

## The Impact of Documentary Credit on Foreign Trade

أثر الاعتماد المستندي على التجارة الخارجية

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**Received:** 10/07/2023 ; **Revised:** 30/11/2023 ; **Accepted:** 31/12/2023

### Abstract:

This research paper shows the impact of documentary credit on foreign trade and also the advantages and risks of this technique. In our time, documentary credit represents the framework that is accepted by all parties involved in the field of international trade in a manner that preserves the interest of all these parties, including exporters and importers. From here, the importance of documentary credit appears as a means of financing foreign trade. In addition to reviewing a case study at the level of the Agency of the Bank of Agriculture and Rural Development (BADR) the local agency for exploitation 458 in Bouira regarding the use of documentary credit technique.

**Keywords:** Documentary Credit, Algeria, Foreign Trade, External Bank of Algeria.

**Jel Classification Codes:** E44; E590; F130; F380

### المخلص:

تظهر هذه الورقة البحثية تأثير الاعتماد المستندي على التجارة الخارجية وكذا مزايا و مخاطر هذه التقنية. في عصرنا الحالي يمثل الاعتماد المستندي الإطار الذي تقبله جميع الأطراف المعنية في مجال التجارة الدولية بما يحفظ مصالح جميع هذه الأطراف بما في ذلك المصدرين والمستوردين، ومن هنا تتبين أهمية الاعتماد المستندي كوسيلة لتمويل التجارة الخارجية. بالإضافة إلى استعراض حالة تطبيقية على مستوى وكالة بنك الفلاحة و التنمية الريفية (بدر بنك) الوكالة المحلية للاستغلال 458 بالبويرة فيما يخص استخدام تقنية الاعتماد المستندي.

**الكلمات المفتاحية:** الاعتماد المستندي، الجزائر، التجارة الخارجية، بنك الجزائر الخارجي.

**تصنيفات JEL:** E44 ; E590 ; F130 ; F380

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### **I- Introduction:**

With the expansion of international economic relations between various countries and economic blocs, especially in the field of foreign trade, which lies in the well-known issues of export and import and international markets in its various forms, and has become a preoccupation for many thinkers, researchers, decision makers and research institutes in various countries of the world in addition to international and regional economic organizations, due to its role in the development of the economies of contemporary countries, a group of financial and banking institutions and their various branches are working to finance foreign trade through a set of mechanisms and financing and payment operations in light of foreign trade require more secure and confident means of payment for the exporter and importer, as removing the doubts of each of them can be achieved. Through documentary credit, it is among the means available to provide confidence and reduce this risk, and it is a technique among the most used by economic dealers, although there remains a set of risks that must be taken into account when applying documentary credit.

### **The study Problem:**

The problem of the study revolves around the following question:

**To what extent is documentary credit applied in foreign trade transactions?**

### **Study Hypotheses:**

- Documentary Credit is one of the most important means of payment in the field of international trade.
- Despite the many advantages of documentary credit, it is fraught with risks.

### **Objectives of the study:**

- Acquiring new knowledge that develops our thinking and that of the reader.
- Highlight the advantages of documentary credit as an effective tool for settling commercial transactions.
- To identify the most important risks that revolve around documentary credit when it is used as a tool for financing foreign trade.

### **Method used:**

The researcher relied on several methods, including the descriptive analytical method, in order to identify the most important advantages and risks of documentary credit in commercial transactions, in addition to relying on the survey method in order to study the case of the application of documentary credit in the External Bank of Algeria.

### **Previous studies:**

- A study of "Amal Darawi and Abdel Aziz Bouqtaya" in the year 2021/2022 AD, a master's thesis entitled "Documentary credit as a banking tool in stimulating foreign trade." The study aimed to highlight the position enjoyed by documentary credit in the field of foreign trade. And what the latter plays of a prominent role in the national economy, including what is related to the current situation in the international trade arena, as it is the fertile field for the use of documentary credit technology, The study concluded that although documentary accreditation as a technique of stimulating foreign trade improves the quality of banking services and expands the area of competition, the Algerian legislator still suffers from instability in framing this mechanism despite the transition to a market economy, as he notes the lack of tight regulation of the accreditation process, and the failure to keep pace with the texts. The organization is responsible for international and national developments, which have created legal loopholes that must be addressed and reviewed.
- The study of "Ababsa Muhammad Shawky" in 2018/2019, a master's thesis entitled "The Role of Documentary Credit in Financing Foreign Trade - A Case Study of Al Baraka Bank of Algeria in the Agency of Biskra". The study aimed to highlight the contribution of documentary credit to the promotion of foreign trade as an effective tool for the settlement of commercial transactions The study concluded that the means

of payment are of great importance in the import and export process if they include the rights of commercial dealers through direct means of payment or through documents such as collection and documentary credit, which are the most secure methods and from several risks facing the financing process, especially in terms of domination. Because commercial deals take the financial aspect of the deal seriously, it is of great importance to all parties.

