



Petroleum Import: Experience of Bangladesh with Islamic Trade Finance Corporation (ITFC)

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Introduction



- 95% of petroleum need of Bangladesh is met by import (in crude or refined forms)
- Government of Bangladesh through the Ministry of Power, Energy and Mineral Resources (MoPEMR) has the sole authority (with the exception for rental power plants) to import petroleum products, while the operation is executed by the Bangladesh Petroleum Corporation (BPC).
- Bangladesh is an active founding member of the Islamic Development Bank (IDB). Islamic Trade Finance Corporation (ITFC) is was created in 2008 by IDB group to conduct their trade finance activities.
- The ITFC is currently the main external lender of the BPC to foot oil import bills.
- Bangladesh ranks the highest among the users of ITFC trade financing. Since ITFC's inception in 2008, Bangladesh has received over 40% of all approvals by ITFC.

Study objectives



- This study was conducted to
 - Understand Bangladesh's experience with ITFC, its main single source of finance for petroleum import in Bangladesh.
 - To find out ways to improve the designing and implementation of future operations through the conclusions, lessons learnt and recommendations of the study

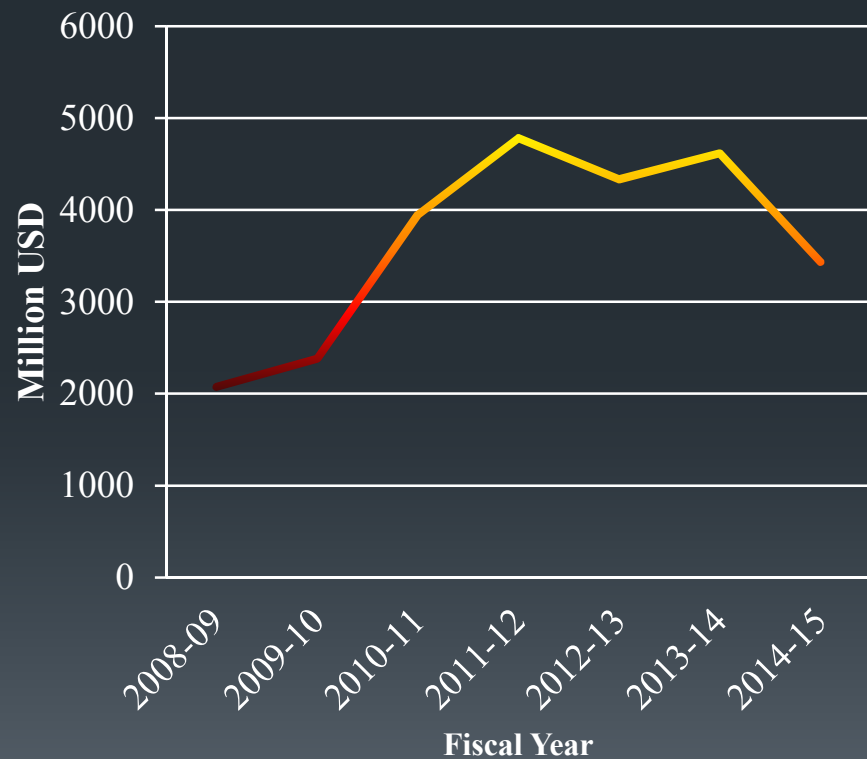


OVERVIEW OF Petroleum Import in Bangladesh

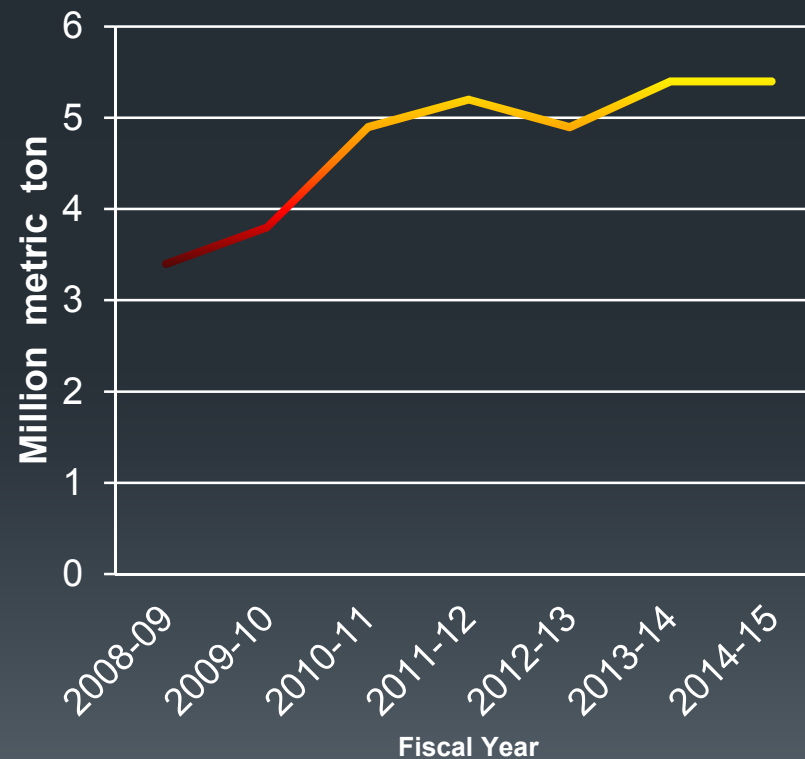
Quantity and value of petroleum import in Bangladesh



Value (million US\$)



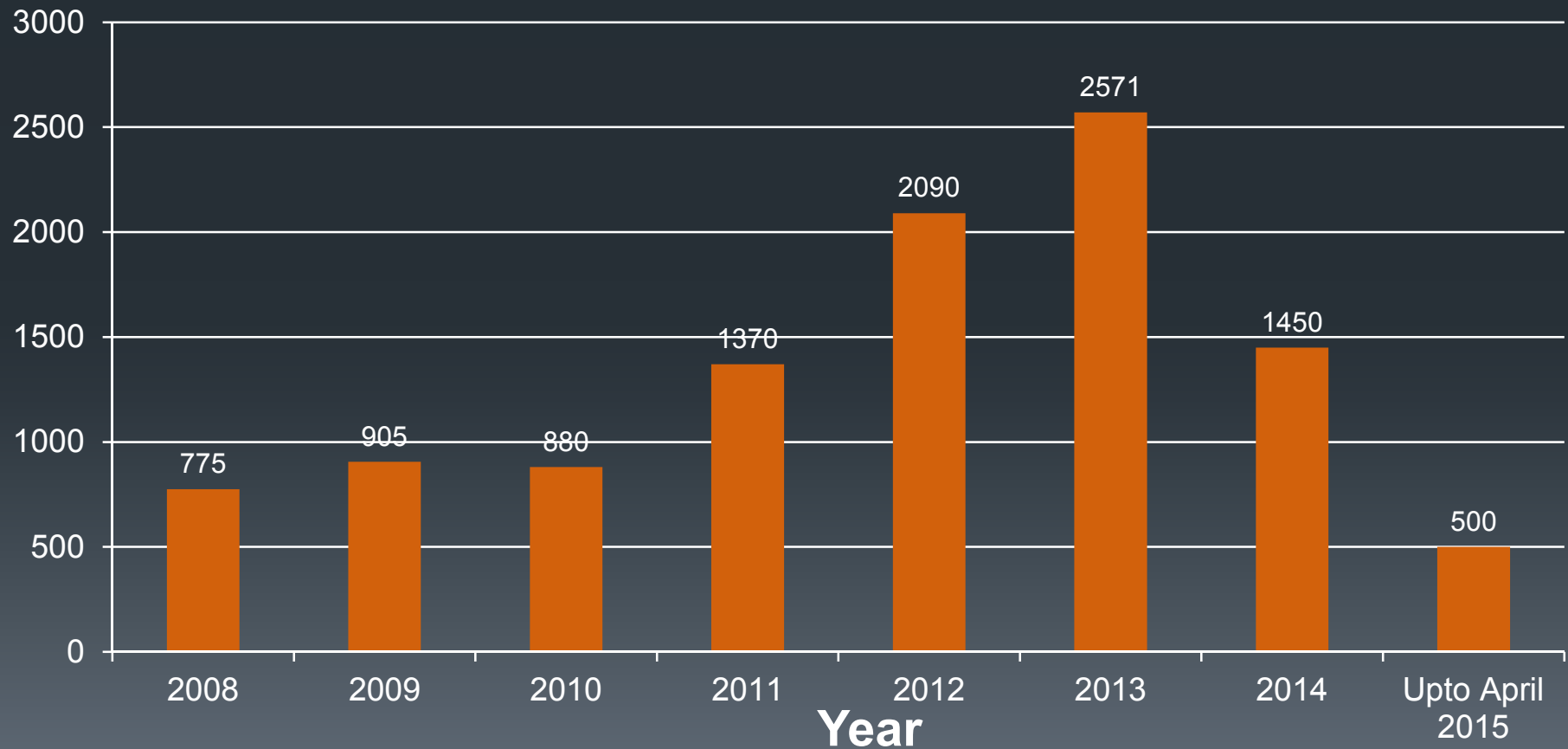
Quantity (in million metric ton)



