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Roundtable Discussion Series 2025

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Foreword

Bangladesh Institute of Bank Management (BIBM) organized four roundtable discussions on various banking related contemporary issues in 2024. Papers presented in these roundtable discussions have been compiled in this publication titled “Roundtable Discussion Series 2025”. The keynote papers are prepared by research teams comprising of the faculty members of BIBM and experienced bankers from different banks. The research papers are finalized after accommodating the suggestions of discussants of the programs.

This Discussion Series would, we hope, attract attention of not only bankers, but also other professionals like credit analysts, economic consultants, economists, development practitioners as well as the academic community. BIBM would also welcome comments, critiques and suggestions on the themes contained in these research-based discussion papers.

S. M. Abdul Hakim

Director General, BIBM

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Paper One

Remittance Inflow in Bangladesh: Pre-Migration Financial and Non-Financial Initiatives

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List of Abbreviations

ADB	Asian Development Bank
AOF	Account Opening Form
BAIRA	Bangladesh Association of International Recruiting Agencies
BOESL	Bangladesh Overseas Employment and Services Limited
BMET	Bureau of Manpower, Employment and Training
CAGR	Compound Annual Growth Rate
CIP (NRB)	Commercially Important Person (NRB)
ECNEC	National Economic Council
FCBs	Foreign Commercial Banks
FDR	Fixed Deposit Receipt
FGD	Focus Group Discussion
FCBs	Foreign Commercial Banks
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
GDP	Gross Domestic Production
GGC, EU	Global Cosmetics Cluster-Europe
GTG	Govt. to Govt.
ILO	International Labour Organization
IOM	International Organization for Migration
ISO	International Organization for Standardization
KII	Key Informant Interview
KSA	Kingdom of Saudi Arabia
MFI	Microfinance Institute
MFS	Mobile Financial Services
MoEWOE	Ministry of Expatriates' Welfare and Overseas Employment
MRA	Microcredit Regulatory Authority
NBFI	Non-bank Financial Institution
NBR	National Board of Revenue
NGOs	Non-government Organizations
OBUs	Offshore Banking Units

OEMA	Overseas Employment and Migrants Act
PCBs	Private Commercial Banks
PDT	Pre -Departure Training
PKB	Probashi Kollyan Bank
PLC	Public Limited Company
PR	Public Relations
PS	Deposit Pension Scheme
ReMiMIS	The Returning Migrants Management of Information System
RMMRU	Refugee and Migratory Movements Research Unit
RPL	Recognition Prior Learning
SBs	Specialized Banks
SCOBs	State-Owned Commercial Banks
SDG	Sustainable Development Goal
SEIP	Skill for Employment Investment
TTCs	Technical Training Centers
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNESCO	The United Nations Educational, Scientific and Cultural Organization
USD	United States Dollar
WEWB	Wage Earners' Welfare Board
WEWF	Wage Earners` Welfare Fund

Executive Summary

Bangladesh has immensely benefitted from international migration and its concomitant remittances. After export earnings, workers' remittances have become the second largest stable source of financial flows to Bangladesh and in terms of the percentage of global remittance inflows the country is the third largest recipient country in South Asia. Remittances inflows to Bangladesh have increased to USD 21.6 billion in FY23 from the amount of USD 14.2 billion in FY14. Like many developing countries, Bangladeshi migrants especially low-skilled workers face multifaceted financial and non-financial hardships at the premigration, post-migration, and reintegration stages. The objectives of the study were to identify the organizations involved and policies available with pre-migration financial and non-financial services in Bangladesh, to examine the anatomy of remittances inflow in Bangladesh, and to review financial and non-financial initiatives available for migrants at the pre-migration stage in Bangladesh.

Both primary and secondary data have been used through a combination of questionnaire, key informant interview, FGD, and discussion with the migrants by visiting several Technical Training Centers located in Dhaka in addition to data collected from different publications of Bangladesh Bank, and BMET. The findings suggest that a major portion of migrating workers under the survey belonging to semi-skilled and less-skilled categories have little educational background. Source of money for going abroad for first-time workers mostly was their personal income followed by the sale of other assets and land and loan taken mainly from family members followed by NGOs, and Mahajon/Shamiti. Lack of financial literacy, absence of knowledge about the loan products, burden of documentation in getting loans, and relatively shorter periods to repay the banks' loan are being considered as hurdles for the remitters to get advantages of these loan products. A total of 85.71 percent and 94.29 percent of workers who are going abroad for the first time and second time respectively decide to migrate based on a well-thought-out plan whereas a noticeable percent (14.29 percent) is still going outside the home country for the first time without any definite pre-departure plan. Family members/ relatives/ friends are at the top of the list as a source of

information both for first-time and second-time expatriates with 59.18 percent and 57.14 percent of the total sample respondents, respectively. It is noticeable that hardly any worker in the sample group visits or depends on the websites of different countries to get information about the countries in which they are planning to go.

In our country, non-financial services like skill development, creating awareness among migrants about their rights, addressing complaints of expatriates, sending people at the lowest costs, etc. are being offered by different organizations like BMET and BOESL. The study found that, a small percentage of total migrants (16%) seem to go abroad without occupational training apart from the mandatory three-day long training program arranged at different TTCs under the supervision of BMET for the migrants. Only 39 percent of the respondents received banking service-related training although most of the second-time migrant workers (86 percent) have got such kind of training. Even in this age of digital financial services, the majority of migrants cannot use mobile financial services for sending remittances. Quite surprisingly, very few migrants, in fact none of the first-time movers, have ideas about the pitfall of sending money through hundi.

The study suggested some measures that include investing more in awareness programs by MoEWOE, BMET, and BOESL in collaboration with banks regarding the importance of having a bank account before leaving the country; placing and disclosing all information of savings and investments in website of MoEWOE's, offer non-financial services like providing smart and health card, appreciation certificate, assistance in submitting tax return, taking initiative to design new products similar to pension schemes, introducing investment instruments like green bond, sukuk bond or plain vanilla bond, mutual funds and investment linked deposit products; involving Union Parishad Chairman, Principal/ Headmaster of colleges/ schools or influential relatives in lending process, creating online network by Ministry of Labor and Employment or/and Ministry of Expatriates Welfare and Overseas Employment or/and authorized recruitment agencies for collecting certificates; arranging linkage financing through NGOs; designing appropriate loan products with grace period and conducting awareness programs at home and abroad, initiating digital lending such as "Nano Lending" or e-wallet, to giving conditional privilege to the migrants by Government through issuing passport and some other travel related documents

at concessional rate, campaigning programs for aspired migrant by BMET, TTC and PKB jointly regarding desired profession/ job, host country, expected earning amount, estimated costs of going abroad.

The report also recommended appointing more qualified and experienced instructors by BMET especially language instructors, redesigning the PDT program separately for unskilled, semi-skilled, and skilled migrants by keeping more duration and modules and providing the option to deliver online and offline or blending both on technology and language proficiency; engaging more private sector organizations and Non-Governmental Organizations (NGOs) in offering PDT even in remote areas of the country; and running more awareness programs by BMET with TTC and other vocational training academies about availability and benefits of running skill development programs covering the future requirements of the host countries to facilitate the potential migrants of the country. In this regard, launching more Government to Government (GTG) agreements with the host countries and enhancing communication with foreign missions of Bangladesh; arranging at least four academic sessions by BMET during PDT keeping covering financial knowledge on saving, loan and investment services available in banks and financial institutions, processes of sending money to home country and negativity of hundi would be helpful in augmenting foreign remittance in future.

Remittance Inflow in Bangladesh: Pre-Migration Financial and Non-Financial Initiatives

Section 1: Introduction and Background

1.1 Introduction

Bangladesh is immensely benefitted from international migration and its concomitant remittances. After export earnings, workers' remittances have become the second largest stable source¹ of financial flows to Bangladesh and are considered as lifeline for many people in Bangladesh. Remittances are a source of foreign exchange for the Government and help families for covering their day-to-day costs and investing in education, health, and small businesses (WB, 2006 & ADB, 2021).

Like many developing countries, Bangladeshi migrants especially the low-skilled workers face multifaceted financial and non-financial hardships at the premigration, post migration and reintegration stages. At the premigration stage, financial problems like high migrations costs, meeting up migration costs mostly from personal and informal sources at exorbitantly high interest rates, dearth of financial information, difficult in getting access to formal as well as hassle-free finance on time, mainly city centric sources of banks' finance for migrants are prominent. On the other hand, lack of skills, education and training, prevalence of a series of intermediaries at home and abroad, involvement of unscrupulous people in visa trading, fraudulent labor contracts, ill treatment and abuse, inability to understand local language, lack of access to healthcare services and risks to

¹ Remittances are relatively stable and acyclical. In contrast, debt flows and FDI are procyclical. Stability and acyclicity imply that remittances have the potential to make a critical contribution to support consumption in the face of economic adversity (Asian Development Bank and The World Bank, 2018).

inflict emotional distress or trauma are well known premigration non-financial challenges faced by migrants from Bangladesh.

Because of aforesaid difficulties, the potential benefits of remittances have not yet fully materialized. Total workers' remittances inflow increased by USD 448.50 million to USD 12900.63 million during July-January of FY24 compared to that of July-January of FY23 (Monthly Economic Indicators, January 2024, Bangladesh Bank). Despite noticing a high growth of migration rate from Bangladesh i.e.13 per cent in 2023 (BMET 2023), the remittance inflow increased by a small percentage of 3.60 percent (Bangladesh Bank, 2023). Both Pakistan and the Philippines rank behind Bangladesh as migrant source countries, but they are ahead in remittance earnings as per the latest World Migration Report 2024 by the International Organization for Migration (IOM). Bangladesh has retained its positions as a migrant origin and remittance recipient country– ranking sixth and eighth, respectively while Pakistan ranks seventh and sixth and the Philippines ninth as origin and fourth in remittance (Siddique, Kamran, 2024). This is largely due to high concentration of unskilled and semi-skilled workers employed in lower paid jobs, lack of financial literacy and growing preference of migrants to send money through informal channels². Financial sector containing with less efficient banking sector, and tiny equity and bond market, absence of suitable financial instruments, failure to create scope for migrants to invest in financial instruments or other income-generating opportunities are also important causes for lower amount of remittance inflow to the country. Receiving households tend to spend remittances on necessities, education and health and have little left to invest in financial instruments or other income-generating opportunities (WB, 2006 and ADB, 2021).

² This shows, however, only officially recorded figures and the total remittance including informal remittances is substantially greater than the officially recorded amount (Mayumi Ozaki 2012).

Particularly, the informal remittances sent by Bangladeshi migrant workers is a concern for the governments as well as regulators. The informal remittances are not only creating barrier to form a respectable amount of foreign currency reserve in a country like Bangladesh, but also this money is used as the sources for smuggling, money laundering, and other illegal activities. The initiatives taken to stop informal remittances by the Governments and regulators so far have had limited impacts, rather it is noticed that systems used for sending informal remittances are increasingly used by unbanked people especially in rural Bangladesh because of certainty, low cost, speed, accessibility, and customer friendliness.

A well-planned preparation of migrants at pre-migration level in terms of financial and non-financial issues is the key to get perceived benefits of remittance. A coordinated efforts by the governments, regulators and financial sectors are required for addressing non-financial issues like migrants' education and training, institutional capacities for migration governance, legal and policy constraints, financial inclusion, and financial issues like making available formal financial services to the doors of mass people across the country, ensuring required finance for covering migration costs sufficiently on time, arranging digital mode for sending remitters money and improving financial literacy can improve the aforesaid situation. It is pertinent to say, if migrants get proper education, training, information and financial literacy as well as finance from the formal sources before migration, their sufferings will be reduced at large scale in one way, on the other hand inclination to send money through informal sources might also be decreased. In this respect, an endeavor has been undertaken to study the pre-migration financial and non-financial initiatives available for migrants which may pave the way to form well-being policy and improve the institutional capacity associated with remittance for harnessing the expected benefits of migration.

1.2. Scope of the Study

This study has been conducted by covering both Pre-Migration Financial and Non-Financial Initiatives offered to only temporary migrants by covering data 2014- 2023. Discussion points have been raised depending on analyses accomplished through literature review, as well as information, opinions and comments collected from survey data, Focus Group Discussion (FGD) and Key Informant Interview (KII).

1.3. Literature Review

An increasing number of people at different stage of their lifecycle move within their country or to another country. Nearly 12% of the global population falls within the former category and 3.3% in the latter (UNESCO, 2018). With more than a billion people living outside their place of birth, migration has become an integral part of the development process (Varghese 2021). It is not difficult to understand the dominant reason why individuals migrate from one country to another; they just want to get a better life for them and for their families. “Migration is an expression of human aspirations for safety, dignity and better future” (UNESCO, 2018). The neoclassical theory of migration (e.g. Todaro, 1969) summarizes this behavior by suggesting that migrant workers move to other countries in response to a series of “push” factors related to the domestic economy and “pull” factors from the destination countries. Migration maybe one of the household strategies to deal with the limitations of the home country economy. Many factors, however, impact the actual number of migrations such as the cost of arranging migration, availability and interest cost of getting loan from formal, or informal sources, skill gap of the probable migrants, language and other social barriers.

International migration dynamics have attracted the attention of academics and policy makers because of its possible impacts in the home country macroeconomic conditions. Relationship between migration and economic development is one prominent area of research that covers a host of

socio-economic issues in the context of developing and developed countries. Migration is a decision that impacts the welfare of the household, the home community, and in the end the whole economy in various ways (Azam and Gubert, 2006). The main channels through which migration alleviates poverty are increased incomes from remittances, ability to smooth consumption, access to finance for starting a new business (Ratha et al., 2011). Migration and remittances have both direct and indirect effects on the welfare of the population in the migration sending countries (World Bank, 2006; UNDP, 2009; and De Haas, 2005).

Migration policy differs across the regions in terms of preference given on skill level of labor, types of profession and duration for which work visa is given. The migration policy of Asian countries is more focused on highly qualified short-term, as well as business immigrants (investors) who are not interested in further naturalization. A number of Asian countries (South Korea, Japan, Thailand, Malaysia, Singapore, Gulf monarchies) faced a sharp increase of unskilled labor immigration from Cambodia, Myanmar, Indonesia, India, Bangladesh, Pakistan, and Nepal. Middle East migration policy is more oriented to low-skilled labor immigrants who are able to compensate national labor shortages with their inexpensive labor (Ushakov & Auliandri, 2019).

Remittances are broadly identified as the transfer of money from migrants to individuals in the country of origin (Ratha, 2005; Weeraratne & Kelegama, 2015; World Bank, 2011; International Organization for Migration (IOM), 2006). The impact of remittances on household and the economy are manifold in nature. A cross-country study of 71 developing countries found that a 10 percent increase in per capita official international remittances will lead to 3.5 percent decline in the share of people living in poverty (Adams & Page, 2005). Evidence from Latin America, Africa, South Asia and other regions suggests that remittances reduce the depth and severity of poverty, as well as indirectly stimulate economic activity (Adams, 1991; Fajnzylber & López, 2008; Gupta et al. 2007; Anyanwu &

Erhijakpor, 2010; and Ajayi et al. 2009). Remittances have been found to have an income stabilizing effect at both the macroeconomic level (World Bank, 2006; and Chami et al. 2009) and at the household level. Migrant remittances increase domestic savings as well as improve financial intermediation (Aggrawal et al. 2006, Toxopeus & Lensink, 2007), which can improve growth prospects (Giuliano & Ruiz-Arranz, 2005). Access to information through the diaspora and the skills learned by returning migrants can improve technology, management and institutions in the sending country, and lower the fixed cost and knowledge requirements for setting up an international business (Carling, 2005). Migration contributes to human capital formation. There is a growing body of evidence suggesting that the income from remittances is disproportionately spent on education and health rather than everyday consumption (Adams, 2005; Adams et al., 2008 Valero-Gil, 2008).

A vast number of literatures have focused on the determinants of remittance flows e.g., Blue (2004), Naufal (2007), Osili (2004) and Vargas-Silva (2009) just to name a few. The findings of these studies suggest that a wide range of variables affect the likelihood to remit and the amount remitted. There are also many reasons why migrants send home part of their incomes, such as altruism, self-interest, loan repayment, and insurance motives. A series of studies have focused directly on the relationship between remittances and economic growth. Giuliano and Ruiz-Arranz (2009) explore the relationship between remittances and the financial sector of the receiving country. They posit that in those countries that lack proper credit markets, remittances may ease credit constraints by allowing entrepreneurs to obtain the necessary capital for business ventures. Using data for about 100 developing countries, they find evidence that remittances promote growth in less financially developed countries. Mundaca (2009) presents a theoretical model in which remittances have a long-term impact on the receiving economy only if these flows are invested in long-run technology or used for capital investment. However, she argues that investment in those

areas would only be possible in the presence of financial intermediaries that facilitate the lending of saved remittances money. It is found that, in general, remittances positively affect annual GDP per capita of remittance receiving countries (Vargas-Silva et al., 2009). It is also found that remittances decrease the poverty gap and ameliorate the depth of poverty. Remittances also contribute to improvements of welfare of remittance receiving households by smoothing consumptions and increasing spending on food and housing-relating expenditures (Raihan et al., 2009).

Remittance growth, however, faces different constraints and challenges at different time periods in the backdrop of ever-changing financial landscape. ADB (2021) identified a set of challenges with remittances that includes high remittance price, de-risking, continued dominance of cash in sending remittance, widespread use of informal remittances (hundi), regulatory environments, and lack of data. The same report suggested a number of recommendations to accelerate digitization in remittances to be driven by governments including regulators and supervisors, private sector, and for all the stakeholders. These are mainly increase financial education in digital services, use of technology to support anti-money laundering and countering financing of terrorism regulations, interoperability, development of digital identification solutions, incentivize digital transactions, simplify on-boarding while reassuring that it is secure and working together to safeguard remittances and promote competition and innovation. ILO (2020) conducted a comprehensive analysis of remittances in the context of Sri Lanka that came up with some suggestions i.e. improving interaction between banks and MTOs, adopting FinTech, promoting mobile money, reconsidering importance of female migrants for remittances, improving timing and frequency of remittance education, inculcating a positive attitude towards remittances, and producing better data on remittances.

Buchenau (2008) studied the link between migration, remittances and poverty in Bangladesh context and developed some policy options to improve the efficiency of migration and migration-related financial

services. Iqbal (2014) examined the impacts of remittance on the socio-economic condition of Bangladesh. Positive impact found in the study include increased income, higher spending on children education, increase in social status, and creation of employment opportunities for poor. A significant relationship between growth in remittances and different outcome variables in the economy with positive impact on poverty, household income and financial inclusion has been found in Bangladesh economy (Akhter & Islam 2019). Raihan (2023) found the key remittances are derived from Middle Eastern countries, the United States, the United Kingdom, European nations, and East Asian countries.

Anima et al. (2023) analyzed the consequences of using Hundi as an informal channel for transferring funds by Bangladeshi immigrants as enabling illegal financial operations in Bangladesh. They evidenced the adverse economic impacts of the Hundi on foreign reserves and misuse of the Hundi as a means for money laundering, aiding the incorporation of illegal funds into the legitimate economy, and helping illicit activities for example foreign property purchase. In this regard, they recommended enhancing the governance and supervision of the formal financial sector with increasing the banking services; intensifying public knowledge of threats and consequences of using Hundi; team up internationally to halt cross-border transmissions in hundi businesses; offering more competitive exchange rates by banks; boosting digital transactions like mobile banking, online transfers, digital wallets, remittance-based apps; and designing an accessible agent banking system in formal banking in the country.

1.4. Objectives

The primary objective of this paper is to comprehensively examine the financial and non-financial services available for migrant workers at the pre-migration stage. To attain the primary objective, this study aims to shed light on the following specific objectives:

1. To identify the organizations involved and policies available with pre-migration financial and non-financial services in Bangladesh.
2. To examine the anatomy of remittances inflow in Bangladesh.
3. To review financial and non-financial initiatives available for migrants at the Pre-Migration Stage in Bangladesh.
4. To examine the effectiveness of financial and non-financial initiatives in promoting remittance in Bangladesh.

1.5. Data and Methodology

The overall methodology of the study is a mixed method using both primary and secondary sources covering qualitative as well as quantitative data.

1.5.1.A. Data: Primary Sources

The primary data have been collected by administering semi-structured questionnaires from authorities involved with financial and non-financial services offered to the migrants at the premigration stage. In collecting financial data, a questionnaire was sent to all types of banks including Probashi Kallyan Bank (PKB) and a few NGOs linked with the financing migrants. Of which, a total of 25 banks and 2 NGOs have responded and sent back questionnaires by answering questions asked to them. Apart from these, several surveys have been conducted through visiting Bureau of Manpower, Employment and Training (BMET) and a number of Technical Training Centers located in Dhaka to get information and opinion based on a questionnaire from the Bangladeshi migrants. In collecting primary data, respondents have been classified into two groups, namely first time going abroad and the 2nd time going abroad. Besides collecting data through questionnaires, a Focus Group Discussion (FGD) with 25 participants working in banks, FIs and NGOs and Key Informant Interviews (KII) are also conducted to get complimentary information side by side with responses in the questionnaires.