- The study of "Rabah Muhammad and Oqab Fatih" in 2014/2015, a Master's thesis entitled "Documentary Credit as a Banking Tool in Financing Foreign Trade: A Case Study of the Algerian Foreign Bank Agency Bouira 37", aimed to identify the role of documentary credit in promoting foreign trade as an effective tool for the settlement of commercial transactions.

## **I.1. What is a documentary credit?**

### **I.1.1. The concept of documentary credit:**

A documentary credit is defined as “an undertaking issued by a bank called the opener of credit at the request of its customer (the buyer or importer), which is called the applicant or the order to pay a certain amount in favor of the beneficiary (seller or exporter) at a certain time in exchange for the delivery of specific documents that conform to the terms of opening the credit” (**Taha & Al-Baroudi, 2001, p. 655**)

It is also defined as “a legal act subject to the credit that the bank opens at the request of a person called the order, whatever the method of its implementation, whether by accepting the bill, discounting it, paying an amount in favor of a customer for this order, or authorizing another bank to do so in exchange for certain documents representing the goods and conforming to the agreed terms.” (**Ali Awad, 1989, p. 11**)

A documentary credit is also defined as “a process whereby a bank (the issuing bank) acts upon a request and according to the instructions of the buyer customer (the ordering) to make a payment in favor of the seller (the beneficiary) or authorizes another bank to make the payment (the intermediary bank) in return for the collection of documents proving the validity of the execution of the sale” (**Hugues, 2009, p. 145**)

### **I.1.2. Characteristics of documentary credit and its parties:**

Documentary credit technology is based on several basic principles that make it unique and have characteristics that distinguish it from other means of financing international trade transactions.

- **Independence:** It is based on the fact that credits are, by their nature, separate from the sales contract, and banks are not in any specific way or bound by such contracts. Based on the independence of the documentary credit from the contract for which it was opened and from all other contracts, the beneficiary retains his full right to the credit once he fulfills its terms. Regardless of the extent to which the customer executes the order to open the credit before the bank that opened the credit, in return, the beneficiary remains obligated to implement the terms of the credit if he wants to benefit from it.
- **Apparent conformity of documents:** It is based on the fact that all concerned parties deal with documents and do not deal with goods, services, or other aspects of execution that may relate to those documents (judicial work). Based on the apparent conformity of the documents, the independence of the documentary credit contract is practically achieved from the contract for which it was opened, and this is what encourages banks to open the credit and accept it on simpler terms than if they had to examine the goods themselves instead of examining the documents representing them. (**Faisal Mahmoud, 2005, p. 33**)

Hence, the importance of documentary credit is highlighted to us as a legal guarantee aimed at good and guaranteeing the implementation of obligations. It also

highlights its importance in considering it as an effective mechanism in the field of commercial transactions and their financing. (Al-Shawarbi, 2002, p. 1025)

- **Dealing with bonds:** It remains that banks do not deal with goods, services, or performance related to these documents, and this is what was stipulated in Article Five of the Unified Principles and Customs of Documentary Credits, as All parties involved in approval processes deal with documents and do not deal with goods, services, or other implementation aspects to which documents relate. (Alamuddin, 1993, p. 1137)
- **Commitment:** It is based on respecting the terms written in the Documentary Credit verbatim even if its conditions are different from the sale contract, and this is what is stipulated in Article Five of the Unified Principles and Customs of Documentary Credits.

The payment process through documentary credit includes four parties: (Qamouh, 2020/2021, p. 16)

- **The orderer or applicant:** is the buyer or importer. He submits a request to open the credit to his bank and specifies the instructions to be followed according to the International Chamber of Commerce model or a model set by the bank.
- **The bank that opened the credit:** is the financial institution of the foreign buyer or importer, and it is the one who opens the credit for the benefit of the beneficiary and guarantees him payment in return for submitting documents that conform to the instructions specified by the foreign buyer or importer.
- **Beneficiary:** It is the seller or the exporter, and it is the party in whose favor the credit was opened.
- **The announced or confirming bank:** is the bank or financial institution that is often located in the country of the seller or exporter, and it is the bank charged with announcing the opening of the credit in favor of the issuer and examining the documents. In the event that the credit is reinforced, the institution charged with paying in favor of the exporter after examining the documents and ensuring their conformity.

### I.1.3 The Importance of Documentary Credit:

The importance of documentary credit lies mainly in the crucial role that this type of credit plays in financing foreign trade, especially as it relates to imports. As this has repercussions on the economic growth of countries and on development in general, the importance of documentary credit is linked to the elements centered around it as follows:

**For the importer (applicant to open the credit):** (Abu Atrous, 2000, p. 88)

- This type of loan makes him feel reassured that deals will be concluded and completed according to the terms agreed upon with his client abroad and that he does not move to complete the deal, but rather this is done automatically through bank mediation.
- This system gives the importer the assurance and guarantee that the bank will not pay the seller or that he will not be indebted to his bank until after the bank has ascertained that the seller has properly implemented all the terms and obligations as agreed upon.
- He does not have to pay the value of the credit in advance, as the period may reach four or six months until the goods arrive.
- He is confident that his goods have been shipped and will come in conformity with the agreed terms, especially when he requests an inspection certificate that deals with inspection and verification of specifications according to the conditions agreed upon in the accreditation.

