

School of Higher Commercial Studies



**End-of-cycle thesis for the completion of a Master's degree in
Commercial Sciences.**

Specialization: International Business

Topic:

**A Comparative Study Between Documentary
Credit and Documentary Collection**

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Dedication

I proudly dedicate this work:

To my dear parents, for their unconditional love, sacrifices, and constant support. May God protect you and bless you with good health.

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Summary

Today, with the development of the global economy, international trade has become more active and riskier, which requires more secure financing. Indeed, in this work, we compared two payment techniques in international trade: documentary credit and documentary collection.

We examined how Algerian banks finance these import operations within a legal framework. Within the bank BEA (Dely Brahim), we were able to make a comparison between the contribution of each of these techniques to the financing of imports, and we concluded that the main contribution belongs to documentary credit, as it is more secure than documentary collection for international trade operations.

Keywords: international trade, financing, documentary credit, documentary collection, risks, guarantees, importation.

Résumé

Aujourd'hui, avec le développement de l'économie mondiale, le commerce international est devenu plus actif mais aussi plus risqué, ce qui nécessite un financement plus sécurisé.

Dans ce travail, nous avons comparé deux techniques de paiement utilisées dans le commerce international : le crédit documentaire et la remise documentaire.

Nous avons examiné comment les banques algériennes financent ces opérations d'importation dans un cadre juridique. Au sein de la banque BEA (Dely Brahim), nous avons pu comparer la contribution de chacune de ces techniques au financement des importations, et nous avons conclu que la principale contribution revient au crédit documentaire, car il est plus sécurisé que la remise documentaire pour les opérations de commerce international.

Mots-clés : commerce international, financement, crédit documentaire, remise documentaire, risques, garant

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List of Abbreviations

ABEF: Association of Banks and Financial Institutions

AGI: General Import Authorization

AID: International Development Association

Art: Article

BAD: Algerian Development Bank

BB: Barclays Bank

BCA: Central Bank of Algeria

BCIA: Bank for Commerce and Industry of Algeria

BDL: Local Development Bank

BEA: Bank of Foreign Trade of Algeria (Banque Extérieure d'Algérie)

BIRD: International Bank for Reconstruction and Development

BIAM: Industrial Bank of Algeria and the Mediterranean

BNA: National Bank of Algeria

BNCIA: National Bank for Credit and Industry of Africa

BM: World Bank

BPPB: Bank of Paris and the Netherlands

CAD: Algerian Development Fund

CCB: Bank Current Account

CCI: International Chamber of Commerce

CFAT: Land Credit of Algeria and Tunisia

CFR: Cost and Freight

CIC: Industrial and Commercial Credit

CIF: Cost, Insurance and Freight

CIP: Carriage and Insurance Paid To

CPT: Carriage Paid To

CNEP: National Fund for Savings and Provident
CNMC: National Council for Currency and Credit
CNRC: National Center for Commercial Registry
CN: Crédit du Nord
CMC: Council for Currency and Credit
CL: Crédit Lyonnais
CPA: Popular Credit of Algeria
CPT: Carriage Paid To
CREDOC: Documentary Credit
DA: Algerian Dinar
D06: Customs Document D06
D10: Customs Document D10
DAB: Automated Teller Machine (ATM)
DAF: Delivered At Frontier
DES: Delivered Ex Ship
DEQ: Delivered Ex Quay
DAT: Delivered At Terminal (Incoterm 2010 – replaced in Incoterm 2020)
DAP: Delivered At Place
DDP: Delivered Duty Paid
DEA: Settled Dossiers
DE/SI: Dossiers with Incomplete Repatriation
DGA/OI: Deputy General Directorate of International Operations
DI: Standard-Term Domiciliation
DIP: Special-Term Domiciliation
DS/SE: Dossiers with Surplus Repatriation
EPE: Public Economic Enterprise
EXW: Ex Works
FAS: Free Alongside Ship
F4: Bank of Algeria Settlement Form
F104: Financial Document Form

FCA: Free Carrier

FDI: Import Control Form – Normal Term

FMI: International Monetary Fund (IMF)

FOB: Free On Board

GPA: Professional Purchasing Groups

GRE: Regional and Operations Group

INCOTERMS: International Commercial Terms

ISO: International Standards Organization

LCSB: Standby Letter of Credit

LFC: Supplementary Finance Law

LMC: Law on Currency and Credit

LTA: Air Waybill (Letter of Air Transport)

LTR: Road Waybill (Letter of Road Transport)

NIF: Tax Identification Number

ONACO: National Office of Marketing

OMC: World Trade Organization (WTO) (French: Organisation Mondiale du Commerce)

PGI: General Import Program

PREG: Provision Held as Guarantee

RUU: Uniform Customs and Practice (UCP)

REMDOC: Documentary Collection

SARL: Limited Liability Company

SBLC: Standby Letter of Credit

SMC: Société Marseillaise de Crédit

SG: Société Générale

SWIFT: Society for Worldwide Interbank Financial Telecommunication

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General introduction

The unequal distribution of various resources around the world and the inherent human need to trade have given rise to the concept of international trade, in the form of the exchange of goods and services across geographic borders—a practice that continues to grow steadily.

However, this growth is accompanied by increasing risks related to the conditions of import financing, collection, and the mobilization of receivables arising from exports. These risks become even more significant when the parties involved are geographically distant and the relationships they maintain are uncertain, particularly if one of the parties suffers from customs or monetary restrictions.

This complex international environment has led to the establishment of trade rules, intended to provide a regulated and secure framework for the various stakeholders engaged in international trade.

The financing of imports by banking institutions, particularly through documentary techniques, exposes both banks and businesses to risks that can hinder their development. The main risk they face is the insolvency of the importer, especially once the bank has committed to paying the supplier. This risk becomes even more critical in the context of international trade, making it essential to protect the company's transactions in this market.

To secure these transactions, there are appropriate means of payment and financing methods that support the development and strengthening of trade operations. These payment methods are vital and indispensable to any commercial exchange. They include: checks, international wire transfers, promissory notes, and in terms of payment techniques: open transfers, documentary collection, and documentary credit.

In this context, the purpose of this work is to compare the contributions of documentary credit and documentary collection in the financing of foreign trade operations. It emphasizes the techniques used for this purpose and the tools prescribed by national banking regulations, while also identifying the actors involved in the execution process of international commercial transactions.

Thus, the main objective of this study is to attempt to answer the following problem:

What distinction exists between documentary credit and documentary collection in the context of foreign trade financing in Algeria? And how can their respective contributions to the financing of imports be compared?

To answer this question, the study will aim to address the following sub-questions:

- What are the main risks faced by economic operators in international transactions?
- How does **BEA Bank – Daly Ibrahim Branch** carry out an import operation using documentary credit or documentary collection?
- How can we distinguish between documentary credit and documentary collection?
- Which of the two techniques contributes more effectively to foreign trade (especially imports)?

In light of these questions and to achieve the objectives outlined above, the following hypotheses are proposed:

- The most widely used foreign trade financing technique by **BEA Bank – Daly Ibrahim Branch** is **documentary credit**, compared to other techniques.
- The difference between documentary credit and documentary collection lies in the **level of risk protection** provided, with **documentary credit** remaining the most **secure and efficient**.

We will attempt to answer these questions through a **comparative study** between documentary credit and documentary collection within **BEA Bank – Daly Ibrahim Branch**. The methodology adopted consists of two parts:

- The first part is theoretical, based on a literature review using books, articles, documents, and academic papers.
- The second part is based on a **practical internship** at the **BEA Daly Ibrahim branch**, which allowed us to collect practical data regarding the processing of documentary credit and collection in import financing.

The theoretical study will be divided into **three chapters**:

1. The first chapter will introduce foreign trade.
2. The second chapter will highlight the different modes of international trade financing, along with their associated risks and guarantees.

Finally, the third chapter will serve as the practical case study, where we will compare an import operation carried out through documentary credit with another using documentary collection, as well as compare the contribution of both techniques to import financing, specifically at BEA Bank – Daly Ibrahim Branch.

Chapter I:

Introduction to International Trade

Introduction

International trade is a field that deals with the buying and selling of goods between national economic areas. It represents a dynamic aspect of the global economy, in the sense that what is produced in one location is sold and consumed elsewhere. It is divided into three main categories: **imports, exports, and transit trade.** ¹

This chapter is dedicated to introducing international trade in a narrower sense and is divided into three sections. The first section addresses general concepts of foreign trade, the second outlines its fundamental elements, and the third covers the financing of international trade.

Section I: General Concepts of International Trade

International trade has experienced various transformations since the 20th century, both from historical and theoretical perspectives.

1. Definition of International Trade

International trade encompasses the exchange of goods and services between one economy and the rest of the world. When trade flows from a nation to a foreign country, it is called an **export**; when it flows from a foreign country into the nation, it is known as an **import.** ²

In its strictest sense, international trade refers to the movement of **goods** between economic territories. In a broader sense, it includes both **goods and services** exchanged across borders.

International trade allows a country to consume more than it can produce with its own resources, or to expand its market access to sell its surplus production. ³

1 . BEITONE (A) et al., *“Dictionary of Economic Sciences”*, 2nd edition, p.60

2 . RAINELLI (M), *“International Trade”*, Repères collection, La Découverte Publishing, 2003, p.262

3 . OUBELAID.K., OUAZENE.S., *“Banking Intervention in International Economic Exchanges”*, Master’s thesis; University of Bejaia, 2015, p.45

2.Documents Used in International Trade

International trade and service operations within a bank branch are carried out based on a certain number of documents issued by the seller or an authorized organization and required by the buyer in order to allow them to take possession of the goods. These documents can be classified into five categories: price documents, transaction documents, insurance documents, customs documents, and ancillary documents.

2.1. Foreign Trade Contracts

Any foreign trade operation is generally formalized by the conclusion of a contract, which is created when two parties agree on a sales transaction.

2.1.1. Definition of a Foreign Trade Contract

A contract is considered an international trade contract if it involves a cross-border movement of goods or services, involving different legal systems.⁴

2.1.2. Form of the Contract

An international trade contract generally includes three types of clauses⁵:

a) Commercial Clauses

These specify the nature of the contract, detailed specifications of the contract's subject, and the identification of the contracting parties (names of the parties, their signatures). In fact, "nature of the contract" refers to a supply contract, or a contract related to studies, technical assistance, architecture, or construction works.

b) Financial Clauses

These present the financial characteristics of the contract, which include: The amount of the transferable and non-transferable portions, the payment and reimbursement terms, the banking domiciliation of the contracting parties, and credit insurance.

⁴ Article 54 of the Algerian Commercial Code.
⁵ ZOURDANI (S), "*The Financing of Foreign Trade Operations in Algeria: The Case of BNA*", Magister Thesis, University of Tizi-Ouzou, 2012, p.67

c) Legal Clauses

These determine all the legal stipulations that establish the rights and obligations of the contracting parties.

2.2. Price Documents

Price documents are prepared by the seller. They specify the nature, quality, weight, and price of the goods sold.

2.2.1. Pro Forma Invoice:

This is a preliminary document to the conclusion of an international trade transaction. It outlines the characteristics of the goods: quality, price, and payment terms.

It can serve as a purchase order for the buyer, as well as a supporting document for export pre-financing for the seller.

The pro forma invoice is not considered one of the documents in a documentary operation.⁶

2.2.2. The final (commercial) invoice:

The importer, after having sent a purchase order or by accepting the pro forma invoice, collects the final invoice, which is a real commercial contract serving to finalize (domiciliation) the operation binding the two parties.

2.2.3. The consular invoice:

This document must mention the detailed description of the merchandise in the national language of the recipient and according to the customs tariff of that country. It must also indicate the value, gross and net weight, and certify the origin of the merchandise. It must then be legalized by the consul of the importing country.⁷

2.2.4. The expense note:

The buyer may claim from their supplier an expense note, as it provides the details of everything added to the invoice amount other than the cost of the merchandise.

⁶ BERNET (R), *“Principles of Banking Techniques”*, 25th edition, DUNOD, Paris, 2008, p.35

⁷ Idem; p. 355

2.3. Transport documents

Transport documents are fundamental elements that ensure the handling of the merchandise by the carrier. These documents vary depending on the mode of transport used for the shipment of the merchandise in question.⁸

2.3.1. The maritime bill of lading:

The maritime bill of lading is the oldest of the transport documents. It is issued by the ship's captain who acknowledges having taken possession of the merchandise and commits to transporting it to the port of discharge. "The maritime bill of lading is therefore a title of ownership over the transport; it is negotiable. An original of this title signed by the company will be requested at the destination port to withdraw the shipped goods."⁹ This document has the particularity of being simultaneously: a title of ownership, a transport contract, and a shipping receipt handed over to the shipper.

2.3.2. The Air Waybill (AWB):

The document required by Uniform Rules and Usages (URU) is the AWB, which is issued by an airline in nominative form. However, its transmission is carried out via a Bank Transfer Order (BTO) issued by the bank in the name of the airline company, representing the authorization to release the merchandise to its client.¹⁰

2.3.3. The International Consignment Note (CIM):

The consignment note is the document that certifies the acceptance of the goods and the commitment to deliver them to the consignee. This acceptance is confirmed by a receipt indication, which may be a signature or the sender's date stamp on the consignment note. Standard and express transport each have their own form. Most of the document is filled out by the carrier, and the rest by the sender. The original is given to the consignee, while a copy is returned to the sender.¹¹

⁸ BERNET (R); *"International Means and Techniques of Payment"*, ESKA Publishing, Paris, 1999, p. 226

⁹ LEGRAND G., and MARTINI H., *"The Little Export Guide"*, DUNOD Publishing, Paris, 2009, p. 10

¹⁰ Warsaw Convention, October 12, 1929.

¹¹ NAJI (J); *"International Trade: Theories, Techniques, and Applications"*, RENOUEAU PÉDAGOGIQUE INC Publishing, 2005, p. 262

2.3.4. The Road Transport Letter (LTR):

The Road Transport Letter is required for this mode of transport. The road transport document often takes various forms due to the diversity of transport companies. The LTR is a road transport document issued by the consignor, who is generally the carrier, and who undertakes to deliver the goods to the agreed destination. As with the AWB, the LTR certifies both the acceptance of the goods in good condition and their actual dispatch upon signature by the carrier. The LTR is not negotiable and does not constitute a title of ownership.¹²

2.3.5. The postal receipt:

It is used when goods are shipped by postal means. This document is issued by the postal service for the exporter. It concerns the shipment of goods not exceeding twenty (20) kilograms. It is sent via banking or postal channel to the importer so that they can retrieve their goods.¹³

2.4. Insurance documents

Importers and exporters must insure their goods transported either by sea or air. The insurance documents must include the following information: the date of subscription, the description of the goods, a list of covered risks, the name of the insured party, the mode of transport, the method of damage assessment, and the jurisdiction of the courts, etc.

