Developments of International Factoring in Bangladesh

FCI had organized a two-day workshop last month on behalf of the Bangladesh Bank (central bank), The Bangladesh Institute of Bank Management (BIBM), which is the training wing of the Bangladesh Bank and is under the Chairmanship of the Governor of Bangladesh Bank, and the Bangladesh Garment Manufacturers and Exporters Association. The event was supported by Mr. Prashanta Banerjee, Professor & Director, Research Development & Consultant, BIBM and led by Aysen Cetintas, Education Director and myself. The event included delegates from all three organizations, including CEOs and Managing Directors of 15 of the largest commercial banks in Bangladesh, who together represent the main pillars of the financial sector there. The workshop was organized to educate the delegation on the benefits of international factoring and receivables finance. The delegates also attended a one day on-site visit of our member here in the Netherlands, ABN AMRO Commercial Finance supported by Peter de Koning, Director of Strategy & Business Development. They also heard a short presentation by the Secretary General of the International Credit Insurance & Surety Association (ICISA), Mr. Robert Nijhout on the benefits of credit insurance as a risk mitigation tool to support the growth of factoring.

The event followed several training programs and research grants in Bangladesh that were initiated by FCI and/or BIBM for capacity building of banks in Bangladesh to launch this international factoring service. Recently, ICC Bangladesh, BIBM, Asian Development Bank (ADB) and FCI jointly organized a seminar and workshop in Dhaka on International Factoring, with nearly three hundred mid and senior level executives overseeing operations, risk management and legal departments of banks and commercial factors.

Bangladesh has been for generations a predominantly traditional trade finance market, trading mostly against letters of credit. But as open account trade has expanded, the country is being pushed to offer importers extended payment terms, causing capital constraints. Banks face certain challenges in financing open account transactions. Banks usually take assignment of the receivable as the basis for funding. Laws specific to factoring are not clear in Bangladesh and this can cause differing opinions as to what constitutes a true sale for example. In cases of disputes arising from factoring business, such confusion could potentially lead to costly legal battles and settlements.

In Bangladesh, the following issues are required to be accommodated within their existing rules, regulations, Act and policies:[1]

- Assignment laws are codified under Section 130 of Transfer of Property Act 1882. It spells out the rights of transfer of intangible assets like receivables to third parties. And regarding the notification of the assignment to the debtor, there is no reference to it.
- As per Gazette Notification issued under Section 12 of Foreign Exchange Regulation Act (FERA), 1947, export proceeds must be received within 4 months of shipment9. In case of export under international factoring, this rule will equally be applicable. As a result, currently foreign account receivables that have more than 120-day credit terms will not be allowed in case of international factoring. However, in case of increasing days for repatriation of exports proceeds from the current 120 days if the importer fails to pay to import factor on time, the central bank needs to bring change accordingly in FERA.

[1] Guidelines on International Factoring as prepared by the Bangladesh Technical Committee on Factoring at the request by the Bangladesh Bank

- Ministry of Commerce (MoC) has allowed international factoring in boosting export from Bangladesh in its recently promulgated export policy 2015-201810. As per export policy 2015-2018, the central bank will create a congenial export-financing environment and international factoring will be encouraged to promote exports from Bangladesh.
- ICC's Uniform Customs and Practices for Documentary Credits (UCP 600) are used traditionally for exports under LCs. For international factoring, the Central Bank and Ministry of Commerce is currently considering adopting policy to allow for the business practice in Bangladesh subject to banks covering foreign exposure via the FCI network and following the rules adopted under the General Rules of International Factoring (GRIF).

Independent credit finance companies (commercial factors) operate in Bangladesh today. They are currently unregulated, but they are not allowed to handle foreign exchange, hence their activities are predominantly focused on the discounting of domestic receivables backed by post-dated checks, a term referred to as "checkering". In fact, international factoring is not permitted in Bangladesh at all today, either by banks or commercial factors, and the central bank needs to provide a license to allow financial institutions to operate such a business.

A number of positive initiatives followed the joint training program in 2015 and this workshop last month, including:

- A Technical Committee on Factoring was established last year, as a request by the Bangladesh Bank. The Committee is comprised of senior executives from the following organizations in Bangladesh: Bangladesh Bank, BIBM, ICC Bangladesh, Ministry of Commerce, and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA)
- FCI was asked to participate as a special advisor to the Committee as their work progresses
- In anticipate of this workshop, the Committee produced the Guidelines on International Factoring, which was finalized in January 2017.
- Ministry of Commerce of Bangladesh has asked the Bangladesh Bank to take the necessary steps to introduce international factoring service in Bangladesh.

We anticipate to see some of these banks and commercial factors join FCI in the near future. Central Bank support is not required for membership, and some banks may commit to become a member sooner than later to start capacity building within their respective organizations. However, to perform international factoring services, it does require central bank permission. But we do expect to see the central bank issuing licenses to operate in Bangladesh shortly. And we hope that Bangladesh, one of the most promising international factoring markets in South Asia will become an active market for FCI one day soon.