**For the issuer (beneficiary): (Abu Atrous, 2000, p. 89)**

- He is confident that he will definitely get the price of the goods he ships to the buyer.
- The bank may pay the value of the document bill when the customer discounts this bill of exchange with the bank before its due date, so this is a permanent financing for the seller and an additional advantage, and the bank is not reluctant to discount this bill of exchange usually. Due to the guarantee provided by the attached documents and the credit issued in favor of the seller, the seller thus obtains the benefits that he would get if he sold the goods for cash, and this ease of discounting the documentary bill of exchange added a new deal as an important tool for settling the price debt.
- The seller can obtain banking facilities to prepare the goods in return for credit.
- It avoids the risk of selling the goods in a foreign country that does not know anything about its systems and laws if the buyer breaches his obligations to pay the price. It also avoids, to a large extent, the risks of litigation and the attendant difficulties and delays in the delivery of the price.
- It avoids the difficulties caused by the cash control systems in the buyer's country (the importer), where the latter undertakes to take all necessary measures before opening the credit as part of his obligations to pay the price.
- It prevents harm to the seller, who is obligated to ship the goods, send documents, and incur the consequent expenses to meet their price.
- The documents will arrive in compliance with the conditions, so you will be exempt from paying the fines imposed by the state in the event of violations such as non-ratification of invoices and the establishment's certificate, so compensation will be paid.

**For banks: (Naji, 1999, p. 225)**

- For banks, documentary credit represents income as a result of the commissions they receive and the insurances that they take, so they constitute a good source of financing, and the bank employs these insurances and obtains returns from that, in addition to the contribution of these insurances to the liquidity of these banks. For the local bank, he will receive a certain commission as a result of the services he provides in this field, in addition to the insurances that he takes, which constitute a source of financing for him.
- As for the correspondent bank, it charges a commission that is consistent with its role in the credit. If its role is as an amount of the credit, its commission differs from whether its role is in support of the credit.
- The documentary credit helps the bank to expand its operations and consolidate its relations abroad, which results in the possibility of using it as a correspondent bank for foreign banks so that it benefits from the commissions resulting from the performance of these services.

**I. 2. Types of documentary credits:**

Documentary credit varies according to several classifications, which we address as follows:

**I.2.1 Classification of the credits in terms of the strength of the commitment:**

**A. Credits in terms of the strength of the undertaking of the issuing bank:**

Documentary credits take different forms that can be classified in terms of the strength of the undertaking (that is, the extent to which the banks adhere to them) into two types:

- Corresponding credit for cancellation (or deficiency): It is the one that may be amended or canceled by the issuing bank at any moment without prior notice to the issuer. Cancellation gives great advantages to the importer, so he can withdraw

from his commitment, change the terms, or introduce new ones at any time he wants without the need to inform the exporter, but the modification or omission does not become effective until the correspondent receives the notification addressed to him by the issuing bank for this purpose. In other words, the bank initiating the credit is linked to the issuer's direction of paying the value of the documents in the event that this payment was made by the correspondent bank before receiving the notification of the amendment or cancellation, and the bank has the right to cancel the credit without being obliged to give a reason or justification for its cancellation. (Jean, 1998, p. 86)

- Peremptory (irrevocable) credit: It is the one that can only be canceled if it is agreed upon by all relevant parties, especially the issuer, so the opening bank remains committed to implementing the conditions stipulated in the contract of opening the credit, and this type of credit Documentary is predominantly in use because it provides a greater guarantee for the issuer to receive the value of the documents when they meet the terms and conditions of the accreditation. (Abdel Nabi, 2001, p. 21)

### **B. Classification of credits in terms of the strength of the undertaking of the sending bank:**

- Unconfirmed documentary credit: Under the unconfirmed documentary credit, the obligation to pay falls on the issuing bank, and the role of the correspondent bank in the source country is merely to act as an intermediary in executing the credit in return for a commission. There is no obligation on him if one of the parties breaches any of the conditions mentioned in the credit.
- Enhanced Definitive Credit: In the reinforced definitive credit, the correspondent bank in the country of origin adds to the pledge of the bank that opened the credit and is obligated to pay the value in all circumstances as long as the documents comply with the conditions. Thus, this type of credit enjoys the presence of two pledges from two banks (the bank that opened the credit and the correspondent bank in the country of origin), so the exporter enjoys more reassurance and greater guarantees by having the possibility of receiving the value of the documents. (Khaled Amin, 2000, p. 212)