1.5.1.B. Demographic Profile of Respondents

In selecting respondents, we have emphasized the position, relevancy and knowledge level of respondents on the remittances (Annexure Table-1). In terms of sample demographics, respondent characteristics are varied widely. Respondents' gender, age, educational qualification, previous profession, family member number, and dependent family members are relevant personal data. While demographic information has no impact on this study's analysis level, the reporting may provide a generalized view in terms of male and female participation in migration, at which average age workers go abroad to earn money, and their educational level in Bangladesh. The Annexure Table-1 shows that migrating workers are overwhelmingly male (84% for 1st time-going and 75% for 2nd time going workers). Male-dominant migration reflects the restrictive policies and conservative values of both the sending and receiving governments as well as the socioeconomic and cultural conditions of countries. It is revealed that respondents varied widely in terms of their age. The highest representatives are the age group of 26 to 35 years with 55% of the 1st time going workers and 43% of the 2nd time going workers. The study observed that young people were interested in migrating. It also shows that migrating workers in this sample have very little or no educational background as the majority of the workers (55% of the 1st time going and 57% of the 2nd time going) have a secondary level of education followed by SSC passed workers (26.5% of the 1st time going and 17.1% of the 2nd time going). In terms of previous professions, Garments job is found to be the main source of income for the 1st time going workers (29%) followed by service (14%), shop keeping (12%). However, service is found to be the main source of income of the 2nd time going workers (29%) of the majority of respondents followed by garments job (17%), day labor (11.4%), and farming (8.6%). All the professions are found to fall into semi-skilled and less-skilled categories. The average family size of both 1st time-going and 2nd time going workers is found as 4 persons which appears to be close to the country's average household size in the Household Income and expenditure survey 2022 of 4.26 persons (Bangladesh Bureau of

Statistics, 2023). 24.5% of the 1st time going workers have 2 dependent family members and 25.7% 2nd time going workers have 4 dependent family members who depend on their income. Majority of the respondents are from Dhaka (34.7% of the 1st time going and 45.7% of the 2nd time going workers) followed by Gazipur (14.3% of the 1st time going and 17.1% of the 2nd time going workers). The reason behind this scenario is that they were surveyed at the two TTCs of BMET namely Bangladesh-Korea Technical Training Centre, Dhaka, and Bangladesh-German Technical Training Centre, Dhaka where visits of migrating workers from distant districts from Dhaka are rare (Annexure Figures-1 & 2). It is also observed that Saudi Arab remains the highest number of workers destination country (40.8% of the 1st time going and 34.3% of the 2nd time going workers) followed by Jordan (18.4% of the 1st time going and 22.9% of the 2nd time going workers) and UAE (10.2% of the 1st time going workers) and Mauritius (11.4 of the 2nd time going workers) as stated in Annexure Figures-3 & 4 also. Malaysia, Qatar, Oman, Iraq, and Kirgizstan are found as other destination countries of the workers.

1.5.2. Data: Secondary Sources

The secondary data have been collected from Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE), Bangladesh Bank, Bureau of Manpower, Employment and Training (BMET), Bangladesh Overseas Employment and Services Limited (BOESL), Bangladesh Association of International Recruiting Agencies (BAIRA), Recruiting Agencies, Wage Earners' Welfare Board (WEWB), State-owned Commercial Banks (SOCBs), Private Commercial Banks (PCBs), Foreign Commercial Banks and Specialized Banks (SBs) and Probashi Kallyan Bank (PKB). Relevant websites of Ministries, Institutes, banks or other financial institutions at home and abroad have also been visited to get information.

1.5.3. Reliability and Validity Test

After collecting data from primary and secondary sources as well as focus group discussions and KII, necessary coding and cleaning have been done to ensure the reliability and validity of data.

1.5.4. Analysis and Interpretation of the Data

Different statistical and accounting tools such as simple growth rate, and Compounded Annual Growth Rate (CAGR) have been applied to analyze the collected information. Both tabular and graphical approaches have been applied in presenting and analyzing data. The paper has been finalized by contemplating the opinions and observations expressed by discussants and participants of the Round Table Discussion.

1.6. Organization of the Report

This report is organized as follows. As the introductory part, **Section-1** covers scope of the study, literature review, objective of the study, data and methodology and section plan, the **Section-2** covers associated organizations and policies involved with migration process. **Section-3** shows the anatomy of remittances inflow in Bangladesh. **Section-4** reviews financial and non-financial initiatives available for migrants at the Pre-Migration Stage. **Section-5** demonstrates effectiveness of financial initiatives in Promoting Remittance and effectiveness of non-financial initiatives have been covered in the **Section-6**. And the **Section-7** presents some issues with suggested measures.

Section 2: Organizations Involved and Policies Available with Pre-Migration Financial and Non-Financial Services in Bangladesh

2.1. Ministry/ Organization/ Institutions Involved with Pre-migration Financial³ and Non-Financial Services in Bangladesh

The Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) is on the helm of all activities relating to information, partnerships, facilitations and monitoring of overseas employment. MoEWOE with organizations like BMET, BOESL and WEWB has been working to supply more skilled workers, ensure migration in legal ways, safeguard the welfare of all migrant workers, create opportunities of securing overseas employment for workers from all regions of the country and hence is increasing the flow of inward remittances (Table-2.1). Further, establishment of a specialized Bank named Probashi Kallyan Bank (PKB) with the prime objective to serve migrants with finance and designing app-based mechanism to send money quickly is a timely initiative of the Government.

Table 2.1. Ministry/ Organization/Institutions Involved with Pre-migration Financial and Non-Financial Services in Bangladesh.

Ministry/ Organizations/ Institutions	Types and Origination	Activities
Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) ⁴ Established in 2001.	Govt. delegated the responsibility related to management, governance and welfare of labor migration to the ministry of MoEWOE for overseeing and supervising the functioning of the activities of BMET,	Ensuring transparency and accountability and overall governance in the recruitment process.

³ Although name of organizations was mentioned under the Pre-migration stage, same organizations might offer services in post migration stage too.

⁴ MoEWOE was newly established in 2001 which was earlier 'Ministry of Manpower development and Social Welfare'.

Ministry/ Organizations/ Institutions	Types and Origination	Activities
	BOESL, Wage Earners' Welfare Board (WEWB) and Probashi Kallyan Bank (Expatriates' Welfare Bank).	
Bureau of Manpower, Employment and Training (BMET) ⁵ Established in 1976.	BMET ⁶ was established as an attached department of the then 'Ministry of Manpower Development and Social Welfare'. The Bureau was created in line with the ILO Convention 87, 88, 96 and 97.	▪ Conducting informal and special training courses through Technical Training Centers (TTC) & establishment of new TTC through development projects. ▪ Providing with Smart cards, Biometric registration, and immigration clearance to the migrant workers. ▪ Regulating and monitoring licenses of private recruiting agencies.
Bangladesh Overseas Employment and Services Limited (BOESL) Established in 1984.	BOESL ⁷ is the sole state-owned and ISO certified manpower exporting company formed under the Company Act VII of 1913 Bangladesh.	• Undertaking time-bound initiatives for expediting the safe, ethical and responsible low-cost labor migration.

⁵ In 29 August, 2023, the Executive Committee of the National Economic Council (ECNEC) approved a Taka 3,751.09 crore project to establish 50 TTC at upazila level. BMET will implement the project for setting up the TTCs with entire government fund by March 2028.

⁶ BMET is engaged in skill development of migrant workers by following Overseas Employment Act 2013, Emigration Rules 2002, Recruiting agents conduct & license Rules 2002, Wage Earners' Welfare Fund (WEWF) Rules 2002, Overseas Employment Policy, 2006, Selection of CIP (NRB) policy, 2006, Special privilege policy of expatriate Bangladeshis for remittance, 2008 and Medical Test policy for overseas employment 2008.

⁷ BOESL discharges its responsibilities by following Overseas Employment & Migrants Act 2013, Expatriates' Welfare and Overseas Employment Rules 2016 and Emigration Rules 2002.

Ministry/ Organizations/ Institutions	Types and Origination	Activities
		• Conducting labor market research, and new market exploration.
Bangladesh Association of International Recruiting Agencies (BAIRA) And almost 2000 Private Recruiting Agencies Established in 1984	BAIRA was established for catering to the needs of the licensed recruiting agencies.	• Ensuring supply of quality manpower at a minimum cost within the time schedule given by the employers. • Offering Insurance Schemes (one for the workers before their departure and the other is for their families).
Wage Earners' Welfare Board (WEWB) ⁸ Established in 1990	In order to help the families of the workers abroad, Government formed "Wage Earners Welfare Fund ⁹ under the authority of Article 19(1) of the Emigration Ordinance-1982.	▪ Providing legal assistance and collecting compensation from foreign employers for deceased migrants, ▪ Giving assistance to afflicted migrant workers, health services, inspection of workplaces, return of dead bodies of the migrant workers, and financial assistance to the family of the deceased migrant workers. ▪ Providing financial support for the income of poor migrant workers and their families.

⁸ Activities of "Wage Earners Welfare Board" are mentioned here although it works mainly at post-migration stage. **WEWB** was established as a statutory body to manage the Welfare fund under "Wage Earners Welfare Board Act, 2018". **WEWB** managed by an intergovernmental official run board. It works as a subsidiary of Bureau of Manpower Employment and Training.

⁹ Welfare Fund is a Bangladesh govt. fund that financed by mandatory contributions from migrant workers.

Ministry/ Organizations/ Institutions	Types and Origination	Activities
		▪ Awarding scholarship to meritorious children of migrant workers; ▪ Giving financial support for strengthening the labor Wing of Bangladesh Mission abroad.
Probashi Kallyan Bank (PKB) ¹⁰ (Expatriates' Welfare Bank) Established in 2011.	PKB is a specialized bank in Bangladesh that continues its operations through 120 branches in various districts within the country.	Dedicated to extend collateral free loans at low interest rates to migrant workers. Loan Services of the bank are Immigration Loans, Rehabilitation loans, Bangabandhu immigrant large family loans, Special Rehabilitation Loans Self Employment Loans, 2021, Female immigration loan and Women Rehabilitation Loans

Source: Researchers' compilation.

2.2. Policies Available with Pre-Migration Financial and Non-Financial Services in Bangladesh

Having explicit policy on international labor migration from Bangladesh has resulted to the creation of various Government agencies to promote, manage, and protect migrant workers. These policies are likely to be conducive to finance migrants at premigration stage, promote the employment of Bangladeshi overseas and regulate private participation in the recruitment process (Table-2.2).

¹⁰. Established in 2011 through the Probashi Kallyan Bank (PKB) Act 2010. It had a startup capital of Tk. 1 billion and 95 percent of the capital came from Wage Earners' Welfare Fund and five percent from the government of Bangladesh.

Table 2.2: Important Act/ Policies/Rules Available with Pre-Migration Financial and Non-Financial Services in Bangladesh

Types	Act/ Policies/Rules	Brief Contents	Benefits/ Objects
Policy Relating to Financial Services/ Benefits	Cash Incentive for Inward Foreign Remittance.	From 1 January, 2022 the cash incentive has been increased to 2.5 percent from 2 percent. The incentive was elevated to 5% in October 2023. Earlier only 2.5 percent incentives were given by the government. From now on, the banks will be able to offer incentives at the rate of 2.5 percent side by side of the govt.	Higher benefit would be derived by wage earners and it will encourage more inward flow of remittance.
	Compulsory Insurance Scheme for The Expatriates	Wage Earners' Welfare Board along with the Jiban Bima Corporation has introduced a compulsory insurance scheme called 'Probashi Karma Bima'-a mandatory group insurance facility for expatriates. The expatriate workers age between 18-58 yrs. can opt for coverage of Tk10 lakh for five years (renewable) by paying a one-time premium of Tk1,000.	• In the event of workplace death or and permanent disabilities like loss of eyes or limbs, the maximum insurance claim is Tk10 lakh. • In case of partial limb losses, the expatriate workers will be eligible to claim 5-10% of the total insurance coverage. • If a worker goes abroad for employment but returns without finding a job or returns home after losing a job within six months of migration, they will receive compensation of Tk. 50,000 from the insurance.

Types	Act/ Policies/Rules	Brief Contents	Benefits/ Objects
Policies Available for Non-Financial Services in Bangladesh	Overseas Employment and Migrants Act (OEMA) 2013 (Amendment Bill 2023 passed in National Parliament.)	OEMA serves as an important legal document in Bangladesh pertaining to the protection of the rights and welfare of migrant workers.	The OEMA covers important grounds for protecting migrant workers, including necessitating-- ▪ written employment contracts with the terms and conditions of the work overseas; establishing Labor Welfare Wings in receiving states to address workers' complaints and forbidding illicit recruitment activities. ▪ Govt. has revised the Overseas Employment & Migrants Act 2013 to ❖ make middlemen handling international migration accountable ❖ emphasize on female migrants' rights ❖ Fines for recruiting agency crimes.
	Expatriates' Welfare and Overseas Employment Policy-2016.	In this policy, activities/action plan is scheduled for 13 ministries, departments and government agencies.	For strengthening inter-ministerial cooperation and to establish a participatory steering framework, National Steering Committee on overseas employment has been formed. National Labor Migration Forum has also been formed to ensure stakeholder engagement.

Types	Act/ Policies/Rules	Brief Contents	Benefits/ Objects
	Overseas Employment and Migrant (Recruiting Agent License and Conduct), Rules, 2019.	The Govt. included a 12-point code of conduct for the recruiting agents.	The rules will prohibit recruiting agents from taking any extra fee from immigrants other than the service charge fixed by the government.
	Overseas Employment and Migrant (Recruiting Agent Classification) Rules, 2020.	A 'recruiting agent classification evaluation committee' will evaluate agents' performance in light of 14 types of activities related to labor migration and will be categorized as A, B, C and D according to their performance.	This new monitoring mechanism will help control forgery and other irregularities in this sector. and efficiently promote human resource export.
	The National Reintegration Policy for Migrants in 2022.	The Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE) has prepared this policy aims to provide a range of services to migrant workers who are returning home.	The services will include: ▪ A comprehensive financial literacy training; Entrepreneurship training; and budgeting and financial counselling for proper utilization of remittances. ▪ Special benefit packages for the returnees and their family members based on remittances received; ▪ Comprehensive database for returnees (ReMiMis).
	Others	Emigration Rules 2002; Wage Earner's Welfare Board Ordinance, 2002;	These rules and policies are formulated to address the problems of

Types	Act/ Policies/Rules	Brief Contents	Benefits/ Objects
		Recruitment Agent Ordinance 2002; Overseas Employment & Migrants Act 2013; MOE Law-2017(01-08-2017); Overseas Employment and Immigrants (Recruiting Agent License and Conduct) Rules– 2019; Overseas Employment and Immigrants (Recruiting Agent Classification) Rules– 2020; Migrant Worker Rehabilitation Loan Policy for 2020; Guest Instructor and Guest Skilled Worker Invitation and Remuneration Policy, 2022; Notification, Ministry of Expatriate Welfare and Foreign Employment, Legislative Branch; General Order-2023 regarding Compromise Settlement of Grievances	expatriates stemmed from time to time.

Source: Researchers' compilation

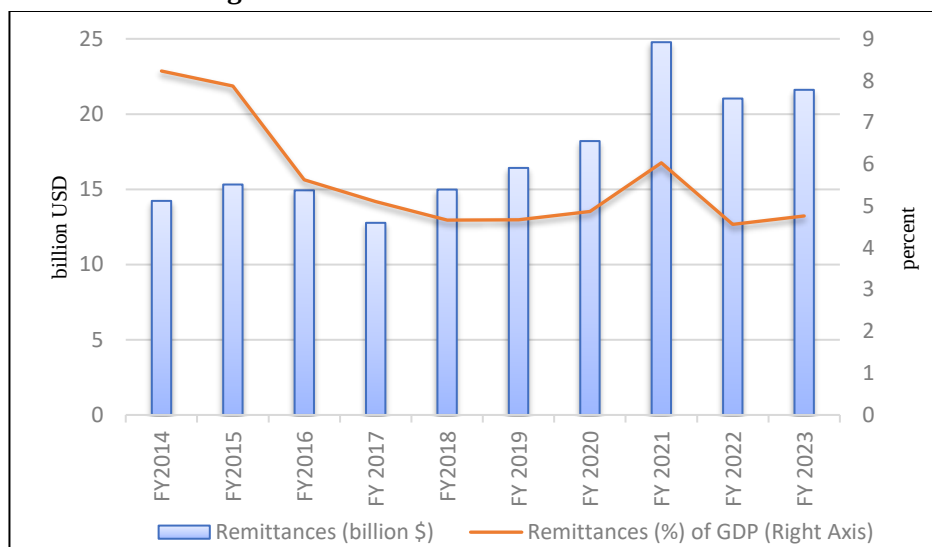
Section: 3: Anatomy of Remittances Inflow in Bangladesh

The inflow of overseas remittances is always a reliable source of net foreign currency earnings for Bangladesh although inward remittance is always sensitive to economic and political volatilities in source countries. The remittance as a share of GDP is 5.2 percent in Bangladesh in 2023 which can be substantially higher if the informal flows of remittances could have taken into consideration.

3.1. Remittance Inflow to Bangladesh

Remittances inflows to Bangladesh have increased to USD 21.6 billion in FY23 from amount of USD 14.2 billion in FY14. Remittance flows to Bangladesh upped in 2023 from the negative growth in 2022. Further, fluctuation of amount of remittances has been noticed in this period reaching a peak of USD 24.8 billion in FY21 with the lowest amount of USD 12.8 billion in FY17 (Figure-3.1). Workers' remittances as a percentage of GDP, which averaged around 6.3 percent during the 2014-2018 period (Figure-1), reflecting a steady growth in remittances as percentage of GDP in the last decade.

Figure 3.1: Trends of Workers' Remittances



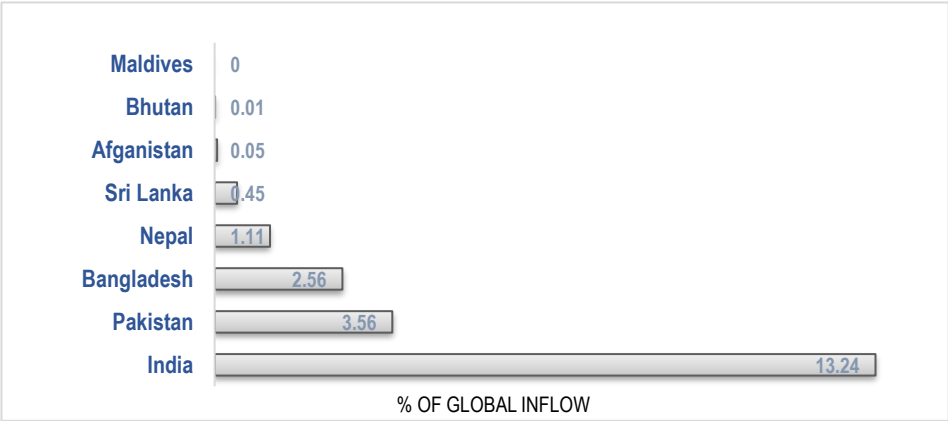
Source: Bangladesh Bureau of Statistics and Bangladesh Bank

3.2. Position of Remittance Recipient Countries in South Asia

South-Asian countries take the lead as the top remittance recipients with a growth rate of 12.2 percent reaching \$176 billion in 2022 (Migration and Development Brief 38, World Bank, June 2023). In terms of the percentage

of global remittance inflows to each South Asian country, Bangladesh¹¹ is the third largest recipient country while India is the highest remittance recipient followed by Pakistan (Figure-3.2).

Figure 3.2: Position of Top Remittance Recipient Countries in South Asia, 2022



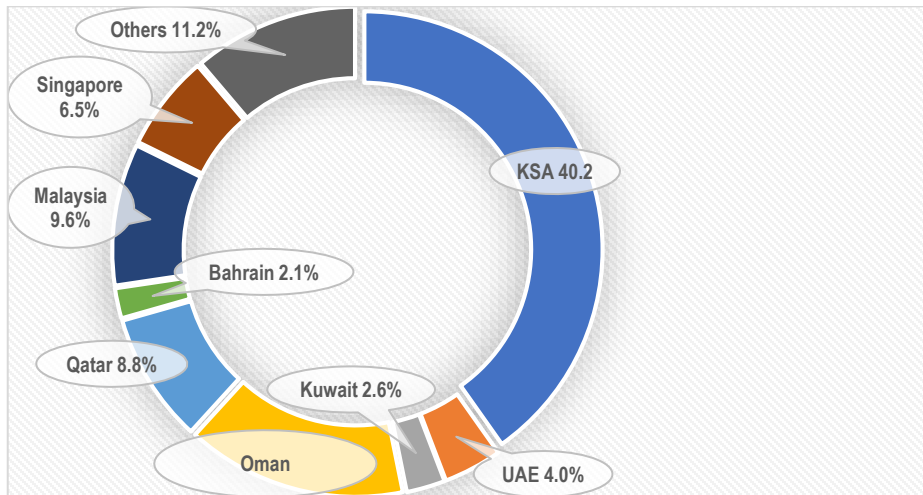
Source: Migration and Development Brief 38, World Bank.