The types of insurance¹⁴:

2.4.1. The voyage policy

This is a contract that gives rise to an insurance policy covering specific risks related to a particular transaction. In general, it applies to small importers.

2.4.2. The floating or subscription policy

This is a general contract by which the insurance company automatically covers all shipments made on behalf of the insured. Each shipment must be declared, and the

¹²op.cit

¹³ op.cit

¹⁴ PAVEAU (J), DUPHIL (F), *et al.*, "Exporting: Practice of International Trade", 2008, p. 201

company issues the insured a certificate of insurance, which serves as the supporting document. In both cases, it is essential that the supporting document be **transferable**, meaning it allows the assignment of the insurance benefit to the holder of the documents.

By **transferable**, we mean either a document issued in the name of the subscriber and endorsed by them, or insurance made out **to bearer** or **to whom it may concern**.

2.5. Customs documents

Customs declarations are approved by the customs administration of the importing country and are completed using specific forms. These are mainly **Form D06** for export and **Form D10** for import. These documents include, in particular, the customs tariff, the customs clearance date, and the value of the cleared goods.¹⁵

2.6. Supplementary documents

Supplementary documents¹⁶ are additional documents that the importer may require from the exporter to ensure the qualitative and/or quantitative characteristics of the goods. They are issued by international organizations that establish neutrality between the buyer and their supplier. In this context, several types of documents are issued based on the request. The most important are listed below.

2.6.1. Weight note:

The weight note or weight list is a document intended to quantitatively certify the shipped goods. It can be issued by a private weigher or by the seller.

2.6.2. Certificate of origin:

Often issued or endorsed by a chamber of commerce, it certifies the origin or provenance of the goods. In a letter of credit transaction, it is advisable to specify the country of origin to be indicated on this document.

2.6.3. Certificate of weight:

This document has an official character and must, therefore, be issued by an official body or a sworn weigher.¹⁷

¹⁵op.cit

¹⁶ GARSUAULT (P), PRIAMI (S), *"The Bank: Functioning and Strategies"*, ECONOMICA Publishing, Paris, 2002

¹⁷ GARSUAULT (P), PRIAMI (S), *"The Bank: Functioning and Strategies"*, ECONOMICA Publishing, Paris

2.6.4. Certificate of analysis:

A certificate prepared by an expert or a laboratory detailing the composition of the analyzed product, which must meet the standards specified in the contract or possibly in the letter of credit.

2.6.5. Health certificate:

This is an official document concerning certain edible goods, issued and signed either by a veterinarian or by an official health authority.

2.6.6. Veterinary certificate:

A document issued by a veterinarian certifying the good health of imported animals or the compliance of meat products for consumption.

2.6.7. Phytosanitary or physiopathological certificate:

This document guarantees the good health of imported plant-based products intended for consumption or cultivation in the agricultural sector. It is issued by a specialized medical organization.

3. Terms of Sale (INCOTERMS)

As a general rule, INCOTERMS do **not** address the consequences of breaches of contractual provisions, nor do they deal with exemptions of liability caused by various constraints. These issues must be resolved through other provisions of the sales contract or based on applicable law.¹⁸

3.1. Definition of INCOTERMS

INCOTERMS are official rules of the International Chamber of Commerce (ICC). They are globally accepted contractual standards that evolve along with international trade.

¹⁸ Incoterms 2010: ICC Rules for the Use of Domestic and International Trade Terms. Bilingual English version.

The **INCOTERMS 2000** take into account the recent emergence of free trade zones, the increasing use of electronic communication in commercial transactions, and changes in transport practices. The 2000 version provides simplified and clearer definitions—13 in total—all of which have been revised. A reference to INCOTERMS in a sales contract ensures a **precise definition** of the parties' respective obligations, which reduces the risk of legal complications.¹⁹

3.2. Purpose and scope of INCOTERMS

The purpose²⁰ of INCOTERMS is to provide a set of international rules for interpreting the most commonly used trade terms in foreign trade. This helps **avoid or greatly reduce** uncertainty caused by different interpretations of these terms in different countries.

They define the **rights and obligations** of the parties in a sales contract regarding the delivery of tangible goods: responsibility for costs, risks, and required documents.

Although INCOTERMS are not part of the transport contract, it is important for the carrier to understand the extent of the shipper's responsibility in order to allocate additional costs. They require mastery of logistics and transport methods, primarily **maritime transport**, given its importance.

INCOTERMS do not govern the transfer of ownership—this is subject to the sales contract. It is strongly advised that the parties clearly specify the agreed INCOTERM in their sales contract by indicating...

3.3. Classification of INCOTERMS

The table below defines the classification of the 2000 INCOTERMS.

¹⁹ ZOURDANI (S), op. cit., p. 66

²⁰ OULOUNIS (S), "International Financial Management", OPU, Algeria, 2005, p. 3

Table No. 1: Classification of INCOTERMS

Terms	English	Definition
CFR	Cost and Freight	The seller has duly delivered once the goods have passed the ship's rail at the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the agreed destination port. However, the risk of loss or damage to the goods, as well as any additional costs arising from events occurring after delivery, is transferred from the seller to the buyer. This term is to be used exclusively for sea and inland waterway transport.
CIF	Cost, Insurance and Freight	This term is identical to CFR regarding the transfer of risks and costs. However, the seller has the additional obligation to procure maritime insurance, for the buyer, against the risk of loss or damage that the goods may incur.
CPT	Carriage Paid To	The seller selects the carrier. He pays the freight to transport the goods to the agreed destination. The risk of loss or damage, as well as the risk of additional costs arising from events occurring after delivery to the carrier, is transferred from the seller to the buyer.
CIP	Carriage, and Insurance Paid	With this term, the parties' obligations are identical to CPT, except that the seller has the additional obligation to provide insurance for the buyer against transport-related risks up to the agreed destination.
DAF	Delivered, At Frontier	The seller delivers the goods, cleared for export, at the agreed place at the frontier. The transfer of risks and costs thus occurs at the border.

DES	Delivered Ex Ship	The goods, not cleared for import, are made available to the buyer onboard the ship at the agreed destination port. With this term, the seller bears the risks and costs involved in transporting the goods to the destination port.
DEQ	Delivered, Ex Quay	The seller bears all risks and costs involved in delivering the goods, not cleared for import, on the quay (dock) at the agreed destination port.
DDU	Delivered, Duty Unpaid	The seller delivers the goods, not unloaded upon arrival, to the buyer at the agreed place in the importing country. The seller bears all costs and risks up to the buyer's premises, except for import clearance.
DDP	Delivered Duty Paid	The seller bears all transportation costs, including export and import customs formalities, and pays any duties and taxes due at the destination. The seller also assumes all risks of loss and damage. The buyer's sole obligation is to unload the goods. There is no obligation to purchase transport insurance.
EXW	Ex Works	The seller's obligation is limited to making the goods available at his premises. The buyer bears all costs and risks associated with transporting the goods.
FCA	Free Carrier	The seller bears the costs and risks until the goods, cleared for export, are handed over to the carrier designated by the buyer at the agreed place or point.
FAS	Free, Alongside Ship	The seller fulfills his obligation when the goods, cleared for export, are placed alongside the ship on the quay or in lighters at the agreed port of shipment. From this point on, the buyer bears all costs and risks of loss or damage.

FOB	Free On Boar	The transfer of costs and risks from the seller to the buyer takes place when the goods pass over the ship's rail at the designated port of shipment. Loading costs are borne by the seller, as they are not included in the sea freight.
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Source: OULOUNIS (S), International Financial Management, OPU, Algeria, 2005, p. 38.

Section II: Fundamental elements of international trade operations

International trade is based on the theories of early economic pioneers and organizations that govern trade between nations by contributing to a unified information system.

1. The theories of international trade

The theories that have contributed to the evolution of international trade are those of Adam Smith, David Ricardo, and Heckcher, Ohlin, and Samuelson.

1.1. The theory of absolute advantage by Adam Smith

In 1776, Adam Smith published his famous work (An Inquiry into the Nature and Causes of the Wealth of Nations). According to Smith, the division of labor makes it possible to increase the productivity of individuals and companies. Each being more productive in their respective fields, the quantity of goods produced increases, and their cost decreases. To be viable, however, this specialization presupposes that there is exchange between producers; otherwise, each would have to produce what is necessary for their own subsistence.²¹

1.2. The theory of comparative advantage by David Ricardo

In 1817, in (Principles of Political Economy and Taxation), David Ricardo further developed the thinking initiated by Adam Smith by proposing the principle of comparative advantage. According to this principle, a country has an interest in exchanging a good with another country, even if it does not have an absolute advantage over that country.²²

⁽²¹⁾ PANET-RAYMOND (A). ROBICHAUD (D), "International Trade: A North American Approach", Chenelière Education Edition; Canada, 2005, p.11

⁽²²⁾ Idem, p.1

1.3. Theory of Relative Costs by HOS

This theory was further developed in the 20th century by economists Heckscher, Ohlin, and Samuelson, who sought to understand the differences in comparative costs between countries and to apply, in their theory of international trade, the principles of marginalist analysis. They no longer reason solely within the framework of costs measured as before by differences in the productivity of the single factor of labor. They explain international trade by the relative abundance or scarcity of the various factors of production with which countries are endowed. According to the simple economic law stating that everything scarce is expensive, an economy must specialize in activities that most intensively use the factor of production it has in abundance. It has an interest in exporting these goods and importing those that use the factor of production for which it is the least well endowed.²³

2. Institutions of International Trade

The institutions that regulate and intervene in international trade and international financial transactions are mainly:

2.1. The World Trade Organization (WTO)

The World Trade Organization was created in Marrakech at the conclusion of the Uruguay Round negotiations in 1993, but it only came into effect on January 1, 1995. The WTO was established to succeed the GATT, which was becoming outdated due to the rapid evolution of world trade. The WTO aims to help producers of goods and services, exporters, and importers carry out their activities. ²

²³ IBELAIDENE (S), IDJOURNAL (G), IRATEN (S) « Le financement, risques et garanties du commerce international, crédit documentaire », Université de Bejaia, 2013, p. 24

²⁴ <https://www.wto.org>

2.2. The International Monetary Fund (IMF)

The International Monetary Fund was created in 1944 by the Bretton Woods conference to organize international monetary relations and ensure compliance with the rules of the signed treaty. The role of the IMF is to assist countries that request it, either financially by granting international loans. The counterpart to this assistance is a strong interference power of the IMF in the orientation of national economic policies.²⁵

2.3. The World Bank (WB)

The World Bank was created at the same time as the IMF. It comprises the IBRD (International Bank for Reconstruction and Development), specialized in financing infrastructure projects; the IDA (International Development Association), which grants loans on favorable terms to developing countries; and the IFC (International Finance Corporation), which supports private initiatives leading to profitable projects. Its action is long-term. It takes charge of projects in favor of Third World countries that could not be financed by conventional means.²⁶

3. The SWIFT System (Society for Worldwide Interbank Financial Telecommunication)

Documentary operations base their functioning mechanisms on possessing the most advanced transmission means. Previously, telecommunication networks used by banks for message transfer such as mail, cable, or telex were not fast enough to carry out international financial settlements worldwide. Therefore, a new company was founded with the objectives of improving international financial payments by establishing greater standardization in banking relationships and enabling the mechanism and processing of operations through computerized systems. This network is named "Society for Worldwide Interbank Financial Telecommunication" SWIFT.

²⁵ <https://www.imf.org>

²⁶ <http://www.andlil.com>

3.1. Definition of SWIFT

Society for Worldwide Interbank Financial Telecommunication: a communication system enabling data exchange by international electronic transfers between 1500 member banks. Transfers are made faster; in a more secure, flexible, and economical manner than transfers made by other information transmission methods. Since the network is entirely dedicated to banking communications, the codes are specific to banking products and language²⁷.

It is a private telematic message exchange system between member banks. It is a very fast, low-cost, secure means that makes unpaid transfers impossible if the transfer is made before any shipment²⁸.

3.2. The operating rules of SWIFT

SWIFT orders are subject to extensive standardization in order to automate their processing as much as possible, thus executing them within the shortest possible time. The usual data for a bank transfer, namely the bank details of the sender and the receiver, as well as a strictly coded reason description, are required.²⁹

3.3. The advantages of the SWIFT system

The SWIFT procedures offer several advantages³⁰:

3.3.1. Security: The information processing tools operating at different levels of the network are equipped with sophisticated error detection programs. Messages exchanged between hubs and processing centers are computer-encrypted, protecting the network against eavesdropping. A key is used to verify the identity of the message sender. The standardization of messages eliminates the non-negotiable risks of misunderstanding.

²⁷ LASARY, "Documentary Credit," 2007, Les Memos, page 39.

²⁸ OULOUNIS (S), "International Financial Management," OPU, Algeria, 2005, p. 13.

²⁹ Richard, (M): "The Transfer of Personal Banking Data to the United States"; University Paris Panthéon, Sorbonne, 2007, p. 66.

³⁰ ZOURDANI, Op. cit., p. 74

3.3.2. Speed: The transmission time of a message is much shorter than the delivery time of postal mail. Communications by telex are indeed faster, but they are expensive and reserved for urgent matters or large amounts.

3.3.3. The SWIFT message: It has a low cost; it can always use the SWIFT message system for computerized data exchanges between banks, as long as the recipient is connected to the network.

3.3.4. Reliability: This is another quality of SWIFT. Because of its purpose, users must have availability 24 hours a day, 7 days a week. This goal is largely achieved, since the effective availability rate is very high. However, there is a disadvantage to the SWIFT process: no delivery receipts are issued, which means that confirmation of successful transmission can only be done by checking the operation itself.

3.4. SWIFT Openings

The opening³¹ of documentary credits on paper documents sent by mail or telex has disappeared in favor of an opening through a standardized SWIFT opening message.

The SWIFT messages are divided into numbered segments. Each segment concerns an element that characterizes the documentary credit: type of credit, credit number, issue date, expiration date and place, ordering party, etc.