Of course, the issuing bank does not require its reinforcement from the correspondent (confirming) bank except when it is part of the exporter's conditions on the importer, as there may be no need for that if the bank that opened the credit is one of the world's most famous banks due to the great confidence of the dealers and the correspondent banks do not It reinforces the credits, unless there is confidence in the local bank that opened the credit, and that is in return for an agreed-upon commission. (Diab, 1999, p. 27)

### **I.2.2 Classification of credits in terms of settlement method:**

#### **A. Classification of Credits in Terms of Payment Method to the Beneficiary Seller:**

A documentary credit can be divided in terms of the method of payment to the issuing seller, into:

- Approval of perusal: In the approval of sight, the bank who issued the credit pays the full value of the documents submitted upon viewing them and verifying their conformity with the credit. In the event of an irrevocable and confirmed credit, as soon as the issuer submits to the notification bank the documents required in the credit, the exporter can obtain the full amounts directly, and this type of credit is the most common.
- Approval of acceptance stipulates that the payment shall be under bills of exchange that the beneficiary seller withdraws and submits within the shipping documents, provided that their date is due at a later and known date. His commitment to pay on the date specified for its payment, or if it is drawn on the bank that opened the

credit, which on behalf of the importer shall sign it indicating that his commitment to pay within the specified term to pay it or withdraw it on the importer, and the signature of the opening bank is required to accept or ratify it, The term payment approval differs from the acceptance approval in that the beneficiary does not submit a bill of exchange with the documents. (Ghoneim, 2003, p. 15)

- **Payments Approval:** Advance Payments Credits, or Red Condition Credits, are definitive credits in which the beneficiary is allowed to withdraw certain amounts in advance as soon as he is notified of the credit, i.e., before submitting documents. Because it contains this special condition, which is usually written in red ink to draw attention to it, and the correspondent bank delivers the advance payment to the beneficiary in return for a receipt signed by him, along with an undertaking from him to return it if the goods are not shipped or the credit is used within its validity period, and the issuing bank is obligated to compensate the correspondent bank at the first time If the credit is not implemented and the beneficiary is unable to return the advance payment, the orderer is responsible for compensation to the issuing bank, and the advance payment may be delivered against a letter of guarantee in the value and currency of the advance payment. This type of credit is used to finance contracts for equipping factories with machinery and equipment, constructing buildings, or the manufacture of goods with special specifications that are compatible only with the importer alone, or because they require large sums of money for their manufacture.

#### **B. Classification of credits in terms of the importer's payment method:**

Documentary credits can be divided in terms of their source of financing. They may be self-financed by the client requesting the opening of the credit or fully or partially financed by the bank opening the credit.

- **Fully Covered Credit:** is the credit whose total amount is covered by the bank by the applicant; For the bank to pay the price of the goods to the seller upon the arrival of the documents for the goods to him, the bank in this case does not bear any financial burden; Because the ordering customer has provided him with all the necessary money to open and implement the credit, or in some cases it has paid part of the amount when opening the credit or pays the rest upon receipt of the documents, this case takes the rule of full coverage, but the bank in the fully covered credit remains responsible to its customer for any wrong use of money such as its payment to the beneficiary if the credit conditions were not met, or if he delays them, he is also asked about any specific error committed by the correspondent bank in its mission. (Nuddrzo, 1990, p. 20)
- **Partially Covered Credit:** is in which the customer ordering the opening of the credit pays part of the price of the goods from his own money, and there are different cases for this partial coverage, such as the customer obligating the coverage by simply paying the beneficiary even before the arrival of documents or agreement that the coverage will be upon the arrival of the documents or that Payment is delayed until the commodity arrives, and the bank contributes to bearing the risks of financing the remaining part of the amount of the credit, and traditional banks calculate interest on the uncovered parts, which are forbidden usurious interests that Islamic banks avoid by using another alternative called the participation credit.
- **Uncovered credit:** It is the credit in which the bank grants full financing to the customer within the limits of the credit amount, where the bank pays the amount to the beneficiary upon receiving the documents, and then the traditional banks follow up with their customers to pay the amounts due according to agreed terms and interest on the unpaid amounts. Islamic banks differ in How they finance their

clients with this type of credit, as they adopt a legitimate transaction formula called the Murabaha credit. (Ghoneim, 2003, p. 82)