Types of petroleum products imported by Bangladesh (quantity in million MT and Value in Million USD)

Year	Crude oil		Refined products (HSD, SKO, Jet & Mogas)		Lube Base Oil		High Sulfur Fuel Oil (HSFO)		Total	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
2007-08	1.04	742.5	2.27	2090.8	0.005	4.4	-	-	3.3	2837.7
2008-09	0.86	492.3	2.51	1570.3	0.005	3.4	0.03	8.7	3.4	2074.7
2009-10	1.14	667.8	2.63	1708.4	0.007	7.4	-	-	3.8	2383.6
2010-11	1.41	975.6	3.26	2811.6	0.005	6.1	0.23	155.7	4.9	3948.9
2011-12	1.08	887.4	3.41	3410.7	0.005	6.7	0.68	480.5	5.2	4785.1
2012-13	1.29	1061.1	2.83	2728.3	0.005	4.8	0.80	542.9	4.9	4337.1
2013-14	1.18	1004.5	3.16	2964.6	-	-	1.02	649.4	5.4	4618.5
2014-15	1.3	738.7	3.4	2389.9	--	--	0.69	349.3	5.4	3477.9

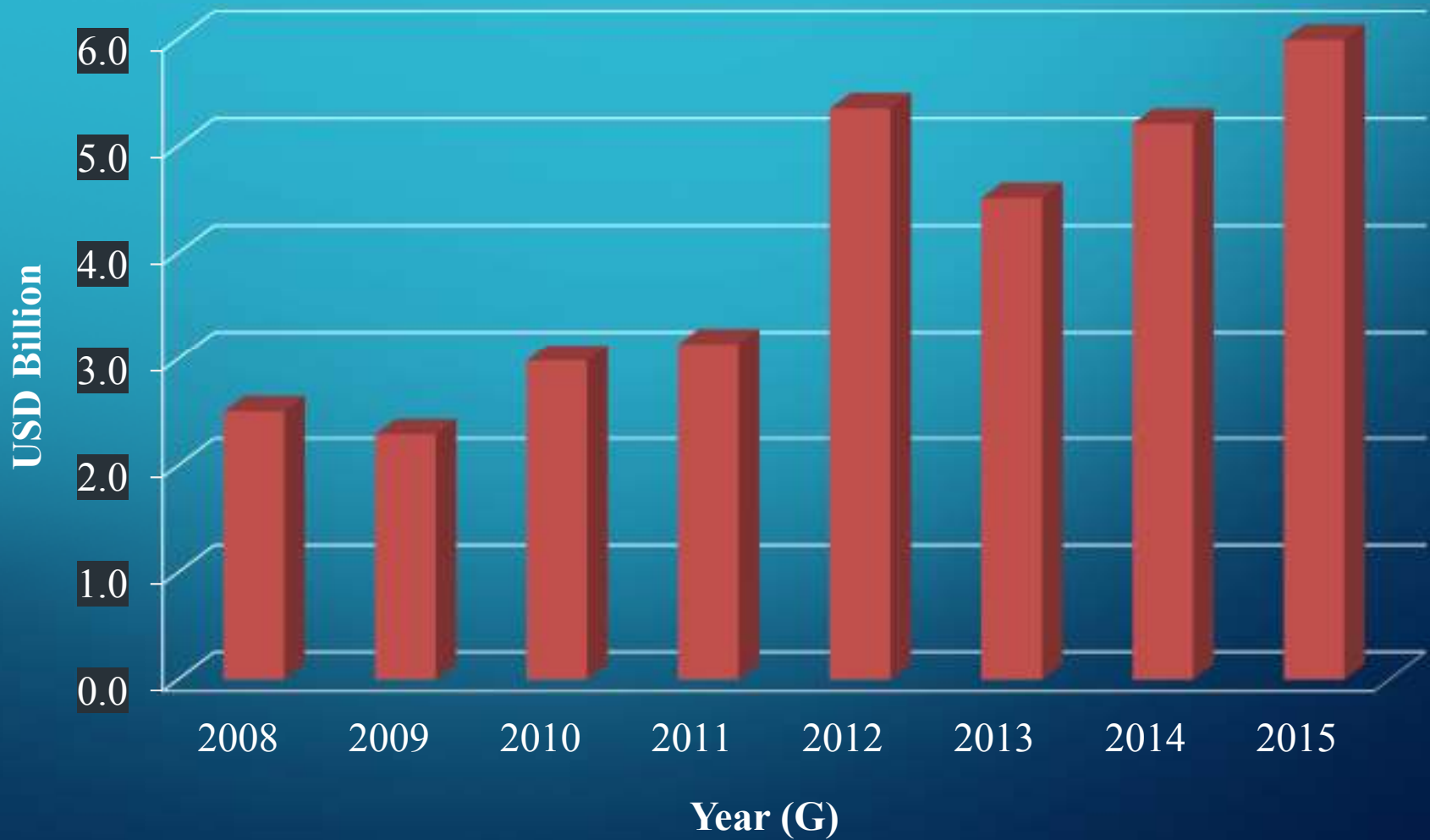
Year-wise loan approval by ITFC for Bangladesh (2008-2015), in million USD



