) were found to have major involvements in import LC opening. Other private commercial banks have less than 4% contributions to L.C. opening of this segment. The above scenario is due to less perceived risks in import financing. It is true that opening letter of credit does not necessarily mean the extension of import financing by commercial banks. When the import firms are incapable of making payments to the foreign suppliers even after complying all the LC conditions and provisions of import contracts, the commercial banks usually come forward to extend import loan to the concerned import firms.

Problems of Import Financing in Bangladesh:

There existsome inhibiting factors of import financing both for the commercial banks and import firms dealing with such banks. These bottlenecks hinder the smooth functioning of the import firms to perform import operations. It is true that many import firms become discouraged in import trade due to these impediments. The problems of import financing in Bangladesh are discussed from the above two perspectives:



Import Financing Problems faced by commercial banks

a. **Problem of depositing margin of LC:** Commercial banks normally charge high margin for opening letter of credit from the import firms especially when banks are not satisfied with the credit-worthiness after making financial and economic analysis of the clients. The import firms intend to open letter of credit with reasonable margin because they may not possess adequate ready cash to deposit as L.C margin in the bank.

b. **Problem of paying fund to the export firm due to breach of commitment:** The problem arises when the export firm does not comply with the terms and conditions of letter of credit. In such case, payment of money as per LC commitment becomes different for issuing banks of letter of credit. This often results in litigation problem for the import firm.

c. **Bankruptcy of the import firms:** If the import firm becomes bankrupt for various reasons, the LC issuing bank has to face enormous problems to recover its outstanding dues. Sometimes, the bank is compelled to sell the imported merchandise under its pledge or any other mortgaged assets to recover the money. This process is also not so easy to handle. These problems affect the bank's financial solvency, if the bank is not careful about maintaining the security aspects of the import loans.

d. **Paucity of highly qualified and skilled executives to handle import financing:** Many commercial bank branches are not well-equipped with qualified and competent executives capable of dealing in import financing related foreign exchange operations. So, it may not be possible for such bank branches to provide time-befitting and need-based import financing services to their clients. Obviously, such banks loose the opportunity of earning significant amount of revenue from import financing operations in such situations.

Import Financing Problems faced by the import firms:

a. **Inadequate fund position:** Import firms need to posses sound financial background to handle import trade smoothly. But some firms cannot spend needed fund for this purpose. These firms do not have adequate credit worthiness to attract the commercial banks in lending for import trade. Traditionally, commercial banks come forward to open letter of credit (LC) for the wealthy and large importers where banks do not perceive so much credit risks.

b. **Problem of opening letter of credit of large amount:** There are someimport-firms associated with bulk import of goods like charter party. Such import transaction calls for opening letter of credit of unusually large amount. Most commercial banks cannot provide such huge amount of L.C. opening facility without syndicate financing. Paucity of foreign exchange/ liquidity problem in banks usually creates such problem.

c. **Problem of export documentation resulting in bottlenecks in import financing:** Import firms are to face problem in the clearance of goods from the Customs & Port Authority, if there exists errors in export documentation. This eventually creates problem in the completion of import transaction through payment to the foreign suppliers by LC opening bank. When the goods are not at the disposal of the bank authority, release of import finance from the bank cannot be ensured.

d. **Non co-operation and procrastination in the opening of letter of credit by commercial banks:** Reportedly, import firms do not often get proper support from the bank officials regarding the opening of letter of credit despite possessing credit worthiness by the clients. This happens when the bank officials intend to gratify their selfish ends through speed money. This is definitely very undesirable act. The bank officials should also recognize that this may hamper their institutional business reputation in the competitive banking sector.

e. **Absence of proper advisory services on import financing:** New and experienced import firms are in need of proper advisory services to simplify the processing of import financing. Very few banks usually render such services for the benefit of importers. As a result, such import firms are found to commit various mistakes in complying with documentary formalities for import financing. This causes delay in the opening of letter of credit for import along with their natural consequences.