### **I.2.3 Classification of credits in terms of form and nature:**

#### **A. Classification of Credits by Form: (Mohamed Femi, 2000, p. 23)**

- **Transferable credit:** It is an irrevocable credit that states the right of the beneficiary to request the bank authorized to pay to place this credit in whole or in part at the disposal of another beneficiary. The credit, in turn, goes to the actual exporters of the merchandise in return for a certain commission or benefit from price differences. The transfer process takes place by issuing one or more new credits for the benefit of the first beneficiary or the following beneficiaries. The transfer does not mean endorsement of the original letter of credit or its delivery to the second beneficiary, and the transfer is possible with the approval of the latter and the issuing bank of the credit, the original and first beneficiary.
- **The circular or renewable credit:** It is the one that opens with a specific value and duration, but its value is determined automatically if it is implemented or used, where the beneficiary can repeatedly submit documents for a new process within the limits of the value of the credit and during its validity period and the number of times specified in the credit, and the renewal of the credit may be based on the duration. Or on the basis of the amount, as for its renewal on the basis of the amount, it means that this credit is opened for a specific amount, and its amount is determined automatically for several periods with the same conditions. Usually, except for distinguished clients whose reputation the bank trusts, it is used specially to finance periodically contracted merchandise.
- **Back Credit:** is similar to a transferable credit. Where it is used in cases where the beneficiary of the original credit is a mediator and not a producer of the goods, such as being an agent for the product, and in this case the beneficiary opens a new credit in favor of the product with the guarantee of the first credit notified to him, and this method is used especially if the importer refuses to open a transferable credit or in the case of the product requesting conditions that are not available in the first approval, the conditions of the second approval are usually similar to the original approval except for the value and date of shipment and the submission of documents that are often less and closer to facilitate the first beneficiary to complete the process and make a profit from the difference between them.

#### **B. Classification of credits according to their nature: (Diab, 1999, p. 46)**

- **Export Credit:** It is the credit opened by the foreign importer in favor of the exporter at home to purchase what he can of local goods.
- **Import Credit:** It is the credit opened by the importer in favor of the exporter abroad to purchase a foreign commodity.

### **I.3. The risks of documentary credit and the precautions to be taken before the documentary credit:**

#### **I. 3.1 The risks of documentary credit:**

The documentary credit, like other international payment methods, is not without the risks that the parties involved in the credit face during the process, which are: (Talaat Asaad, 1998, pp. 54-55)

##### **A. Risks arising from violations recorded in the documents:**

The documents submitted to the issuing bank must be in conformity with the terms of the documentary credit until payment or acceptance is made. If the violations recorded in the simple documents are compared to the terms of the credit, the bank pays for these documents, but reserves the right of recourse to the beneficiary if the documents are rejected by the opener and his bank, this makes his client's account debited with the amount paid, and if the



beneficiary is not a client of the bank executing the credit, he can obtain the amount from the latter, with the submission of a guarantee of documents not approved by his bank.

If the violations recorded in the documents are moderate, the reporting bank informs the conquest bank of the violations through one of the fastest means of communication, which consults its client (the credit opener) and acts on the basis of or based on his response.

#### **B. Dealers Risks:**

These risks are as follows:

- Risks specific to the products themselves: The reasons for these risks are due to:
  - Cancellation of the order by the importer after preparing the products.
  - The exporter's inability to fulfill his quality obligations or stop supplying.
  - The exporter's unwillingness to implement the contract.
- Credit risk: These risks are due to:
  - The inability of the importer to pay.
  - The issuer's inability or unwillingness to repay the amounts paid to him in the event of non-fulfillment of his obligations.
- Environmental risks: These risks are as follows:
  - Political risks: represented in political events (war, tensions, etc.) that prevent the importer from fulfilling its obligations.
  - Financing risks: represented by the refusal or inability of the state or the dealing personalities to make the payment on the specified dates, or the inability of the exporter to finance the amounts resulting from non-fulfillment of its obligations.
  - Exchange risk: It is represented by the devaluation of the agreed currency compared to the country's currency or by an increase in the price of the goods, which will have a negative impact on the importer.
  - General risks: They are all risks resulting from external and independent events above all parties to the credit, but they affect directly or indirectly the proper functioning of the documentary credit process, such as: communication interruption due to political events, strikes of transport and shipping interests that transport the goods, natural disasters, limitation exit of goods, wars and the consequences thereof, riots and violence.

#### **I.3.2 Precautions to be taken before and after the documentary credit:**

We will now discuss some of the precautions to be taken before and after the documentary credit:

##### **A. Before opening the credit:**

Before conducting the documentary credit process, a set of precautions must be taken to ensure its proper functioning, as follows: **(Diab, 1999, pp. 66-68)**

- For the issuance of the accreditation, the documents must be specified and described accurately, the content must be delivered, and the dates specified for their validity according to Articles 20–21–22 of the rules and norms.
- As for the goods, they must be described briefly but with sufficient accuracy regarding quality, specifications, price, quantity, etc.
- For the use of a documentary credit as a means of payment, it should not directly use the costly method such as the irrevocable and confirmed credit, and it must be noted that when the documentary credit method is irrevocable and confirmed, the costs of confirmation are borne by the importer.
- The bank must oppose every measure that imposes exaggerated details when opening or amending the credit because often the importer tries to complicate matters for the exporter.
- The bank must ensure the soundness of the importer's financial position and the commercial reputation it enjoys in the markets.