These different parts of the message always appear in the same order and are identified by an international code. The use of SWIFT notification provides, in addition to electronic speed, great reliability linked to:

Standardization, where the information appears in the same form and in the same order in the opening message.

The possibility to use automatic translators or more broadly tools for automatic analysis of opening advices.

³¹ LASARY, Op. cit., p. 33

Section III: Financing of International Trade

1.Short-Term International Trade Payment Instruments

The financing methods for international trade operations concern the financing of imports and exports. The exporter will seek a form that offers the maximum security and speed of payment. The importer, for his part, will look for a payment method that allows him to inspect the goods before paying, while wanting the banking cost of the operation to be as low as possible.

Short-term international trade payment instruments

The importer and exporter use international payment instruments to finance their operations, which include: payment by check, international transfer, and bill of exchange.

1.1. Check

A check is a written and unconditional order to pay a specified sum to its beneficiary. It contains mandatory details that must be respected.³²

The check is commonly used in many countries for domestic payments, easy to implement, and has low commissions on high-value checks.

The check has limited use for international payments.

Indeed, it offers few payment guarantees for the seller, as its issuance is left to the buyer's initiative. Regulations regarding checks vary from country to country, and the clearance time can be long, with variable clearing fees depending on the banking system. This results in a high cost for low-value checks, with currency risk if the check is issued in foreign currency, and risk of non-payment if the check bounces. Legal recourse can sometimes be long and difficult. Checks can also be lost, stolen, or forged.

A bank check³³ provides a high level of payment security as it is a legal instrument that can potentially facilitate recourse against the drawee; however, legal recourse can still sometimes be long and difficult.

³² LEGRAND (G) et MARTINI (H), « Commerce international », Dunod, Paris, 2010, 3^e édition, p. 1

1.2. The Bill of Exchange (or Draft)

The bill of exchange³⁴ is a negotiable commercial instrument by which the exporter (drawer) orders the importer (drawee) or their representative (their bank) to pay a certain sum on a specified date. The exporter sends the draft to the importer for them to return it accepted, that is, signed. Through this mechanism, the buyer receives a payment delay from the seller. The seller can get paid by their bank before the draft's maturity by discounting it or endorse it to pay a supplier.

The bill of exchange is frequently used internationally as it is both a payment and financing instrument. Issued at the initiative of the seller, it precisely sets the due date. However, it does not eliminate the risk of non-payment unless a bank has guaranteed it. Debt collection through this method can be lengthy and costly (bank fees). Different regulations depending on countries must be taken into account.

1.3. International Wire Transfer

The international bank transfer³⁵ is the transfer of a sum of money from one account to another, carried out by a bank on the order of the importer (debtor), in favor of the exporter (creditor). The order can be in the national currency or in foreign currency.

The transfer is easy to use since transmissions are fast, secure, and low-cost. It is one of the most commonly used instruments for international payments.

However, some limits exist: the initiative for the transfer is indeed left to the buyer; thus, it does not offer any payment guarantee to the seller.

³³ LEGRAND (G) and MARTINI (H), *Management of Import-Export Operations*, Dunod, Paris, 2008, p. 128.

³⁴ LEGAY (D), *International Trade*, Nathan Edition, Paris, 2011, p. 282.

³⁵ Idem.

1.4. The Promissory Note

Is a commercial paper issued by the importer who promises the exporter to pay the amount due on a specified date. Issued at the initiative of the buyer, it is rarely used.

Generally found on the promissory note³⁷:

- The clear and unconditional promise to pay a determined sum.
- The place where the payment must be made.
- The name to whom the payment must be made.
- The indication of the date and place where the promissory note is signed (that is, the place of its establishment).

With a promissory note, it is possible to grant a payment delay while mobilizing the receivable through discounting, and it serves as a good acknowledgment of debt.

However, since the issuance of the promissory note is initiated by the buyer, there is a risk of loss or theft, as well as a risk of non-payment.

1.5. Warrant

The warrant³⁸ is a promissory note by which the subscriber commits to pay a certain amount at a specified maturity. It differs from the ordinary promissory note in that it also constitutes a pledge (security) in favor of the creditor on goods stored in a general warehouse or in warehouses whose stock is controlled by stock verification companies.

2. Techniques of payment in international trade

International trade operations increase day by day, generating a need for financing, and to satisfy this need, techniques of both guarantee and credit are required. To this end, we will

³⁷ MIHAEL (A), STANESCU (D) et INARD PATURE (S), *Commerce international*, STUDYRAMA, Paris, 2013, p. 270.

³⁸ BOURNARD (R), *Le commerce international*, édition Nathan, Paris, 1993, p. 212.

discuss import-export credits, focusing our work on free transfer, documentary collection, documentary credit, and Stand-by Letter of Credit (SBLC).

2.1. Free Transfer

From its origin to its execution phase, this operation—also called "invoice settlement"—is carried out within the framework of a business relationship between the importer and the exporter without having to pass through the banking channel³⁹.

The free transfer⁴⁰, also called a simple transfer, consists of transferring the amount of a transaction at the request of the importer on behalf of the exporter (his creditor), accompanied by commercial documents. Any transfer can only be executed upon presentation of a certain number of documents, namely:

- The import commitment signed by the importer.
- A finalized domiciled invoice.
- Customs documentation in 10 copies for the bank.

These documents serve as proof that the transfer effectively involves a physical counterpart.

2.1.1. Advantages and disadvantages of a free transfer

The free transfer is characterized by the simplicity of the procedure, moderate costs, speed, and flexibility. However, it offers little assurance to the exporter, who is exposed to the risk of non-payment since the buyer takes possession of the goods before paying. Moreover, as it is not based on documents, it provides no guarantee against non-payment.⁴¹

³⁹ Revue trimestrielle BNA finance N°06, *Les moyens de paiement : le crédit documentaire*, décembre 2003, p. 15.

⁴⁰ RUU de la Chambre de commerce internationale relatives aux encaissements pub CCT, brochure n° 522 Paris réservée 95.

⁴¹ LEGRAND, G. et MARTINI, H., op. cit., 2008, p. 135.

2.2. Documentary collection

The documentary collection⁴² is a recovery procedure in which a bank is mandated by an exporter (the seller) to collect an amount owed by a buyer against the delivery of documents.

The seller has the transport documents issued in the name of a bank. This bank must deliver the commercial and transport documents to the buyer against payment or acceptance of bills of exchange. The documentary collection is subject to uniform rules and practices.

The collection is mainly based on the trust existing between the importer and exporter as it does not involve any financial commitment from the banks.

2.3. Documentary credit

The documentary credit⁴³ is a promise given by the importer's banker to a foreign exporter, according to which the amount of the claim will be paid provided that the exporter presents (by means of issued documents) proof of shipment of the goods to the importing countries, or proof that the services have been performed.

irrevocable payment commitment made by a bank in favor of the foreign seller and issued to

It is an the latter upon request and in accordance with the buyer's instructions.

2.4. Stand-by Letter of Credit (SBLC)

The SBLC⁴⁴, often part of the documentary credit family, is an irrevocable commitment by the issuer to indemnify a beneficiary in case of default by the applicant. As a payment guarantee for a commercial transaction, it is an irrevocable but conditional payment commitment made by the buyer's bank (the applicant) in favor of the supplier (the beneficiary) to pay if the buyer fails to meet their payment obligations.

⁴² Idem, p. 131.

⁴³ BOUYAKOUBA, F., « L'entreprise et le financement bancaire », édition Casbah, Algérie, 2000, p. 263.

⁴⁴ LEGRAND.G and MARTINI .H, op. cit., 2010, p.156.

2.4.1. Advantages and disadvantages of the SBLC

The SBLC offers many advantages⁴⁵ for both the importer and the exporter. However, it is only feasible if there is a mutual trust between the importer and the supplier. This technique is suitable when the importer has a regular business relationship with their supplier. The documents required for a stand-by letter of credit are often limited in number. It offers more flexibility to modify the order, lower usage costs, faster receipt of documents, thus quicker availability of the goods, and a better relationship with the supplier.

However, it has concrete limitations⁴⁶: it is not operational with all countries worldwide, there is a risk that the supplier may not comply with certain aspects of the contract, and a loss of control of the goods by the issuing bank.

3. Medium and long-term financing of international trade

International trade financing involves the availability of medium and long-term credits for heavy equipment. The granting of such financing is increasingly a necessity for industrialized countries to be able to export. These credits finance exports as varied as factories, public works sites, etc.

These financing methods include supplier credit, forfaiting, buyer credit, and international leasing (leasing).

3.1. Supplier credit

Supplier credit⁴⁷ is a credit granted by an exporter to a foreign buyer with whom he has concluded a commercial contract providing for payment terms. The exporter's bank can discount the receivables that the exporter holds on his foreign buyer.

⁴⁵ LEGRAND.G and MARTINI .H, op. cit., 2010, p.156.

⁴⁶ Idem, 2008, p.179, 18.

⁴⁷ Idem

Note in this case that the relationship between the buyer and the seller is governed by a single contract, which is the commercial contract stipulating both commercial and financial conditions.

3.2. Forfaiting

Forfaiting ⁴⁸ consists of selling short- or medium-term trade receivables to a forfaiter (a banker) who buys them without recourse. The receivables from the foreign buyer are often represented by bills of exchange related to the delivery of goods or services.

3.3. Buyer's credit

Buyer's credit ⁴⁹ is a credit granted by a bank (often in the seller's country) to a foreign buyer who has concluded a contract with an exporter for the supply of goods or services.

3.4. International leasing (Leasing)

Leasing ⁵⁰ is a financing method consisting of renting a professional-use asset with a unilateral promise of sale, at the latest by the contract's expiration, to the lessee at a predetermined price. Widely used nationally, it has been adapted internationally.

Conclusion

In this first chapter, we have attempted to present the basic concepts of international trade that allow better management of import-export operations, as these practices facilitate the settlement of the transaction. They also enable the user to better master the financing of imports or exports and to clearly distinguish between documentary credit and documentary collection, which we will address in the next chapter.

⁴⁸ Idem, 2008, p. 251.

⁴⁹ Idem, 2010, p. 19

⁵⁰ OLOUNIS (S), op. cit.,

Chapter II:

Techniques and Risks of International Trade Financing

Introduction

During commercial negotiations, the financial terms of the contract take on paramount importance. These concern, among other things, payment techniques, some of which are specific to international trade, such as documentary credits and documentary collections, including bank domiciliation as a preliminary step before proceeding with the execution of these two payment methods. International trade operators must choose the appropriate payment technique.

In their commercial relationships, the exporter and importer face various risks. These risks result from non-compliance with the commercial contract clauses, disagreements, or the breakdown of economic relations, etc. All these uncertainties call for international guarantees that help secure the payments of trade operations between the two parties.

In this chapter, and in the first section, we will present the two payment methods used in foreign trade operations: the documentary credit and the documentary collection. Then we will elaborate in the second section on bank domiciliation. Finally, the third section will address the risks and guarantees associated with foreign trade operations.

Section I: Documentary Credit and Documentary Collection

The import financing techniques used in commercial transactions have different characteristics. The choice of a particular financing method depends on the commercial negotiations between the importer and the exporter. Moreover, the most developed and suitable financing techniques in this case are the documentary credit and the documentary collection.

1. Definition of Documentary Credit

According to the Uniform Customs and Practice 600: A documentary credit is any arrangement, whatever its name or description, under which a bank (the issuing bank), acting at the request and on the instructions of a customer (the applicant) or on its own behalf, is obligated to make a payment to a third party (the beneficiary), or to his order, or to accept and pay the drafts drawn by this beneficiary, or authorizes a bank to make said payment or to accept and pay said drafts, or authorizes another bank to negotiate against the presentation of stipulated documents, provided that the terms and conditions of the credit are complied with.⁵¹

According to the definition, we observe that the documentary credit is an arrangement with the exporter by the importer's bank, provided that it receives conforming documents proving the shipment of the agreed goods.

1.1. The parties involved in the documentary credit

The documentary credit generally involves the following parties⁵²:

1.1.1. The applicant: this is the buyer-importer, who gives the instructions to open the documentary credit.

1.1.2. The issuing bank: this is the buyer's bank (usually located in the buyer's country), which proceeds with opening the documentary credit.

1.1.3. The advising bank: this is the correspondent bank of the issuing bank (usually located in the seller's country), which notifies the beneficiary of the documentary credit operation, without undertaking any payment obligation toward the latter.

1.1.4. The beneficiary: this is the exporter (seller), in whose favor the documentary credit is opened. This party benefits from the bank's commitment.

1.1.5. The confirming bank: this bank adds its confirmation to a credit in accordance with the authorization or request of the issuing bank.

1.2. The forms of documentary credit

We distinguish three forms: revocable documentary credit; irrevocable documentary credit; and confirmed irrevocable documentary credit. The credit opening must clearly indicate whether the credit is revocable or irrevocable. In the absence of such an indication, the credit shall be deemed irrevocable

51 ICC Publication No. 600, UCP (Uniform Customs and Practice for Documentary Credits), July 1, 2007, p. 8.

⁵² LASARY, op. cit., p. 15

1.2.1. Revocable Documentary Credit

The revocable credit⁵³ implies a flexible banking commitment; it can be amended or canceled by the issuing bank at any time and without prior notice to the beneficiary. Such a credit therefore offers little guarantee to the beneficiary.

1.2.2. Irrevocable Documentary Credit

This type of documentary credit constitutes a firm and irrevocable commitment by the issuing bank toward the exporter to make or cause payment against the presentation by the latter of documents conforming to the importer's instructions. When the documentary credit is irrevocable, it can only be canceled or amended with the joint agreement of the issuing bank and the beneficiary, making this credit less flexible for the importer but more secure for the exporter⁵⁴.

1.2.3. Irrevocable and Confirmed Documentary Credit

This credit provides the exporter with a double payment commitment, that of the issuing bank and that of a bank in the exporter's country (the confirming bank), which is generally the advising bank. This confirmation is either requested by the issuing bank on the importer's instructions or solicited by the exporter from a bank in their own country.

This credit is the safest form, as it covers risks such as non-transfer, political risks, while also reducing payment delays. However, it is the most expensive form for the importer⁵⁵.

1.3. Advantages and Disadvantages of Documentary Credit

Documentary credit offers undeniable advantages, yet it also has some major drawbacks⁵⁶.

It is used worldwide. It provides a payment guarantee when it is irrevocable. The fact that the issuing bank has agreed to open the credit is an indicator of the importer's creditworthiness.