3.3 Destination of Migrant Workers and Share of Remittances, 2013-2023.

The Kingdom of Saudi Arabia (KSA) remains the largest market for Bangladeshi migrant workers, accounting for 40.2 percent of foreign employment during 2013-2023. However, a substantial proportion overseas employment has been absorbed by Oman (14.9%), Malaysia (9.6%) and Qatar (8.8%) (Figure-3.3). In consideration of 10 years data (2013-2023), UAE accommodated only 4.0 % of total Bangladeshi migrant workers. Notably, UAE was the largest destination for Bangladeshi expatriates till 2012 afterward it came down drastically which was started to rise again in 2022 (BMET).

11 Bangladesh is the seventh highest recipient of remittance among all countries.

Figure 3.3: Share of Destination of Migrants 2013-2023



Source: Author's own calculation based on BMET data.

3.4. Growth and Share of Remittances by Region

Remittances inflows from all the regions are demonstrating a positive growth rate (Figure 3.4), however, the pace of growth has remained higher in the EU, USA, and other countries as compared to prime regions of remittance income of Bangladesh like Gulf and Asia- Pacific area for the last ten years (Figure 3.4). This is reflected in the share of remittances inflows (Table 3.1). The share of remittance of Gulf¹² and Asia Pacific reduced from 59 percent and 10 percent in 2019 to 51 percent and 8 percent in 2023 whereas USA, and EU recorded increasing trend in the last five years between 2019 and 2023. The fact that the United States is among the top nations from which remittances are being sent more and more to

¹² The overseas labor market and remittances inflows to Bangladesh are always transforming. In the last decades, even within the Gulf region, manpower export has shown a significant change. For example, United Arab Emirates (UAE) was the main destination of Bangladeshi workers (over 35% of the total) in 2012 around and Saudi Arabia was far behind in this respect (3.5%). But in a decade, manpower export to UAE shrunk to a low of 8.9% percent and Saudi Arabia became the major market for employment of Bangladeshis registering a share of 53.9 percent of total overseas employment in 2022.

Bangladesh indicating that there is a sizable Bangladeshi diaspora living there and are sending remittances in formal way.

Figure 3.4: Growth of Remittances by Region 2014-23

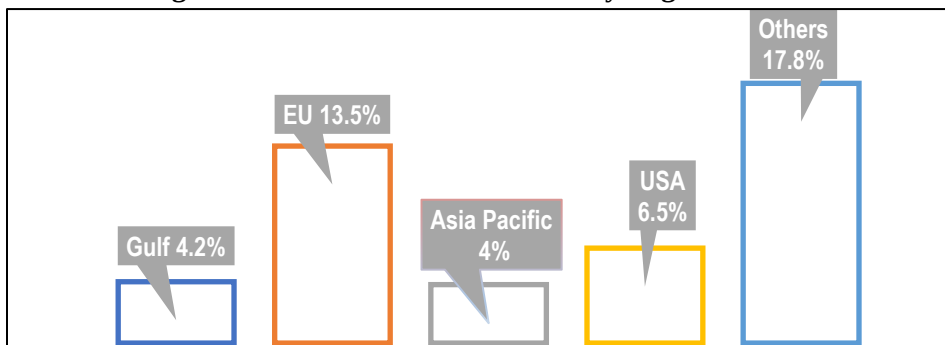


Table 3.1: Share of Remittances by Regions (%)

Year	Gulf	EU	Asia-Pacific	USA	Others	Total
FY19	59	12	10	11	9	100
FY20	58	12	10	13	7	100
FY21	60	12	11	14	3	100
FY22	53	15	8	16	8	100
FY23	51	16	8	16	9	100

Source: Authors' Own Calculation Based on BMET Data.

3.5. Migrant Workers: Professional, Skilled, Unskilled and Others

The majority of Bangladeshi employed abroad belongs to unskilled categories, followed by skilled and semiskilled category, respectively (Table-3.2). The unskilled category, which accounted for the largest share of annual migrations of over 50 percent a decade ago, has increased substantially to a share of 74 percent by 2022. On the other hand, the share of labor migration under professional and skilled employee categories combined has down from around 33 percent to 22 percent during the same period. Semi -skilled category decreasing from 15 per cent to 4 percent between 2013 and 2022 is not also a positive note, requiring to undertake initiatives in this respect. Migrant Bangladeshi laborers with lower

technical and linguistic skills find it problematic to negotiate better wages. Moreover, in some cases, they experience deprivation and face human rights abuses.

Table 3.2: Migrant Workers: Professional, Skilled, Semi -Skilled, Unskilled and Others

Year	Skilled*	Semi-Skilled	Unskilled	Others	Total
2013	33	15	50	2	100
2014	36	16	45	3	100
2015	39	16	44	1	100
2016	43	16	40	1	100
2017	44	15	40	1	100
2018	43	16	39	2	100
2019	44	20	28	8	100
2020	29	4	64	3	100
2021	21	3	74	2	100
2022	22	4	74	0	100

Source: Authors' Own Calculation Based on BMET Data.

Note: Professional migrants are included in 'Skilled Manpower Category' as this class of migrants are holding a very little percentage ranging from 0.1 percent to 0.6 percent of total.

3.6 Migrants Worker: Male and Female

The number of female labor migration fluctuated throughout the period 2013-2023, making up a small fraction of the total annual labor migrants from Bangladesh (Table-3.3). The share of female migrants has decreased from 18 percent in 2014 to 6 percent in 2023. Even at the peak of female migration in 2015, women made up just less than one-fifth of the total number of migrants indicating female migrants are sharing a small percentage of total with a perennial decreasing trend.

Table 3.3: Migration: Male Vs Female (%)

Year	Male	Female	Total
2014	82	18	100
2015	81	19	100
2016	84	16	100
2017	88	12	100
2018	86	14	100
2019	85	15	100
2020	90	10	100
2021	87	13	100
2022	91	9	100
2023	94	6	100

Source: Authors' Own Calculation Based on BMET Data.

Section 4: Review of Financial and Non-Financial Initiatives Available for Migrants at The Pre-Migration Stage in Bangladesh

4.A. Financial Services Available for Migrants

A bank normally offers a variety of deposit and loan products along with quick and easy mechanisms of transferring remittances to the migrant workers.

4.A.1. Saving Products for Migrant Workers

Banks regardless of their nature of ownership and activities have a number saving products with a view to onboarding migrant workers as more as possible (Table 4.1). Expatriates can open and operate these saving deposits products before their departure and even after reaching destination without their physical presence. The financial and non-financial features of saving products offered by all group of banks are more or less uniform. The information relating to the deposit schemes are available in the individual banks' website. Information relating to all types of deposit products are not maintained and available in a place where all migrant workers could have easily accessed. Further, it is noticed that banks do not have products similar to pension schemes or instruments like green bond, sukuk bond or plain vanilla bond to entice more foreign remittances. The recent permission of Bangladesh Bank as per the Off-shore Banking Act 2024 to allow both

Bangladeshis staying abroad and foreign nationals for opening deposit account in Off-shore Banking Unit (OBU) of banks will be a new avenue to attract deposits in foreign currency.

Table 4.1: Saving Products for Migrant Workers

Banks	Savings Products' Name	Features
SOCBs	Probash Deposit Scheme, Remittance with Mobile Wallet, Savings Account, Migrate Savings Scheme, Foreign Currency Deposit Account, Non-Resident Foreign Currency Deposit Scheme, Migrate Savings Schemes, etc.	• No physical presence required and possible to open from abroad by sending duly completed AOF. • No initial deposit required for opening this account.
PCBs - Conventional Banks	Probashi Savings Account, NRB My Savings, NRB Rising, Jonmovumi Savings Account, Jonmovumi MSDS Account (Monthly Savings Deposit Scheme), Jonmovumi FD Account (Fixed Deposit Account), Prabasi Masik Sanchaya Prokolpo; NRB DPS Plus, Wage Earners Pension Saving; Probashi Excel Account; Remittance Savers Account; NFCD Term Deposit Account; NRB Term Deposit Account; Wage Earner's Pension Scheme (WEPSS); Fixed Deposit (FRD); Monthly Savings Scheme; Probashi Shwapno; NRB Savings Account; NRB Deposit Scheme, etc.	• Interest/profit calculated on the daily average balance. • Higher interest/profit rate (0.5%-1% more than common) on maintaining a certain balance in the account. • Free VISA Debit card facility. • 24X 7 access to the largest network of VISA ATM and POS. • No ledger fees/relationship charge • Free Internet banking facility with fund transfer facility.
PCBS -Islami Banks	Mudaraba Probashi Kallyan Deposit Pension Scheme (MPDPS); Mudaraba Swadesh Savings Account (MSSA); Mudaraba Probashi Kallyan Savings Scheme; Mudaraba Special Savings Account (MSSA); Mudaraba Expatriate Housing Deposit Scheme (MEHDS); Mudaraba NRB Savings	• E-commerce transactions facility through Internet Banking. • Free SMS or Alert Banking. • Free Cheque Book Facility.

Banks	Savings Products' Name	Features
	Bond (MNSB); Mudaraba Foreign Currency Deposit Account (MFCD); Mudaraba Foreign Currency Term Deposit Receipt Account (MFCTDRA); Mudaraba International Banking Account (MIBA), etc.	• Dedicated email ID for any account-related queries. • Lucrative investment and savings products linked to this account.
FCBs	Foreign Currency Current Account, Foreign Currency Time Deposit Account (FCTD), Sohni Dharti Remittance Program; Non-Resident Foreign Currency Deposit (NFCD), etc.	
Probashi Kallyan Bank	Probashi Saving Deposit; Bangabandhu Double Benefit Scheme; Bangabondhu Sikkha Saving Scheme and Bibah Savings Scheme, etc.	

Source: Researchers' Compilation

4.A.2. Loan Products for Migrant Workers

A variety of loan products are being offered by banks to get easy access of migrants or prospective migrants to bank loans. The titles of the loan products particularly offered by PCBs and Probashi Kallyan Banks (PKB) are well sounding and close to the emotional feeling of expatriates (Table-4.2). The conditions set by banks for availing the loan facility look easy going too. Even banks are ready to offer loans without any security subject to fulfilling some conditions. It is however noticed that lack of financial literacy, absence of knowledge about the loan products, burden of documentation in getting loans, relatively shorter period to repay the banks' loan are being considered as hurdles to get advantages of loan products.

Table 4.2: Loan Products for Migrant Workers

Banks	Loan Schemes' Name	Features
SOCBs	Loan for Overseas Workers; Expatriate Employment Loan Scheme, etc.	• Applicable for any person who has got a valid job visa abroad and also for people willing to go abroad for a job. • Persons having completed a Passport, Training, Visa, Health Exam, Smart card of BMET or Airline Ticket or Documents of guarantor or have completed partially of these. • No Collateral required/ Collaterals security may not be insisted up to an Investment of Tk.0.50 million only. • For loan projects of women reduced interest rate applicable (7%). • Trade license for loan projects as additional paper. • 100% lien MSS or TDR Deposit Accounts • Persons wishing to go abroad for job and in need of money can apply for loan
PCBs- Conventional Banks	Shabolombi Loan; Loan to Family Members of Remitters; Probash Bandhu loan; Probash Nibash loan; Consumers Loan; Overseas Employment Investment Scheme (Swapnojatra); Migration Loan; Women Migration Loan; Reintegration Loan; Bangabondu Avibashi Brihat Poribar Loan; Special Reintegration Loan for Business; Self-employment Role; NBL Probash Bandhu Loan; etc.	
PCBS-Islami Banks	Overseas Employment Investment Scheme (Swapnojatra); NRB Entrepreneur Investment Scheme (NEIS); Rehabilitation Finance Scheme, etc.	
FCBs	NRB Home Loan, etc.	

Banks	Loan Schemes' Name	Features
Probashi Kallayn Bank	Immigration (Abhibasi) Loan; Bangabandhu Immigration (Abhibasi) Large Family Loan; Rehabilitation (Punorbashon) Loan; Loan for Reintegration of Returnee Migrants Distressed by COVID-19; Women Migration Loan (Nari Abhibasan Loan) and Women Rehabilitation Loan (Nari Punorbashon Loan); Special Rehabilitation (Punorbashon) Loan, etc.	subject to fulfilling following: ○ Age limit 18-45 years ○ Loan limit 50,000- 3,00,000 ○ Intt. Rate 9% (changeable) ○ Period 15-18 months ○ Repayment by monthly installment which to be deducted from his/her savings account ○ Personal guarantee of clients' close relatives (Father, Mother, Brother, Sister) ○ Easy loan processing

Source: Researchers' Compilation

4.A.3. Remittance Transfer Mechanism

A customer friendly quick mechanism to send money to the country is the foremost important to address the curse of hundi¹³. Banks are following a number of mechanisms like agreement with well-known International Money Transfer Companies, opening Exchange Houses abroad as subsidiary of parent bank, launching Software for Remittance Payment System, Initiation of online banking Platform to transfer Funds to Bangladesh from Non-Resident Exclusively Remittance, etc. (Table-4.3).

¹³ Informal system for transferring money.

Table 4.3: Remittance Transfer Mechanisms

Banks	Remittance Transfer Mechanisms
SOCBs	Depositing Remittance Money from Foreign to beneficiary Account in 5 seconds like RMS+; Agreement with Well-known International Money Transfer Companies; Launching Software for Remittance Payment System for Providing Online Cash Deposit and Cheque Payment as well as Instant Payment of Foreign and Inland Remittances like JB Remittance Payment System; Creating Subsidiary Company of the Parent Bank Like Sonali Exchange Company Inc. (SECI); Spot Cash/ Cash Over the Counter Remittance; Catering Remittance service to British Bangladeshi Diaspora like Sonali Pay UK limited; and Remittance through Mobile Wallet.
PCBs - Conventional Banks	Inward Remittance Service through Visa Direct; Opening Exchange Houses Abroad as Subsidiary of Parent Bank; Agency Arrangement with Exchange Houses and Money Transfer Companies like Western Union, Ria, Xpress Money, PLACID; Instant Cash Worldwide; OBPLC (One Stop Remittance by One Bank PLC); Payment through third Bank in Bangladesh by BEFTN; Cash Express Money Transfer Services; Affiliation with PAGE NGO and Banglalink Telecom Operator for the Most Diversified Remittance Disbursement Networks of 800 Service delivery locations; Mobile Cash Pay; and Virtual Mobile Wallet based Account Credit.
PCBS -Islami Banks	Agreement with Money Transfer companies like Daytona Capital Management Limited; Western Union; Mobile Apps backed by Exchange House/ MFS; and Apps Banking (Instant Cash, SJIBL Net).
FCBs	Fast and Free Money Transfer Arrangement to Bangladesh from the U.S.A., U.K., Canada, Australia, Japan, Middle East, Germany, Belgium, China, etc.; Swadashee Banking of Standard Chartered Bank; Online banking Platform to transfer Funds to Bangladesh from Non-Resident Exclusively Remittance-fed (NRX), and Joint Taka Account with a Resident (JTR), etc.
Probashi Kallyan Bank	Repatriation of foreign remittances through 18 exchange houses and distribution activities through its 120 branches countrywide.

Source: Researchers' Compilation

4.B. Non- Financial Services Available for Migrants at the Pre-migration Stage

Non-financial services like skill development, creating awareness among migrants about their rights, addressing complaints of expatriates, sending people at lowest costs, etc. are being offered by different organizations like BMET and BOESL.

4.B.1. Bureau of Manpower Employment and Training (BMET)

BMET is engaged in overall planning and implementation of the strategies for regulating migration process, promoting migrant workers' rights and skill development and proper utilization of migrant workers of the country. To this end, it offers training and fingerprint services, diversifies job market abroad, establishes support center, assists distress women workers, etc. (Table 4.4).

Table 4.4: Non- Financial Services Offered by BMET at Premigration Stage

Sl No.	Initiatives	Particulars
1.	Creation of Skilled Manpower in Line with the Demand of Local and Global Labor Market	BMET is providing skill development trainings through many training institutions. There are six (6) Institutes of Marine Technology under BMET that provide four (4) years of diploma in Marine/ Ship Building Technology and 2 years of 4 certified trade courses. Importantly, BMET with 64 technical training Centers (TTCs) across the country offers 2-year vocational courses and short-term courses from one to six months like 30 days of orientation training courses for outgoing female workers and mandatory 3-day orientation program for the migrant workers. They are also running skill test for the migrant workers.
2.	Licensing Recruiting Agencies	Since its inception, BMET has licensed 1965 recruiting agencies in order to guarantee competition in the migration process. It issued 342 new recruitment licenses in FY2022–2023.

Sl No.	Initiatives	Particulars
3.	Fingerprint Services for Registration	The fingerprint services for registration have been decentralized to every district of the country to bring the facilities to the doorsteps of expatriates.
4.	Complaints of Expatriate Workers	A total of 3044 complaints were filed by expatriate workers in FY 2022–2023, of which 693 cases were settled and Taka 4.30 crore was paid out as compensation.
5.	Construction of Schools	The construction of nine schools that will follow the Bangladeshi curriculum is now ongoing in various cities of Kingdom of Saudi Arabia (KSA) for educating the children of Bangladeshi workers employed in KSA.
6.	Establishing Support Centre	The project of establishing three support centers (Riad, Jeddah and Dubai) for assisting Bangladeshi workers facing various problem working in Saudi Arabia and United Arab Emirates is going on.
7.	Assisting Distressed Women Workers	The labor wing of the concerned Bangladesh embassy comes to the aid of women workers who are in distressed situations at work. In addition, the embassies of Bangladesh in Read, Jeddah, and Oman have established four safe homes to provide these women workers' temporary shelter.
8.	Diversification of Job Market	For the past ten years, an average of seven lac workers has found overseas employment in each year. Due to the diversification of the job market, currently Bangladeshi manpower is employed in 174 countries.
9.	Sending Manpower to Japan	A total of 263 workers were sent to Japan as technical interns without any migration cost through the International Manpower Development Organization, Japan (IM Japan) in in FY 2022-23.

Source: Annual Reports, BMET

4.B.2. Bangladesh Overseas Employment and Services Limited (BOESL)

Established under the Company Act VII of 1913, BOESL is the Government overseas recruitment organization responsible for completing fast, efficient and effective recruitment procedures (Table-4.5). Sending Garments workers abroad under Government arrangement by BOESL is

one of the highly appreciating tasks and is required to take more initiatives to send more professional/ migrant workers abroad under Govt. to Govt. (GTG) or other arrangements.

Table 4.5: Non-Financial Services Offered by BOESL at the Premigration Stage

SI No	Services	Particulars
1.	Sending Migrants at Lowest Costs and Fewer Days.	BOESL provides service at the lowest possible migration cost. The whole recruitment procedure usually doesn't take more than 45 working days.
2.	Sending Manpower	A total of 1,27,612 workers have migrated to different destinations through BOESL during 2011–23 financial year. In 2022–23, a total of 15,294 job seekers received foreign employment through BOESL.
3.	Special Initiatives to Send Garment Workers to Jordan.	BOESL has taken a special initiative to ensure the safe and zero-cost migration of female garment workers to Jordan. A total number of 94,692 female garment workers have got employment in Jordan through BOESL from 2010 to June 2023.
4.	Creation of Positive Image of Bangladesh	Projection the image of Bangladesh as a reliable source of potential manpower is done by means of regular publicity and promotional activities.

Source: Researchers' Compilation

4.B.3. Wage Earners' Welfare Board (WEWB)

WEWB provides legal assistant, stipend, ambulance service, life insurance and financial support individually or in collaboration with PKB; and establishes call center, welfare desk, short term accommodation for lasting and meaningful welfare of the migrant workers and their families at home and abroad (Table-4.6).

Table 4.6: Non- Financial Services¹⁴ Offered by WEWB at the Premigration Stage

SL No	Services	Particulars
1.	Expatriates' Welfare Desk and Short-Term accommodations	Expatriates' Welfare Desk at all international airports in Bangladesh; and Short-time accommodation for incoming and outgoing workers in transit in Dhaka-Bangabandhu Wage Earners' Centre.
2.	Ambulance, Stipend and Life Insurance	Ambulance Service for migrant workers; Stipends for children of migrant workers; and Life Insurance for outgoing workers.
3.	Call Centre	24/7 Toll-free Call Center for providing information and assistance on migration related issues.
4.	Legal Assistance	Legal assistance and other welfare services to migrant workers through labor welfare wings in Bangladesh Mission in destination countries.