In addition to the above, there are objective conditions that the bank must verify in return for opening the credit, which are: **(Diab, 1999, pp. 68-69)**

- Political conditions: The bank is obligated to verify the availability of political stability in the country of import.
- Legal conditions: The bank is obligated to know the principles that prevail in the civil and commercial law of the country of import, especially with regard to sales contracts and the rights of each creditor and debtor, knowing the state's economic policy.
- Economic conditions: The bank must know the economic situation of the importing country and link it to the industrial situation and its natural resources, the main sources of income in it, and the extent of the public's demand for the goods subject of the sales contract.
- Commercial terms: It includes the commercial and economic facilities enjoyed by the importer and the strength of commercial competition enjoyed by the exporter with respect to the sold goods. It also compares its market value with the value stipulated in the sale or credit contract.
- Personal conditions: These include the conditions that the importer enjoys in terms of commercial honesty.
- Geographical conditions: The bank must know the extent of the country of import and the natural disturbances that affect the economic situation and ease of transportation and communications.
- Organizing the management of the commercial project: The bank is obligated to know the system of the buyer's commercial institution and its commercial relations with other institutions.
- Financing conditions: they mean the immediate situation of the importer in the case of a prior transaction between him and the bank, unless this transaction is based on a high degree of trust and credit.
- Financial conditions: The bank must know the financial situation of the importing country, the status of its external balance of payments, the impact of its financial policy on the bank, and the extent of the buyer's ability to meet its external obligations in case the state imposes control.

### **B. After opening the documentary credit:**

After the previous procedures for opening and during the completion of the documentary credit process, the following precautions must be taken: **(Diab, 1999, pp. 70-71)**

- The issuing bank is given a sufficient period of time to monitor the documents, after which it decides to accept or refuse to pay the financial value of the transaction.
- The Bank is not responsible for lost documents or errors in translation because his role is generally limited to the financing aspect of the operation, and as a means of ensuring its completion.
- With regard to the request for amendment, it must be made after the agreement of the two parties.
- When it comes to the value of the transaction, two copies of the pro forma invoice must be attached, as well as if it comes to a change in the specifics of the goods.
- As for the non-dispatch document, it is not granted unless the exporter permanently waives the payment or shows the documents related to the merchandise for payment. This waiver must be notified to the credit opening bank.

#### I.4. An applied study of the import case through documentary credit:

##### I.4.1 Stages of the Documentary Credit Process:

Localization file: Before every procedure, the institution must have a localization file. The objective of this process, according to regulation 91/12 of 12/14/1991 to the Algerian Bank, is to determine the obligations of banks, departments, public producers, private persons registered in the commercial registry, and owners of franchises or dealers entrusted by cash or credit. This process means that the importer identifies a bank that is responsible for following up on the good progress of the import process. The bank presents to the importer a document known as Un Engagement Dimportation, in which there are two frameworks: one dedicated to the importer and one dedicated to the agency. In it: the name of the bank, the account number related to the importer, the value of the goods, and to open the localization file, the importer is required to have a commercial contract within the form of the pro forma bill, a document, and a confirmed request letter. This commercial contract is between the identity of the contracting parties, the country of origin, and the nature of the goods, and the localization file includes the pro forma invoice and a request for localization.

According to the studied case, the BEA agency carried out the resettlement process by opening the settlement file, and this number consists of 5 digits:

037	2/2014	14	00093	099
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37: Agency number with the Central Bank.

2014/2: "2014" represents the year, and "2" represents the hexagon in which the settlement took place.

14: The transaction type or transfer number represents "14.EIF.12.FOB".

00093: The localization number is always 5 digits long.

0099: the currency number "EURO".

Then the importer pays all expenses and costs related to the settlement file (1500 DA per file).

##### I.4.2 Procedures for Opening a Documentary Credit:

After completing the settlement procedures, BEA will move to another procedure, which is to open the documentary credit, and according to the studied case, a process is submitted by Sarl Aommar Company located in Zubaida, Boumia Street in Bouira, to the agency of Bank BEA to request the opening of an irrevocable documentary credit, with the aim of Facilitating the process of importing a commodity represented by means of packing barrels and buckets, and this process was carried out through the following steps:

- a. Commercial Contract: It is the first step by the AOMMAR buyer and the issuing seller to improve the commercial transaction of purchasing this equipment, as it sets the mutually agreed terms.
- b. Opening the documentary credit: After completing the commercial contract, a representative from the institution Sarl Aommar submits an order to open the documentary credit to the agency of the Algerian Foreign Bank, carrying with him the documents necessary to open the documentary credit, which are:
  - **Pro forma invoice: It is a document issued by the issuer that reflects the terms agreed upon in the commercial contract and includes:**
    - Amount of the invoice: 44,402.20 Euros.
    - Beneficiary's address: My Lubricants Rue De La Dame Zone euro 2000-30123 CAISSARGUES- France.
    - Pricing terms: CIF.
    - Means of transportation.
    - Descriptions of the goods.

After studying this information recorded in the pro forma invoice by the importer, if he accepts it, the exporter issues the final invoice and sends it with the agreed documents.

