

**The documentary Credit (Processing and Domiciliation):
AGB Bank and SARL FTB Import as a Case Study**

Zineb Toureche ^{1*}, Balqis Toureche ²

¹University of Oum el bouaghi (Algeria), eynebdoct2016@gmail.com 

²ESCF Constantine (Algeria), balqisnormalgirl@gmail.com 

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Abstract

Nowadays, the growth of international trade has resulted in many risks that concern international trade, which are rising, imposing a lot of pressure on suppliers, and leading the business world to use documentary credit. Documentary credit is known to be one of the most trusted methods in international payments due to the high level of satisfaction of its customers and the diversity of its offers, which make the process of importing much easier and more balanced for both the importer and the exporter. The importer, for reasons of security and quality of operations, runs to the bank as his first option as an intermediary between the importer and the supplier, thanks to its secure way of negotiating and commercial contracts. For the bank to open the documentary credit, it is obliged to examine the documents presented to it by the beneficiary seller to verify the extent of their compliance with the instructions of the one who ordered the opening of the credit.

Keywords:

Documentary credit Domiciliation
International trade
FTB import company
AGB bank

JEL Classification Codes: G21 ;
E51 ; P33

***Corresponding author**

1. INTRODUCTION

International exchange is developing all the time, and billions of products are being ordered and shipped to many places around the globe across the sea, through the air, and even overland. With every product exchanged, we could face risks linked to the conditions of financing as imports increase. Those risks will be more complicated when the parties involved in the process of exchange are separated geographically, which makes their relationship uncertain, especially if one of their countries has customs or currency restrictions. Thus, our rationale aims to study "The Domiciliation of Import Documentary Credit Processing and Training at AGB Bank and SARL FTB Import."

We have chosen this topic because of the importance of documentary credit in the business world. The latter is considered one of the main means of settling international sales due to its role in the protection and insurance that it provides for each party, as well as the high level of profit it gives to the banks.

Documentary collection, or "bill of exchange," as it is called by the bankers, positions the bank as the intermediary to transmit unconditional documents from the exporter, requesting the importer to pay at sight for the goods shipped or at a pre-determined date in the future.

Our research set out to answer the following main question: **What are the procedures used by Algerian banks and companies regarding the import of goods using a documentary credit?**

Our study aims to show the importance of documentary credit in international trade and the importance of the banking system in international trade operations, especially in

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documentary letters of credit operations, and to understand the phases of documentary credit starting from the contract between the importer and the seller till the arrival of goods;

We have used a descriptive approach based on a bibliographic search on the theme by consulting books, articles, reports, and various documents. And this approach will be consolidated by a practical internship and case study at SARL FTB IMPORT Company. We used some tools like interviews at the AGB Bank SETIF agency for a better understanding of the practical course of the foreign trade operation known as a documentary credit.

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2. Definition and Different Types of Credit Documentary

This part of the research gives a general overview of the credit documentary; it is organized in three parts in addition to an introduction and a conclusion. The first part presents an overall picture of documentary credit operations. The second part demonstrates the different types of credit documentary.

2.1 Definition of Documentary credit and its process

In order to exchange various types of merchandise between two parties in different places around the world that speak dissimilar languages and have diverse ways of regulating themselves, an intermediary—generally a bank—interferes to reassure the deal and avoid any risks of not paying for or not receiving the goods. Generally, the most effective and commonly used technique is "documentary credit".

2.1.1 Definition of documentary

The documentary credit: a method of payment (especially by using bills of exchange) in connection with trade between different countries whereby the seller obtains security for receiving payment and the buyer attains security for receiving goods" (Längerich, 2009).

There is another definition for the documentary credit by Garth Christopher: "The terms "documentary credit" or "letter of credit" are presumed to be interchangeable. A letter of credit is "a conditional promise issued by a bank to pay a specified amount in the stated currency, within the prescribed time limit, and against stipulated documents." (Wooler, 2007)