⁵³ Article 8, des Règles et Usances Uniformes (RUU 500) de la Chambre de commerce internationale.

⁵⁴ Article 9, Uniform Rules and Practices (URC 500) of the International Chamber of Commerce

Once irrevocable and confirmed, it offers the exporter a very high degree of security due to the double bank guarantee.

The documentary credit (Credoc) is characterized by the bank's commitment, which entails a thorough examination of the shipping documents. It offers quick payment; the possibility of being paid as soon as the goods are shipped. It provides double security: for the seller, the guarantee of payment, and for the buyer, the guarantee of delivery.

Among its disadvantages are: heaviness, complexity, and strict formality of the procedure. It is costly for the importer, especially when the credit amount is large. There are risks of non-payment for the exporter due to the insolvency of the issuing bank or other political risks if the credit has not been confirmed.

The issuing bank is obliged to pay the exporter at maturity, even if the importer does not have sufficient funds. If the credit has been confirmed, the exporter's bank must bear all risks of non-payment by the issuing bank.

Absolute security exists only in the case of an irrevocable and confirmed documentary credit.

1.4. Objectives of the documentary credit

As a universally accepted means of payment, it allows to establish a balance between the interests of the buyer and those of the seller, provided that the operation is well controlled from the negotiation of the commercial contract until the implementation of the documentary credit. For this, international commercial activity requires the operator to have technical, commercial and financial skills (also understanding the markets). And to know the national and international regulations.⁵⁷

1.5. Special documentary credits

⁵⁵ Article 9bis, Uniform Rules and Practices (URC 500) of the International Chamber of Commerce

⁵⁶ OULOUNIS (S), *op. cit.*, p. 18

⁵⁷ CHIRIGUI (C), "Financing of foreign trade by Algerian banks," master's thesis, University of Oran, 2014, p. 194

Despite the diversified needs necessary for the conduct of an international commercial operation, we may encounter particular applications of the documentary credit. Indeed, there are different types of special documentary credits⁵⁸, depending on their use, we can mention:

1.5.1. The revolving (renewable) credit:

The revolving credit⁵⁹ is a documentary credit whose amount is automatically renewed. It therefore allows the payment of several successive shipments, without necessarily having to open a separate documentary credit for each of them.

If the revolving credit provides that the unused part of the previous tranche can be added to the next tranche, the revolving credit is said to be cumulative. It is on the other hand non-cumulative if the amounts not used become void.

The revolving credit mechanism brings advantages to both contracting parties:

The importer who has imposed a time interval between each delivery (periodicity of tranches) benefits as it may ease their cash flow.

As for the exporter, they may hold a contract granting them also more flexibility and easing their cash flow insofar as they are not obliged to invest in the total amount of the contract (production by tranche).

The revolving credit aims to:

Limit commissions charged by banks for each opening of a documentary credit.

Avoid loss of time by saving repeated procedures and formalities, as well as waiting for the bank's approval for each issuance.

1.5.2. The red-clause credit (with red clause):

So called because originally the clause was written in red ink to draw attention to the special nature of this credit. It is a special clause mentioned on the letter of credit by the importer, requesting their bank to advance funds to the exporter before the documents are presented. This

⁵⁸ LASARY, "The memos, documentary credit," El Dar Othmania, 2007, p. 62

⁵⁹ OULOUNIS (S), "Management of international trade operations," OPU, Algeria, 2008, p. 1

clause is inserted by the issuing bank at the request of the applicant, and its wording depends on their instructions and the requirements of the issuing bank. It specifies the amount of the authorized advance; in some cases, this amount may equal the total credit. It is used as a means of financing in favor of the seller before shipment⁶⁰.

1.5.3. The transferable credit:

The transferable credit⁶¹ is a credit under which the beneficiary (first beneficiary) can ask the paying bank, the bank authorized to pay, to contract a deferred payment commitment or to accept or negotiate (the transferring bank) or, in the case of a freely negotiable credit, the bank specifically authorized in the credit as the "transferring" bank, to allow the use of the

credit in whole or in part by one or more other beneficiaries (second beneficiaries). When the exporter alone cannot fulfill the order of their importing client, they may transfer part of the order to another supplier who will directly export their share of goods and documents to the importer, this part being added to the share shipped by the first exporter.

Article 48 of the Uniform Customs and Practice for Documentary Credits (UCP) deals with fundamental points related to transferable credits, notably:

A credit can only be transferred if it is expressly qualified as "transferable" by the issuing bank, obviously on instruction of the applicant.

When a credit is transferred to several second beneficiaries, the refusal of an amendment by one or more of them does not nullify the acceptance by the other second beneficiaries.

A transferable credit can only be transferred once.

1.5.4. Back-to-back credit:

The exporter who does not have sufficient stock to fulfill the order of their importing client will open another letter of credit with another supplier to complete their delivery to the importing client. The second credit is then backed by the first one, which serves as a guarantee⁶².

⁶⁰ CHIRIGUI (C); « le financement du commerce extérieur par les banques algériennes », mémoire magister, université de Oran, 2014, p. 169

⁶¹ Idem, p. 1

⁶² OULOUNIS (S) ; op. cit., p. 20

⁶³ Article 10, point A of the Uniform Customs and Practice (UCP 500) of the International Chamber of Commerce relating to documentary credits, 1994

1.6. Methods of executing the documentary credit:

The method of executing the documentary credit⁶³ is the act by which a bank fulfills its commitments to the beneficiary if the documents comply with the terms and conditions of the credit. Every credit must clearly indicate whether it is executable by payment at sight, by deferred payment, by acceptance, or by negotiation.

1.6.1. Execution by payment at sight:

The payment is immediate, a cash transfer by the designated bank against the documents presented. This is the fastest payment method for the exporter. This bank may be the issuing bank, the notifying bank, or any other bank meeting the above conditions.

1.6.2. Execution by deferred payment

This mode of execution is quite unfavorable to the exporter due to cash flow problems, as it cannot resort to discounting.

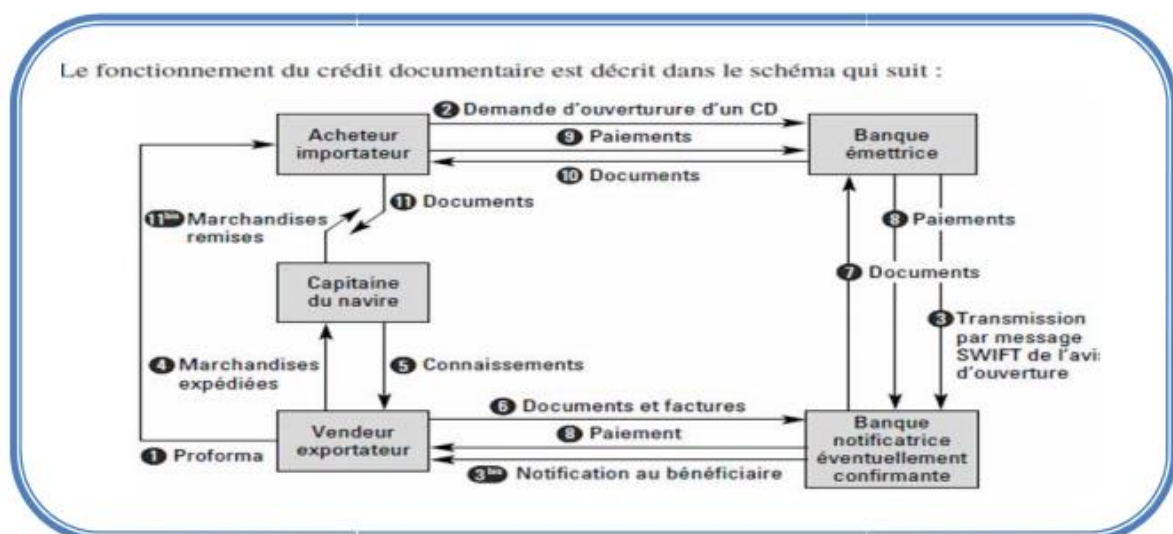
1.6.3. Execution by acceptance

The bank accepts a draft against the documents; the drawee is the issuing bank or the confirming bank if either is designated. The exporter is paid at maturity.

1.6.4. Execution by negotiation

The designated bank discounts, against the documents, a draft drawn on the buyer. The seller is paid immediately while the buyer will only be debited at maturity.

Figure No¹: Mechanism of Documentary Credit



Source: MIHAELA STANESCU, D. and INARD PATUREL, S. S., International Trade, Studyrama Group, Paris, 2013, p. 272.

1.7. Documentary Credit Process

A documentary credit operation proceeds as shown in Figure No. 01:

- 1) The buyer and the seller conclude a commercial contract, in which they agree on using the documentary credit as a payment method.
- 2) The buyer (applicant) requests their bank (issuing bank) to open a documentary credit in favor of the seller (beneficiary) based on a set of specific instructions.
- 3) The issuing bank opens the credit by transmitting the issuance letter to a bank usually located in the seller's country, so that this bank may notify the beneficiary of the credit, with or without its confirmation.
- 4) The notifying bank (or possibly the confirming bank) informs the seller of the issuance of the documentary credit.
- 5) Once the seller is informed of the credit and is assured of being able to meet the stated instructions, they proceed with the shipment of the goods.
- 6) The seller transmits all documents required under the terms of the credit (including those certifying the shipment of the goods) to the designated bank.
- 7) Upon receipt of the shipping documents, the designated bank verifies their conformity. If the documents meet the conditions of the credit, the bank will then pay the seller in the form provided by the credit (payment, acceptance, or negotiation).
- 8) The designated bank, if it is not the issuing bank, transmits all documents to the issuing bank.
- 9) The issuing bank in turn verifies the documents. If they conform to the conditions of the credit, it reimburses, in the agreed manner, the bank that made the payment to the beneficiary (the designated bank).
- 10) The issuing bank hands over the documents to the buyer after the latter has fulfilled the payment terms agreed upon between them.
- 11) The buyer is then able to take delivery of the goods by presenting the transport documents to the carrier.

The documentary credit has therefore allowed the exporter (the beneficiary) to be paid for the amount of the goods shipped. In return, the importer (the applicant) receives, within strict deadlines, goods that comply with the conditions stipulated in the credit (except in cases of irregularities or fraud).

2. Documentary Collection (Documentary Encashment)

Documentary collection is a less complicated method of payment. It is used when there is trust and good business relations between the partners, as well as political, economic, and monetary stability in the importer's country.

2.1. Definition of Documentary Collection

Documentary collection is governed by the Uniform Rules for Collections of the International Chamber of Commerce, Publication No. 522 (URC 522). It is defined as a payment method or collection procedure in which a seller (the principal) instructs their bank (the remitting bank) to present, under specific conditions and instructions, documents to the buyer's bank (the presenting bank), for the purpose of collecting payment for the goods either:

- Documents against Payment (D/P)
- Documents against Acceptance (D/A)
- Or any other form.⁶⁵

2.2. Parties Involved in Documentary Collection

This technique generally involves four parties:⁶⁶

2.2.1. The Principal: the seller/exporter who gives instructions to their bank.

⁶⁵ LEGRAND (G) and MARTINI (H), op. cit., 3rd edition, p.145.

⁶⁶ Same source, p.146.

2.2.2. The Remitting Bank: the seller's bank entrusted with carrying out the transaction.

2.2.3. The Presenting Bank: the foreign bank responsible for the collection, usually the remitting bank's correspondent. This bank presents the documents to the buyer and receives payment.

2.2.4. The Buyer: the importer who must either pay upon presentation of the documents or accept a bill of exchange.

2.3. Modes of Execution

There are four main modes of execution⁶⁷ for documentary collection:

- Against Payment (at sight)
- Against Acceptance
- Against Acceptance and Guarantee (aval)
- Against Letter of Undertaking

2.3.1. Delivery of Documents Against Payment (at sight):

The bank informs the buyer of the receipt of the documents and only releases them upon immediate payment of the invoice amount and any associated fees.

In general, the importer waits for the arrival of the goods before making the payment and receiving the documents required to take possession.

2.3.2. Documentary Collection Against Acceptance:

The presenting bank informs the buyer of the receipt of the documents and only releases them upon the establishment of a payment instrument with due dates specified in the sales contract.

⁶⁷ OULOUNIS (S), Management of International Trade Operations, OPU, Algeria, 2005, p.2.

2.3.3. Documentary Collection Against Acceptance and Aval:

In addition to the acceptance of the bill of exchange by the importer—which constitutes a firm commitment to pay the amount due at maturity—the bank also becomes involved by providing an aval (guarantee). This guarantees the exporter the solvency of the buyer, or at the very least, offers greater assurance regarding the payment of the receivable at maturity

2.3.4. Documentary Collection Against Letter of Commitment:

In this case, payment is characterized by the buyer's commitment to pay the amount due. This commitment is formalized through the drafting of a letter of commitment. To avoid any misinterpretation of this letter, it is recommended that the remitting bank provide a sample template of the letter, which the collecting bank must submit for acceptance by the drawee. This form of settlement is not practiced by Algerian banks.

2.4. Advantages and Disadvantages of Documentary Collection

Documentary collection has both advantages and disadvantages⁶⁸.

It offers several advantages for its beneficiary. Its procedure is more flexible than a documentary credit in terms of documents and deadlines; it is a less costly payment method with low fees. The importer provides practically the same guarantees as with a documentary credit; in some cases, they can inspect the goods before paying or accepting the draft. Also, by using the draft, the importer can take possession of the goods before the payment has actually been made. They can make a profit from the sale and acquire sufficient funds to pay the bill of exchange. However, they cannot release the goods from customs without having first settled the documentary collection amount with their bank.

Consequently, documentary collection does not protect the exporter from exchange risk; if the buyer changes their mind and no longer wants the goods, the seller is left with no choice but to sell them locally at a loss if they are perishable or to repatriate them.

The banks will not substitute for the buyer, and if the client does not come forward, the goods are immobilized. The seller will have to sell them locally at a low price or repatriate them, which will incur additional transportation costs. In this context, it is important that the seller provides the presenting bank, in the letter of instructions, with the measures to be taken to preserve the goods in case the client does not release the documents.