Source: WEWB.

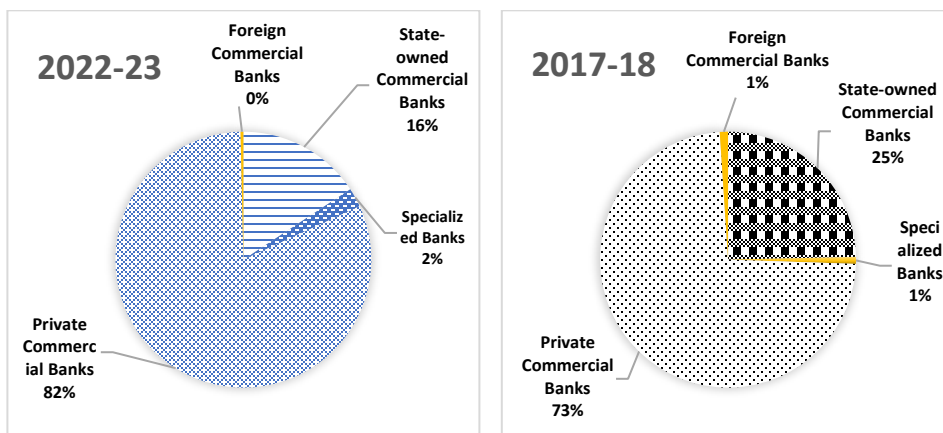
Section 5: Examining the Effectiveness of Financial Initiatives in Promoting Remittance in Bangladesh

5.1. Remittances Inflows by Different Groups of Banks

PCBs are dominating in bringing inward remittances at a progressive rate. The share of PCBs in total inward remittances in 2022-2023 reached 82 percent increased from 73 percent in 2017-18. On the contrary, SOCBs have lost their share of inward remittance by almost 9% (25 percent -16 Percent) within five years only. The share of FCBs and SBs is very tiny. The share of SOCBs in inward remittance is decreasing although remitters have relatively more confidence in SOCBS and these banks have networks across the country which is an additional benefit for the quick disbursement of remitters' money to local recipients.

¹⁴ WEWB also offers some financial services such as financial support for schooling of Bangladeshi children in some destination countries; skill development programs for Bangladeshi expatriates abroad; medical treatment for returnee workers; vulnerable returnee female migrant workers; and Loan facility to the outgoing and returnee workers through Probashi Kalyan Bank (PKB).

Figure 5.1: Remittances Inflows by Different Groups of Banks



Source: Bangladesh Bank

5.2. Expense for Going Abroad Starting from Preparation Phase to Reaching Destination

From planning to going abroad, the breakdowns of expenses incurred in different stages are given in Table 5.1 namely for Passport, Health Examination, Visa Processing, Plane fare, etc. The majority of the respondents spent BDT 5,000 to 10,000 for passports whereas a few of them were found to spend more than BDT 15,000 also. Here to state that, the expense of making a passport depends on the length of time to get the passport. Costs for health examination needed for VISA purposes vary as country-based health examination centers are designated for health testing. This cost is found between BDT 1,000 to BDT 15,000 and more. Most of the respondents spent BDT 1,000 to BDT 5,000 for this purpose whereas a small percentage spent below BDT 1,000. Visa fees vary by country and are determined based on reciprocity with the country of the foreign national seeking a visa. Visa processing fees for the twelve destination countries of the respondents namely Jordan, Saudi Arabia, Malaysia, Dubai, Singapore, Maldives, Oman, Cyprus, Iraq, UAE, Mauritius, Algeria, Qatar, Lebanon, North Macedonia, Kuwait, Kyrgyzstan and Croatia are reflected here. On the other hand, the cost of plane fare depends on the distance, available airlines, number of available flights, how far in advance the booking is made, season, etc. From

the table, it is observed that most of the respondents spent BDT 50,000 to 100,000 for the plane fares.

Table 5.1: Expense for Going Abroad

Expenses for Going Abroad	Range of expense	Respondents (in Percentage)
Passport	Below 5000	3.75
	5000-10000	57.50
	10000-15000	33.75
	15000+	5.00
		100
Health Examination	Below 1000	8.45
	1000-5000	35.21
	5000-10000	30.99
	10000-15000	19.72
	15000+	5.63
		100
Visa Processing	Below 50000	8.2
	50000-150000	34.4
	150000-300000	39.3
	300000-450000	11.5
	450000+	6.6
		100
Plane Fair	Below 50000	19.7
	50000-100000	54.1
	100000-150000	24.6
	150000+	1.6
		100

Source: Survey, 2024

5.3. Source of Finance for Going Abroad

Migrants usually manage financing for going abroad from their income, or from selling land, selling houses, ornaments or other assets. The most used source of money for going abroad for the first time was own income followed by the sale of other assets and land (Table-5.2). Whereas workers going abroad a second time used their income mostly as a source of finance followed by the sale of jewellery and sale of other assets.

Table 5.2: Sources of Finance for Going Abroad

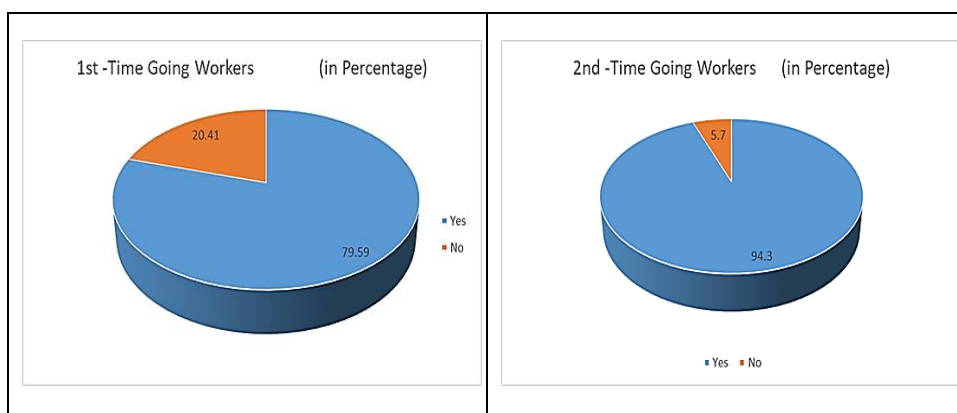
Source of Finance	1 st Time Going Workers		2 nd Time Going Workers	
	Number of Respondents	Percentage	Number of Respondents	Percentage
Own Income	27	55.10	27	58.70
Sale of Land	7	14.29	4	8.70
Sale of House	0	0	0	0
Sale of Jewelry	6	12.24	8	17.40
Sale of Other Assets	9	18.37	7	15.20
Total	49	100	46	100

Source: Survey, 2024

5.4. Bank Account by Own Name / With the Name of Family

It is possible to send money from abroad easily if a migrant has a bank account in his/her name or in the name of any of his/ her family members. It also helps them to avail of other financial benefits as well as services from a bank. It has been observed that most of the workers going abroad either for the first time or second time had a bank account in the name of him/her or any of his/her family members (Figure-5.2).

Figure 5.2: Having a Bank Account by Own Name/ With the Name of the Family



Source: Survey, 2024

5.5. Sources of Borrowed Money for Going Abroad

In order to cover the migration-related expenses, migrants depend on multiple sources for loans, like borrowing from Mahajan/Shomiti, NGO, Bank/FI, Government Scheme, Family members, and Friends (Table-5.3). Among them, most loans are given by Family members followed by NGOs, Mahajan/Shamiti, and Bank/FI. Although, many banks offer and deliver migration loan services with attractive offers, a very few borrowers were found to borrow from commercial banks and financial institutions to manage their migration costs. Only 4.35 per cent 1st-time time-going workers reported that they borrow from Bank/FIs to cover migration expenses while 24 per cent and 6.5 per cent of them reported they borrowed money from NGOs and Mahajan/Shomiti, the costs of which differ significantly. They borrow from them in a bilateral agreement often without a notary or any paper trail. Despite the inflated interest rates charged by them, workers prefer these sources due to their accessibility and flexibility. Workers also borrow money from other informal sources such as family members and friends. For workers who go abroad with loans, the sources of family members are revealed as the prime source as 63 per cent for 1st-time going workers and 69 per cent for 2nd-time going workers utilised family income to go abroad.

Table 5.3: Sources of Borrowed Money for Going Abroad

Variables	For 1st Time Going (Number of Respondents)	For 1st Time Going (in Percentage)	For 2nd Time Going (Number of Respondents)	For 2nd Time Going (in Percentage)
Mahajan/Shomiti	3	6.52	1	7.69
NGO	11	23.92	2	15.38
Bank/FI	2	4.35	0	0
Government Scheme	0	0	0	0
Family Member	29	63.04	9	69.24
Fiend	1	2.17	1	7.69
Total	46	10	13	100

Source: Survey, 2024

5.6. Time to Start Earning Money after Reaching the Destination Country

The time to start earning money after reaching the destination country as per the opinion of 2nd-time going workers is from 7 days to 30 days (Table-5.4). Most respondents i.e. 45.71 percent migrants were found to start earning money after reaching their destination by more than 30 days, followed by 7 days with 34.29 percent and 7-15 days with 17.14 percent.

Table 5.4: Length of time to Start Earning Money after Reaching the Destination Country (percent)

Days Taken to Start Earning	2 nd Time Going Workers (in Percentage)
Below 7 days	34.29
7-15 days	17.14
15-30 days	2.86
30+ days	45.71

Source: Survey, 2024

5.7. Time Taken to Cover Migration Costs with Migrants' Incomes

The majority of the respondents i.e. 31.43 per cent mentioned that they need 6 months' income to cover migration costs, followed by 18 to 24 Months income of 28.57 percent and 6 to 12 Months of 25.71 percent (Table-5.5). However, it is noticeable that around 37.14 percent (28.57 percent + 8.57 percent) migrants require to take income of 18 months and more time to cover their costs of migration, exposing a concern as a substantial number of migrants go to abroad with 2-year contracts.

Table 5.5: Time Taken for Covering Migration Costs with Incomes (percent)

Variables	For 2 nd Time Going (in Percentage)
Below 6 Month	31.43
6-12 Months	25.71
12-18 Months	5.71
18-24 Months	28.57
24+ Months	8.57

Source: Survey, 2024

5.8. Conduits of Sending Remittance to Home

A worker sends international remittances via both formal and informal sources. Formal channels refer to established banking systems and authorized methods of transferring money. The receipt of remittances through the formal channel plays a vital role in enabling the government to acquire foreign currencies, which is essential for upholding macroeconomic stability. As depicted in Table-5.6, workers found sending remittances by Bank account mostly with 78.30 percent followed by Hundi with 8.1 per cent, Agency with 6 per cent and Mobile Apps with 5.6 per cent. Hence, a considerable portion of remittance amount were sent through Hundi that evade official channels.

Table 5.6: Conduits of Sending Remittance to Home (percent)

Conduits of Sending Money	2 nd -Time Going Workers* (in Percentage)
Hundi	8.1
Bank	78.30
Agency	6
App	5.6
Others	2

Source: Survey, 2024

Note: *The researchers collected aforesaid data only from the 2nd time-going workers.

Section 6: Examining the Effectiveness of Non-Financial Initiatives in Promoting Remittance in Bangladesh

6.1. BMET's Academic Programs

BMET is offering different types of trainings with the growing number of migrants in each year. The flagship training programs of BMET is called as Pre-Departure Orientation (PDO) arranged for 3-day which covers immigration process, prevailing laws of the country, necessary policies and employment regulations abroad, prior idea about the job, overall security and environment of their destination country and understanding of various communicable diseases. In 2023, a total number of 1,116, 084 migrants got

PDO with a CAGR of 18.20 percent between 2019 and 2023. The newly launched program, Recognition Prior Learning (RPL) is an innovative program of BMET. The number of participants in all training programs of BMET except Housekeeping shows increasing rate of participation. The negative CAGR of participation in housekeeping indicates the shrinking trend female workers going abroad.

Table 6.1: BMET's Academic Programs

Year	Nature of Training				RPL ¹⁵
	Pre-Departure Orientation (PDO)	Skill Development ¹⁶	House keeping ¹⁷	Total	
2019	483,760	66,921	33,087	583,768	-
2020	149,916	32,391	4,595	186,902	-
2021	495,492	35,706	17,215	548,413	837
2022	956,956	89,064	23,902	1,069,922	9664
2023	1,116,084	90,857	17,234	1,224,175	10094
CAGR	18.20 %	6.31%	-12.23%	15.96%	64.54%

Source: Researcher's calculation Based on BMET's Data.

6.2. BMET's Pre-Departure Training (PDT)

PDT is a mandatory 3-day training program¹⁸ for all outgoing expatriates offered by BMET with its more than 100 Technical Training Centers across the country (TTC). In 2023, BMET provided this training to 1,116,084 migrants (Table-6.1)¹⁹. This training has been formulated with 3 modules

¹⁵ RPL (Recognition Prior Learning) is a certification program for those who have skill but they have no recognition. BMET recognizes those skillful people by providing certificates. BMET launched this program for the last three years.

¹⁶ Under Skill Development, BMET offers language training, Diploma in engineering, SSC Vocational, SEIP Course and Others Short term courses.

¹⁷ House Keeping has been designed only for women migrant workers.

¹⁸ PDT is usually for 3 day for most of the destination, however sometimes more days trainings are also arranged for some countries.

¹⁹ The study team physically visited few TTCs to get direct feedback from the participants through discussion and a questionnaire. Observations suggest that there remains lack of attentiveness and meaningful participation on the part of a large number of migrants in PDT program. The fact is that one participates in training program just before one's departure. By

for 3 days on onsite basis whereas the same training program is being offered by OWWA, Philippines with 7 modules in collaboration with NGOs, PRA, Industry Association with both online and offline basis.

Table 6.2: Comparative Study of Pre-departure Orientation in Bangladesh and the Philippines

	Bangladesh	Philippines
Name	Pre-departure Training (PDT)	Pre-departure Orientation Seminar (PDOS)
Launch	2013	1983
Modules	3	7
Degree of obligation	Mandatory	Mandatory
Implementing Agency	Bureau of Manpower, Employment and Training (BMET)	Overseas Workers Welfare Administration (OWWA)
Providers	Technical Training Centre (TTC)	OWWA, NGOs-domestic workers and entertainers, PRAs, industry associations
Fee	BDT 300	None from the Government but PHP100 by others
Medium	Onsite	Online and onsite
Length of program	3 days of 6 hours daily and 30-day for house keeping	6 hours for general workers; 2–6 days for domestic workers

Source: BMET (2024) and Orbeta & Abrigo (2009).

that time migrants just count their days and remain busy with their family matters. They take the training program as a condition for getting Registration Card to be issued by BMET rather than the opportunity to know some useful or essential aspects related to the migration and the countries in which they are going. They also do not get the required time to reduce the learning and skill gap found at their last stage of migration. So, it might be more effective if the similar type of program is arranged at the beginning of the migration cycle. One thing is noteworthy, although officially mandatory, many migrants especially at the village level are still going without participating the PDT that clearly runs against the interest of the migrants. So, more awareness program about the potential benefit of the PDT program should be conducted in all corners of the country.

6.3. Manpower Export Through BMET

For legal migration²⁰, migrant manpower must have a BMET's immigration clearance card.²¹ To work abroad legally, one must be registered with the BMET at the district office or online through the “Amiprobashi” app. After registration, the worker's documents are scrutinized, and a Smart Card is issued to him as clearance. According to BMET, 1,305,453 people went to the host countries with BMET clearance cards in 2023 recording a CAGR of 11.85 percent during 2014-2023. This growth of overseas employment is phenomenal, thanks to the demand of the host countries. Particularly, the manpower export was upped by two times in 2022 over 2021 which was continued in 2023 also (Table-6.3).

Table 6.3: Overseas Employment through BMET’s Clearance Card

Year	Total Expatriates
2014	425,684
2015	555,881
2016	757,731
2017	1,008,525
2018	734,181
2019	700,159
2020	217,669
2021	617,209
2022	1,135,873
2023	1,305,453
CAGR (percent)	11.85

Source: Researcher’s Calculation Based on BMET’s Data

²⁰ In Bangladesh Recruitment of workers from Bangladesh to various countries takes place through different channels like BMET, a government channel; Bangladesh Overseas Employment and Services Limited (BOESL), a semi-government agent; private commercial recruiting agencies authorized and licensed by the Ministry of Expatriates’ Welfare and Overseas Employment; and Individual initiatives through friends and relatives. Individual efforts through friends and relatives are the most predominant among all the channels (Islam, M. N. (2007). It has been observed from survey that, those who are going to work abroad through friends and relatives are found reluctant to take BMET card.

²¹ For collecting BMET immigration clearance card, a valid passport, fingerprint or bio-metric enrollment in district BMET office, a certificate of completion of 03 (three) days of orientation training at district technical training centers (Not mandatory for those who spent at least 12 months in that country) and attestation of visa and agreement papers from the Bangladesh high commission of the visa issuing country (Not required for all countries) are necessary.

6.4. Survey Responses about the Non-Financial Services Availed by Migrants

6.4.A. Workers Having Plan for Migration Abroad

A planned migration well ahead of going abroad is likely to make some one better prepared than leaving the home country in an unplanned manner. A total of 85.71 per cent and 94.29 per cent workers whom are going abroad for the first time and second time respectively decide to migrate on the basis of a well-thought-out plan whereas a noticeable percent (14.29 per cent) is still going outside the home country for the first time without any definite pre-departure plan (Table-6.4).

6.4: Workers Having Plan for Migration Abroad

Yes/No	For 1 st Time Going (in Percentage)	For 2 nd Time Going (in Percentage)
Yes	85.71	94.29
No	14.29	5.71

Source: Survey, 2024

6.4.B. Information about the Opportunity in the Destination Country

Choosing or selecting the host/ destination country is a vital decision for a migrant worker which bears long-lasting impact on the well-being of the migrants. Bangladesh expatriates use different sources in selecting their countries to migrate (Table-6.5). Family members/ relatives/ friends are in the top of the list as a source of information both for the first time and second time expatriates with 59.18 per cent and 57.14 per cent of the total sample respondents, respectively. A significant number of migrants belonging to both groups i.e. first time and second time migrants become familiar with the destination country through travel agent and agent as is shown below. It is noticeable that hardly any worker of the sample group visits or depends on the website of different countries in getting information about the countries in which they are planning to go.

Table 6.5: Information about the Job of the Destination Country

Sources of Information	For 1 st Time Going (in Percentage)	For 2 nd Time Going (in Percentage)
Family Member/ Friends Working Abroad	59.18	57.14
Travel Agent	18.37	8.57
NGO/ Government Website/ Union Parishad	2.04	5.71
Website of Destination Country	0	5.71
Agent	20.41	11.43
Others	0	11.43

Source: Survey, 2024

6.4.C. Going Abroad with a Pre-fixed Job

A successful migration at the time of departure from the home country demands/requires a certain paid activity in which an expatriate will be involved after reaching the destination country. Around 88 per cent and 92 per cent Bangladeshi workers leave the home country for the first and second time, respectively with a certain job. So, a significant number of the migrants still go abroad without having any pre-determined profession (Table 6.6).

Table 6.6: Going Abroad with a Certain Occupation (Job/Business/Others)

Status of Occupation	For 1st Time Going (in Percentage)	For 2nd Time Going (in Percentage)
Migration with Pre-fixed	87.76	91.43
Migration without Pre-fixed Job	12.24	8.57

Source: Survey, 2024

6.4.D. Participation in Training before Going Abroad

Going abroad with formal skill- based training improves the probability of both getting a job as well as earning high level of income. BMET and some other organizations conduct occupation specific skill-enhancing training for the migrants across the country. However, apart from the mandatory three-days long training program for the migrants arranged at different TTC under

the supervision of BMET, a small percentage of total migrants seem to go abroad with having occupational training. As is seen from the table approximately 84 per cent of both first time and second time migrants do not receive any training before their departure (Table 6.7).

Table 6.7: Participation of Training before Going Abroad

Training before Going Abroad	For 1st Time Going (in Percentage)	For 2nd Time Going (in Percentage)
Trained Migrants	16.33	17.14
Untrained Migrants	83.67	82.86

Source: Survey, 2024

6.4.E. Pre-migration Training on Financial Issues

Earning and sending remittance to the family members is the prime consideration for the workers going abroad. So, having a reasonable degree of financial education/literacy is a pre-requisite for the migrant workers to optimize their financial well-being. Awareness about banking products and services, mobile financial services, channels of official remittance, disadvantages of using Hundi in sending remittance thus matter much for the well-being of the remitters and their family members. Status of migrants about the training they are endowed with financial issues is shown in Table-6.8 for the first time and second time migrants. A striking difference is observed between the first time and second time expatriates in acquired training relating to different financial services with second time migrants are well ahead of the first-time goers in receiving almost all types of financial service-related training. Only 39 percent of the respondents received banking service-related training although most of the second time migrant workers (86 percent) have got such kind of training. Even in this age of digital financial services, majority of the migrants do not have capability in using mobile financial services for sending remittance. Quite surprisingly, very few migrants, in fact none of the first-time movers, have ideas about the pitfall of sending money through hundi.