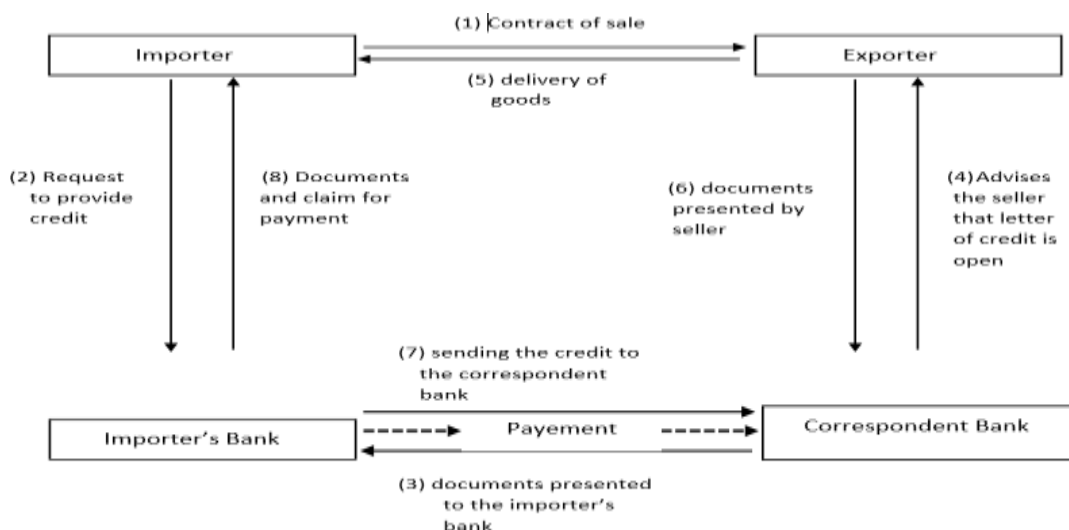
In other words, documentary credit is a contract between three or four parties in some cases: the issuing bank and a buyer (the applicant) to pay a specific amount of money to a third party (the beneficiary) or another bank (the advising bank) without their presence, and the bank in this case makes sure that the seller will receive the payment while the buyer receives the good.

- **Documentary credit process:**

We can explain and resume the process of documentary credit in the following diagram:

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Fig 1. Documentary Credit Process



Source: (TENIOU, 2020, p. 10)

According to **Fig. 1**, the process of documentary credit starts with a contract between the seller and the buyer, which includes the type of payment (documentary credit). Once the deal is confirmed, the buyer sends a request to the issuing bank (the importer's bank) to open a documentary credit in favor of the seller. In this step of the process, the issuing bank has the choice to either contact the seller directly or use a correspondent bank. Once the banks contact each other, the correspondent bank notifies the seller that the credit letter (which we're going to talk about in the upcoming chapters) is open and the seller may ship the goods. After shipping the items, the seller presents the documents needed to the correspondent bank only. Then, the issuing bank will pay the seller the contracted price of the items. Finally, the correspondent bank presents the documents to the importer's bank, which will release the documents to the buyer

once he pays the bank the price of the service. The buyer will be able to obtain the goods from the ship once he presents the documents needed.

2.2 Types of Documentary Credit

The main objective of documentary credit is to expand foreign trade, reduce obstacles related to financial conditions, complete international financial settlements, and bring international clients closer together. And to achieve this role, there are many types of documentary credit, and each type has its own characteristics, which make it very important to know the difference between each one of them and when it could be used.

2.2.1 Revocable

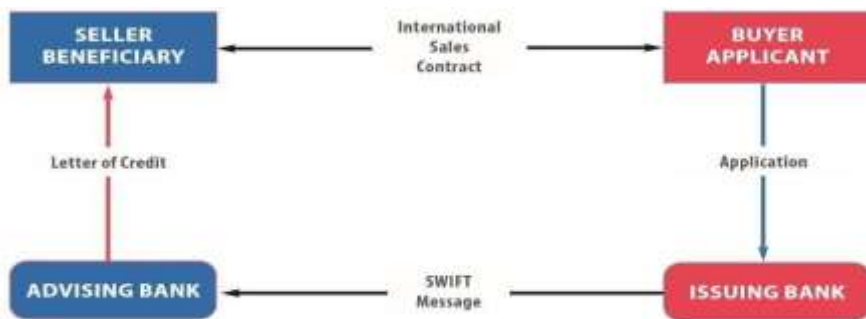
The revocable documentary credit was used between trusted partners or the parent companies and their subsidiary companies, but since the new UCP600, this type is canceled and all credits are automatically irrevocable (Kebbab, 2012).

2.2.2 Irrevocable

We can resume the process of this type in the following diagram:

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Fig. 2. Explanation of the irrevocable credit process



Source: (kelvinsee, 2022)

This type of credit is made by the issuing bank, and it cannot be modified or canceled unless all parties agree, yet this type of documentary credit covers only the commercial risks in case the buyer doesn't pay and does not cover neither the political nor the non-transfer funds.