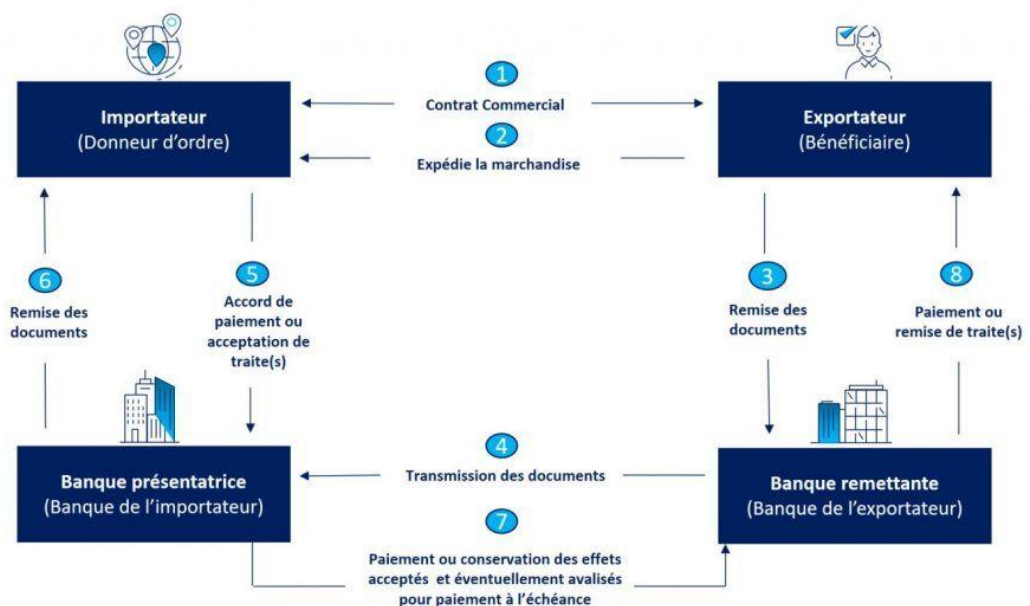
⁶⁸ ZOURDANI (S), "The financing of foreign trade operations in Algeria: the case of BNA", University of Tizi-Ouzou, 2012; p. 8

The buyer can invoke numerous reasons for not paying. Moreover, this technique is highly exposed to the risk of non-payment by the banks involved.

This risk occurs when:

- The conditions for issuing the documents do not conform to the commercial contract stipulations, or
- The invoiced amount exceeds that of the order.
- The goods are not compliant with the order, or they were shipped late, or before the scheduled date, or have not yet arrived at the destination.
- The documents reached the foreign buyer after the arrival of the goods, causing storage fees which the buyer refuses to pay.
- The buyer wants to inspect the goods before agreeing to payment.
- Essential customs clearance documents are missing (such as phytosanitary certificates).
- The import license has not yet been obtained.
- The set of bills of lading is incomplete, etc.

Figure No. 2: Documentary Collection Mechanism



2.5. Process of Documentary Collection

A documentary credit operation takes place as shown in Figure No. 02 ⁶⁹

- 1) The seller ships the goods to the buyer's country and arranges for the transport and insurance documents to be made out in favor of the presenting bank (bank abroad). This precaution is meant to prevent the buyer from taking possession of the goods before payment is made.
- 2) The documents are handed over to the remitting bank, the exporter's bank.
- 3) The remitting bank forwards the documents and the instruction letter to the presenting bank, usually its correspondent in the buyer's country.
- 4) The presenting bank hands over the documents to the buyer, either against payment or against acceptance of one or more drafts. By accepting the documents, the buyer takes possession of them, allowing the release of the goods.
- 5 and 6) The payment is transmitted to the seller, who is informed by the "advice of fate."

Section II: Risks and Guarantees Related to International Trade Operations

Importers and exporters face numerous risks in managing their international trade operations. These should not hinder the commercial development of the business but rather require identification and a clear positioning to be integrated into its risk management policy, thereby ensuring secured operations with international partners. In this section, we will address the different risks and guarantees related to international trade operations.

1. Risks Related to Foreign Trade Operations

Any commercial activity conducted in the international market involves risk-taking, which may hinder the operators' ability to achieve their goals. Below, we detail the various risks related to import-export operations.

⁶⁹ LEGRAND (G) et MARTINI (D), Op. cit., p.134.

1.1. Definition of Risk

Risk is inherent in all human activities, especially in business. It is defined as a danger, threat, or peril to certain activities or situations. In socio-economic terms, it is defined as a loss or damage that gives rise to compensation. In banking professions, risk is a factor encountered on a daily basis.⁷⁰

1.2. Risks Related to the Financing of International Trade

The financing of international trade faces numerous risks, including the following⁷¹:

1.2.1. Commercial Risk:

This arises when a foreign buyer fails to settle their debt. The exporter then bears the risk of customer default due to the buyer's insolvency.

1.2.2. Transfer Risk:

This refers to the failure to transfer the funds paid by the buyer, due to political reasons, economic difficulties, or changes in the legislation of the buyer's country. The challenging monetary situation in many countries often delays the release of foreign currency.

1.2.3. Political risk: This occurs when commercial operations are carried out with a country experiencing political instability (government instability, civil wars, revolutions, riots, and other events occurring in the buyer's country of residence). The Algerian importer or exporter bears the risk of non-payment.

1.2.4. Natural disaster risk: This is related to the occurrence in the buyer's country of residence of a natural catastrophe such as an earthquake, flood, or volcanic eruption, which may directly affect the buyer's activity and solvency, preventing them from settling their debt.

⁷⁰ DUCRET (J), *The Management of Exchange Rate Risk*, e-ethique, France, 2002, p.22.

⁷¹ HENNACHI (M), HELLAL (K), "Financing and Risk in Foreign Trade: A Comparative Study Between the Letter of Credit and the Documentary Collection at the Level of the BNA 356", University of Bejaia, 2013, p.33.

1.2.5. Risk related to the transportation of goods: Goods transported across borders within the framework of international trade are subject to numerous specific risks (loss, theft, breakage, water damage, etc.). To these are added risks related to various auxiliary operations such as handling, loading, unloading, and intermediate storage.

1.2.6. Exchange rate risk: Exchange rate risk is related to the uncertainty of the exchange rate of one currency against another in the short or medium term. Not knowing how an exchange rate will evolve in three or six months leads to complications.

1.3. Risks related to the letter of credit and documentary collection: The execution and practice of international trade finance techniques, such as the letter of credit (Credoc) and documentary collection (Remdoc), still face a wide range of risks⁷² despite bankers' caution.

1.3.1. Risks of the Documentary Credit

The analysis of the risks associated with a documentary credit can be divided into two categories: risks for the banks and risks for the clients.

A) Risks for the banks: The risks related to the banks include: the risk for the issuing bank and the risk for the correspondent bank.

A.1. Risk for the issuing bank

Risk related to financing: This risk only appears if the credit is irrevocable. That is, the issuing bank has made a commitment. It must pay the seller (exporter) in any case as long as the documents are in conformity. It is not guaranteed that the importer will reimburse it when the time comes. The documentary credit is, above all, a signature credit. The issuing bank pays upon receipt of the documents. It keeps the documents and bears the disbursement until payment by the importer.

One can assume that the importer is not in a position to repay his bank within the validity period of the credit. He then requests additional time to either: transform the goods (raw materials), or find a buyer if these are finished products.

Risk related to the examination of documents: There is a significant risk associated with the examination of documents and the decision that must be made. This is why document verification is always delicate and meticulous, requiring good experience from the banker.

A.2. Risk of the Correspondent Bank

Risk related to document examination: The examination of documents is also delicate for the confirming bank, which has undertaken an engagement equivalent to that of the issuing bank.

Risk of non-reimbursement by the confirming bank: The confirming bank, having already paid the amount to the beneficiary upon presentation of the documents, assumes its commitment and retains the risk in the event of non-reimbursement by the issuing bank.

B) Risk for the Clients: Client risk is divided into two categories: the importer's risk and the exporter's risk.

B.1. Importer's risk (applicant)

For the importer, the goods may not conform to the order. For this reason, he may invoke the performance bond or the completion guarantee in his favor.

B.2. Exporter's risk (beneficiary)

As for the exporter, he only has maximum security if the documentary credit includes the banks' commitment. It is at this level that the risk analysis must be most thorough.

1.3.2. Risks of Documentary Collection: Risks Incurred by the Different Parties:

A) For the exporter: It happens that the importer, for various reasons, refuses to accept the documents or, if the collection is done against acceptance, does not pay the amount of the debt at maturity.

B) For the importer: The risk in this case is directly related to the goods not conforming to the order in terms of quality or quantity.

⁷² Interbank Training Company, "Foreign Exchange Control Operations – Domiciliation and Clearance," Algiers, 2009, p.14.

C) For the banks: Since the banks have not taken any commitment (except in the case where a guarantee is requested), the risks incurred cannot exceed those inherent to agents. They remain responsible for the service they provide to the different parties.

2. Guarantees and Risk Coverage in International Trade

After analyzing the various risks faced by international trade operations, we will address in this section the different guarantees that can cover these risks.

2.1. Definition of Guarantee and Suretyship

There is a difference between guarantees and sureties:

2.1.1. Guarantees

A guarantee can be defined as “a banking commitment to pay a certain amount on first demand to the beneficiary, based solely on the text of the banking commitment without the possibility of invoking means derived from the underlying contract, except in cases of proven fraud.”⁷⁴

It is also necessary to define the first demand guarantee, which can be invoked by the beneficiary upon their first and simple request, without the obligation to repeat their call. The commitment taken by the bank (guarantor) represents a guarantee by which it obliges itself to pay a determined percentage of the amount of the commercial contract, which will allow the buyer to be compensated in case of the seller’s default.⁷⁵

2.1.2. Guarantees (Cautions)

A guarantee, often called a “caution” for the sake of brevity, is an accessory commitment linked to the commercial contract. In case of enforcement,

the beneficiary (the foreign buyer) must provide proof that the main contract was not properly fulfilled by the exporter, validated by a court decision unless the ordering party accepts the enforcement of the guarantee⁷⁶.

⁷⁴ LEGRAND G., MARTINI H., op. cit., 2008, p. 232

⁷⁵ Idem, p. 233

⁷⁶ LEGRAND G., MARTIN H., op. cit., 2010, p. 180

2.2. Guarantees in Favor of the Importer

There are four guarantees that protect the importer against trade risks⁷⁷:

2.2.1. Bid Bond Guarantee: The bid or tender guarantee allows the foreign buyer to insure against the risk of non-conclusion of the contract.

2.2.2. Contract Execution Guarantee (Performance Bond): Also called guarantee of proper completion or proper execution; it commits the bank to pay a lump sum in case the seller fails to fulfill their contractual obligations. The effect of the performance bond ends upon the provisional acceptance of the work by the project owner (in some cases, upon final acceptance).

2.2.3. Advance Payment Bond: It guarantees the foreign buyer that the advances paid will be refunded if the work is not performed.

2.2.4. Retention Guarantee or Maintenance Bond: It takes over from the performance guarantee by covering construction or maintenance defects during the testing period, which occurs between the provisional and final acceptance of the work.

2.3. Guarantees in Favor of the Exporter

The guarantees in favor of the exporter are⁷⁸:

2.3.1. Stand-by Letter of Credit: Also called SBLC (stand-by letter of credit), it is a bank guarantee by which the importer guarantees their supplier that their bank will replace them if they default, provided that the exporter presents the required documents as proof of the claim's existence.

2.3.2. Documentary Credit: Documentary credit, commonly called Credoc, is the bank's signed commitment to pay, on behalf of the buyer, a determined amount to the supplier of goods or services, against the presentation, within a fixed period, of compliant documents proving that the goods have been shipped or the service performed.

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⁷⁷ LEGRAND G. et MARTINI H., op. cit., 2010, p. 18

⁷⁸ LEGRAND G. et MARTINI H., op. cit., 2010, p. 15

2.4. Internal Management of Exchange Rate Risk

The most common techniques⁷⁹ for the internal management of exchange rate risk are:

2.4.1. Contractual Exchange Rate Clause:

This clause consists of specifying in the contract a reference exchange rate so that, in case of unfavorable exchange rate fluctuations, the seller can preserve their profit margin. Generally, this clause—which is rather difficult to negotiate—specifies a range defined by two limits around a central pivot rate. At each due date, the contract price is adjusted if the actual exchange rate falls outside these limits.

2.4.2. Netting:

This is a common practice in large international groups that allows for the reduction in the number and amount of transfers between the parent company and its subsidiaries.

This technique reduces the level of exchange rate risk, the cost of currency hedging, and bank commissions for currency exchange and transfer.

2.4.3. Lead and Lag Strategy:

Lead and lag consist of accelerating or delaying the collection or disbursement of foreign currencies depending on the anticipated evolution of those currencies. This technique aims to adjust the timing of payments to benefit from favorable exchange rate movements.

2.4.4. Cash Flow Offsetting:

This is only possible if the company conducts both export and import operations. On one hand, it receives inflows in foreign currencies and, on the other, makes transfers in the same currencies. Since matching due dates and amounts is rarely possible, the company can use a centralized foreign currency account to minimize its hedging needs. It only covers the difference between currency inflows and outflows. This practice is fairly limited due to its complexity and constraints.

⁷⁹ LEGRAND, G.; MARTIN, H., op. cit., p. 205

2.4.5. Currency Swaps:

A currency swap refers to the exchange between two companies of two loans denominated in different currencies.

The operation allows each party to close their currency position in the other's currency, thus eliminating exchange rate risk. At the maturity of the loan, one party pays the other the interest differential. This technique is recommended for exchanges between a parent company and its subsidiaries.

2.5. Hedging Techniques Involving Banks

The hedging techniques involving banks are⁸⁰:

2.5.1. Forward Purchase:

This technique allows the buyer to lock in exchange rate risk: a bank guarantees a rate at a given maturity or for a set period. The buyer must deliver the foreign currencies. The contract is binding. It is possible to extend it. In the event that the foreign currencies are not delivered, the bank will close the buyer's position and charge them for any resulting losses or gains.

Banks offer flexible forward purchase contracts, which allow the buyer to partially benefit from a favorable evolution in the foreign currency (such as an increase in the euro and a decrease in the foreign currency).

2.5.2. Advances in Foreign Currency:

This technique involves borrowing foreign currency to pay the supplier. This loan results in the payment of interest based on the foreign currency LIBOR plus the bank's margin. However, the loan is used to obtain a discount for cash payment to the supplier. At maturity, the importer must repay the lending bank (principal + interest) either through export revenues or by purchasing foreign currency, depending on their business activity, cash flow, and market developments.