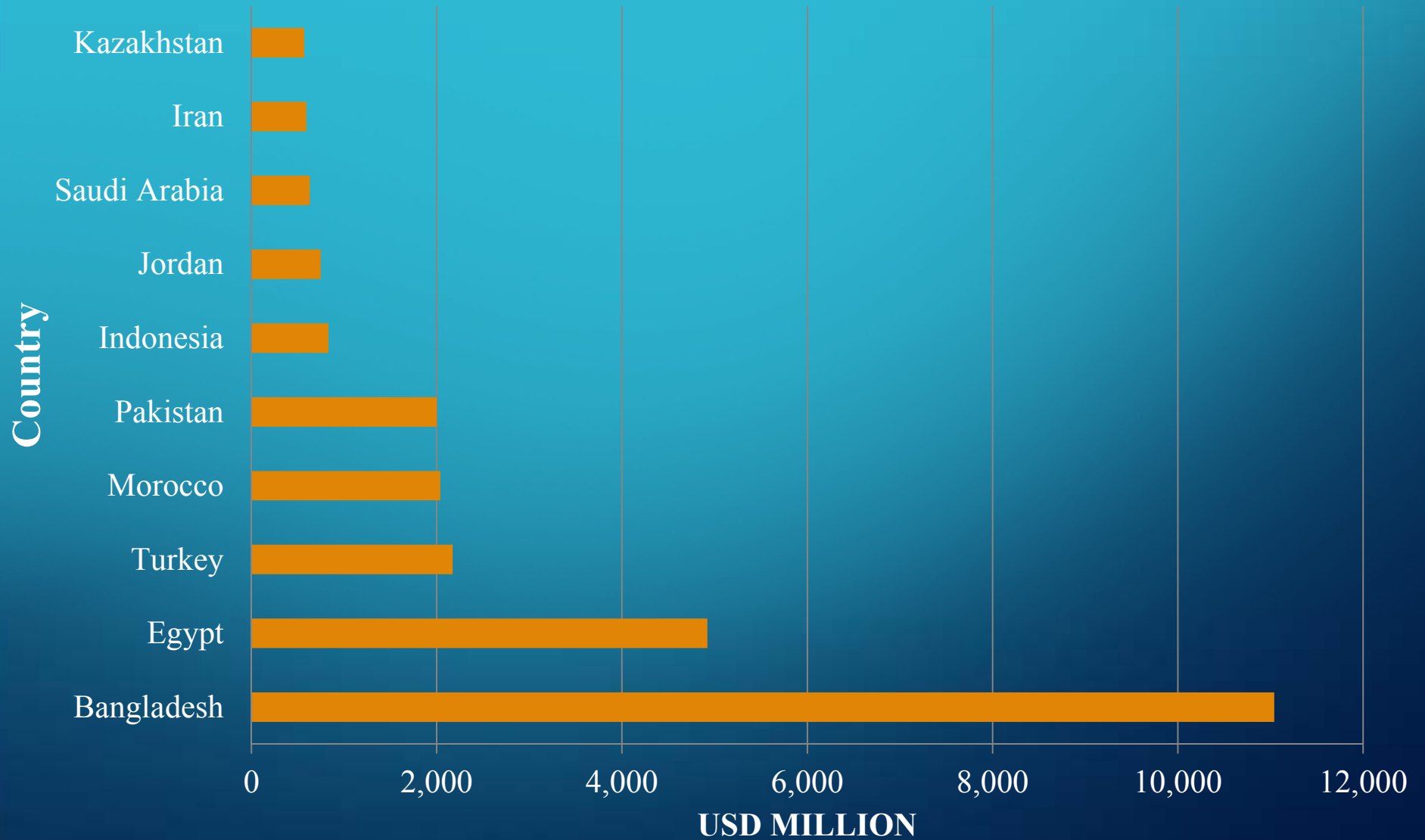
ITFC's contribution in petroleum import of Bangladesh

Year (Fiscal year, July-June)	Quantity of petroleum import (million Metric ton)	Petroleum import(FOB) million US\$	Utilised Loan amount taken from ITFC, million US\$	Share of ITFC loan in total import payment for petroleum products (%)
2008-09	3.4	2074.97	711.8	34.3
2009-10	3.8	2383.61	897.37	37.6
2010-11	4.9	3948.88	1307.97	33.1
2011-12	5.2	4785.15	1748.02	36.5
2012-13	4.9	4337.13	2469.62	56.9
2013-14	5.4	4618.54	1145.42	24.8
2014-15	5.4	3438.02	1015.47	29.5
Total (2008-09 to 2014-15)	32.9	25586.30	9295.67	36.3

TRADE FINANCE APPROVALS BY ITFC (2008 – 2015)



TOTAL APPROVALS BY COUNTRY SINCE INCEPTION (2008G-2015G)





ITFC and Bangladesh

- Total approvals ITFC for Bangladesh stood at \$10.34 billion during 2008 to second quarter of 2015. This is more than 28% of total foreign debt commitments for Bangladesh, which was approximately USD 35 billion during 2007 to 2015.
- This financing from ITFC has mainly been allocated for importing crude oil and petroleum products (only excepting a recent approval of \$50million for Steel Scrap/Steel billets).

