CHAPTER ONE

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1.1. Introduction:

Export Development Bank of Iran (EDBI) as a specialized and development bank has been entrusted to implement the government policies in the trade finance and facilitating the country’s export and exchange of international business.

The Export Development Bank of Iran is the prime Ex-Im Bank in the MENA region providing cost effective and most innovative banking services to the Iranian exporters. It has a unique niche amongst the monetary and financial institutions. It is considered as a strong support for Iranian exporters Infrastructure.

The customers of the Bank are Iranian exporters of goods and services. The customers are also all importers intending to purchase the raw materials and exchangeable goods for export along with other machineries and equipments demanded. At present, the Bank has 33 branches and 6 representative offices domestically and one representative office abroad.

1.2. Importance of Export

The lexical concept of the word “Export“ is transmission or dispatch of goods from one place to another place in another
country in which diversification of targets, method, and executive process are the important factors of export variation.

According to economic definitions, Export is to provide foreign exchange income via offering goods and services on global markets due to economic growth and development that is procured through trade balance and economic equilibrium.

Export, mostly, is intended as a principal and fundamental solution of economic growth and development in policy making of governments as the main axis of overcoming underdevelopment and they even remember it as a “development engine”.

In fact, Export potentially is thought of production of an employment in a society and its accession in company with wealth growth could be the reason of unemployment reduction. In other words, Export development not only is a source of foreign income for a country but is also an important factor of engagement’s expansion, creation of new jobs, increment capacities of producing, in order to meet economic scale, trade balance strengthening, fixation of national currency and ultimately, enhancement of economic growth and accession of social welfare. In these respects, due successful experiences of leading countries on the economics domain and their attention to export development and increase of their portion in global markets is an evidence of the claim that foreign trade of a country has a unique and distinct role in its economic growth.
In Iran also, during the recent two decades, increasing the generating investment on industry and mine section and agriculture and services, were remarkable points in the government’s agenda (operating manual) in order to release in dependence on oil and to expand non-oil exportation accordingly. Various measures such as conferment of export moderations, tax exemption, allocation of requisite related resources in annual budgets, conclusion of business and preference agreement with other countries, development of export-oriented investment, strengthening of competitive power of export goods and services in global markets have been adopted to elevate Iran’s portion of international trade.

1.3. History of EXIM Bank in the World

The EXIM banks as specialized banks of export development of countries have a special place in foreign economic trade. The mission of Ex-Im banks is development and expansion of their country’s commercial transaction with other countries. They are operated by the government and all their capital is public and are established to finance and grant credit facilities due to import and export development in transaction of goods and services. All developed countries and most developing countries at least have
One export credit institution which has an activated base on their special environmental circumstances. The first export credit institution was established in year 1919 in England- (Export credit guarantee department) – ECGD, UK. The first EXIM bank was established in United States in year 1934. After that developing countries realized the importance of such an enabling tool to achieve export development and tried to establish these kinds of national institutions.

Totally, the ex-im banks have two tasks: 1- presenting export financing and banking services 2- covering export risks. In other words, the following features make them distinct from other banks:

- Due to the economic and political importance, their capital is providing by government.
- Along with the other banks, they do finance and cover risks of exporters.
- They act as a political instrument of their governments and the governmental financial policies are applied by them.
- They are not rival of private or state banks, they have supplementary role in due course.
- Their most important tool for strengthening the exporter in global competitive markets is financing them appropriately.
1.4. EDBI’ Profile

Export Development Bank of Iran (EDBI) was established on July 10th 1991, and subsequently initiated its activities in September 1992. EDBI acts as Iran's Ex-Im bank and plays a pivotal role in providing financing facilities and banking services to Iranian exporters and the buyers of the goods and services of Iranian origin. Meanwhile, it acts to promote non-oil exports and develop business exchange with all Iran’s current and prospective trading partners.

Appointment of the board members is made by the bank’s general assembly which is chaired by Ministry of Finance and Economic Affairs based on the recommendations of Supreme Council of the Banks, presided over by the Governor of the Central Bank of Iran.