⁸⁰ BERNET (R), "Principles of Banking Techniques", 25th edition, DUNOD, Paris, 2008, p.26

2.5.3. Currency Option:

A currency option for imports allows the importer to hedge against exchange rate risk during negotiation periods, supplier credit periods, or both. The option technique is suitable for both certain and uncertain currency risks. The importer purchases a foreign currency call option (e.g., USD) at a predetermined rate, called the strike price, for a set maturity date in exchange for paying a premium.

When the importer must pay the supplier, they observe the foreign exchange market to decide whether or not to exercise the option. If the foreign currency has appreciated (i.e., the euro has depreciated), the importer will exercise the option. Otherwise, they do not.

In any case, the premium initially paid is lost. This technique allows for dynamic exchange rate risk management but requires the payment of a premium.

2.5.4. Participation-Based Forward Exchange:

This is a forward hedge that guarantees a forward rate slightly less favorable than a classic forward hedge but allows the company to benefit from a favorable movement of the foreign currency to a defined extent specified in the contract (e.g., 25%, 50%, or 75%).

2.5.5. Budgeted Forward Exchange:

A forward hedge with more flexibility regarding maturity. The bank guarantees an exchange rate for a maximum amount over a pre-defined period (between one month and one year).

2.5.6. Zero-Premium Option:

The company is slightly less protected than with a standard option, but at zero cost (zero premium based on the simultaneous purchase and sale of opposite options whose premiums offset each other).

Section III: Pre-Domiciliation and Bank Domiciliation

Foreign trade regulations and exchange control require that all final acts of domiciliation for import or export operations of goods and services be subject to the electronic pre-domiciliation procedure.

The decision to proceed with the domiciliation of commercial operations is based on an assessment of the client's financial capacity and risk.

1. Electronic Pre-Domiciliation

As part of improving the control system and administrative facilitation of foreign trade operations, it was established that as of March 15, 2016, any final act of domiciliation for an import or export operation of goods or services is subject to the prior completion of an electronic pre-domiciliation procedure, which every Algerian-registered economic operator must complete.⁸¹

This upstream procedure consists of the registration and validation of the electronic pre-domiciliation of the foreign trade operation through the operator's access to the website of the domiciling bank. The aim is to encourage exports, better control operations and financial transactions, combat corruption and money laundering, and monitor capital flows abroad.⁸²

The electronic pre-domiciliation involves four phases:

- 1-Client registration phase
- 2-Client identification and pre-domiciliation of the request
- 3-Control and validation of the pre-domiciliation request at the central level
- 4-Control of the domiciliation request at the level of the domiciling bank branch

2. Bank domiciliation

According to note 07-01 of February 3, 2007, applicable since July 1, 2007, concerning current transactions with abroad and foreign currency accounts (applicable both to imports and exports), which states:

⁸² Note No. 17/2016 of the Directorate General of Foreign Exchange dated March 13, 2016, addressed to banks and authorized intermediaries.

⁸¹ Article 29 of regulation No. 07-01 dated February 3, 2007, concerning the rules applicable to current transactions.

“Any operation of import or export of goods or services is subject to the obligation of domiciliation with an authorized intermediary. Domiciliation is prior to any transfer/repatriation of funds, commitment, and/or customs clearance.”⁸³

2.1. Definition of domiciliation:

Domiciliation⁸⁴ consists of opening a file which results in the attribution of a domiciliation number by the authorized intermediary responsible for the commercial operation.

This file must contain all the documents related to the commercial operation.

Therefore, domiciliation is a regulatory administrative formality (the registration or recording of an import or export operation with a bank) that ensures the monitoring and control of an import or export operation from its initiation until its settlement. It is also a procedure that provides operators with a legal basis in accordance with foreign trade regulations, as well as an ex-post control by the Bank of Algeria.

2.2. Processing of the Import Domiciliation Operation

Before proceeding with domiciliation, the bank must verify that the importer is not subject to any prohibition from conducting foreign trade operations. Additionally, the importer must have a commercial register, a fiscal and statistical identification number, and sound financial standing. The imported product must not be prohibited, must be compatible with the importer’s business activity, and must comply with the standards and quality regulations in force on the date of importation.

The domiciliation file involves three phases: opening, management, and settlement.

2.3.1. Opening Phase:

At this initial step, the client must hold a current bank account (CCB) with the bank. Additionally, the client must submit a number of documents that will constitute the file, namely: the pro forma invoice, magnetic card, updated fiscal and parafiscal status, and a

⁸³ Regulation of the Bank of Algeria No. 07-01 concerning the rules applicable to current transactions with foreign countries and foreign currency accounts.

⁸⁴ Chirigui (Ch.), The financing of foreign trade by Algerian banks, Master’s thesis, University of Oran, 2014, p.10.

commercial register certified by the National Chamber of Commerce Register (CNRC).

-The banker then provides these documents to the client to complete and sign:

A domiciliation request, a letter of credit application, an import commitment, a commitment for own use, and a foreign exchange risk certificate must be submitted, given the instability of the exchange rate.

Once all documents are collected, the banker proceeds to open a financial file and affixes the domiciliation stamp on the invoices.

After verifying that all these documents are complete and compliant, the domiciliation officer submits the import commitment to the Branch Manager for approval and signature. The operation is then registered in the appropriate ledger, depending on whether the import is under normal delay (DI), where the physical realization does not exceed six months, or under special delay (DIP), where the physical realization exceeds six months, and a domiciliation number is assigned.

Figure N°3: Sample of an Import Domiciliation Stamp

BANQUE :				AGENCE :			
DOMICILIATION IMPORT							
A	B	C	D	E	F	G	H
La date :							

Source: Based on an internal bank document

The banker collects the application for opening, along with the pro forma invoice and the domiciliation fee for imports intended for resale in their original state.

The domiciliation number is composed of twenty-one (21) characters, structured as follows⁸⁶:

- A) Two digits representing the Wilaya code.
- B) Two digits representing the bank license code.
- C) Two digits representing the branch license code within the Wilaya.
- D) Four digits representing the current year.
- E) One digit representing the quarter.
- F) Two digits representing the nature of the operation.
- G) Five digits representing the sequential number:
 - DI (normal period import): range from 00001 to 79999
 - DIP (special period import): range from 80001 to 99999
- H) The currency code according to the ISO standard (e.g., EUR).

After registration, the domiciliation officer must provide the importer with a copy of the submitted contract, duly domiciled (bearing the domiciliation stamp, which includes the date, domiciliation number, and details of the handling branch), followed by the banker's signature.

The domiciled contract allows the importer to carry out other administrative and customs procedures. Once these steps are completed, the officer in charge of the operation carefully fills out an import control sheet to ensure proper monitoring in accordance with foreign exchange regulations. The bank also collects domiciliation commissions and blocks the provision if the bill of lading is in the bank's name.

2.3.2. Management Phase

The confirmation of opening is done through SWIFT messages. At this stage, the client is allowed to make modifications to the document package (which consists of documents required by the importer from the exporter).

Each modification incurs additional fees for the importer.

The domiciliation officer then prepares the control sheet, which must include the following:

- **The supplier's name** (indicated in the "miscellaneous references" field concerning the importer).
- **The payment terms** related to the opened file and the expected payment schedule (included in the "general observations" field).
- The control sheet must be filled in carefully and completely, in order to meet the requirements of the central bank (Banque d'Algérie) and to track the physical execution of the operation, in compliance with exchange regulations.
- Once completed, the domiciliation file is submitted to the department head and the branch director for approval. Then, the process waits for:
 - A debit advice (confirming payment to the notifying bank),
 - A SWIFT message for settlement,
 - And the Form 104.

2.3.3. Clearance Phase (Phase d'apurement)

There are three copies of the D10 document (the customs document that serves as proof that the imported goods have arrived and passed through customs):

- Blue: for the client
- Red: for customs
- Yellow: for the issuing bank agency

The clearance of a foreign trade file involves the authorized intermediary (usually the bank) ensuring the regularity and compliance of the commercial contract execution and the proper flow of financial transactions in accordance with current regulations.

The bank is responsible for ensuring that all domiciled import files are cleared within the prescribed time limits.

It must report without delay to the Bank of Algeria any irregularities or delays in the execution of foreign exchange movements.

The bank must check that the import domiciliation file contains the following documents:

- Final invoice
- Transport document
- Certificate of origin
- Customs document – bank copy (D10)
- Foreign currency debit authorization form
- Actual SWIFT transfer confirmation
- Certificate of quality

All these documents must match in terms of the amount and the domiciliation number previously assigned.

If the file contains all the required documents and they are consistent, the file is considered cleared and compliant.

Conclusion

This chapter has covered the payment methods used in international commercial transactions, including documentary credits and documentary collections, as well as the risks faced in import-export operations and the ways to mitigate them.

Particular emphasis was placed on bank domiciliation, which is governed by Algerian financial regulations, and will be addressed in more detail in the following chapter.

Chapter III:

**Comparison Between Documentary Credit and
Documentary Collection and Their
Contributions to Import Financing: The Case of
BEA – Dely Brahim Branch**

Introduction

During the internship completed at the Banque Extérieure d'Algérie (BEA), we will illustrate our practical case through a presentation of the bank as the first section. Then, in the second section, we will carry out a practical comparison between the two financing techniques, namely the letter of credit and the documentary collection. Finally, in the third section, we will compare the contribution of both the letter of credit and documentary collection in the financing of imports within BEA.

In this chapter, our objective is to present the results of our practical case. We will begin by introducing the bank where the internship was conducted. Next, in the second section, we will proceed with a comparison—based on the bank's internal documents—between the two financing techniques: the letter of credit and the documentary collection. Lastly, in the third section, we will compare their respective contributions to the financing of import operations at BEA

Section I: Practical Handling of Letters of Credit and Documentary Collections within the Framework of BEA (Dely Ibrahim Branch)

1. Presentation of the BEA – Dely Ibrahim Branch

The Banque Extérieure d'Algérie (BEA) is a national public financial institution established on October 1, 1967, by Ordinance No. 67-204. Initially, its primary mission was to facilitate and develop Algeria's economic and financial relations with the rest of the world. Over time, the bank expanded its operations, becoming a universal bank serving both corporate and individual clients.

The BEA's headquarters is located at 11, Boulevard Colonel Amirouche, Algiers. As of 2022, the bank operates a network of 106 agencies across Algeria, including the Dely Ibrahim branch, situated at 36, Route Nationale, Dely Ibrahim, Algiers. This branch offers a comprehensive range of banking services tailored to meet the needs of both individuals and businesses.

In 1989, the BEA transitioned into a joint-stock company (Société par Actions), with the Algerian state as its sole shareholder. The bank has played a significant role in financing various sectors of the Algerian economy, including hydrocarbons, construction, and services.

Role of the Foreign Operations Department

The Foreign Operations Department plays a central role in facilitating and managing the bank's international financial transactions. Within the BEA Bank – Dely Ibrahim branch, this department acts as a crucial intermediary between local clients and foreign financial institutions, ensuring the smooth execution of cross-border operations in full compliance with Algerian regulations and international banking standards.

Primarily, the department is responsible for processing and monitoring a variety of international trade finance instruments, including letters of credit, documentary collections, and foreign currency payments. It ensures that import and export operations are conducted securely and efficiently, minimizing financial risk for clients while guaranteeing that international suppliers are paid under agreed terms.

Furthermore, the Foreign Operations Department provides advisory services to clients involved in foreign trade. It assists them in choosing the most appropriate method of payment based on the nature of their transactions, the level of risk involved, and the regulatory requirements. This includes guiding importers and exporters through the necessary documentation, currency exchange procedures, and central bank authorizations.

Additionally, the department oversees the proper handling of foreign currency accounts, facilitates swift (SWIFT) communications for international transfers, and ensures compliance with anti-money laundering (AML) and counter-terrorism financing (CTF) protocols.

In summary, the Foreign Operations Department serves as a backbone of the bank's international activities, safeguarding the interests of both the bank and its clients while fostering trust and reliability in global trade transactions.

In this practical case, we analyzed a letter of credit and a documentary collection transaction processed at BEA Bank – Dely Ibrahim branch, in order to better compare the procedures involved in these two financing techniques.

2. Practical Study of Letters of Credit and Documentary Collections

This practical case focuses on the procedures of two financing methods used for imports: the letter of credit and the documentary collection, both handled within BEA Bank.

2.1 Study of the Letter of Credit File

The case selected involves an import operation carried out by an oil processing company, in which the method of payment used is a letter of credit issued through BEA Bank.

2.1.1 Opening of the Letter of Credit

The importing company (a limited liability company named AI) requested that BEA Bank issue a letter of credit to finance this import operation in favor of the exporting company (HAUG GIDA MAKLINALARI SANAYI TICARET) for a total amount of EUR 150,000.00.

The client must first complete a pre-domiciliation process:

First step: The client must register on the bank's online platform in order to obtain access rights to the pre-domiciliation portal.

Second step: A notification is then sent to the client's email by the designated officer at the central level, providing the username and password.

This registration is only required once by the operator. Once registered, the operator can access the platform using the provided credentials and submit a pre-domiciliation request whenever necessary for foreign trade transactions.

In the third step, the operator is required to complete an electronic pre-domiciliation request form, which includes the following fields:

- Client's RIB (Bank Account Identification)
- Company name
- Tax identification number
- Commercial registration number
- Import license number
- Nature of the imported product
- Customs tariff code
- Number of the pro forma invoice or commercial contract
- Amount and currency of the invoice

In the fourth and final step, once the pre-domiciliation is validated, a notification of acceptance is automatically sent to the client, inviting them to visit their domiciling agency with the following required documents:

- The letter of credit application form, duly completed and signed by the client
- The pro forma invoice in three copies, to assign a domiciliation number
- The magnetic card
- Up-to-date fiscal and parafiscal records
- The balance sheet and income statement as declared to the tax administration
- A certified copy of the company's trade register issued by the National Center of Trade Register (CNRC)
- The company's legal status documents (if the business is a legal entity)

The banker then proceeds to verify the submitted documents and ensures that:

- The client does not appear on the list of entities prohibited from banking domiciliation, as issued by the Exchange Control Department of the Bank of Algeria, via the Deputy General Directorate of International Operations (DGA/OI);
- The imported product is not suspended and does not appear on the list of prohibited goods;

- The client has sufficient financial standing and maintains an active current account at BEA Bank, which serves as a guarantee of solvency.