- **Application for opening documentary credit:** It is a written request by the buyer, which includes the terms and notes agreed upon in the commercial contract, which are 19 dimensions or conditions to obtain more details regarding the items, which are: the importing importer, the seller issuer, the notice bank (the beneficiary), the issuing bank (importer), the date of the request to open the credit, the type of documentary credit, the value of the credit, settlement by payment upon sight, sending the goods at once, replacing the means of transport, is it allowed or not (in our case not), showing the documents Which the exporter must send to the buyer, which shows and accurately describes the goods by clarifying the quantity, quality, etc., the type of sale condition, the deadline for submission of documents, the place of shipment for delivery or the place of loading the goods and their destination (in our case, Port European), the date of validity of the credit.

The Agency employee (BEA) prepares the file, which he will send to the Directorate of Overseas, which contains: a pro forma invoice, a true copy of the application for opening the credit written by the importer, a Le Journal 04 document, and Swift M T 700.

After the Directorate of Operations with Abroad DOE conducts a comprehensive study of the file, it finally comes out with a decision of rejection or acceptance. This decision is related to the legality of the import request regarding the type and quantity of the goods to be imported. File and permit the agency to begin opening the BEA530 accreditation file.

### **I.4.3. Implementation of the Documentary Credit:**

After the Algerian foreign bank obtains the acceptance to open the documentary credit, it moves on to the next procedure of implementing the documentary credit, i.e., calculating the costs and commissions of the documentary credit after converting the euro against the Algerian dinar.

We give an example as follows:

The value of the deal in Algerian dinars is 4.662.231.00 DA.

3000 fixed commissions (credit opening commission) + 1500 Swift commissions + 11817.41 quarterly commissions

TVA calculates 19% of the total of the three currencies: quarterly commission + opening credit commission + SWIFT = 16317.41 DA.

$16317.41 \times 0.19 = 3100.308$  DZD.

2273.96 Amount of value-added fees + 11817.41 Quarterly Commission + 3000 Opening Commission + 1500 Swift Commission = 19097.37

After the Directorate of Overseas Operations DOE deducts the necessary commissions, the Directorate of Foreign Relations REI contacts, which selects one of the banks in the issuing bank that deals with BEA to make it an intermediary between them, given that the beneficiary does not have the right to pressure and refuse the importing bank to deal Directly with his bank, and since the relationship with BEA is mutual and sole, it is integrated in this case directly with it without the presence of another bank as a custodian between them. After the settlement process, the BEA agency sends the file for opening the documentary credit to the Directorate of External Relations DOE, and this file consists of: a pro forma invoice, a request for opening a documentary credit, a Swift document MT 700, MT, which includes all the information about the goods and the documentary credit, and a hard currency purchase order document from the Bank of Algeria, consisting of four copies, one kept by the agency and three to be sent with the file.

After the directorate "DOE" studies the file, it sends the acceptance of opening the documentary credit to the agency, and at the same time it proceeds to send the notification of opening the documentary credit in the form of Swift MT 700 to the beneficiary's bank "BNP" by order of its customer SARL Aommar in favor of Sarl Ch-lub Cheballah Lubrifiants as soon

as the bank receives "BNP" Swift by sending an acknowledgment of receipt document, after which "BEA" tests the issuer for opening the documentary credit in his favor by his customer and informs him of all the information contained in Swift that he received, and each issuer checks the validity of the terms agreed upon in the commercial contract and then informs all parties concerned to open Letter of credit.

The examination is carried out by:

- Ensure the validity of the documentary credit obtained and compare it with the terms of the agreement.
- The nature of the accreditation (it is irrevocable in the studied case).
- Ensure that the accreditation expiration date is respected.
- Place of payment.

After examining the documentary credit, the issuer informs all those involved, including: the person in charge of transit to carry out the transit procedures, the insurance company to cover potential risks, and thus the issuer can send the documents representing the goods to the BNA bank, which in turn reviews them according to Article 40 of the rules and norms found in sends them to The importing bank BEA and the documents and documents are: the commercial invoice signed by the beneficiary and drawn up in 05 copies, the bill of lading written in the name of the Algerian foreign bank in two shipments, the factory certificate drawn up in one copy, the certificate of origin drawn up in one copy, the list of parcels drawn up In one copy, the weighing document is written, the final invoice is written, and the document transfer receipt is in one copy.

The issuing bank BNA sends the documents to the importing bank BEA, which reviews them within a period of 7 open days, which are the days in which the bank works starting from the date of receiving the documents. The employee of this bank BEA keeps the original copy of the invoice in addition to a copy of the original certificate in order to place it in the documentary credit file, and the rest of the other copies are handed over to the customer.

After the bank "BEA" signs it and, in balance, the issuer submits the documents to the notification bank, it sends the goods with the following two documents: an original copy of the final invoice and an original copy of the bill of lading.