"The issuing bank has no right to revoke the letter of credit. This is more favorable to the exporter." (Aujara, 2019). If not instructed, all import or export letters of credit will be arranged as irrevocable letters of credit, following the UCP 600 guidelines.

2.2.3 Confirmed

This type of credit is usually requested by the seller at the time of agreeing on the sale of goods or giving services, and it's a pre-condition inserted in the pro-forma invoice or sale contract. This is the most commonly used in practice due to its high degree of optimum performance and security. When the credit is irrevocable, payment will be made by the issuing bank; if it is irrevocable and confirmed, the notifying bank pays the exporter and is reimbursed by the issuing bank. It should be mentioned that this confirmation is a banking service that the seller will have to pay for; however, if the importer does not specify in the

instructions he gives to his bank that the confirmation costs are the responsibility of the seller, they will be charged automatically (Laidani, 2021).

2.3 Advantages and Disadvantages of Credit Documentary

In the next table, we will resume the advantages and disadvantages of documentary credit according to multiple sources:

Tab 1. Advantages and disadvantages of documentary credit.

<i>Advantages</i>	<i>Disadvantages</i>
<i>Allows you to manage business without having the corresponding cash flow;</i>	<i>Complexity of the procedure;</i>
<i>If the documentary credit is confirmed, the transfer involves the commitment of the bank transferable, which constitutes a guarantee additional for the provider;</i>	<i>High cost of its cost especially when it comes to a large amount of credit;</i>
<i>The payment is guaranteed once the credit is irrevocable;</i>	<i>In case of political risk or any other type of risks the issuing bank might not be able to pay the credit sum if the credit is not confirmed;</i>
<i>Bank commitment to import and export trade.</i>	<i>The process takes a lot of times and a lot of documents which the chance them to be lost along the way is high.</i>

Source: concluded after reviewing (Soufiane, 2013)(M'hand., 2016)

3. Identification card to AGB bank and SARL FTB IMPORT

This part of the research gives identification to both, the AGB BANK and SARL FTB IMPORT. It is organized in two parts in addition to an introduction and a conclusion. The first part presents an overall picture of Algeria Gulf Bank known as AGB BANK and its services. The second part defines SARL FTB Import and its future plans.

3.1 Introduction of AGB Bank (Setif Agency) plus SARL FTB Import

Gulf Bank is one of the most important banks in Algeria that is trying to access advanced services by integrating many means of knowledge into its work and taking care of all new technological developments in banking.

Introduction to AGB Bank

AGB Bank (Gulf Bank) Algeria is a bank affiliated with the Kuwaiti business group KIPCO, which is one of the most prominent groups of business and finance in the Middle East and is called the "Kuwait Business Group." Gulf Bank Algeria is a commercial bank that started its banking activities in March 2004, and it is practicing today in economic and banking activities of high efficiency and great quality. In our research, the case study took place at Setif Agency. (AGB Bank, 2020, p. 6)

3.2 Introduction: SARL FTB Import Company

SARL FTB is an Algerian company, located in "Zone de Logts Ouest N 07," that specializes in industrial equipment wholesalers and automotive spare parts.

SARL FTB, which is short for "Brothers Toureche and Boussoulim," represents the family name of the founders; it imports cars from many countries around the world, but mainly from China, European Union countries, and Turkey. The FTB Company benefited from a plot of land in the framework of granting concessions in the industrial activities area of OULED GUASSEM and made its debut in the manufacturing of car part spares, such as water bottles.

4. Procedures of Credit Documentary in AGB Bank and SARL FTB Import

The next part of our research will take a look at the procedures that both the bank and the company go through to obtain a successful importation operation with the help of a documentary credit contract.

On August 15, 2021, SARL FTB made a purchase with its exporter from its Chinese supplier X; the foreign currency used was USD, and the procedures went as follows:

4.1 Procedures in SARL FTB Import

To accomplish a successful letter of credit the company went through two steps which are:

- **Administrative procedures**

A. The procedures in **SARL FTB** start by making a pro-forma invoice that contains:

- The quantities **are: 36310 pieces;**
- The price: **00 USD**
- The weight or volume is **14048000 KG.**
- The beneficiary name: **CHINESE SUPPLIER X**
- The beneficiary account number is: **YYYYYY**

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- SWIFT code: **XXXXXXX**;

B. Second, the exporter must send a Certificate of Origin that has been proven by the chamber of international commerce.

C. The importer must get a license for importation from the government.

D. The importer makes a packing list and submits the demand to his bank, which will freeze the sum of the goods after changing the currency to the national currency. And waits for the importer to get a certificate of bank domicile tax on import transactions.