(Source: IDB Group Data, Accessed on 20 July 2015)

ITFC and Bangladesh



- ITFC extends financing directly from its own resources through a *Murabaha* agreement. This is a kind of financing according to Islamic Shari'ah under which ITFC will purchase goods or commodities from a supplier at the request of the beneficiary and then sell them to the beneficiary with a deferred payment arrangement. The difference between the purchase price and the sale price is a reasonable mark-up added to the purchase price. This mark-up is the income of ITFC.
- More specifically, the Murabaha financing agreement is signed between ITFC and the beneficiary (say Bangladesh). Once signed, ITFC makes payment of the purchase price to the supplier of the commodity being traded thereby taking the direct credit risk of the beneficiary. The beneficiary then repays ITFC.
- The loan is approved under sovereign guarantee.

Criteria Based Assessment of financing petroleum import through ITFC (i) Relevance, ii) Effectiveness, iii) Efficiency



Relevance of ITFC financing: Market Failures Addressed by ITFC

- ITFC facilitated access to finance for Bangladesh specially during the global economic crisis.
- In Bangladesh ITFC's role in financing petroleum import was found to be very relevant and timely given the fact that foreign exchange reserves of the country was very low in 2008 (worth only 2 to 3 months of import) and there were limited alternatives of large volume of financing.

Fiscal Year (July-June)	Foreign exchange reserve (million US\$, end period)	Months of import that could be covered
2004-05	2930.0	2.7
2005-06	3483.8	2.8
2006-07	5077.2	3.6

Strategic positioning of ITFC as a source of finance for petroleum import by BPC

- Options of BPC to source financing for petroleum has been either of or combination of the followings-
 - Financing from ITFC,
 - financing (mostly syndicated) from other commercial banks operating in Bangladesh (Islami Bank, Standard Chartered/Citi/HSBC etc.)
 - Deferred payments (for example import from Petronas)
 - Income of BPC from sale of petroleum products.
- financing from ITFC seems to be most attractive for Bangladesh.
- ITFC is capable of generating large volume of syndicated fund and therefore, negotiation timing for arranging various amount of funds from different sources could be saved.
- ITFC mark-up rate is deemed competitive and comparable to other comparators like commercial banks or MDBs. ITFC's mark-up rate for 2015 was 4.2 %, whereas financing from foreign banks is about 5%.
- Deferred payment option (which usually offers lower mark-up) is not always possible. So this uncertainty discourages deferred payment.
- In case of importing oil from Saudi Arabia, third party confirmation (guarantee) is required for other banks or lenders, but not for ITFC. This is a notable favorable point for ITFC. This saves payment of commission for such guarantee, which costs around \$30,000 for each shipment. As Saudi Arabia is the main source of crude oil import of Bangladesh, it is attractive to source fund from ITFC, for purchase of petroleum products from this country.

Mark-up rates of funding from different sources(%)

Year	ITFC mark-up	Syndicated financing by other operators inside Bangladesh	Deferred payment (Petronas)
2008	6.00%		
2009	6.00%		
2010	5.50%		
2011	5.30%		5.03%
2012	5.00% to 5.30%	5.30%	
2013	4.65%	4.28%	4.50%
2014	4.50%		3.78%
2015	4.20%		