After sending the documents to the issuing bank "BEA", the payment process is carried out in cash in this case, i.e., in a period of 21 days starting from the date of signing the ship's master on the bill of lading, i.e., according to the case studied from 09/30/2014 to 10/7/2014. The issuer debits the amount of the credit, and according to the issuer's notice, the bank is a creditor of the same amount.

#### **Fourth: Liquidation of Documentary Credit**

It is the stage in which the settlement file is closed, followed by the endorsement of the file consisting of the pro forma invoice, the final invoice, and the deduction document. The goods were received from the importer, as was the amount in which the goods entered. Thus, the documentary credit has been cleared, and an employee from the Directorate of External Relations (DRI) is notified of the final liquidation through the liquidation document.

We note that in our case this process was very normal, and we did not notice any problem from the beginning of opening the credit to its liquidation, where the customer, Sarl Aommar, gets his goods and the exporter, Sarl Ch-lub Cheballah Lubrifiants, gets all his dues and gives the customer the localization number in the form of a stamp.

form of a stamp.

#### **I.5. The reality of the use of documentary credit at the level of the Bank of Agriculture and Rural Development Bouira branch:**

The Bank of Agriculture and Rural Development, the local agency for exploitation, provides the Bouira branch to dealers in the field of foreign trade, import, and export in order to settle their technical transactions of documentary credit, and we have represented the

volume of documentary credit registered at the level of the Bank of Agriculture and Rural Development, the local agency for exploitation, in the form of statistics during the period (2018–2022) as shown in table (1):

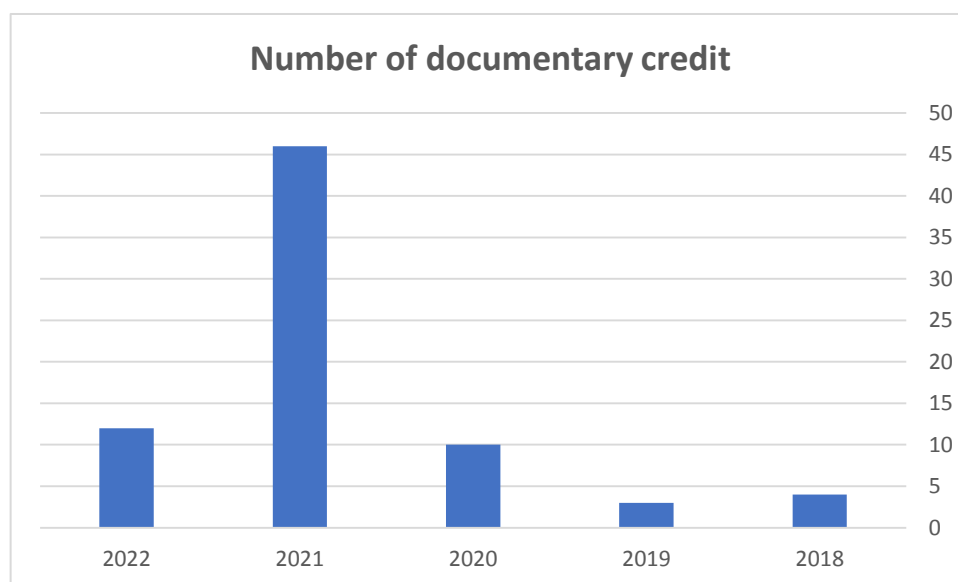
**Table (1): Number of documentary credit files during the period (2018-2022)**

Years	2018	2019	2020	2021	2022
Number of documentary credit	04	03	10	46	12

**Source: Statistics of the Bank of Agriculture and Rural Development - the local agency for exploitation - Bouira branch**

According to the above table, the Bank of Agriculture and Rural Development decreased by 4 cases in 2018, decreased in 2019, when it recorded 3 cases, increased to 10 cases in 2020, continued to rise in 2021, when it recorded 46 cases, and returned to decline in 2022, when it recorded only 12 cases.

**Figure (1): The use of letters of credit at the bank level during the period (2018-2022)**



**Prepared by the researcher based on the data of Table (1)**

From Figure 1, we notice an increase in the use of letters of credit from 2018 to 2021 and a decrease in its use in 2022, which shows us the banks reliance on documentary credit technology in order to complete commercial exchanges, especially after Algeria adopted the policy of liberalizing foreign trade in front of the private sector. Considering that documentary credit technology provides a lot of confidence and guarantees to all dealers in foreign trade operations.

## II. Conclusion:

Documentary credit is the most famous method adopted in the modern era and helps to complete transactions between different countries in complete confidence. The importance of documentary credit is highlighted as a tool for granting credit to both the exporter and importer by the bank, which plays the role of mediator, advisor, confirmer, and guarantor for both parties by conducting a careful review and verifying the validity of the documents. Through the applied study that we conducted at the Foreign Bank of Algeria, Bouira Agency, in which we touched on a case related to the opening of a documentary credit, it can be noted that the Algerian Foreign Bank plays one of the roles entrusted to it, which is the financing of foreign trade.

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