The importer gives the file that contains the packing list and the governed authorization of importation in three models; also, the importer will pay what's known as "bank domiciliation tax on importation transaction" to the ministry of taxes; the sum that **SARL FTB** paid in this operation is equal to **49.565,00 DZD**;

The exchange rate was recorded to be 133.96, which means the devise value in Algerian dollars equals 9.913.040,00 DZD in numbers. After handing the bank domiciliation tax on importation transactions to the issuing bank, the banker will sign a certificate of bank domiciliation tax on importation transactions that comes in three copies. The original one, which is ranked as exemplary n°1, will be kept in the bank, and exemplary n°2, n°3, will be kept in the company's files;

When the issuing bank receives the original notice of the bill of lading, which has to match the packing list and also includes the packing date, shipping date, and port departure date, the issuing bank will forward the sum of the invoice to the notified bank (the supplier's bank) right away.

Once the goods arrive at the agreed port, the legal procedures start with a full merchandise check-up on the spot; this bill comes under the name of "Freight Forwarder," which costs in our case 11.009,00 DZD as FREET for checking if the delivered goods are identical with the stated goods in the packing list.

Once the customs department authorizes the movement of goods, they start the custom process; each type has its own fee percentage (5%, 15%, and 30%), which is called "Customs Receipt," in addition to 19% as a tax over value applied at each piece of the bought goods known as D10; in our case, the importer paid a total of 3.783.939,00 DZD, equivalent to three million seven hundred and eighty-three thousand nine hundred and thirty-nine in numbers;

The last document is a certificate given by the government to the importer, which confirms that the goods are allowed to enter the country and that the importer will have the right to transport the goods to the company's warehouses.

4.2 Procedures in AGB Bank

After contact occurred between the two operators and after they negotiated all the details regarding the product, transport insurance, incoterm, etc., they agreed that payment would be made by documentary credit. In this case, the importer went to the bank to request to open a direct domiciliation file, using the pro-forma invoice received from the exporter "**Chinese supplier X.**". And the procedures went as follows:

The importer brings the contract that proves the agreement of the two parties (importer and exporter). The contract includes all the information of both parties, including the packing list and the port of departure as well as the discharging port, the payment method, the price, the incoterms, and the applied terms, which in our case are the UCF, the latest version.

SARL FTB was also present to the bank. A commercial bill in five copies that justify the pro-forma bill, The original

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certificate of origin (from China); Original waybill signed by the exporter; Certification of conformity;

After providing these documents, the bank requests a written demand for opening a documentary credit signed and addressed to the agency's director, containing the product designation, customs tariff, beneficiary's name, price in currency, shipping times, equivalent value, method of payment, and the number of the commercial contract or pro-forma bill.

The bank also demands attestation of the exchange rate risk that gives it the right to face any currency risks; it's signed by the importer and contains the client name, client's account number, supplier name, and the amount of the purchase.

After providing the needed documents, the bank opens a documentary credit that contains the credit type, The date of validation, The order's giver, along with the address, The beneficiary name, along with the notified bank name, The issuing bank name, The merchandise's description, Port of Discharge, Port of Loading: Yantian, China The goods price, the Incoterms used, and payment terms

The next step After receiving the file of documentary credit, seizing the file is done using the computer, where they fill in The fiscal identification number (NIF); Operation nature; The client company name; the nature of the goods; the transaction amount; the incoterms; and the payment method domiciliation number formed of twenty-one characters (table N°2).

Tab 2. The banking domiciliation number

Domiciliation import							
SETF				12/06/2021			
State's code	Agreement code	Counter approval	Year	Quarter	Operation code	Order Number	Currency
19	23	01	2021	2	10	0073	USD

Source: made by the researchers after going through AGB and SARL FTB provided documents

The documents provided by the importer are filed on a control sheet. This form is kept at the branch level for follow-up, control, and management of the domiciled file until clearance. This sheet contains the name of the domiciliary bank, the intermediate counter number, the name of the exporter, and the name and address of the importer.

After opening the documentary credit file, the exporter will be notified of its favor, and the documents that have been requested to be provided by the supplier will be sent via a banking channel and an express courier.