The banker, in turn, provides the client with the following documents to be filled out and signed:

- The domiciliation request form;
- The client's declaration confirming that the imported equipment is intended for the company's operational use;
- The foreign exchange risk certificate, due to exchange rate fluctuations;
- Once all documents are collected, the banker must thoroughly verify them in advance. Before the domiciliation of the pro forma invoice, the banker is also required to establish a provision of 103%, held as a guarantee under the PREG (Provision de Garantie).
- The certificate of no outstanding payments.

The Domiciliation File:

The foreign trade officer proceeds with the following steps:

Deducts domiciliation fees in the system using operation code CD2:

- Debits the client's account: DA 3,510.00
- Credits the revenue account: DA 3,510.00

After verifying the admissibility of the request, the foreign trade officer proceeds with:

- Registering the file in the official regulatory register maintained for this purpose
- Opening a financial file, which includes the following documents:
 - The duly domiciled pro forma invoice
 - Debit and credit advices
 - Correspondence with the bank's network
 - Shipping documents
 - Required certificates
- The complete file addressed to the Deputy General Directorate of International Operations (DGA/OI)

Opening a compliance file, which includes:

- The SWIFT message for issuance and settlement
- Customs documents
- Debit advice for domiciliation fees
- Letter of credit opening notice
- Domiciliation request
- Client's commitment
- Final invoice

In this case, the letter of credit is 100% cash-covered (fully margined):

- Accounting entry of the transaction using code C13
- Withholding from the client's Dinar account as a provision (PREG) to secure the letter of credit
- Accounting Scheme
- Debit: Client account – the Dinar equivalent of the invoice plus 3% exchange risk margin
- Credit: Provision account for Letter of Credit (Credoc) – same amount
- Debit: Client debit account – for the issuance of the Letter of Credit
- Credit: Letter of Credit opening account
- The foreign trade officer stamps the domiciliation seal on the pro forma invoice.

Transmission of the File to the Central Office:

Upon receiving the file, the designated electronic transmission officer ensures that it includes the following documents:

- The dispatch form, complete with a classification number and reference code
- The letter of credit application, duly signed by the applicant, the branch manager, and the back-office supervisor
- The domiciled pro forma invoice
- The debit advice reflecting the establishment of the PREG (provision)
- A copy of the company's commercial register

- The client information sheet

The branch manager annotates all regulatory documents required for domiciliation with the statement:

"Certified true copy of the original held at our counters",

before handing the complete file to the electronic transmission officer.

The transmission officer then sends the letter of credit request electronically, along with the aforementioned documents—once scanned and compressed—in full compliance with the bank's operational procedures for transmission and information security, addressed to the Deputy General Directorate for International Operations.

Once the letter of credit is opened, the corresponding SWIFT opening message is sent to the client's email inbox.

Opening Fees:

Upon receipt of the SWIFT message from the Deputy General Directorate for International Operations (DGA/OI), the foreign trade officer cross-checks the letter of credit application, duly completed and containing the 17 clauses agreed upon by the applicant, against the information in the SWIFT message.

The officer then records the transaction using accounting code V31, activating the following accounts:

- Accounting Entry Scheme
- Debit: Client account
- Credit: Head Office liaison account

2.1.2. File Management

In our case, the client did not request any modifications.

Execution of the Documentary Credit:

Upon receipt of the debit advice from the Head Office issued by the Deputy General Directorate for International Operations (DGA/OI), the foreign trade officer carries out the following tasks:

- Authenticates the head office liaison received from DGA/OI
- Verifies the accompanying documents, including:
 - 3 final invoices
 - 1/3 original bill of lading issued in the name of BEA Bank – Dely Ibrahim Branch
 - 1 certificate of origin + 2 certified true copies
 - 1 certificate of conformity + 2 certified true copies
 - Weight note
 - Packing list
 - EUR1 certificate (certificate of movement of goods)
 - And the letter of credit application
- Applies the domiciliation stamp on the final invoice, reflecting the date originally stamped on the pro forma invoice
- Endorses the bill of lading, marking the date of endorsement
- Delivers the full set of documents to the client, who then proceeds with the customs clearance process at the port of destination, against an authenticated delivery receipt

2.1.3. Clearance Phase (Apurement)

In our case, there was a match between the physical flows (document D10 – bank copy, see and the financial flows (form 104).

The final invoice and the SWIFT payment confirmation were duly annotated and reconciled.

2.2. Study of a Documentary Collection File

In this second case, a single-member limited liability company (EURL UF) signed a purchase agreement with its supplier, XIAMEN IMP AND EXP from China. The payment method chosen by both parties was documentary collection.

The remitting bank (CMT BANK CHINA) sent a collection order to BEA Bank, enclosing the following documents:

- 3 copies of commercial invoices
- 3 copies of the bill of lading
- 3 copies of the packing list
- 1 certificate of origin
- 1 certificate of quality
- 1 sanitary certificate
- 1 analysis certificate
- 1 technical certificate for food products

Once the bank receives the package by DHL, the foreign trade officer proceeds to check the documents and verify their compliance with Algerian regulations. The officer ensures that all documents listed on the collection slip have been received and that the amount stated on the collection slip matches that on the invoice.

Before the exporter ships the goods and submits the shipment documents to their bank, our client must pre-register for domiciliation on BEA Bank's website and fill in the required information—similar to the process described in the letter of credit case.

Next, the foreign trade officer proceeds with the following steps:

Acknowledgment of Receipt: Upon receiving the collection package, the branch must stamp the front of the collection slip with the date stamp (indicating the receipt date) and inform the remitting bank of the acceptance of the collection

Notification to the Drawee: A notification letter is sent to the drawee.

After receiving the notification letter, the client must present themselves at the bank with the following documents:

- The pre-domiciliation acceptance letter
- Updated tax and parafiscal certificates
- The fiscal balance sheet
- The domiciliation tax receipt

The foreign trade officer then provides the client with several documents to be signed:

- The domiciliation request
- The foreign exchange risk acknowledgment
- The certificate of no outstanding debt

Once all documents are properly received, the foreign trade officer registers the collection (in our case, under the number 358RD0005/16) and opens the corresponding file folder.

Accounting for the Receipt of the Collection

The accounting entry is recorded in the SYBU system under the operation code RD1, as follows:

- **Debit:** Client account with the amount and currency of the collection
- **Credit:** Provisions account with the same amount

After the provision is constituted, the foreign trade officer proceeds to domicile the commercial invoice.

The documents related to collection number 358RD0005/16 are then delivered to the client against a signed discharge confirming receipt of the collection documents.

Settlement of the Collection

Once the client has received the merchandise and verified its compliance with the commercial invoice in terms of quantity and quality, the client instructs the bank to settle the payment by submitting a payment order.

The foreign trade officer is responsible for preparing the following documents for the settlement:

- The dispatch slip bearing a reference number and the agency director's signature
- A copy of the collection slip
- A copy of the domiciled commercial invoice
- The client's transfer order

- The foreign currency transfer order
- Form 104 in four copies
- The customs document (bank's copy)
- A certificate of no outstanding debt

Clearing the Collection File

Upon receiving the inter-branch debit advice from the General Directorate of International Operations, the foreign trade officer proceeds to execute the transfer of the collection amount using the operation code R04.

Once the customs document (bank copy) is received within the regulatory deadline (three months plus one additional month), the file is considered cleared.

Section II: Comparison Between Documentary Credit and Documentary Collection

To evaluate which instrument is most suitable for international trade operations, it is essential to compare the two mechanisms by highlighting the key differences between documentary credit (L/C) and documentary collection (D/C).

1. Comparison between Documentary Credit and Documentary Collection

The comparative table below allows us to identify the main components, forms, execution methods, and value of the documents involved in Documentary Credit (Credoc) and Documentary Collection (Remdoc), as well as the risks and guarantees associated with these two financing methods.

Table No 2: Comparison between Documentary Credit and Documentary Collection

Designation	Documentary Credit (Credoc)	Documentary Collection (Remdoc)
Stakeholders		
Importer	Applicant	Collection Beneficiary
Importer's Bank	Issuing Bank	Presenting Bank
Exporter's Bank	Advising/Notifying Bank	Remitting Bank
Exporter	Beneficiary	Drawer
Correspondent Bank	Confirming Bank	Does not exist in Remdoc
Role of Issuing Bank	Irrevocable commitment to pay based on document compliance.	Acts only as a transmitter of documents. No payment commitment.
Forms	Revocable, Irrevocable, Irrevocable and Confirmed.	Simple Collection; Documentary Collection.
Execution Method	Sight Payment, Deferred Payment, Acceptance, or Negotiation.	Sight Payment, Acceptance, Acceptance and Endorsement, or Letter of Commitment.
Document Value	Documents are checked against credit terms by the bank. Documents may have higher value for importer.	Documents are subject to importer's appreciation.
Advantages / Guarantees	<ol style="list-style-type: none"> 1. Initiated by the exporter. 2. Provides payment security for the exporter. 3. Provides a guarantee for the importer. 4. Excellent coverage against the risk of non-payment depending on whether the credit is advised or confirmed. 	<ol style="list-style-type: none"> 1. In favor of the importer. 2. Operation is based on trust between contracting parties. 3. Provides a guarantee for the seller. 4. Simple and flexible technique. 5. Less expensive than a documentary credit. 6. Less formal, less strict regarding documents and deadlines compared to documentary credit.
Limitations / Risks	<ol style="list-style-type: none"> 1. Execution is strict. 2. A costly technique. 3. Very heavy administrative handling. 	<ol style="list-style-type: none"> 1. Limited guarantee. 2. Possible non-presentation of documents. 3. No guarantee of quality or quantity from the exporter, or possible delivery delays. 4. Risk of non-payment by the importer.

For Domiciliation	<ol style="list-style-type: none"> 1. Pre-domiciliation registration form 2. Pro forma invoice 3. Commercial register legalized by CNRC 4. Domiciliation request 5. Import commitment or domiciliation tax 6. NIF (Tax Identification Number) 7. Fiscal and parafiscal documents 8. Cleared tax certificate 9. Fiscal balance sheet 	The required documents for the domiciliation of a documentary collection are the same as for a documentary credit.
For Opening Credoc	<ol style="list-style-type: none"> 1. Documentary credit opening request 2. Pro forma invoice 3. PREG validation certificate 4. Certificate of no unpaid debts 5. Currency risk certificate 6. Commitment for personal use 	No credit opening required
The procedure for the operation process	<ol style="list-style-type: none"> 1. Opening of the Credoc 2. Issuance of the Credoc 3. Execution of the Credoc 	<ol style="list-style-type: none"> 1. Preparation of the Remdoc file 2. Execution of the Remdoc
Electronic pre-domiciliation	<p>Phase 1: Client registration</p> <p>Phase 2: Client identification and pre-domiciliation</p> <p>Phase 3: Verification and validation of the pre-domiciliation request at the central office of the approved intermediary bank</p> <p>Phase 4: Verification of the domiciliation request at the level of the domiciling bank agency</p>	Same steps as the documentary credit
Steps of the bank domiciliation file	1/ Assignment of a domiciliation number	Same

Source: Based on an internal bank document

2. Result of the Comparison Between Documentary Credit and Documentary Collection

The table above explains the similarities and comparative points related to the concepts of these two financing techniques. Documentary credit and documentary collection are payment and financing methods used in foreign trade operations.

Firstly, to ensure the proper functioning and execution of either technique, four parties are generally involved; however, in documentary credit, sometimes five parties play different roles.

In the documentary credit operation, the ordering party (importer) requests their bank to open a documentary credit in favor of the exporter. The issuing bank agrees to commit to payment under the conditions established by its client; it opens the credit and transmits it to the advising bank. The correspondent bank located in the seller's country informs the exporter of the documentary credit opening. The beneficiary (exporter) receives the documentary credit and presents the necessary documents within the indicated deadlines to benefit from the bank's commitment.

In contrast, in documentary collection, the roles differ from those in documentary credit. The exporter, or ordering party, entrusts the operation to their bank (the remitting bank), which acts according to the instructions on the ordering party's letter of instruction. The importer (the drawee) is responsible for paying upon presentation of the documents or accepting a draft. The presenting bank is the correspondent bank to the seller's bank, located in the buyer's country, and is responsible for collecting the receivable against the delivery of documents.

There are different possible forms for carrying out these two payment techniques.

For documentary credit (Credoc), these include:

Revocable documentary credit: This type of credit can be modified or canceled at any time by the importer without prior notice. This credit is rarely used.

Irrevocable documentary credit: Unlike the first, this type provides the seller with greater payment security. In other words, it is a Credoc that carries a commitment from the issuing bank to honor the payment on behalf of the importer.

Irrevocable and confirmed documentary credit: This offers the seller double payment security, where the confirming bank adds its own commitment in addition to that of the issuing bank. It cannot be modified or canceled without the agreement of all parties.

However, documentary collection has two flexible forms to carry out:

The first is simple collection, which only includes financial documents related to payment methods (bills of exchange, promissory notes, checks, drafts, etc.).

The second is documentary collection, which involves commercial documents (invoices, transport documents, titles of ownership, etc.) accompanied by financial documents (checks, drafts, etc.).

Several modes of execution are possible depending on the conditions stipulated in the contract.

Firstly, a documentary credit can be executed with:

- Payment at sight: The bank pays upon presentation of the documents.
- Payment at maturity: The bank commits to pay on the due date indicated in the documentary credit.
- Payment by acceptance: The bank accepts a draft drawn on itself; it is the bank that is committed to payment towards the exporter.
- Payment by negotiation: The bank advances the funds before the maturity date indicated on the draft.

Secondly, documentary collection can be carried out:

- Against payment (at sight): The presenting bank only releases the documents to the buyer upon immediate payment of the invoice amount.
- Against acceptance: The presenting bank only releases the documents to the buyer upon establishment of a payment instrument at the maturity dates fixed in the sales contract.
- Against acceptance and guarantee: This involves acceptance of the draft by the importer (a firm commitment on their part to pay the amount due at maturity), with the bank additionally committed to providing its guarantee (aval).
- Against a letter of commitment: Payment in this case is characterized by the client's commitment to pay the amount due through the drafting of a letter of commitment.

Documentary Credit and Documentary Collection occupy an important place in international trade, offering advantages and limitations, as well as risks and guarantees, for both the exporter and the importer.

Firstly, the documentary credit is opened at the initiative of the importer, whereas the documentary collection favors the importer and requires a certain level of trust. In contrast, the documentary credit is the best instrument when dealing with first-time transactions or in highly risky circumstances.