The bank’s regulator is also Central Bank of Iran which is in charge of coordinating banking operations across sectors, reviewing the operations of individual banks and setting interest and exchange rates.

As per content of its constitution, the bank is mandated to carry out all banking transactions prescribed under the non-interest banking operations act of 1983.
Therefore, facilities in the forms of pre-shipment and post-shipment financing are extended to the customers in the framework of buyers’ and suppliers’ credit. Additionally the projects are to be financed that might generate future economic value and bring about more export of goods and services of Iranian origin. The trade finance instruments include documentary credit operations, documentary collections and guarantees, although payment services and bank transfer, FOREX operations and commercial banking activities like current, savings and deposit accounts, debit and credit cards, ATMs and point-of-sales operations, internet and mobile phone banking and brokerage services are offered.

In order to facilitate export and import to the providing services by EDBI, the bank’s branches network has gradually expanded and now, the bank has 33 branches of which 30 branches in mainland and 3 in free-zone and 6 representative offices in the country, It has succeeded to establish the international development bank of Venezuela and Honor bank in Belarus and a representative office in Almaty – Kazakhstan to promote its international relations with the reputable world banks as an agent and to facilitate and accelerate the international activities. The key activity areas of the bank include:

International trade and finance sector which takes care of treasury, correspondent banking, forex, reconciliations and
accounts; credit and investments mainly responsible for credit control, appraisal and recovery; finance in charge of funding and liquidity; risk management for looking into different risks including credit, market and operational; logistics responsible for planning, personnel and supplies.

1.5. EDBI’s Vision
EDBI’s vision is to be the premier Ex-Im bank of Middle East and North Africa, leading to provide at time with low cost innovative banking services to exports equipped with the most advanced global technology having world class financial and banking expertise and to be in special status among domestic and foreign monetary institutions as a trustful supporter for Iranian exporters.

1.6. EDBI’s Mission
EDBI as the only specialized and developing bank and the trustee executor of government’s policies in financial and export facilities due to expand the international trade, tries to rely on committed professional staff, using state capital and other financial resources and utilizing standard methods and modern banking technology to offer various ranges of banking and insurance services to Iranian exporters of goods and services.
EDBI endeavors to help fostering diversification and development of the national economy, to enhance economic cooperation with foreign countries and to provide financing facilities as well as other banking and advisory services to Iranian exporters of non-oil products.

1.7. EDBI’s Aims & Objectives

In line with the strategic policies of the government, the bank made head on progress in diversifying the economy by providing finances for the country’s non-oil exports. Market development strategies were pursued in the target countries in which Iran had comparative advantage to bring about value added to the economy.

The main goals of EDBI according to pertinent statute are as follows:

- To Grant short term, medium term and long term export credits and facilities and do any foreign exchange transactions,
- Ensuring the export credits through issuing bill of guarantee to banks and inside/outside financial institutions,
- To Grant investment facilities to export projects inside/ outside the country,
- To Grant export facilities to buyers of goods and services directly / indirectly via banks and reputable institutions,
- To Grant import credit facilities to domestic importers in order to provide raw materials and processing goods and required equipments and machinery to export,
- To Grant facilities and to perform any action that can promote quality and enhance Iran’s export competitive situation, and
- To present necessary facilities to support and upgrade the transportation and tourism industries, marketing, participation on export tenders, issuing quality certificate and certificate of origin and also, credit allocation due to development and expansion of handicraft export.

The main goal of EDBI’S establishment on one hand is to achieve the constant and dynamic productions and on the other hand to create new stable job opportunities through presenting various export facilities to expand economic and trade relations with other countries. This creation of job opportunities is an important factor of many social crises and also, is the most acute problem in Iran. Thus, the functional evaluation of such an institution as an executive arm of the government for export development is too vital.
1.8. EDBI’s Services Profile

The Bank’s services offer a strategy which is aimed at providing valued-added services to its clients and is comprised of the following:

1.8.1. Trade Finance:
EDBI facilitates trade between Iranian entrepreneurs and foreign clients by handling export/import letters of credit, letters of guarantee (tender, performance and advance-payment guarantees) and documentary collection under trade finance means.