Bangladesh and ITFC

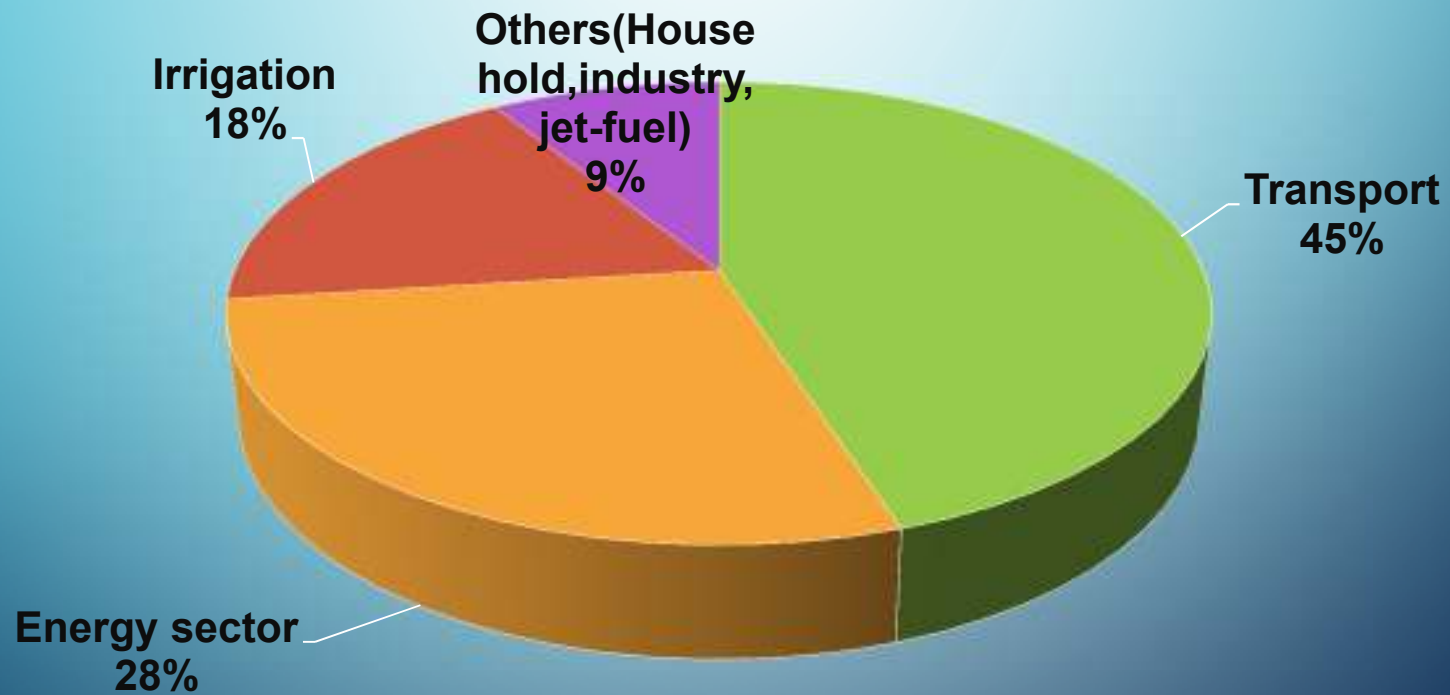
- In 2012 and 2013 Standard Chartered, HSBC and Citi N.A. joined in a syndication to extend financing to BPC to import petroleum worth of USD200 million and 400 million respectively. In 2013, the mark-up rate was LIBOR (0.3%) + 4.28%, when ITFC was applying 4.65% mark-up rate.



EFFECTIVENESS OF ITFC FINANCING

- Production agricultural and industrial commodities
- Transport
- Energy generation
- Employment generation
- ITFC financing covered 36% of import payments for petroleum products of Bangladesh during 2008-2015 period.
- As energy is a pre-requisite for growth of different sectors, ITFC played a crucial role in agricultural and industrial development of Bangladesh. It also contributed to better transport facilities and trading activities .

USE OF PETROLEUM PRODUCTS (2014)



EFFICIENCY OF ITFC FINANCING



- MoPEMR, BPC and BB are satisfied with the level of responsiveness, flexibility, and transparency of ITFC. Also Bangladesh was never a defaulter in repayment of the financing from ITFC. The working relation is very smooth in terms of disbursements and repayments.

Lessons Learnt

- The disbursement and repayment process between ITFC and Bangladesh government went quite smoothly. The financing amount agreed upon between the two parties at the beginning of a year was almost fully utilized in most of the years. The sovereign guarantee played a crucial role in these operations, which reduced the risk of ITFC and also reduced the processing time.
- With the falling international price of petroleum and government controlled higher price in the local market, BPC's financial ability is getting stronger. Moreover foreign reserve in Bangladesh is rising. At this backdrop amount of financing required by BPC from ITFC may decline in future and therefore, this study has suggested diversification of ITFC financing in Bangladesh. There are a number of sectors which might welcome ITFC's finance. In this case, however the issue of guarantee will be a crucial factor to explore as sovereign grantee will not be provided when ITFC's client belongs to the private sector.