Table 6.8: Pre-migration Training on Financial Matters

Areas of Training	For 1st Time Going (in Percentage)	For 2nd Time Going (in Percentage)
Banking Services	38.78	85.71
Types of Savings Products	16.33	42.86
Demerits of Hundi	0	14.29
Mobile Financial Service	26.53	34.29
Way of Sending Money to Home	10.20	17.14
Others	8.16	2.86

Source: Survey, 2024

Section 7: Issues and Suggested Measures

In line with the objectives of the study the paper came out with a number of issues and related suggestions based on the FGDs, questionnaires and round table discussions that are placed below:

7.A. Financial Initiatives

7.A.1. Having a Bank Account before Leaving the Country

A substantial portion of migrant workers do not have any bank account in their own name or in the name of any of their family members, indicating that they are going abroad without any financial literacy as well as experiences in banking transactions. As a result, they are shied away to do further transactions in banks and send money through the formal channels. It compels them to send money through the informal channels like hundi.

Suggested Measures

It is required to enhance financial inclusion activities through investing more money in awareness programs regarding the importance of having a bank account before leaving the country. MoEWOE, BMET and BOESL in collaboration with banks can run this awareness programs. Authority may consider to announce a week as a Remittance Week/ Banking Week/ Financial inclusion week when banks and FIs will pay maximum attention to bring more unbanked people under the banking services.

7.A.2. Saving and Investment Products for Migrant Workers

Migrants save more in the home country when they find appropriate deposit schemes are in place with appropriate financial and non-financial benefits, financial health and soundness of the banks as well as banking sector are also their prime considerations. Savings in bank account by a migrant and creation of his/her assets are closely related. These have an effect in reducing poverty also. It is worth mentioning that migrants primarily send money necessary for consummation, child education and health care. The remaining portion of their income they incline to remit when they find appropriate saving and investment instruments are available; otherwise, they prefer to park their saving in the host countries.

Suggested Measures

A good number of deposit/ investment schemes with attractive features are being offered by banks. With a view getting knowledge about these schemes and having quick and easy access to this information by migrants and his/her family members, an arrangement can be made to place and disclose all information of savings and investments in a place like website of MoEWOE's and BMET instead of placing these features sporadically in individual bank's website. Further, in addition to pay attractive interest/ benefits, banks may contemplate to offer some non-financial services for saving money in banks like providing smart and health card, appreciation certificate, assistance in submitting tax return, etc. Banks may take initiative to design new products similar to pension schemes, investment instruments like green bond, sukuk bond or plain vanilla bond, mutual funds and investment linked deposit products to entice more foreign remittances. Opening scope to deposit in OBU is a good step in this respect.

7.A.3. Bank Loans

Workers seeking employment or already in work abroad may need money for three reasons like paying costs for going abroad, covering household costs till getting settlement and starting income, and financing self-

employment opportunities for the returnee migrants. It is found that they manage to pay these costs either from their own income or by selling their own assets but they have less preference to take loans. Even though migrants happen to take loan, they choose to take loans from NGOs and family members whereas taking loan from banks is their least priority. This is happening because migrants may not get easy access to bank's loan schemes. Lack of collateral, failure to collect required documents and eligible guarantor, absence of credit history, lack of required cooperation from unskilled and semi-skilled migrants, existence of income instability and risk of migration, absence of online platforms for verification of remitters' paper and signature and difficult to reach borrowers abroad in case of default are the major barriers to bankers for providing loan to migrants.

Suggestive Measures

Bankers may take measures like involving Union Parishad Chairman, Principal/ Headmaster of colleges/ schools or influential relatives in lending process like share cropper financing²² in Bangladesh; creating online network by Ministry of Labor and Employment or/and Ministry of Expatriates Welfare and Overseas Employment or/and authorized recruitment agencies for collecting certificates; arranging linkage financing through NGOs; designing appropriate loan products with offering a suitable grace period and conducting appropriate awareness programs at home and abroad. To address the guarantee, need of remitters, Bangladesh Bank may launch a Credit Guarantee Scheme to encourage Banks and Non-Bank Financial Institutions (NBFIs) to provide loans to them group under refinance/ pre-finance schemes. Moreover, it is worth mentioning that hassle free and timely disbursement of loan is required to be ensured on the top. Digital lending such as “Nano Lending” (by using internet banking,

²² Under sharecropper financing, banks can give loans to farmers depending on certificate given by Chairman, principal/headmaster or landlord in place of taking security or guarantee.

mobile apps, mobile financial services), or e-wallet can be a pathway in this respect. Particularly, Probashi Kalyan Bank (PKB) can set an example by offering technology based innovative loan products.

7.A.4. Government Incentives

The cost of getting required documents before leaving the home country, i.e., passport, health certificate, visa, and travel ticket (plane fair) varies considerably as cost of all those depend on the alternative route and urgency of the migrants in receiving the documents. Apart from inconveniences or difficulties faced by the prospective expatriates in having these documents, costs that will have to borne by the migrants at different phases in migration process together are worrisome especially for the unskilled or semi-skilled workers which sometimes increases the pre-migration period and costs.

Suggestive Measures

Considering the national interest, incentive structure before migration is equally important as is after the migration takes place. Even a nominal type and amount of monetary and non-monetary assistance extended to the migrants by the Government will certainly enhance the belongingness and sense of responsibility of the migrants to the home country that might have some positive impact on the willingness to go abroad as well as on formal inward remittance flow. So, the Government might think to give conditional privilege to the migrants through issuing passport and some other travel related documents at concessional ate.

7.A.5. Illegal Channels and Sending Money through Utilizing APPs

The volume of remittance coming through unofficial channels is anybody's guess. So, substantial amounts of key foreign currencies are available in the shadow market for illicit capital outflows and financing of illegal trading activities. Hundi business operators take undue advantage through their door-to-door or person-to-person informal and wide network. Curtailing illegal capital inflows is imperative and should be an urgent policy concern.

Suggestive Measures

Banks and exchange houses in host countries should have migrant workers install apps on their mobile phones, through which they can send money electronically as and when they want. In Bangladesh, a few banks of Bangladesh have taken this initiative requiring massive campaign about the necessity to open bank account in the host country and utilizing apps for sending money among the Bangladeshi migrants as well as their family members staying in Bangladesh. In this respect, making the on-boarding process simple and assuring them that it is secured will be essential to converting people to digital services.

7.B. Non-Financial Initiatives

7.B.1. Absence of Well thought Planning with a Prefixed Job

A well thought out plan with having a certain job is necessary before someone migrates for job outside of the country. A substantial portion of Bangladeshi workers especially unskilled manpower go abroad without any planning as well as a prefixed job which delay the migrants to start earning, forcing them to cost more months to cover their migrations costs, failing to send money back home to their loved ones, and are more likely to become victims of frauds.

Suggested Measures

A best-laid plan is required to have of each migrant with willingness to be flexible. A good plan is a pathway to escape from deprivation and vulnerability and, in some cases, to fulfill aspirations for a better life. An aspired migrant can plan regarding desired profession/ job, time to migrate, host country, expected earning amount and estimated amount of costs well ahead of going abroad. This plan will be helpful for potential migrants to take necessary degrees/diploma/ trainings from the Institutes/ colleges/ universities, accumulate funds to cover costs and prepare documents necessary to go abroad like passport and others gradually. BMET, TTC and PKB can jointly go for more campaigning programs in this respect.

7.B.2. Less Effectiveness of Pre-Departure Training (PDT) program

Equipping prospective migrants through Pre-Departure Training (PDT) program with the comprehensive knowledge about their rights, responsibilities and working conditions in the destination country is keenly important to benefit significantly from labor migration and remittance inflows. BMET with its more than 100 TTC offers PDT to huge number of migrants. However, it is observed that participants of PDT do not take it seriously, resulting in they are often migrating being completely unknown aforesaid issues. Duration of PDT programs along with contains of syllabus, qualified instructors and training methods have the further scope to be improved or revisited. This consists of eight modules, yet it is only accessible to individuals who are physically present onsite.

Suggested Measures

Providing comprehensive knowledge about the information upon arrival, specifically regarding employment conditions, contractual rights, grievance mechanisms and avenues for seeking compensation is a must to safeguard the well-being and protect the fundamental rights of migrants. In this perspective, BMET may appoint more qualified and experienced instructors especially language instructors offering incentives, training, and other facilities making long-term standing at TTC. They may redesign the PDT program separately for unskilled, semi-skilled, and skilled migrants by keeping more duration and modules and providing the option to deliver online and offline or blending both. For example, the Philippines impart this training with 7 modules online and offline. Further, it is worth suggesting that BMET may engage more private sector organizations and Non-Governmental Organizations (NGOs) in offering PDT even in remote areas of the country.

7.B.3. BMET's Skill Development Programs

Bangladesh is deprived to get the desired amount of remittance despite sending well over a million migrants abroad last year, simply because four out of five of them were less skilled. RMMRU's 2022 Migration Trends

Report, the percentage of less skilled workers who migrated abroad rose to 78.64 percent last year from 75.24 percent the year before (The Daily Star, February 14, 2023). BMET offers a bunch of skill development programs such as skill training, housekeeping, APP Based training, language training, driving and digitalized certification. However, potential migrants may not be knowing the availability, name of relevant Institutes and benefits of these skill development programs.

Suggested measures

BMET in collaboration with TTC and other vocational training academies need to run more awareness programs about availability and benefits of running skill development programs and may offer more skill development programs with the conceptual and practical sessions covering the future requirements of the host countries. A research project can be undertaken to measure the types and demands of skill manpower in GGC, EU and other regions. Bangladeshi mission abroad can contribute in this respect by searching potential markets to send Bangladeshi skilled workers as well as finding out the new job places/ recruiters of skilled manpower in the existing markets which are done by countries like Philippines, Indonesia and India. In developing module for training and education programs, technology and language proficiency are required to get more priority. Starting from home care to agriculture, industry and office everywhere, requirement of technology knowledge is a must. Many host countries are gradually prioritizing to absorb their own manpower and intending to recruit expatriates who have technological know-how. For example, Saudi Arabia has already started a program where at least 20 per cent of Saudi citizens will work in the factory. To cope up with this situation, each migrant has to need to equip with the technology knowledge. Notably, any person intended to go abroad may complete these skill development programs any time even much before going abroad.

7.B.4. BOESL Activities to Foreign Employers

BOESL works on the mission to provide ‘Right Person to Right Job’ and send migrants on ‘No profit and No Loss’ basis. They have sent a good number of people to abroad like garment workers and others.

Suggestive Measure

BOESL may push forward aforesaid initiatives in a larger way. In this respect, BOESL may create a strong platform where recruiters across the world can know the availability of skilled, semi-skilled and unskilled manpower in Bangladesh so that Foreign Governments, companies and individuals can place the job hiring advertisements in that platform. On the other hand, migrants can check job openings, suitability of jobs and accordingly they can apply for job in that platform. For example, The Chronicle of Higher Education has created a website called “<https://jobs.chronicle.com>”, a meeting place of both job providers and job seekers worldwide. Further, BOESL may arrange as well as participate online and offline job fairs in the prospective job markets, initiate to do more Government to Government (GTG) agreements with the host countries and enhance communication with foreign missions of Bangladesh.

7.B.5. Problems of Financial Literacy

The study found that around 60 percent Bangladeshi migrant workers have the education below SSC level, revealing absence of their financial knowledge. Similarly, their family members have lacking of financial knowledge. The lack of financial knowledge of expatriates and their family members put them in a position where migrants have fondness to send money through Hundi always available on their door step for meeting short term needs of their family like foods, health care, house rent and kids’ education. Further, Bangladeshis living abroad illegally who do not comply with the legal requirements to send money home and, as such, hundi is the only way for them to do transactions. Because of rising use of hundi,

potential benefits of remittances like strengthening country's foreign currency reserve at the macro level along with sustainable income, remittance management and wealth creation at individual level were not happened in the country at the desired level. Hence, a migrant is necessary to have financial knowledge on types, benefits and features of saving and loan services available in banks, Government bonds, shares, mutual funds and other saving and investment instruments in order to avail loan facility and making investment plan. Along with, acquaintance with the process and benefits of sending money through legal channel, knowing the curses of sending money through illegal channels and possessing minimum know-how of doing financial transactions are also essential for them to avoid possible precarious financial accidents in future.

Suggested Measures

At present, BMET's Pre-Departure Training (PDT), a mandatory 3-day program training program, has only one academic session on the financial knowledge titled 'Remittance, Investment and Economic Reintegration' for 60 minutes which is clearly inadequate in terms of contents of learning as well as duration and methods of training. With a view to effectiveness of this training, BMET may keep at least four academic sessions at least for one day covering financial knowledge on saving, loan and investment services available in banks and financial institutions, processes of sending money to home country and negativity of hundi. Further, The Bangladesh Technical Education Board may redesign their curriculum by including sufficient knowledge on financial issues in their syllabus. Government of Bangladesh may arrange training or awareness program about financial literacy, financial and nonfinancial facilities like information of suitable jobs in different countries, cost, loan facilities from banks etc. to the family members of the remitters at the district level. For this purpose, database for districtwide remitters, number returning remitter with current status (living or died) will be needed to help banks and other financial institutions to offer banking/financial product, investment opportunity like education/ housing/

business loan to the family members of remitters. This information can also be disseminated and promoted during the “World Migration Day” where booths from different remittance stakeholders like bank, health clinics, Probashi kollayan Ministry, airways, travel agents, BAIRA with brochures will be available.

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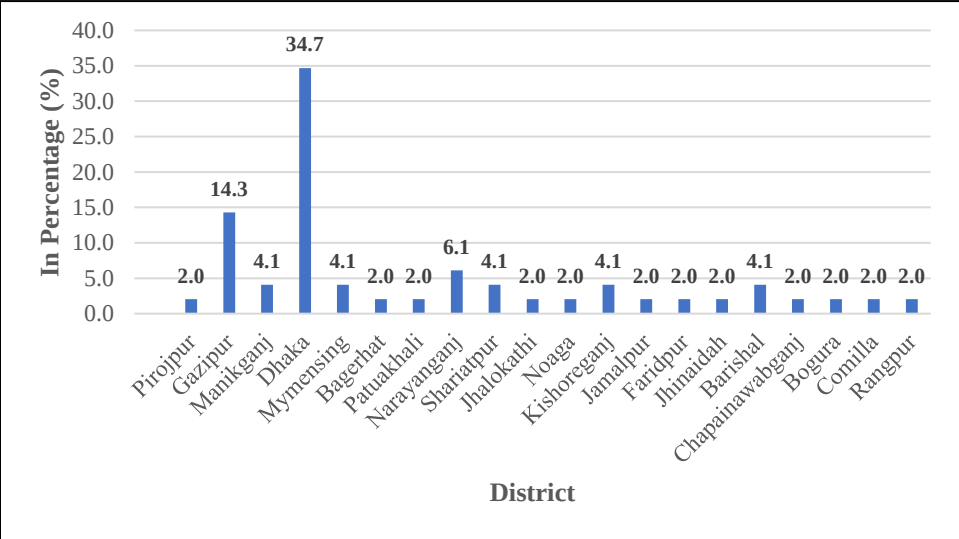
Annexures

Table 1: Demographic Profile of Respondents

Variables	Category	Workers migrated to foreign for 1 st Time (%)	Workers migrated to foreign for 2nd Time (%)
Gender	Male	84	74.29
	Female	16	25.71
Age:	18-25 years	24.5	17.1
	26-35 years	55.1	42.9
	36-45 years	18.4	31.4
	46-55 years	2	8.6
	55+ years	0	0
Education:	Illiterate	4.1	8.6
	Below SSC	55.1	57.1
	SSC	26.5	17.1
	HSC	8.2	14.3
	Honors	4.1	2.9
	Masters and Above	2	0
Previous Profession:	Garments Worker	28.6	17.1
	Service	14.3	42.9
	Business	6.1	2.9
	Shop Keeper	12.2	5.7
	Farmer	4.1	8.6
	Mechanic	6.1	0
	Day Laborer	2	11.4
	Entrepreneur	2	0
	Network Engineer	2	0
	Driver	4.1	0
	Student	6.1	8.6
	Unemployed	12.2	2.9
Family Members in number:	2 Persons	4.1	0
	3 Persons	10.2	2.9
	4 Persons	26.5	28.6
	5 Persons	20.4	25.7
	6 Persons	16.3	25.7
	6+ Persons	22.4	17.1
Dependent Family Members:	0 Person	8.2	0
	1 Person	0	0
	2 Persons	24.5	22.9
	3 Persons	14.3	20.0
	4 Persons	18.4	25.7
	5 Persons	24.5	20.0
	6 Persons	6.1	2.9
	6+ Persons	4.1	8.6

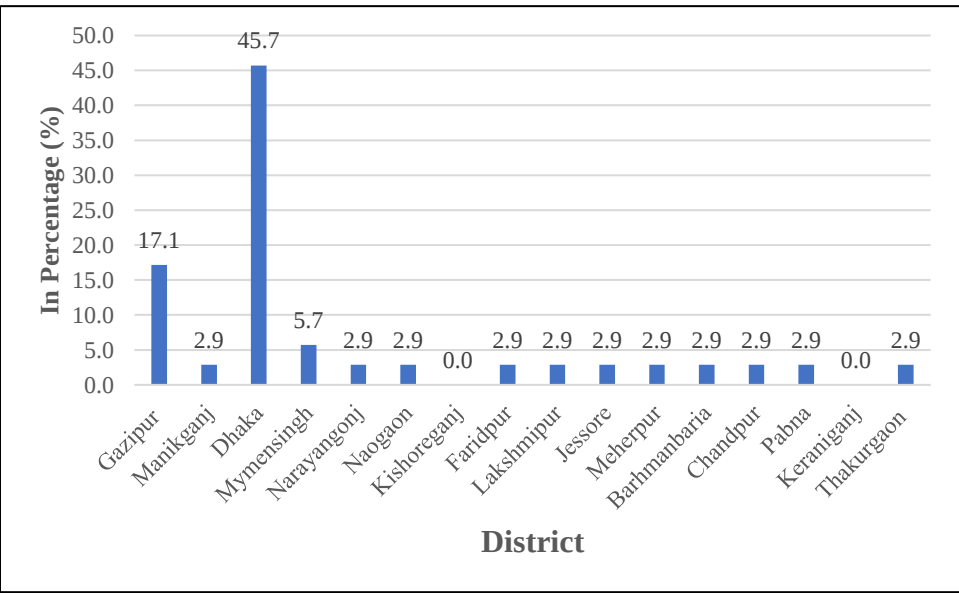
Source: Survey, 2024

Figure 1: Home District of Respondents (First Time)



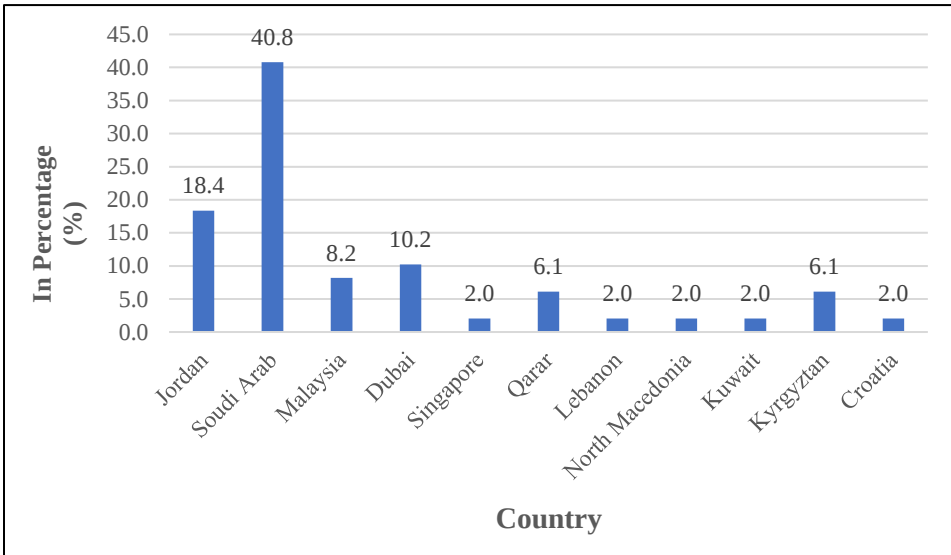
Source: Survey, 2024

Figure 2: Home District of Respondents (Second Time)