1.8.2. Account Services:
EDBI offers account services such as operating current and deposit accounts in local and foreign currency; Opening Gharz-al-hasaneh (non-interest bearing) current and deposit accounts; Commercial payment, money transfer in shortest time for abroad and in the same day inside the country; Issuance and collection of cheques.

It also offers services in issuance of debit cards (in Rial) and internationally acquired credit cards (in foreign currency):
To facilitate payments of purchasing goods and services through POSs and making cash withdrawals from ATMs. These cards are being accepted by all banks having access to the E-payment mechanism (known as SHETAB).

EDBI also renders international credit cards services to its clients enabling them to make their payments globally via these cards and also receive cash from ATMs in all existing currencies throughout the world.

1.8.3. Modes of Financing

- **Buyer’s credit**

In order to assist Iranian exporters to have competitive edge, EDBI provides facilities under Buyers' Credit to foreign buyers of Iranian goods and services.

Buyers' Credit will increase the purchasing power of foreign importers of Iranian goods and services on deferred payment terms. EDBI upon advice of the importer’s bank due date undertaking will disburse the invoice value to the exporter in cash and the importer will repay the principal and accrued interest at maturity dates. This mechanism can be used for exporting of consumer, intermediary and capital goods and implementation of the projects abroad.
- **Credit Line:**

To promote banking relations with foreign banks, EDBI extends lines of credit to foreign banks to be utilized for financing purchase of Iranian goods and services. These lines play significant role in expansion of trade relations between Iran and other countries.

- **Supplier's Credit:**

It is a financing arrangement under which exporters extend credit to a foreign buyer to enable them to purchase the goods and services of Iranian local content. Usually the buyer pays portion of the contract value in cash (as advance payment) and issues promissory note or accepts draft as evidence of its obligation to pay the balance over a period of time. Thus the exporters accept a deferred payment from the buyer, and may be able to obtain cash payment by discounting or selling the draft or promissory notes issued at the counters of EDBI.

- **Financing Investment Schemes**

EDBI helps Iranian Investor who desires to invest in foreign countries through financing investment schemes.

**1.8.4. Current Accounts**

EDBI offers more convenience in banking operations. EDBI current account provides with a comprehensive range of fast, efficient and reliable services including:
1.8.5. EDBI'S Other Services

The Iranians residing in foreign countries, who are going to open deposit banks accounts or transfer local and foreign currencies into beneficiary account are privileged to honor it through EDBI's corresponding banks. Meanwhile, interest-bearing-account owners are privileged to receive principal plus interest of sum on maturity date, reinvest and transfer it to the very corresponding banks.

Considering unification in exchange rate and permission for dealing foreign currencies in daily exchange rate, all Iranians can request EDBI to convert foreign currency into Rial and place deposits with EDBI for whatever period they wish, also they can request EDBI to convert principal and sum to foreign currencies and transfer it.

1.8.6. Documentary Credits

EDBI’s objective is to develop international trade. In order to achieve this objective, EDBI offers expertise and high standard services to enhance both exporters and importers ability to:

Reduce the payment risk associated with international trade,

Meet their financial obligations, and operate effectively. In this regard, EDBI renders both exporters, and importers, optimal
services, as well as, financial assistance in the most efficient manner.

1.8.7. Letters of Guarantee

Letters of Guarantee are issued to provide the beneficiary with security. EDBI issues any type of bank guarantees requested by applicants and undertakes the responsibility for applicant's failure in fulfillment of an obligation, or payment of a debt. Among types of letters of guarantee issued by this bank, the three most important ones are as follows:

- Tender guarantee (bid bond): This type of guarantee is issued to prevent the applicant from refusing to accept the awarded contract.
- Performance guarantee: Performance guarantees designated to ensure goods are delivered, or services are rendered in accordance with the terms mentioned in the contract and at the due time whether the contract is properly performed or not.
- Advance payment guarantee: This kind of guarantee is issued to ensure the beneficiary that an advance payment before Money Remittance is made.