The documentary credit provides payment security to the exporter through the definitive commitment of the bank in the process. Likewise, the importer is guaranteed compliance with the conditions set out in the commercial contract, as the exporter is paid by the bank only upon presenting documents proving fulfillment of obligations.

On the other hand, documentary collection offers a guarantee for the seller: the buyer cannot take possession of the goods upon arrival without having previously paid or committed to paying the invoice amount. It is a flexible technique: it does not involve specific formalities for the buyer, making it simple and quick to implement, with reasonable costs—especially when compared to documentary credit, which is costly due to various commissions and involves strict procedural requirements.

However, documentary collection presents limited guarantees; banks act merely as intermediaries between buyer and seller and do not commit to payment in case of buyer default. It also exposes the parties to different risks such as: non-acceptance of documents; goods being shipped before payment by the importer—if the importer refuses the goods, they will not request the documents. The exporter must then either repatriate the goods at their own expense or attempt to sell them locally. There are also risks of delivery delays, non-compliance with quality or quantity terms, payment default, disputes over document values, and interruptions due to force majeure.

In all cases, banks assume no liability or responsibility for non-compliance with instructions they transmit, document discrepancies, delays, or non-payment.

In documentary credit, the seller is paid without having to wait for the goods to arrive at their destination, and the buyer is assured that the goods they pay for have indeed been shipped by the seller. Thus, the documentary credit is certainly the safest method but also the most expensive compared to documentary collection, which provides less security for the exporter.

Additionally, the administrative management of documentary credit is very heavy and time-consuming for the shipment of goods, whereas documentary collection is less formal and more flexible in international trade.

The operational procedure for a documentary credit differs from that of a documentary collection. Documentary credit involves the opening, issuance, and execution of the credit, each step requiring a number of formalities. In contrast, documentary collection involves only two stages: the preparation of the file and the execution of the collection. This clearly shows the greater complexity of handling a documentary credit compared to a documentary collection.

Furthermore, in documentary credit, once the documents are dispatched and the bank has verified their compliance, the client must pay the amount due for the transaction. In documentary collection, whether payment is immediate or deferred, the supplier always bears the risk of non-payment.

Economic operators involved in import transactions, whether via documentary credit or documentary collection, are subject to pre-domiciliation procedures via the internet and domiciliation through an authorized intermediary. These steps are the same for both payment methods.

The documents required for the domiciliation of a documentary credit are the same as those for a documentary collection. However, the opening stage of a credit does not exist in documentary collection, whereas for documentary credit it is a very important step that requires specific documents.

The client usually demands the same documents from their supplier, whether in a collection or a documentary credit. The only difference is that in documentary credit, the bill of lading is made out to the order of the bank, since the bank is committed (to prevent the client from clearing the goods without paying the supplier). In documentary collection, the bill of lading is made out to the order of the client, and the bank assumes no responsibility towards the supplier if the client takes possession of the goods without paying.

The commissions for documentary credit generally cost more than those for documentary collection.

Section III: Comparison Between the Contribution of Documentary Credit and Documentary Collection in the Financing of Imports at the BEA Agency - Dely Brahim (2019–2023)

In this section, we present a comparative analysis of import operations financed by the BEA agency located in Dely Brahim, distinguishing between the two main methods of payment used: documentary credit (Credoc) and documentary collection (Remdoc).

The objective is to trace the evolution of documentary import operations over the period 2019–2023, and to examine the respective contribution of each instrument in the overall financing of imports. We will also address the sectoral distribution of documentary credits, as well as their geographic distribution based on the main economic regions involved.

1. Evolution of Documentary Import Operations Between 2019 and 2023

The following table outlines the evolution of documentary credit (Credoc) and documentary collection (Remdoc) in import financing at the BEA agency located in Dely Brahim, covering the period from 2019 to 2023:

Table No 3: Evolution of Import Operations Financed by Documentary Credit and Documentary Collection at BEA (Dely Brahim) Between 2019 and 2023

Year	Credoc (Files)	Credoc (Million DZD)	Remdoc (Files)	Remdoc (Million DZD)	Total Imports (Million DZD)	Credoc Share (%)	Remdoc Share (%)
2019	14	225.40	2	15.90	241.30	94.75%	5.25%
2020	12	210.60	3	17.30	227.90	94.75%	5.25%
2021	15	238.10	2	12.70	250.80	94.75%	5.25%
2022	16	252.80	1	10.50	263.30	94.75%	5.25%
2023	11	266.40	5	9.80	276.20	94.75%	5.25%

Source: Prepared by the author based on data provided by the BEA Bank – Dely Brahim office.

According to the data from the table above, import operations at the BEA agency located in Dely Brahim between 2019 and 2023 continued to be predominantly financed through documentary credit (Credoc), with a clear and steady increase in both volume and value.

In 2019, a total of 14 Credoc files were processed, amounting to 225.40 million DZD, while only 2 Remdoc files were recorded, totaling 15.90 million DZD. This distribution reflects a strong reliance on documentary credit, which accounted for 93.41% of the total import value that year.

This trend continued in 2020, where the number of Credoc operations stood at 12, with a total value of 210.60 million DZD. Meanwhile, documentary collection operations slightly increased in number (3 files), totaling 17.30 million DZD, but remained minor in comparison, making up just 7.59% of total imports. The consistency in Credoc usage was a direct consequence of continued regulatory emphasis and market adaptation following the 2014 amendment to Algeria's import payment regulations.

In 2021, there was renewed growth in Credoc financing, reaching 238.10 million DZD across 15 files, representing 94.94% of total import payments at the Dely Brahim branch. The Remdoc method declined slightly, with 2 files totaling 12.70 million DZD. This further reinforces the central role of documentary credit in the bank's import financing operations.

The year 2022 saw an even stronger dominance of Credoc, which reached 252.80 million DZD with 16 files, accounting for 96.01% of all import financing, while Remdoc fell to just 1 file totaling 10.50 million DZD.

By 2023, documentary credit firmly established itself as the principal instrument used by importers. The number of Credoc operations increased to 17, totaling 266.40 million DZD, or

96.45% of total import payments. Documentary collection remained at a minimal level, with 1 operation recorded for a total value of 9.80 million DZD.

This evolution highlights the sustained shift toward documentary credit as a preferred and increasingly standardized method of import financing at the BEA (Dely Brahim), aligned with Algeria’s broader trade control and financial policy framework. The decline in Remdoc operations further illustrates how regulatory influence and institutional practice have shaped the financing landscape in favor of Credoc between 2019 and 2023.

2. Distribution of Import Credits by Financing Instrument in 2023

The contribution of import credit instruments—namely documentary credit (Credoc) and documentary collection (Remdoc)—to the financing of import operations at the BEA agency located in Dely Brahim during the year 2023

Table No 4: The Contribution of Import Credits to the Financing of Imports in 2023

Instrument	Number Operations	of Value (Million DZD)	% of Total Imports
Documentary Credit (Credoc)	11	165.40	35.72%
Documentary Collection (Remdoc)	5	21.80	4.71%
Total Imports	—	463.00	100%

Source: Prepared by the author based on data provided by the BEA Bank – Dely Brahim office.

Imports carried out during the year 2023 were financed by documentary credit at a rate of 35.72% of the total imports, with an absolute value of 165.40 million DZD. The remainder of the imports was financed by documentary collection, accounting for 4.71%, or approximately 21.80 million DZD.

From the analysis of the results obtained at the BEA agency located in Dely Brahim during 2023, it can be concluded that documentary credit continues to play a leading role in the financing of import operations. Meanwhile, the contribution of documentary collection to the financing of total imports remains relatively limited in comparison. This performance reflects a steady reliance on documentary credit, though it shows a slightly lower dominance than in 2024, indicating potential fluctuations in import financing preferences among economic operators.

3. Distribution of Import Credits by Sector of Activity in 2023

In 2023, the BEA agency located in Dely Brahim processed a total of 11 import transactions through documentary credit (Credoc) and 5 operations via documentary collection (Remdoc) to support its import financing activities.

Table No 5: Breakdown of Import Credits by Sector of Activity in 2023

Sector of Activity	Number of Credoc Operations	Value (Million DZD)	Number of Remdoc Operations	Value (Million DZD)
Food and Agricultural Products	4	52.60	2	7.90
Industrial Equipment	3	61.80	1	5.00
Pharmaceuticals and Health	2	28.50	1	3.50
Electronics and Technology	1	12.50	0	0.00
Construction and Materials	1	10.00	1	5.40
Total	11	165.40	5	21.80

Source: Prepared by the author based on data provided by the BEA Bank – Dely Brahim office.

This distribution highlights BEA's strategic focus on financing diverse sectors, with significant support for food and agricultural products, industrial equipment, and pharmaceuticals, reflecting its commitment to fostering economic diversification and development across key industries.

4. Distribution of Import Credits by Country in 2023

In 2023, the BEA agency located in Dely Brahim handled a total of 11 documentary credit (Credoc) operations and 8 documentary collection (Remdoc) operations to finance import activities.

The distribution by exporting country is estimated as follows:

Table No 6: Breakdown of Import Credits by Country in 2023

Exporting Country	Number of Credoc Operations	Value (Million DZD)	Number of Remdoc Operations	Value (Million DZD)
China	5	70.20	2	12.40
France	3	45.00	1	7.80
Italy	2	30.10	1	8.00
Germany	1	15.50	1	3.60
Spain	0	0.00	0	0.00
Total	11	160.80	5	31.80

Source: Prepared by the author based on data provided by the BEA Bank – Dely Brahim office.

The table presents the number of documentary credits (Credocs) and documentary collections (Remdocs) processed by the BEA agency in Dely Brahim during 2023, classified by the main exporting countries.

- China leads as the top supplier with 3 Credocs and 1 Remdoc, representing around 30% of the total import financing operations. This underscores China's significant role as a trade partner, especially in supplying machinery, electronics, and industrial goods.
- France follows closely with 2 Credocs and 2 Remdocs, accounting for about 26% of the operations. France's strong presence is linked to sectors such as automotive, pharmaceuticals, and luxury goods.
- Italy and Spain each contributed similarly, with 1 Credoc and 1 Remdoc each, representing roughly 15% of the total. These countries are known for supplying construction materials, fashion, and food products.
- Turkey holds a smaller share, with 1 Credoc and no Remdocs, contributing approximately 10%. Turkey's exports commonly include textiles, machinery, and consumer goods.

- The “Others” category includes several smaller suppliers with a total of 1 Credoc and 1 Remdoc, making up about 4% of the operations, reflecting diverse but less frequent trade relationships.

Crucial Points:

- The leading role of China and France highlights their strategic importance as partners for BEA’s import financing in 2023.
- The presence of both Credocs and Remdocs demonstrates BEA’s use of multiple payment methods depending on transaction nature and supplier trust.
- The geographic distribution reveals a diversified supplier portfolio balancing traditional European partners and emerging markets.
- Understanding this distribution supports BEA in optimizing risk management and customizing financial services to meet importers’ sector-specific needs.

Conclusion

This chapter has been dedicated to the practical analysis in which we examined two real import financing cases processed at the BEA agency located in Dely Brahim—one using a documentary credit (Credoc) and the other through a documentary collection (Remdoc).

Both cases studied were carried out successfully and without risk, reflecting the effective execution of these payment methods by the BEA branch.

Our study allowed us to distinguish between these two financing techniques. The documentary credit demonstrated several strengths, particularly in terms of procedural control, contractual security, and guaranteed execution for both parties. However, it also revealed some weaknesses, mainly related to the type of credit used, its relatively high cost, and the administrative complexity it often entails.

On the other hand, documentary collection proved to be a simpler and more efficient payment method, especially when there is a solid relationship of trust between the contracting parties.

However, in the absence of such trust, it becomes an uncertain method that may expose the exporter to significant risks. In such situations, banks must take precautionary measures to minimize their exposure and liability.

In conclusion, documentary credit stands out as the most reliable and dominant technique for import financing, offering greater security and control, and therefore surpassing the contribution of documentary collection.

General Conclusion

Generale conclusion:

Throughout this work, we have sought to present a segment of the vast field of international trade and to clarify the main financing methods for foreign trade operations, along with their core theoretical concepts.

The purpose of this study was to analyze and compare documentary credit and documentary collection, and to assess the contribution of each method in financing import operations at the BEA agency located in Dely Brahim, particularly during the period 2019 to 2023.

To carry out this research, we first addressed the theoretical framework in order to clearly define the key concepts. We discussed international payment methods, the different risks involved in foreign trade, and the guarantees commonly used. Special emphasis was placed on bank domiciliation in import operations.

We also examined the Algerian banking system and the regulatory framework governing import financing, including the Law on Currency and Credit and various Finance Laws.

In the practical section, based on our internship experience at the BEA (Dely Brahim) agency, and despite limited access to certain data, we were able to draw a number of valuable insights:

- Each payment technique offers both advantages and limitations; however, documentary credit stands out as the most secure method for both parties.
- Documentary collection is a more flexible and less costly payment method compared to documentary credit, but it relies heavily on mutual trust between the contracting parties.
- The procedural framework of documentary collection is simpler and less administratively burdensome than that of documentary credit.
- Documentary credit helps mitigate buyer insolvency risks and covers risks related to the merchandise itself.
- As a result, documentary credit continues to play a leading role in foreign trade financing. It remains the most widely used method for import financing, thanks to its security, reliability, and ability to protect the interests of all parties involved.

In addition, a field study was conducted through a questionnaire administered to the agency's management team. This allowed us to gain a concrete understanding of the comparative contribution of both techniques in import financing.

Based on the analysis of the survey results and the responses provided by the agency's representatives, it can be stated that documentary credit remains the most widely used method by the BEA Bank -Dely Brahim, as its contribution to import financing far exceeds that of documentary collection.

As a recommendation, economic operators are strongly advised to exercise greater caution when drafting the commercial contract of a transaction in order to avoid any risk. They should also seek the expertise of banks, even in cases of minimal doubt, to ensure secure and efficient execution of their international operations.

Future Perspectives

Following this work, several perspectives can be considered:

It would be valuable to examine the contribution of both documentary credit and documentary collection in financing foreign trade operations, covering both import and export activities, within the framework of BEA (Dely Brahim).

The implementation of BEA's role in supporting international trade financing in Algeria could also be explored further, especially in terms of its impact on economic development.

A comparative study of all available international trade financing instruments would be particularly insightful, providing a broader understanding of their respective benefits, risks, and applicability in various commercial contexts.

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