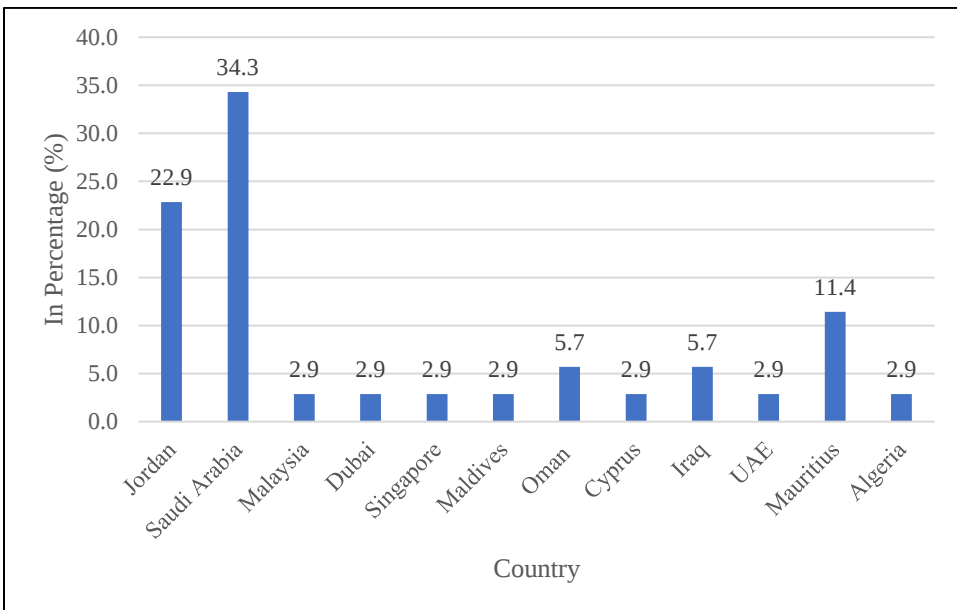
Source: Survey, 2024

Figure 3: Destination Country (First Time)



Source: Survey, 2024

Figure 4: Destination Country (Second Time)



Source: Survey, 2024

Paper Two

Price Verification in International Trade: Regulators’ Expectations and Commercial Reality

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Online Link: <https://bibm.org.bd/publications-read.php?id=136>

List of Abbreviations

ABS	Automated Business System
ADB	Asian Development Bank
ADs	Authorized Dealers
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering/Counter Financing of Terrorism
APIs	Active Pharmaceutical Ingredients
BAFT	Bankers Association for Finance and Trade
BB	Bangladesh Bank
BCBS	Basel Committee on Banking Supervision
BFIU	Bangladesh Financial Intelligence Unit
BFTF	Bangladesh Financial Telecommunication and Fund Transfer System
BMPE	Black Market Peso Exchange
CBN	Central Bank of Nigeria
CISG	Convention on Contract of Sale
DGDA	Directorate General of Drug Administration
EFRIS	Electronic Fiscal Receipting and Invoicing Solution
FATF	Financial Action Task Force
FCBs	Foreign Commercial Banks
FEOD	Foreign Exchange Operations Department
FEOD	Foreign Exchange Operation Department
FEPD	Foreign Exchange Policy Department
FEPD	Foreign Exchange Policy Department
FGDs	Focus Group Discussions
FX	Foreign Exchange
GFET	Guidelines on Foreign Exchange Transactions
GFI	Global Financial Integrity
ICC	International Chamber of Commerce
ICE	Immigration and Customs Enforcement
IFF	Illicit Financial Flow

IPO	Import Policy Order
IPPS	International Price Profiling System
KIIs	Key Informant Interviews
KYC	Know Your Customer
LC	Letter of Credit
LDC	Least Developed Country
MAS	Monetary Authority of Singapore
MoC	Ministry of Commerce
NBR	National Board of Revenue
OECD	Organization for Economic Co-operation and Development
PCBs	Private Commercial Banks
PCM	Partner Country Method
PFM	Price Filter Method
PVS	Price Verification System
SOCBs	State-Owned Commercial Banks
SRO	Statutory Regulatory Order
TBML	Trade-Based Money Laundering
TTU	Trade Transparency Unit
URA	Uganda Revenue Authority
VAR	Valuation Analysis Report
WTO	World Trade Organization's

Executive Summary

The paper examines the process of price verification in international trade, highlighting the critical role it plays in ensuring fair market value and compliance with regulations. It discusses how discrepancies in reported prices can lead to issues such as Trade-based Money Laundering (TBML) and mis-invoicing, thereby impacting tax collection and overall market transparency.

The study adopts a mixed-methods approach to bridge the gap between regulatory expectations and commercial realities. Specifically, it includes primary data collection and secondary data collection. A questionnaire survey administered across 30 banks (including both state-owned and private commercial banks) to capture first hand insights on price verification practices. Focus Group Discussions (FGDs) aimed at deepening understanding of operational practices and gathering nuanced perspectives on challenges in price verification. And for collecting secondary data a comprehensive literature review of reports, regulatory guidelines (from institutions such as the ICC, FATF, OECD, and central banks), and previous studies on price verification and trade-based money laundering are considered.

The paper utilizes various price verification models (e.g., Price Filter Method, Partner Country Method, and the International Price Profiling System) to compare and analyse reported prices. It develops an indicative risk matrix based on factors such as trade volume, difficulty in price verification, and mis-invoicing perceptions.

The literature review highlights diverse approaches globally—from statistical distribution methods to risk-based systems like the IPPS. A case study approach is used to contrast international practices with those in Bangladesh, where factors such as data reliability and technological limitations present unique challenges.

The analysis examines both internal (e.g., banks' proprietary databases, historical transaction data) and external sources (e.g., market price websites and trade data from international exchanges) used by banks. It also assesses the organizational structures within banks (centralized versus decentralized units) and the impact these have on the effectiveness of price verification.

Through surveys, the paper presents data on the frequency of mis-invoicing, permissible price deviations, and the challenges associated with verifying prices across different product categories. Tables and figures are used to illustrate the extent of mis-invoicing, variations in practices across product types (such as pharmaceuticals, capital machinery, etc.), and the risk scoring associated with price verification.

Key findings of the study include: significant gaps which is there is a notable divergence between regulatory expectations and the actual practices employed by banks, particularly in developing countries like Bangladesh. Operational challenges such as Banks struggle with verifying prices due to limited access to reliable market data, complex pricing structures, and technological constraints. A large proportion of banks lack formalized price verification units or comprehensive policies, leading to inconsistent practices and the risk of mis-invoicing and TBML which reveals that mis-invoicing, whether under- or over-invoicing, is prevalent and often exploited due to inadequate price verification measures. Specific sectors, such as pharmaceuticals and capital goods, present higher levels of difficulty and risk.

The paper advocates for improved inter-agency coordination (among central banks, customs, and regulatory bodies), enhanced technological investments, and regular training for bank personnel. It also suggests the creation of a centralized, publicly accessible database for trade prices to standardize and improve the price verification process.

The paper concludes that while price verification is a critical control mechanism in preventing financial crime and ensuring fair trade, current practices fall short of regulatory expectations. A more integrated approach—combining technological upgrades, standardized processes, and enhanced regulatory coordination—is essential to address the shortcomings and mitigate risks associated with trade mis-invoicing and TBML.

Price Verification in International Trade: Regulators' Expectations and Commercial Reality

1. Background Note

International trade is a crucial driver of global economic integration, and the accuracy of reported prices is essential for ensuring equitable transactions. Regulatory bodies, such as customs authorities and trade enforcement agencies, rely on declared prices to monitor compliance with tax laws, anti-dumping regulations, and trade agreements. Price verification is thus an essential component of trade compliance, as discrepancies can indicate illegal practices such as under-invoicing, over-invoicing, or misclassification of goods. Price verification is connected with fairness, transparency, and the prevention of anti-competitive practices, and it is considered a critical tool in detecting Trade-Based Money Laundering (TBML) by the regulators and the banking and financial institutions (Choi, 2023). Price verification is also conducted as part of mitigating credit risks in trade financing. However, the process of price verification is complex and often influenced by a wide array of factors beyond regulatory control.

The challenges for banks and financial institutions in identifying such price misrepresentation have been well documented (ICC, 2023). The misuse of trade finance to disguise the transfer of funds or value through the misrepresentation of prices of goods and services is a recognised money laundering typology, and regulatory bodies worldwide have outlined expectations for price verification as part of Anti-money Laundering (AML) efforts (ICC, 2023). However, there is often a blunt contrast between these regulatory expectations and the reality faced by banks operating in developing countries; more specifically, banks and financial institutions commonly struggle to meet these expectations (FATF and Egmont, 2020). Due to differential infrastructure and systems for price-verification, resources, and regulatory framework, the extent of struggles

and challenges are not same; in many developing countries several limitations make it difficult for banks to reliably detect price manipulation.

While regulators expect that the prices reported in trade transactions reflect fair market value, commercial realities often complicate this expectation. Commercial realities-such as fluctuating market conditions, the use of complex pricing mechanisms like transfer pricing, barter, and countertrade and the deliberate manipulation of invoicing practices challenge the ability of regulators to verify prices accurately (OECD, 2017). The gap between regulatory expectations and the complexities of international pricing and their differential perspectives are well recognised, and there are huge scopes and efforts to explore the methods used by regulators to assess price accuracy, the commercial strategies that traders employ, and the challenges involved in reconciling these two perspectives.

Difficulties in price verification by banks in developing countries including limited access to reliable data, technological limitations, and the widespread informal nature of trade lead to significant risks for the financial system. Differential price verification goals of the central banks and customers authorities create further complications. Complexities, challenges, and risks associated with price verification efforts in the trade financing fronts do not seem to be very different in Bangladesh to that of the developing countries of the globe. Especially, TBML concern is getting increasing attention of the policymakers. Global Financial Integrity (GFI), US based think-tank, identified that more than 80% of illicit financial flow (IFF) from 134 developing countries to 36 developed countries is conducted through trade miss invoicing. Particularly, 86.44% IFF conducted through trade miss invoicing from Bangladesh which is 17% of its total trade. Considering the magnitude and severity of this problem Bangladesh obliged respective stakeholders specially banks to verify the price of tradable items through different legally enforceable instruments including Trade Based Money Laundering Guidelines issued by BFIU, Import Policy Order and Export Policy issued by Ministry of Commerce and GFET issued by Bangladesh

Bank. This round table paper seeks to explore these challenges and complications in depth, evaluate existing practices of price detection, and propose solutions to improve price verification and prevent price manipulations and TBML concerns. The gap between the two perspectives-regulatory expectations and commercial realities is amongst the core issue of the paper's inquiry.

Specific objectives of the paper are: **one**, to explore the issues and challenges associated with verifying trade prices in the global context; **two**, to understand and examine the gap between regulatory expectations for price verification and commercial reality in handling price verifications issues by banks in Bangladesh; and **three**, to search avenues for improving price verification practices and regulatory compliance by examining the effectiveness of current practices of price verification by banks in Bangladesh.

The paper is based on both primary and secondary information. Publications and reports on price verification and Trade Based Money Laundering through misinvoicing are the secondary sources. ICC documents, global trade-related reports on compliance in international trade were the major secondary data sources. A questionnaire survey was conducted to collect primary data that incorporated both open-ended and close-ended questions. The survey was administered in thirty banks. Sample banks include four SCBs, and twenty-seven PCBs of different generations. Key Informant Interviews (KIIs) have been conducted with selected bankers of different banks, regulators, and traders for data validation and drawing opinions on challenges and future course of actions. Both central bank and customs authority are prime stakeholders/policymaker of the price verification. The paper however focuses mainly on the regulatory concerns of mainly Bangladesh Bank and Bangladesh Financial Intelligence Unit (BFIU). Two Focus Group Discussions (FGDs) are conducted to validate the data and more insights about practices and challenges in price verification. An indicative risk matrix is developed considering market share of traded goods, the degree of difficulty in verifying prices for individual products, and mis-invoicing.

2. Price Verification Issues and Challenges in the Global Context- Literature Review

As noted in the Monetary Authority of Singapore or MAS (2015) guidelines, price verification is a crucial control mechanism in trade financing that serves dual purposes - mitigating both credit risks and detecting potential fraud and money laundering/terrorist financing activities that may occur through over/under-invoicing of transactions. Operative price verification mechanisms and approaches are associated with effective handling of TBML. Transparency International Russia (2023) notes that verifying prices remains challenging, however, improved methods for price verification in trade financing could help address these money laundering risks. Identifying several cases and instances, ABS (2018) underscores the importance of thorough price verification in detecting potential money laundering activities in trade finance transactions.

2.1. Price Verification Tools and Regulatory Expectations

Despite lack of recognised standard systems, some studies/published literature identified several models and tools for price verification. Chao (2023) identified two main approaches to verify pricing in the process of handling mis-pricing. The first one is 'Price Filter Method (PFM)' that analyses transaction-level import data; groups products into homogeneous categories by HS codes; identifies abnormal unit prices using statistical distribution (interquartile methodology); and flags transactions outside the normal price range as potentially suspicious. The second one is 'Partner Country Method (PCM)' that compares import/export data between trading partners; analyses discrepancies in reported values between countries; and identifies significant gaps that might indicate mis-invoicing. The effectiveness of this methodology was demonstrated through testing, where 18% of imports flagged as suspicious were actually found to be illicit - significantly higher than the average detection rate of 4.5%. When combined with existing risk management tools, the accuracy increased to 36% for under-valued transactions (Chao, 2023).

Central Bank's role as guide and prescription are generally expected and appreciated, however, there are debates on the extend of engagement and expectations. Zdanowicz (2019) describes the International Price Profiling System (IPPS), a risk-based analysis system used to evaluate the pricing of goods in international trade. The IPPS uses statistical analysis of the USA Merchandise Trade Database to establish normal price ranges for products traded between countries. The system produces a 'Risk Index' ranging from -4 to +4, with negative values indicating potential money movement out of the USA and positive values indicating potential money movement into the USA. The document emphasizes that financial institutions engaged in trade financing should conduct both character-based analysis (evaluating non-price factors like country risk and product risk) and transaction-based analysis (evaluating actual prices). The IPPS is presented as a tool to assist financial institutions in detecting abnormal pricing that may indicate money laundering, terrorist financing, tax evasion, or customs fraud. However, it is noted that the system may generate false positives, and further investigation is required to determine if suspicious transactions are actually related to illegal activities (Zdanowicz, 2019).

For price verification, MAS (2015) required commercial banks to follow given approach: one, banks should conduct price checks to verify the reasonableness of invoice prices against prevailing market prices, at minimum on a sampling basis. This is particularly important when market prices are readily available. Two, banks need clear policies and procedures that guide staff in performing price checks; establish acceptable price variance levels; detail escalation procedures when significant price differences are identified; set different thresholds for different types of goods/commodities; include guidelines for selecting reference prices. Three, the process should include periodic assessments to ensure price thresholds remain reasonable based on current market conditions. Four, to maintain effectiveness and minimize conflicts of interest, price checks should be performed by functions independent of the front office. And five,

special attention should be given to transactions between related parties as these carry inherently higher risks of fraud and financial crime (MAS, 2015).

In another instance, direct engagement of the central bank did not work. In a recent development, Central Bank of Nigeria (CBN) has officially discontinued its Price Verification System (PVS) portal just ten months after its launch. The announcement, made through a circular dated June 26, 2024, indicated that recent developments in the Nigerian Foreign Exchange Market necessitated this decision (Box-2.1).

Box 2.1: Central Bank's Initiative to Give a Price Range for Price Verification Failed

The PVS was introduced in August 2023 as criteria for importers to access foreign exchange. Hence the price verification report was mandatory for all Form M requests. The Form 'M' is a declaration of intention to import physical goods into Nigeria and it is used to apply for forex purchase in the official forex market.

The Price Verification System (PVS) is an initiative by the Central Bank of Nigeria to benchmark the price of imported items in line with global standards. The objective is to control Foreign Exchange (FX) remittance in the foreign exchange market in Nigeria. The Price Verification System had a pricing threshold between - 2.5% to +2.5% (which was later expanded to -15% and +15%) The price of import item within this range was acceptable for import, otherwise it would be rejected. But the introduction of the PVS was greeted with criticism from importers and the private sector groups including Manufacturing Association of Nigeria, MAN, and the National Council of Managing Directors of Licensed Customs Agents, NCMDLCA.

Sources: <https://nairametrics.com>; <https://www.vanguardngr.com>

In the USA context, Immigration and Customs Enforcement (ICE) established the Trade Transparency Unit to identify global TBML trends and conduct ongoing analysis of trade data provided through partnerships with other countries' trade transparency units. In the Bangladesh perspective, country's apparel exports to the United States -- its largest single market -- in the first half of 2024, reaching \$3.40 billion. Moreover, in the context of import, USA also our major trade partners. As a major trading partner with USA, Bangladesh can also join TTU. Moreover Colombia, ICE formed the first TTU with the Government of Colombia.

In furtherance of this trade transparency initiative, ICE is actively working with the Colombian TTU on several Black-Market Peso Exchange (BMPE) investigations. Bangladesh will be benefitted by gathering trade data from various sources, including customs declarations, shipping records, financial transactions, and trade databases. Comparing trade data from different countries to identify discrepancies in the reported value, quantity, and type of goods. Conducting risk assessments to identify high-risk transactions, goods, and trade routes. Using advanced analytics and algorithms to detect anomalies and patterns indicative of TBML and customs fraud. Sharing findings with relevant authorities, including customs, financial intelligence units (FIUs), and law enforcement agencies, to coordinate investigations and enforcement actions (<https://www.dhs.gov/trade-transparency>).

The suggested framework by KPMG (2020) requires banks to establish comprehensive policies and procedures for price verification and suspicious transaction reporting mechanisms primarily to combat TBML. For effective price verification, banks need to develop and implement a price verification policy that includes acceptable levels of price variance; maintain a database of unit prices of goods along with their HS Codes; pay special attention to goods that are either exempted from import duties or subject to over 25% import duties, as well as goods eligible for export rebates; verify prices when dealing with advance payments, requiring exporters to submit copies of underlying sale contracts; implement technology-based solutions specifically for price verification of goods. KPMG (2020) suggested this comprehensive approach to price verification is part of the broader risk management framework aimed at preventing trade-based money laundering and terrorist financing (KPMG, 2020).

Differential regulatory expectations creates complications in adopting price verification approaches. Alongside central bank, customs authority is a key stakeholder of the price verification system in international trade transactions. Central banks enforce banking regulations and ensure that trade financing is transparent. The central bank, through coordination with

other authorities, is responsible for enforcing anti-money laundering regulations and may require banks to verify the accuracy of transaction prices to prevent TBML and ensure proper financial reporting. Central banks often issue guidelines and works with financial institutions to monitor transactions to detect suspicious trade-based activity, including inflated or deflated prices that could facilitate illicit money flows. Customs ensures that the proper duties are paid on tradable, and any under- or over-invoicing could result in revenue loss for the government. Customs authorities may scrutinize invoices and prices declared by importers to prevent TBML activities. Despite similarities in their goal, differences in their targets and purposes, price verifications confront complications and need regulatory balance (Box 2.2).

Box 2.2: Price Verification Goals and Approaches: Central Bank Versus Customs

Customs and the central bank have a common interest in preventing TBML. However, the methods used to prevent TBML may contradict the goal of facilitating trade financing. Customs authorities may focus on enforcing strict price valuations to combat TBML and ensure accurate duty collection, which can sometimes clash with the central bank's broader financial stability and trade facilitation goals. For example, overenthusiastic customs enforcement of price checks might inadvertently hinder legitimate trade transactions, creating friction with the central bank's goal of promoting smooth financial flows in the trade sector.

While both the Central Bank and Customs Authorities aim to ensure a stable economy and prevent illicit financial activities like TBML, their goals can sometimes clash. The central bank seeks to facilitate trade financing and promote economic stability, which could involve relaxing price scrutiny or easing the trade financing process. In contrast, customs authorities focus on verifying prices for accurate duty collection and preventing fraudulent practices, including TBML. This tension between facilitating trade and enforcing strict price verification creates a complex regulatory environment where the two bodies may need to strike a balance between financial stability, revenue collection, and trade facilitation.

Note: Based on Commission on Choi, 2023; Security & Cooperation in Europe, 2019; and FATF, 2021.

Although, regulatory guidance globally suggests that price checking is an appropriate measure for financial crime prevention, they also acknowledged that verification of price of goods to prevent financial crime can be

challenging task for banks as elaborated by the UK Joint Money Laundering Steering Group, that determining potential misrepresentation of value and cannot usually be based solely on the trade documentation itself. Nor can the use of external data bases alone be relied upon as most products are not traded in public markets and have no publicly available prices. Even where such prices are available, such as those for commodities, firms will not be aware of the terms of trade, discounts involved or quality of the goods etc, so making a determination of the unit pricing will always be difficult.”

Awareness and capacity of bank employees, awareness and information level of customers/traders, and legal enforceability of sales contracts are other factors that have implications for the effectiveness of the price verification systems in banks in a specific jurisdiction (Habib et al. 2024).