1.8.8. SWIFT Transfer

EDBI has developed, over the years, correspondent banking links across geographical regions to give its customers access to
an extensive global network of contacts that facilitates their international transactions.

1.8.9. Inward Payments
The following SWIFT information is recommended for any fund which is due to be received from the foreign or domestic banks.

1.8.10. Outward Payments
Alike inward payments, outward payment orders are available. However, a charge as the transfer fee in local currency (Rial) is levied for this service.

1.8.11. EDBI Network Account Transfer
There is also a possibility that the clients may arrange for transferring the fund within the branch network of the Bank, for which no charges and commissions would be levied.

1.8.12. Hard Foreign Currencies Exchange
To convert hard foreign currencies into each other, the exchange rate will be applied on daily basis and calculated on bid/offer rates.
Exchange to Rial (Purchase of Foreign Currency) to convert foreign currencies into Rial, the exchange rate will be applied on daily basis and calculated on bid/offer rates.

1.8.13. Cash Receipt

The customers can make cash withdrawals from their own foreign currency accounts. There is a fee in Rial or foreign currency for this service. The requests for cash payments of more than USD 10,000.00 or the equivalent in any foreign currency are appreciated to be arranged with the related bank division/branch beforehand.

1.9. EDBI’s International Profile

Export Development Bank of Iran (EDBI) provides appropriate infrastructure to expand its activities worldwide. For the fourth time while attempting to obtain international rating institution status has Capital Intelligence, Bank ranking by the Institute CI at the end of 2009-2010 in which its ranking was reported to be as follows:

- **National long-term rating**: BB
- **Short-term national rating**: B
- **Long-term foreign currency rating**: BB-
- **Short-term foreign currency rating**: B
- **Financial vigor rating**: BB+
Key by Capital Intelligence Institute (CI) report can be summarized as follows:

Development Bank of Iran has capital adequacy ratio above, strong business models and financing rates are low. Meanwhile, the poor quality of bank assets from the risk is highly focused, as well as operational and legal environment; banks are also having special complexity. On the other hand high support rating of the bank shows that if necessary can get necessary support by governments.

Net income growth rate is substantially lower financing and generally can be said of the bank cost efficiency is high. But in the first half of 2007-2008 due to increased bank profitability as costs considerably has decreased.

Quality of assets in recent years than the average industry low was last year is weaker. It comes back to important factors that include Lack of efficiency in resource allocation process, the ability of recipients of the affected facilities and also due to negative real interest rates in some facilities, borrowers are not willing to repayment loans.

Capital adequacy ratio of the bank due to increased Bank rate equivalent to 1.3 trillion rials 13.3 billion in 1386 above. On the other hand access to the Export Development Bank of Iran due to customer deposits on account of small number of branches (33
branches) is limited. However, through bank liquidity facilities granted to the ratio of net capital stable funds is measurable, is strong. This shows the advantage of access to bank by the government.

**According to “The Banker”** (an international banking journal) in 2010, EDBI’s international position in terms of capital - group 1 had increased by 579 ranks and now among top 1000 world’s bank its rank is 288 while its position among the Iranian banks is 3. Moreover according to the above mentioned journal based on the real growth, the rate of the bank from 12.2% has increased to 61.07% while its rank among top 1000 world’s banks is 51.

Return on assets ratio, EDBI rate by having 2.87 % is 64 among the top 1000 world’s banks. Its last international credit rate according to Fitch (which is a global rating agency) for long term foreign exchanges is +B and for short term foreign exchanges is B with stable outlook.

Finally, the performance of EXIM bank has caused many international financial institutions to elect the bank as a trusted partner concerning various trade finance driven products. This coupled with functionality and proactive policies enabled the bank-EDBI- to be uniquely recognized in the world markets.