Lessons Learnt

- Large entrepreneurs of different sectors in Bangladesh are not aware that ITFC could finance private sector trading. They are somehow aware of IDB's role for trade financing at the government level, but they don't have knowledge of ITFC's operations.
- ITFC may consider syndication with other banks based in Bangladesh to finance trade in various sectors to be able to penetrate into the private sector with the purpose of diversification. There is possibility to cooperate with foreign banks (Citi N.A., Standard Chartered, HSBC etc.) operating in Bangladesh in syndicated finance which will enable ITFC to participate in other sectors.
- The government of Bangladesh needs to develop modern systems and facilities in the BPC for importing and storing oil. More efficient planning for sales and marketing is also needed. Improvement of the efficiency gains by BPC may attract more financiers.
- It is important to introduce automated accounting system in the BPC.
- BPC's accounts need to be audited regularly. Without regular auditing of accounts, it might be very difficult to receive financing (if needed) from foreign sources.

Petroleum pricing and profit/loss of BPC (in million US\$)

Financial Year	Profit/(Loss)	GOVT. SUBSIDY	Actual Profit/Loss after Subsidy	Cumulative Loss/Gain (since 1976-77)	Contribution to National Exchequer (Duty, Vat & Taxes)
2006-07	-422.23	86.92	-335.31	-1679.19	399.33
2007-08	-1129.78	102.04	-1027.74	-2717.45	437.84
2008-09	-148.64	0.00	-148.64	-2858.19	277.47
2009-10	-371.56	0.00	-371.56	-3213.23	335.87
2010-11	-1378.33	0.00	-1378.33	-4505.69	493.46
2011-12	-1334.14	0.00	-1334.14	-5384.65	593.20
2012-13	-671.93	0.00	-671.93	-6001.99	600.05
2013-14	-318.47	0.00	-318.47	-6482.47	623.92
2014-15	-38.01	0.00	38.01	-6503.86	186

Cumulative loss as it stood after 2014-15 is 507.3 billion Taka

BPC's due

Organizations	Taka in billion
Four State-owned Banks (mostly against treasury bonds with 7% interest)	111.53
Biman Bangladesh Airlines (BBA)	14
Bangladesh Shipping Corporation (BSC)	3.61
Bangladesh defence service	1.11
Chittagong Port Authority (CPA)	0.23
Bangladesh Railway (BR)	0.34
Power Development Board (PDB)	0.24
Bangladesh Chemical Industries Corporation (BCIC)	0.2
Total	131.26 (around 1.7billion USD)

Source: Compiled from Rezaul Karim (2015) and Abdur Rahim Harmachi (2015).

Gap in local international price (2014-15)



Petroleum products	Import price per MT in crore Taka	Import price per litre (Taka)	Local price per litre(Taka)	Gap in international and local price (Tk per litre)	Quantity of Import in million litre	Profit in billion Taka
Refined products (HSD, SKO, Jet & Mogas)	54554.12	46.37	65	18.63	4004.6	74.6
HSFO (Furnace oil)	39240.8	33.35	42	8.65	813.8	7

Assuming around 90 billion Taka profit per year a total of 5 years is needed to cover all loss of BPC. Already 2 years have passed

Who are getting benefits of low international petroleum price?

- BPC (profit how much?) for how long by hampering growth?
- Is it necessary to pay back BPC bond money?
- BPC is still making a profit of Tk 25 on each litre of petrol, Tk 20 on a litre of octane, and Tk 17 on each litre of diesel and kerosene.
- Furnace oil (direct import by quick rental power plants)
- 30% of the oil need (mainly furnace oil) of quick rental power plants is directly imported directly by them. Now it is higher.
- Mass people (???)

Thank You