After the reception of the documents (the commercial invoice and the title of transport) at the level of the bank of the supplier, and in order to endorse the bill of lading in the name of **SARL FTB IMPORT**, we must indicate the number of the domicile on the invoice for customs clearance of the goods, where the customs service delivers a copy that declares the D10 to **SARL FTB IMPORT** after having presented the endorsed documents and the domiciled invoice relating to the goods.

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The final step is the clearance of the domiciliation file, where the buyer presents the D10 customs documents at the level of its bank, **AGB Bank**, in order to clear the direct debit file.

4.3 The Documentary credit commissions

These commissions are calculated on the basis of the amount of the letter of credit, which is 74000.00 USD with an exchange rate of USD/DZD = 133.96 DZD in favor of the bank, and the amount in dinars is calculated as follows:

$$74000.00 * 133.96 = 9\,913\,040.00 \text{ DZD}$$

- **Domiciliation Commission:** The importer had to pay a fixed domiciliation commission equal to 3.000,00 DZD.
- **Opening Commission:** The importer also paid the next commission that was presented in **Table N°3**.

Tab 3. The total of opening commissions

Designation	Amount
Opening Commission	3.000,00 DZD
Opening SWIFT FREET	3.000,00 DZD
Total	6.000,00 DZD

Source: made by the researchers based on the intern information of the bank

- **Engagement Commission:** The calculation of commitment fees in our case is based on the amount provisioned only from the date of issue until the date of maturity, and as the period from 15/08/2021 until 14/10/2021 is 60 days (not counting the day of the bank), so we have a quarter, it is 0.25% per indivisible moving

quarter of the provisioned amount with a minimum of 2,500 DZD (we have a quarter), that is:
 $913.040,00 \times 0.25\% = 24782.6 \text{ DZD}$

Tab 4. Engagement Commission

Designation	Amount
Engagement Commission	24782,6 DZD

Source: made by the researchers based on the intern information of the bank

- **Settlement Commission** It's fixed to 0.25% of the total amount of the documentary credit and it's calculated as follows:

$$9.913.040,00 \times 0.25\% = 24782.6 \text{ DZD}$$

Tab 5. Settlement Commission

Designation	Amount
Settlement Commission	24782,6 DZD

Source: made by the researcher based on the intern information of the bank

- **Hedging Commission of the Bank :** This one costs 0.1% of the total amount if the documentary credit:

$$9.913.040,00 \times 0.001 = 9913,04 \text{ DZD}$$

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Tab 6. Hedging commission of AGB bank

• Designation	• Amount
• Hedging Commission	• 9913,04 DZD

Source: made by the researchers based on the intern information of the bank.

Next, the Table number 7 represents all the paid commissions in documentary credit of FTB IMPORT:

Tab 7. Documentary Credit Commissions

Designation	Amount
Domiciliation Commission	3.000,00 DZD
Opening Commissions	3.000,00 DZD
Opening Swift FREET	3.000,00 DZD
Engagement Commission	24782,6 DZD
Settlement Commission	24782,6 DZD
Hedging Commission	9913,04 DZD
Total HT	68.478,24 DZD
TVA (19% de la totalité des commissions)	13.010,87 DZD
Total TTC	81.489,11 DZD

Source: made by the researcher based on the intern information of the bank

5. CONCLUSION

At the end of this research paper, which aimed to answer the following main question: "What are the procedures used in Algerian banks and companies regarding the import of goods using a documentary credit?" We concluded that facilitating transactions and purchase/sale import/export in the market is subject to being ruled by documentation letters of credit;

Documentary credit is an operation that starts at the request of the importer at the level of its bank.

Documentary credit derives its provisions from the published UCP 500 that was issued by ICC in 1933 and was modified to be UCP 600 in 2007;

The dealing with documentary credit is done by documents and not by goods and services, as stipulated in the Uniform International Rules and Norms (UCP);

It seems clear to us that the deadlines for documentary letters of credit are rather long and time-consuming, which sometimes hampers the parties and exposes some of them to many risks and problems.

We concluded that both the bank and company follow the rules made by the ICC as well as the laws fixed by the Algerian government.

Documentary letters of credit have several types, and each type has its own characteristics that distinguish it from other types, which requires the banks to carefully investigate when implementing any of their types, especially those relating to the goods replaced transactions.

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There is no doubt that among all the international trade guarantee instruments, the documentary letter of credit is the safest one, yet that does not mean that this almost perfect approach has no negativities. Faced with the requirements of the operators, the procedure does not extend to the specific needs of its last; in other words, the progress requires a long axis of time and a very complex process regarding the required document's policy, let alone its high costs and fees.

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