Some Recommendations for Improving the Effectiveness of Import Financing in Bangladesh:

As a matter of fact, public and private commercial banks in Bangladesh are largely involved in import financing. In view of ever increasing demand for import finance in Bangladesh, the whole process needs to be streamlined. Towards this end, the following recommendations may be worth-mentioning:

Improvement of supply position in the foreign exchange market: It is true that paucity of foreign exchange hinders import operations. The imbalance between demand and supply position gives rise to increasing price of foreign exchange making imports relatively more expensive. As such, Bangladesh Bank may come forward to enhance the supply position of different foreign currencies in the foreign exchange market to improve the position.

Margin for opening letter of credit should be rationalized: Presently, importers are found to face discriminatory behavior from the banks as regards to the margin to be deposited for opening letter of credit, which is found to vary from 10 to 100 percent. Bangladesh Bank may prepare a set of well-thought guidelines to overcome this problem of LC margin for the benefit of importers.

Capacity building of banks in the handing of foreign exchange operation including import financing: Foreign exchange operations represent a vital component of bank services. For extending this service efficiently, bank executives must be equipped with modern knowledge, skills and technical know-how by means of offering tailor-made training programs by the authorized foreign exchange dealing banks. This will help in the capacity building of banks in the area of foreign exchange transaction and in avoiding mistakes as far as possible.

Malpractices of banks regarding import financing must be ironed out: It has been found that import firms are to suffer due to various malpractices of the bank officials, willful delay in the opening of letter of credit, use of speed money for processing of import financing application, unreasonable charges from the importers, lack of supportive mentality can be avoided if the bank authority enforces strong code of ethics in dealing with in import financing cases.

Introduction of modern communication and service rendering devices in the foreign exchange department: In various facets of import financing, modern IT devices should be introduced for increasing overall efficiency of the service. Communication of letter of credit to the negotiating banks, negotiation regarding LC conditions, conformation of letter of credit and payment of import bills are the areas where modern IT devices should be employed specially in those banks where there exist room for improvement.

Developing hearty banking relationship with foreign banks in important parts of business world: For handling import trade systematically and effectively, there is a need for developing sound relationship with foreign banks which can operate as negotiating banks for the bank issuing letter of credit. This relationship building can facilitate prompt handling of import operations including the payment aspects.

Strict adherence to Bangladesh Bank guidelines in processing import financing: The foreign exchange department of the bank must follow the Bangladesh Bank guidelines strictly to avoid any future problem in the management of import financing. Bank officials dealing in foreign exchange must be thoroughly conversant with these rules and in evaluating application for letter of credit. All points must be examined with utmost care and prudence. This may also help to protect national interest.

Strengthening advisory services by the bank for the new and inexperienced import firms: New and inexperienced import firms experience problems in handing various aspects of import financing. These firms need sound advisory services from banks to handle all technical aspects precisely. Bank officials in the foreign exchange department can work as helping hand to assist these firms. For this purpose, technically sound team must work in the advisory cell of the foreign exchange department of the bank.

Conclusion:

Import trade in Bangladesh is essentially bank financed business operations. This type of bank financing is extended to the import firms through the instrument of letter of credit, which reduces the foreign suppliers' business risk because of the financial guarantee of the importers bank for paying import duties on fulfillment of certain conditions as laid down in the letter of credit. Although banks have different forms of import financing programs, many small and financially unsound import firms cannot reap the benefits of such credit programs. The efficiency and timely conduct of import operations in Bangladesh depend largely on the availability of import financing on easy terms and conditions.

Since Bangladesh has to rely heavily on import trade for meeting her deficiency in essential food items, various types of raw materials, machineries and accessories for industrialization and other logistic items for developing infrastructure, the issue of import financing should receive maximum attention of the national policy makers in the banking sector. If the present impediments in the flow of import financing can be overcome, the cherished goal of Bangladesh for achieving more than 7 percent growth rate in GDP may hopefully be materialized through the joint efforts of public and private sectors.

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"The role of the CEO is to enable people to excel, help them discover their own wisdom, engage themselves entirely in their work, and accept responsibility for making change."
- Vineet Nayar