2.2. Price Verification Practices by Banks, Associated Challenges and Incentives

ICC (2023) acknowledges that while price checking is recommended by regulators, it is difficult to implement effectively due to several factors. These include the lack of reliable price reference points for many goods, legitimate reasons for price variations (such as timing, trade terms, quality differences, and market dynamics), and the sheer variety of products involved in global trade. A publication by ICC (2019) argues that it is not feasible for financial institutions to develop a binary financial crime control for price checking, and automated systems have not proven effective to date. Even for commodities with publicly available pricing information, price checking remains challenging due to multiple factors that influence the final price of goods in a transaction. These factors include contract dates, Incoterms, product quality, freight costs, market conditions, and the relationship between buyer and seller. ICC (2023) outlines various approaches to price checking, including manual review by processing staff, the use of specialist teams, automated identification of collusion risk, and emerging technological solutions. The report adds that each approach has limitations, and emphasized that price checking alone is not sufficient to

identify trade-based money laundering and should be part of a broader, holistic approach to assessing transaction validity and customer activities. ICC (2019) suggests that instead of relying solely on price checking, financial institutions should implement a broader control framework, and concludes that this framework should include manual escalation procedures, post-transaction analysis, and robust policies and procedures where the investment required would be significant.

The guidance paper by the Wolfsberg Group, ICC and BAFT (2019) outlines lack of relevant business information, such as the terms of a business relationship, volume discounting or the specific quality of the goods involved. It adds, many products are not traded in public markets and there are no publicly available market prices. Even where goods are publicly traded, the current prices may not reflect the agreed price used in any contract of sale or purchase, and these details will not usually be available to the banks involved due to the competitive sensitivity of such information (Wolfsberg Group, ICC and BAFT, 2019).

FATF and Egmont (2020) found, financial institutions face particular difficulty in estimating the ‘fair price’ of traded commodities; and banks often receive only vague descriptions of traded goods, making it hard to determine appropriate market prices. Establishing ‘fair prices’ requires may rely solely on open-source information; and many commodities used in TBML schemes are not traded in public markets, so there are no benchmark prices available. Smaller entities with limited compliance budgets face even greater challenges in conducting thorough price verification. This is one reason why money launderers may prefer open account trading, where banks have more limited oversight compared to other payment methods like letters of credit that require more detailed documentation (FATF and Egmont, 2020).

Commission on Security & Cooperation in Europe (2019) noted, customs officials and banks often lack proper tools and databases to verify the true

value of goods being traded. Many rely on inadequate methods like checking retail prices on Amazon, which do not reflect accurate bulk commercial values. There is a need for better world market price databases that allow customs agents to compare declared values against historical trade data for similar goods. This would help identify suspicious under- or over-invoicing. The study adds, there is a lack of coordination between anti-money laundering efforts and traditional trade/customs agencies on the issue of price verification. More collaboration is needed between these sectors. Seven, improving price verification capabilities requires better tools, training, and cooperation between customs, financial institutions, and other relevant agencies (Commission, 2019).

BFTF (2017) found that bank personnel typically lack the expertise to assess the actual cost of items, especially when factors like technical specifications, location, and brand can greatly affect pricing, and suggested that a more effective approach would involve collaboration between various stakeholders, including customs officials, shipping companies, and financial institutions, to aggregate data and use advanced analytics for detecting price anomalies across all shipments. The success of the USA Trade Transparency Unit in using customs data for price valuation analytics is cited as an example of a more comprehensive and reliable method for identifying potential TBML through price manipulation (BFTF, 2017).

ICC (2019) identified several factors responsible associated with the challenges of price verification by banks and financial institutions that include limited visibility into trade transactions, being involved in only about 20% of global trade through documentary trade finance (like letters of credit), while 80% occurs through open account transactions with minimal bank oversight. The study emphasized that price verification alone is insufficient and must be part of a holistic approach combining multiple data sources, risk indicators, and cooperation between banks, customs authorities, and other stakeholders.

A recent ADB (2024) highlights that mispricing of goods for the purpose of laundering funds remains a significant challenge in combating TBML. Throughout the pilot study described in the document, various countries identified mispricing as a common typology or red flag for TBML. For example, Bangladesh noted ‘Mispricing (over/under invoicing)’ as one of the typologies observed; Nepal identified ‘Pricing mismatch’ as a red flag; Pakistan observed that criminals often resort to ‘under invoicing’ to evade customs duties and taxes; Sri Lanka listed "Over/under/split invoicing" as one of the typologies detected. The ADB study emphasized the importance of analysing trade-related data, improving training, and enhancing collaboration between financial intelligence units, customs, and law enforcement agencies to better detect and investigate TBML, including issues related to price manipulation in trade transactions.

Global Financial Integrity and Transparency International Kenya (2023) identified some specific measures for price verification in different countries like Uganda has set up revenue points in countries like Kenya, UAE, and China where it exports commodities like coffee, to help curb trade mis invoicing; Uganda Revenue Authority (URA) has established a science laboratory to assess imported goods as a quick determinant of their value before levying tax; Colombia has implemented an Integrated Electronic Invoicing System, which prevents alteration of invoice values or contents; Uganda has implemented the Electronic Fiscal Receipting and Invoicing Solution (EFRIS) linked to the Customs System to reduce forgery.

As the risk management, the guidance paper by FATF (2021) states that some of the price verification related risk management require the cross-comparison of various data elements (e.g., financial transactions, customs data and open market prices) often held in external sources. For some of the risk indicators, the private sector needs additional contextual information from competent authorities, e.g., via engagement with law enforcement authorities or financial intelligence units. In using these indicators, private

sector entities should also take into consideration the totality of the customer profile, including information obtained from the customer during the due diligence process, trade financing methods involved in the transactions and other relevant contextual risk factors (FATF, 2021).

Banks often rely on a combination of internal procedures and external resources to verify trade prices. Banks need to compare the prices declared in trade invoices with market prices or historical transaction data. However, this is difficult to do without access to reliable and consistent market data. In some cases, banks work with customs authorities to verify the prices of imported or exported goods. However, the effectiveness of this collaboration is limited by the lack of data sharing and coordination. Emerging technologies such as big data analytics and artificial intelligence have the potential to improve the accuracy of price verification. ICC (2023) suggested several steps to improve price verification arrangement (Box 2.3).

Box 2.3: Suggestion for Improving Price Verification Arrangement in Banks by ICC

- Banks need to effectively require the creation of a specialist team dedicated to the task of ratifying fair market price.
- Collusion is seen as instrumental for price misrepresentation and consideration may be given to the development of post transaction automated monitoring solutions using social network analytics and big data techniques to identify such common ownership structures.
- A typical technology solution incorporates automation relative to the extraction of goods description from documents. Any such solution would aim to isolate specific higher risk cases requiring in-depth review.
- Notwithstanding the challenges and limitations, banks may adopt a manual review of trade finance transactions (where the relevant documents are present) to assess the validity of the transaction which could include price checking.

Source: ICC, 2023

3. Regulatory Expectations for Price Verification and Compliance Concerns- Bangladesh Status

Regulators, including central banks, expect banks to adhere to effective price verification processes for various financial transactions and products. These expectations are shaped by the need to maintain market integrity, safeguard against systemic risks, and ensure fair treatment of consumers. Price verification, in this context, refers to the process by which banks ensure that the prices at which they transact in financial markets are accurate, reliable, and in line with market conditions. The Basel III framework emphasizes the importance of transparency in pricing, especially when setting valuations in illiquid or complex markets (Basel Committee on Banking Supervision, 2011).

Central bank and customs authority are the prime associated stakeholders in this context. Customs authorities, for example, often require importers and exporters to submit a transaction value (the price actually paid or payable for goods) for customs duties assessment, as outlined under the World Trade Organization's (WTO) Agreement on Customs Valuation. Central banks expect banks to establish strong governance and oversight functions that oversee the price verification process. This includes establishing clear roles and responsibilities for those involved in price verification, conducting regular audits, and ensuring compliance with regulatory requirements. Regulatory expectations call for the effective verification of trade prices, which is key to identifying discrepancies that may indicate TBML.

In the context of Bangladesh, Bangladesh Bank, Bangladesh Financial Intelligence Unit (BFIU), and the customs authority are the prime regulatory and policy agency associated with price verification. Of the Bangladesh Bank, Foreign Exchange Policy Department (FEPD), and Foreign Exchange Operations Department (FEOD) issues regulatory governance and prudential behavioural requirements and circulars on price verification compliances by the authorised dealer bank branches. Banks are

required to comply with regulations and rules issued by the Bangladesh Financial Intelligence Unit (BFIU) as measures to control financial crime especially Trade Based Money Laundering (TBML). Price verifications issues also found place in the trade policy documents issued by the Ministry of Commerce of Bangladesh.

Guidelines on Foreign Exchange Transactions (GFET) of the Bangladesh Bank (Chapter 7, Section 2 Sub-section 20), a few Foreign Exchange (FE) circulars, TBML Guidelines issued by the BFIU, and Import Policy Order specifically mentioned price verification requirements by banks (Box 3.1).

Box 3.1: Regulatory Requirements for Price Verification by Banks	
GFET, Ch 7 Section 2 Sub-section 20	Prior to the establishment of a Letter of Credit (LC) or the initiation of an import, the Authorized Dealer (AD) must exercise standard and prudent cautionary measures to confirm that both the exporter and importer are legitimate business entities engaged in the relevant goods. It is essential to ascertain that the exporting country is a recognized supplier of the goods in question and that the pricing of these goods is competitive relative to the prevailing international market rates at the time of the contract and/or similar imports during the same period. Authorized Dealers are encouraged to validate this information, if necessary, with assistance from the appropriate Bangladesh Mission overseas.
FE Circular No. 24 (Dated 24/10/24)	Authorized Dealers (ADs) are permitted to enable qualified importers to bring in permissible items via contracts based on usance terms under supplier's or buyer's credit. (a) The relevant purchase or sales contracts for imports must be presented to the designated ADs, who will then forward them to the Bangladesh Bank's online reporting portal. Prior to submitting import information on the Bangladesh Bank online reporting platform, (i) ADs must ensure they are satisfied with the importers' past performance; (ii) ADs are required to obtain a credit report from foreign suppliers in accordance with current regulations; (iii) An undertaking must be secured from the respective importer confirming that they possess the necessary financing arrangements or adequate cash flows to settle import liabilities upon maturity; (iv) ADs are prohibited from facilitating imports through purchase or sales contracts if there are any outstanding payments from previous imports that remain unsettled past their maturity date.

FEPD Circular Letter No. 10 (Dated 18/09/23)	Comprehensive product descriptions, including quality, brand, date of manufacture, packaging information, and any applicable product grade that allows for the product's quality to be distinguished, along with price and quantity per unit. In cases of importing multiple products under the same PI, each product should be described separately, including value, brand, date of manufacture, packaging information, and any distinguishing characteristics, such as tags, that relate to the product's quality, price, and quantity per unit. For multiple goods imported under a single PI, present all the goods based on their natural units without the need for specific unit measurements like kilograms, liters, or pieces. Compliance with International Chamber of Commerce (ICC) approved incoterms and accurate documentation of transport charges when applicable. Precise specification of the first two digits (a total of 8 digits in full) of the HS code for the specific identification of the imported goods.
FEPD Circular Letter No. 36 (Dated 10/10/2022)	Before commencing import transactions, Authorized Dealers (ADs) are mandated to assess the prices of comparable goods based on the current international market rates on the contract date and/or similar imports during the relevant period. In light of the existing trends in the global commodity market, ADs are encouraged to follow regulatory guidelines for the verification of import prices and their competitiveness. As is customary, ADs must exercise comprehensive due diligence in import transactions and adhere to applicable regulations, which include but are not limited to the provisions of the active Import Policy Order, supplier credit assessments, Know Your Customer (KYC) protocols, and Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) standards across all AD branches, offshore banking activities, and central trade processing facilities.
BFIU(Policy)- 3/2022-18	Banks should develop their own database and procedures to guide trade processing staff in performing price checks. BFIU also provides a template in this regard.
Guidelines for Prevention of Trade Based Money Laundering, 2019	The TBML 2019 emphasizes the critical role of price verification in the context of financial crime control. Banks should establish acceptable price variance thresholds and escalation procedures for when significant price differences are identified; different thresholds may be set for different types of goods and services based on periodic market price assessments; price verification process should be centralized or automated where possible to enhance effectiveness and avoid conflicts of interest; banks are advised to take reasonable measures to identify any blatant or obvious pricing irregularities that

	may indicate inconsistencies in the pricing of shipped goods; while banks may find it difficult to ascertain market prices for all components of a product's price, they should exercise due diligence in trying to identify suspicious pricing; factors like quality, packaging, freight, customs duties, and other costs should be considered when assessing prices; banks are encouraged to verify prices, if needed, with the help of relevant Bangladesh Missions abroad. The document notes that price verification can be challenging due to lack of relevant business information, volume discounts, specific quality features, and the fact that many products are not publicly traded; and a central database or uniform price list for various commodities is suggested as a tool to help prevent under invoicing and over-invoicing. Overall, the document stresses the importance of price verification as part of a risk-based approach to combating trade-based money laundering, while acknowledging the practical challenges banks face in this area.
Import Policy Order 2021-2024 CHP 2 Subsection 5(4)	Importation must occur at the most competitive rates, and it is mandatory for importers to provide documentation to the Import Control Authority concerning the prices they have paid or will pay at any time. In instances of imports under Untied Commodity Aid within the private sector, goods must be procured at the most competitive rates by soliciting quotations from a minimum of three suppliers or indentors from at least two different source countries. However, this requirement does not apply to letters of credit opened for amounts up to USD 15,000. For public sector importers, it is essential to invite quotations prior to the opening of a letter of credit, ensuring that goods are imported at the most competitive prices.
Import Policy Order 2021-2024 Sub-section 21 5(ka) & (Gha)	Government-sanctioned and acknowledged pharmaceutical companies will receive a Block List that has been formally approved by the Director of Drug Administration. This list will detail the specifications of raw and packaging materials, including their value and quantity, in accordance with the companies' annual production plans. Imported raw and packaging materials will be cleared by the Customs Authority based on the import invoice and an analysis report of the raw materials. This report must be certified by the Director of Drug Administration or by a government-approved, internationally recognized Pre-shipment Inspection Agent, confirming the quantity, value, and quality of each item.
Import Policy Order 2021-2024	All medicines and related products, including antibiotics categorized under H.S. Heading No. 29.41, products listed under H.S. Heading No. 30.01, live vaccines and other items classified under H.S. Heading No.

Sub-section 21 5(ka) & (Gha)	30.02, as well as goods under H.S. Headings 30.03 and 30.04, are subject to import regulations as specified in the government gazette notification issued by the Directorate of Drug Administration. Importation of these items requires prior approval from the Directorate of Drug Administration. The approval letter must include details such as the quantity of medicine, trade name, generic name, value, registration number assigned by the Directorate of Drug Administration, as well as the manufacturing and expiry dates, in accordance with the Import Policy Order 2021-2024.
Note: Based on GFET, FE Circulars, BFIU TBML Guidelines, and IPO (2021-24).	

Bangladesh Bank has taken several initiatives to supervise the price verification and set up a dedicated desk to oversee effectiveness of price verification process followed by ADs while doing their trade transactions (Box 3.2). In the process, they guide banks (generally verbal instructions) in determining price verification of trade transactions.

Box 3.2: Recent Dynamic Development in Price Verification Enforced by the Bangladesh Bank
• Price verification for import transaction becomes mandatory via FEPD circular letter 36 dated October 10, 2022. • Bangladesh Bank has also provided directive to upload any import transaction value of USD 3.00 million or above to dashboard and wait for 24 hours for any specific requirement from BB regarding price verification. • Furthermore, BB also randomly checks daily transactions, sends email to respective ADs to submit price verification as due diligence process for a particular transaction. For any amount, even for USD 2000 • With the above price verification due diligence practices, BB also took several initiatives to enhance price verification process awareness through conduction of training sessions for trade officials.

Despite expectations, difficulties of price verifications are well recognised and accepted. BFIU guidelines for the prevention of trade-based money laundering has also acknowledged this challenge in paragraph 2.7, point (a) that “Due to lack of relevant business information, such as the terms of business relationship, volume discounting or specific quality, or feature, specifications of goods involved, bankers have to be cautious in making

meaningful determinations about the appropriateness of the unit price. Moreover, many products are not traded in public markets and their market prices are also not publicly available. Even where goods are publicly traded, the current prices may not reflect the agreed price used in any contract of sale or purchase and these details will not usually be available to the banks involved due to competitive sensitivity of such information” Therefore, the general expectation of the regulators that banks should make reasonable effort to assess whether the price of goods in a transaction is not (1) false, (2) misleading or (3) there is an obvious misstatement in price. If Banks deem any pricing of underlying goods or services are either false or misleading or obvious misstated, they should make further enquiries i.e. enhance due diligence to satisfy following the escalation protocol of their respective guidelines for prevention of trade-based money laundering.

As expected, the implementation of those measures differs across the sector. Recent stress in foreign exchange market draw attention of Bangladesh Bank, primary regulator of international payment system, about the compliance of banks though banks were reporting all the FX transactions in the FX Monitoring Dashboard long before. Bangladesh Bank is using open source information and subscribed one commercial vendor to verify the large LC issued by banks, BFIU developed and disseminated Uniform Template to collect and maintain own database of price of tradable items. With these enforcement statuses of compliance by banks price verification has improved recently. Survey data identified certain areas of expectations from regulators or regulatory provisions that incentivize price manipulations (Box 3.3 to 3.6).

Box 3.3: Regulators’ Expectation and Practices by Banks
Statutory Regulatory Order (No. 134-AIN/2023/178/Customs, dated: 21/05/ 2023) was issued by customs to determine fair market price of around 400 importable items. The SRO is an indicative minimum price per unit of about 400 commercial and assorted items. Banks are to follow this SRO before issuance of LC or contract for the above items. However, some recent investigations have unearthed violations of the SRO. For instance, a letter of credit was issued to import orange fruits from abroad where the imported price was USD 0.17 per kg, resulting in huge under-invoicing. However, the

SRO has set minimum value USD 0.70 per kg irrespective of country of origin. In another case, it was found that a letter of credit was issued to import facewash from abroad where the imported price was USD 1.5 per kg, resulting in huge under-invoicing. However, the SRO has set minimum value USD 6.5 per kg irrespective of country of origin.

Bank officials are hardly informed about the SRO, as the bank does not have centralized or decentralized price verification units. It has been observed that the traders deliberately made pro-forma invoice to avoid high amount of duty and tax on imported items.

Note: Customs' SRO and Survey Findings.

Box3.4: Tariff Schedule Hinders Fair Market Price

In some cases, it was found that banks issued letter of credit for USD 9000 to import car from abroad, however the market price was about USD 12000 to USD 13000. Though bank identified clear sign of under-invoicing, bank could not take any action as the imported price matches with tariff schedule. It is a case of under-invoicing but the bank did not have anything to do with compliance as customers' PI matches with tariff schedule, which lacks market-oriented approach. This process also affects banker-customer relationship in international trade. The traders arrange extra amount of the imported items by hundi which is another means of illegal financial flows.

Note: Based on FGD and Survey

Box 3.5: BB's Reporting Threshold Incentivizes Under-Invoicing

Bangladesh Bank provided directive to upload any import transaction value USD 3.00 million or above to Dashboard and wait for 24 hours for any specific requirement from BB regarding price verification. The above ceiling has created an interesting trend in the market. Customers are commonly interested to keep the value of the transactions below USD 3.00 million to keep the transaction out of the Dashboard monitoring system. In this process, sometimes prices are kept deliberately low to keep the transaction volume below USD 3.00.

Source: Survey

Box 3.6: Restrictions in Advance Payment Incentivizes Under-Invoicing

In importing goods and services via advance payment, ADs are allowed to make outward remittances for a maximum of USD 10000 per instance and USD 25000 from ERQ. If a client wants to import for USD 40000 (for example), a payment undertaking is to be obtained from bank abroad, otherwise permission of Bangladesh Bank is required. The process of obtaining bank guarantee from abroad and permission from Bangladesh Bank is time consuming and not possible to some extent. However, in many instances, it is observed that clients made advance payment exceeding the limit of USD 10000 via hundi or informal channel and banking channel is used for USD 10000.

4. Price Verification Practices in Banks and Commercial Reality-Bangladesh Context

Regulatory expectations and commercial reality may vary because of the differential perspectives, goals, and regulatory and market incentives. Compliance concerns of the regulators and compliance officers of banks, and business concerns of trade finance department/wing have implications for the gap between regulatory expectations and business/commercial reality.

4.1 Sources of Price Verification: Table-4.1 is the summary of internal sources of price verification, not on exhaustive list. As stated, BB, BFIU and customs authorities have some directives in determining price verification. The percentage varies due to lack of information about the availability of the sources. For example, our survey revealed that many bank employees are not aware of Customs SRO.

Table 4.1: Internal Sources of Price Verification	
Banks' Own Data Base	90%
Assessment Value of Previous Bill of Entry/Bill of Export	100%
Customs SRO	70%
Local Market Price, Information from other Clients with same line of business	100%
Bangladesh Bank/ BFIU Verbal Directives	70%

Table-4.2 is the summary of external sources of price verification, not on exhaustive list. The percentage varies due to lack of information about the availability of the sources. Banks also use auction sheet for importing car or any vehicles, Demolition Market Data for scrap vessels, Argus Media for coal, pink sheet of World Bank Commodities Price Data for soft commodity. For importing capital machinery, banks obtain quotations from other exporters or communications with the exporters of respective contracts regarding price negotiation.

Table 4.2: External Sources of Price Verification	
Alibaba.com	100%
Priceline.com	90%
Bloomberg	40%
India Mart	90%
Made in China and SBT	90%
Suppliers' Website and Communication with the Suppliers Directly	70%
London Metal Exchange/Chicago Mercantile Exchange	70%
Globalsource.com	50%

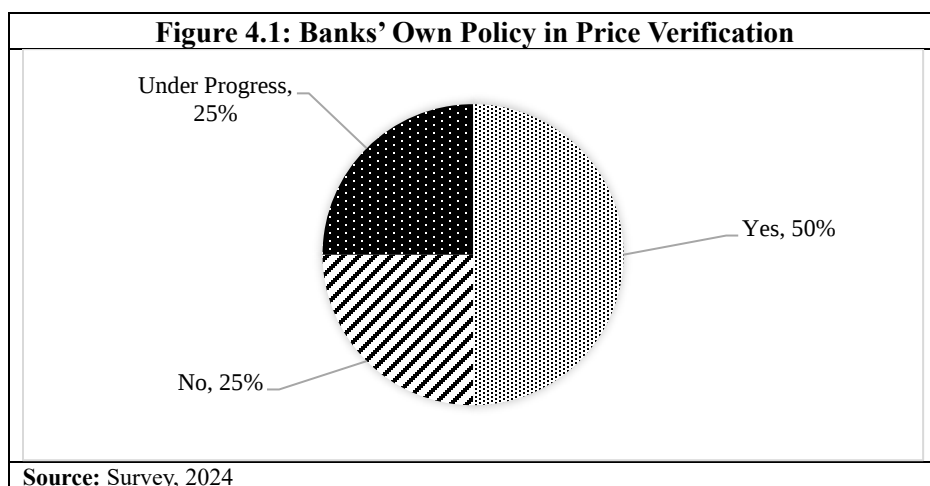


Figure-4.1 shows banks' own policy in price verification where 50% of the banks responded that they have price verification policy. However, with more insights from industry experts, it is observed that banks usually maintain a price verification checklist, not a comprehensive price verification policy. Some banks follow a template regarding risk parameters analysis of the pro-forma invoice or sales contract. One of the bank's templates is presented in Appendix-1.

4.2 Nature of Price Verification Units: Survey data indicate that in a centralized price verification unit, AD or Non-AD branch follow a uniform process for price verification, while decentralization trade environment does not follow the uniform process. In no formal price verification unit,

banks do not provide any price verification tools/solutions to their officials in trade transactions, banks’ officials apply their own judgment and experience in dealing their customers regarding price verification.

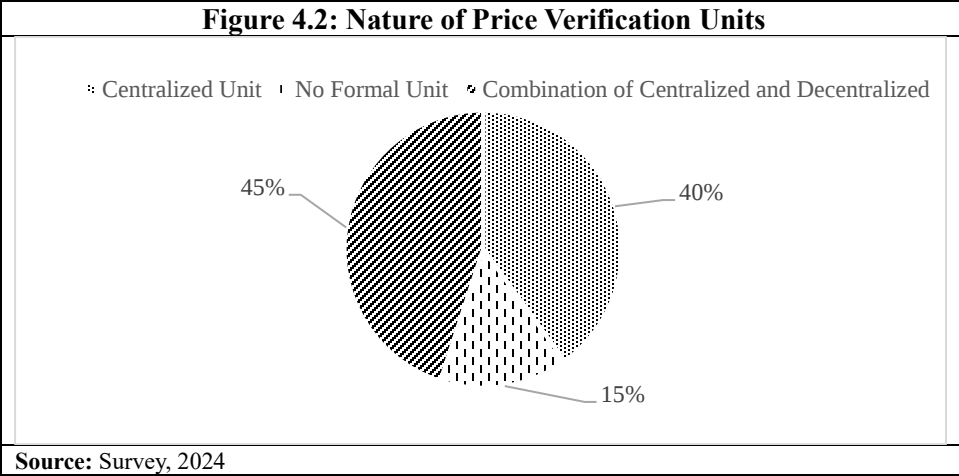


Figure-4.2 is the summary of infrastructure relating to price verification units of banks. 40% banks have a centralized price verification unit- a central unit or a group of officials who clears the trade transactions only after fair price of goods or services. In different bank groups, almost all FCBs follows this form of unit. Very few banks of PCBs have this mechanism. Moreover, 15% banks have no formal price verification unit. In this category, SOCBs hold the major share due to decentralization of trade transactions. Banks do price verification while at the time of issuance of LC, facilitating trade transactions and doing lien on export contracts or LC.

Box 4.1: Central Mechanism for Price Verification

Some banks establish their own databases and formulate explicit policies and procedures to assist trade processing personnel in conducting price verifications. The sources of this data are proforma invoice/ sales purchase contract. Banks develop data base of the price of the export and import. The database sets at a minimum, mention the level of acceptable price variance. If the variation is beyond their stipulated limit, they depend on open source. Moreover, if they don’t get any solution they escalate the procedures to another dedicated team. For ensuring smooth trade transaction and ensuring transparency, different threshold for different types of underlying goods and services are allowed on the basis of periodic market price assessment. To enhance the effectiveness of the price checks, the process is not only centralized but also automated. But it is time consuming and for further betterment

they suggest that there should be strong co-ordination between Bangladesh Bank (FEOD), Customs and BFIU.

Source: Survey, 2024.

4.3 Use of Purchase/Sale Contract in Bangladesh: ‘Firm Contract’ appears to be a requirement for trade services by banks in Bangladesh. There is specific mention of the term ‘firm contract’ in Bangladesh Bank Guidelines on Foreign Exchange Transactions (GFET) and Export Policy of Bangladesh. For example, “LC to be opened only against ‘Firm Contract’”, AD should, before opening an LC, see documentary evidence that a firm order for the goods to be imported has been placed and accepted” according to the Chapter-7, GFET, 2018; Despite differential interpretations, the term ‘Firm Contract’ might indicate the binding nature of the agreement that cannot be amended or cancelled unilaterally. The term ‘Confirmed Contract’ may be associated with the credibility and genuineness of the counterparty. GFET and Trade Policy documents of the country do not specifically mention using or verifying any special clause to make a contract a binding agreement or legally enforceable, however, there are cautions or suggestions on the trade service facilitation or financing facilities against contract alone. Guideline on Prevention of Trade Based Money Laundering (issued in 2019 by BFIU) also puts forward cautionary note regarding the potential vulnerability of the contract documents.

Table 4.3: Presence of Key Relevant Contract Clauses for Legal Enforceability in Bangladesh	
Sales-Purchase Contract Clauses	Availability
Resolution of Disputes Clause	15%; available for contract of mainly scrap vessel import, and reputed buyers.
Arbitration Clause	13%; available for contract of scrap vessel import, and reputed buyers.
Force majeure Clause	Very Insignificant
Limitation of Liability Clause	Very Insignificant
Applicable Law and Guiding Principles	Very Insignificant
Note: Based on Collected Contract Documents	

4.4 Banks’ Subscription for Price Verification and Human Capacity in

Price Verification Unit: Figure-4.3 indicates not all the banks have sufficient infrastructure in place. 40% banks have subscribed for price verification tools, but a large population has not yet. While subscription of price verification tools does not guarantee that the solution will provide data for all types of goods (about 60% of the goods covered in the solutions). However, the subscription cost is one of the key reasons for fewer number of banks in this infrastructure. As opined by the bank officials, banks are to subscribe to solution providers from USD 8000 to USD 12000 for price verification.

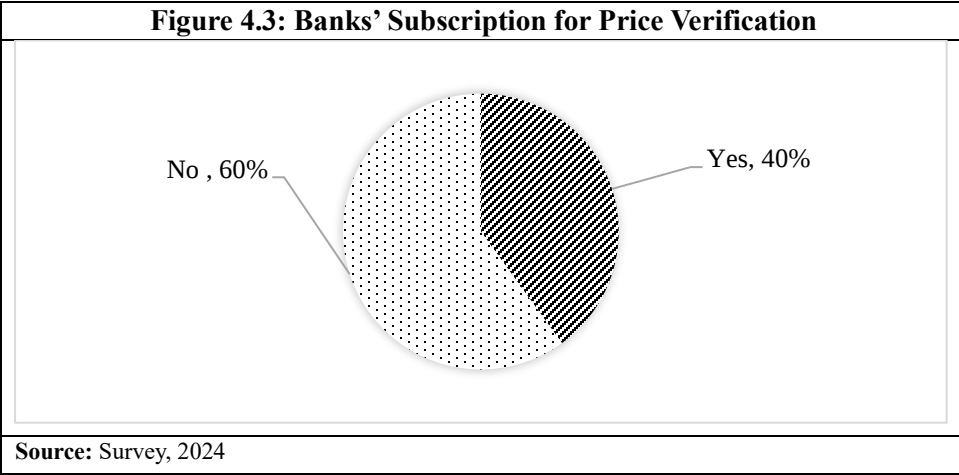
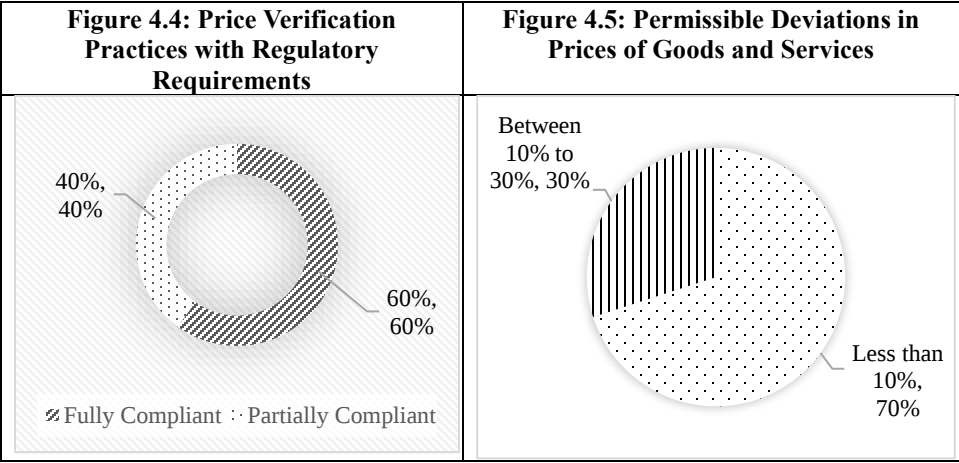


Table 4.4: Human Capacity in Price Verification Unit	
Employees in Price Verification Unit	5 to 15 employees depending on the business volume and compliance requirements
Raising STR/SAR	100% banks responded that they raise STR/SAR in unusual deviations of prices
Source: Survey, 2024	

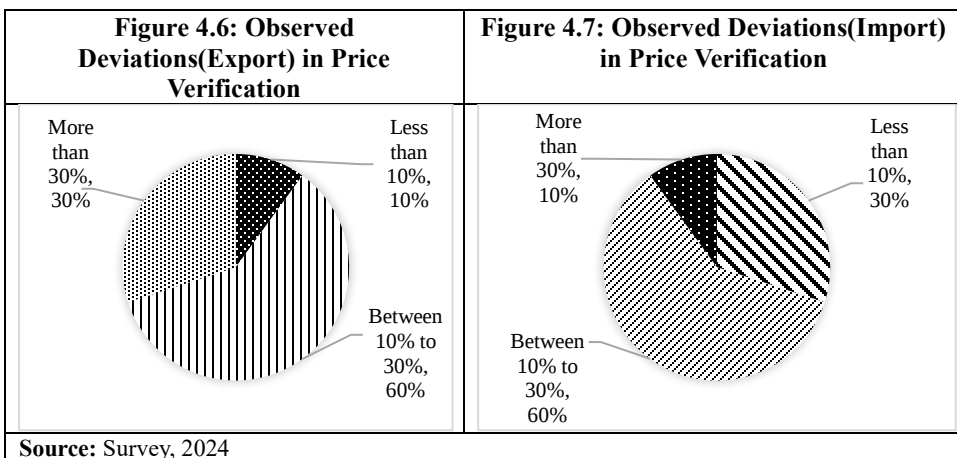
Table-4.4 demonstrates the number of employees involved in price verification in a centralized unit. The number of employees ranges from 5 to 15 employees depending on the business volume and compliance requirements. In many cases, it has been found that many banks’ officials

are not aware about domestic and international available sources of price verification. So, this table has a significant meaning to take initiative in conducting training program for relevant employees, policy advocacy for customer awareness. Banks’ official also reported that customer awareness is one of the most important aspects for effective price verification due diligence practice. Bank should conduct regular sessions for their own customer make them aware about importance of price verification and consequences of over or under invoicing.

4.5 Deviations in Prices of Goods and Services: Banks’ official mentioned that BB or BFIU or customs authorities do not prescribe any permissible deviation in determining fair market prices, however in some cases, regulatory authorities, particularly officials of FEPD sometimes give some verbal instructions for reasonable deviations in determining fair market prices. For example, in some cases, banks are advised to apply previous Bill of Entry or Custom Valuation Analysis Report (VAR²³). For commercial import, the price of the goods should be at least 80% of immediate bill of Entry as per HS code, banks may also consider 75% after enhanced due diligence. For industrial import, the price of the goods should be at least 75% of the immediate previous bill of entry as per HS code.



²³ VAR is an indication of average price of a particular HS code through the customs records



The above Figure-4.4 indicates that most of the banks allow 10% deviations of market prices depending on the volume, quantity, nature of the goods or services etc. For example, 10% deviation in fuel prices are allowed as it is more aligned with metal exchanges, however, banks do not allow excessive deviation for RMG items in export or import. Survey data indicate that banks observe deviation of 10% to 30% in export and import. Notably, 60% banks respondent that they are fully compliant with regulators’ expectations in price verification.

4.6 Level of Difficulty in Price Verification: As pharmaceutical products vary depending on the complex configuration of items, banks face high levels of difficulty. Pharmaceutical products’ price verification is challenging due to its generic and scientific name and complex product mix (Table-4.5 and Box-4.2)

Table 4.5: Product Wise (Export) Level of Difficulty in Price Verification			
Products	High Level of Difficulty	Moderate Level of Difficulty	Low Level of Difficulty
RMG	25%	60%	15%
Jute Products	30%	65%	5%
Fish	30%	60%	10%
Leather	25%	70%	5%
Agro Product	25%	25%	50%
Pharmaceutical Product	40%	40%	20%
Source: Survey, 2024			

Box 4.2: Challenges Faced by the Bankers to Verify Import Price of Pharmaceutical Product

Banks in Bangladesh encounter considerable difficulties in managing Letters of Credit (LCs) for pharmaceutical imports, primarily due to the intricate and ever-evolving characteristics of the industry. The country is home to approximately 34,000 registered pharmaceutical products and around 220 pharmaceutical companies, as reported by the Directorate General of Drug Administration (DGDA). The pricing of raw materials, especially active pharmaceutical ingredients (APIs), exhibits significant variability. As a Least Developed Country (LDC), Bangladesh enjoys the advantage of no patent restrictions, enabling local firms to manufacture newly developed drugs without incurring royalty fees. Initially, the costs associated with APIs for these drugs tend to be elevated; however, they typically decline as production increases and sales volumes rise. This price fluctuation, combined with the varying quality standards and specialized nature of pharmaceutical raw materials, complicates the banks' ability to authenticate the prices stated in LCs. Additionally, the potential for over-invoicing (to facilitate fund transfers abroad) and under-invoicing (to avoid taxes or duties) further complicates the process, rendering the management of LCs a formidable challenge for banks.

Note: Bank Source

4.7 Mis-invoicing in Traded Products: In importing goods and services, the highest level of difficulty is observed in importing capital machinery, motor parts or assorted items and service import. All the banks are facing a critical challenge in determining fair market price in these products (From Tables-4.6 to 4.7).

Table 4.6: Mis-invoicing of Exportable Items

Products	Over-invoicing	Under-Invoicing
RMG	40%	60%
Jute Products	20%	80%
Fish	20%	75%
Leather	60%	40%
Agro Product	50%	50%
Pharmaceutical Product	20%	80%
Source: Survey, 2024		

Box 4.3: Under Invoicing through Importation of Mobile Accessories

A Bangladeshi importer opened a LC for USD9,800.00 for importation of Mobile Accessories –LCD from China. The total quantity was 4900 KG and corresponding unit price was USD2.00/KG. It is noted that, importer was new in the business and the exporter was a freight forwarder company. Moreover, LC opening branch was Non-AD. As per Customs Assessment the Unit Price: USD 80.00/ KG. Duty paid for Total LC value: US\$ 9800 was Tk.285.00 lac (Approx.) Whereas goods valued as per LC was only for Tk. 10.00 lac which was almost 30 time higher than product price. Later it was found that goods value (LC value) supposed to be US\$ 400,000/- (approx.) instead of US\$ 9,800.00 Goods imported by this LC for other importers. Clearly, this was a case of under-invoicing. LC opening branch was a non-AD branch, so they didn't maintain the compliance regarding price verification in this regard. Proper due diligence was not done of the exporter and the importer.

Box 4.4: Currency Shortage Facilitated Price Manipulation

Recent times, shortage of currency has been impacting businesses in almost every sector, resulting under-invoicing in international trade. For instance, ABC Traders of a private commercial bank approached bank to open letters of credit for USD50000 to import commercial items. However, bank did not show willingness to open the LCs due to shortage of currency. However, the client submitted PI with huge under-invoicing against each quantity. The mismanagement of currency crisis is being exploited by businesses.

Table 4.7: Product Wise (Import) Level of Difficulty in Price Verification

Products	High Level of Difficulty	Moderate Level of Difficulty	Low Level of Difficulty
Crude Petroleum	5%	25%	70%
Chemical	25%	50%	25%
Fertilizer	5%	40%	55%
Raw cotton/Yarn	15%	50%	35%
Sugar	5%	20%	75%
Cinder	10%	60%	30%
Pharmaceutical Product	45%	45%	10%
Capital Machinery	100%		
Motor parts/ Assorted Items	100%		
Service Import (Software)	100%		
Source: Survey, 2024			

Difficulty level in determining reasonable price varies according to the nature of importers and imported products. For example, government approved products are not required to verify as prices are already approved by the government. Moreover, Bonded warehouses goods need not require enhanced due diligence as it requires value addition requirements, and it is very often audited by the customs.

Table 4.8: Perception about Mis-invoicing from Customs Officials, Port Authority Personnel, Importers and Customs Brokers			
Import Items	Under-invoicing (%)	Over-invoicing (%)	Misdeclaration (%)
Capital machinery	80	65	95
Chemicals	82	13	82
Food items	90	0	78
Garments	98	0	79
Source: Milon & Zafarullah (2024)			

Capital Machinery: 80% of all interviewees expressed capital machinery creates an opportunity for ML through under-invoicing due a low import duty rate (1%) for.

Chemical Items: According to 82% of interviewees, under-invoicing and misdeclaration can be used to evade taxes and duties and illegally import chemicals into Bangladesh. According to 82% of interviewees, under-invoicing and misdeclaration can be used to evade taxes and duties and illegally import chemicals into Bangladesh. Falsely declaring a chemical item’s nature, quantity or value on customs documents lowers taxes or avoids detection. Chemicals are used in various industries, from pharmaceuticals and textiles to agriculture and construction. Customs officials may not always have the expertise or equipment to detect the nature or composition of imported chemical items accurately.

Food Items: The vast majority of interviewees (about 90%) cited under-invoicing, or declaring a lower value for their goods than their actual market value, to pay lower customs duties

Garments: In Bangladesh’s imported garment and fabric sector, under-invoicing as a common problem, as alleged by NBR. The difference between the declared and actual values is significantly high. Almost all the interviewees (98%) shared the same opinion that during the import of finished garments and fabrics, the invoice value is lower than the bonded declaration, which indicates under-invoicing.

4.8 Challenges and Suggestive Measures in Price Verification: Figure 4.8 points out the challenges faced by banks in determining price verification. Limited number of Price Verification Solutions is offering price verification for all types of goods and from all countries of the globe. Price Verification Solution providers allow limited access (limited user and limited countries), within a certain price range, which is very high.

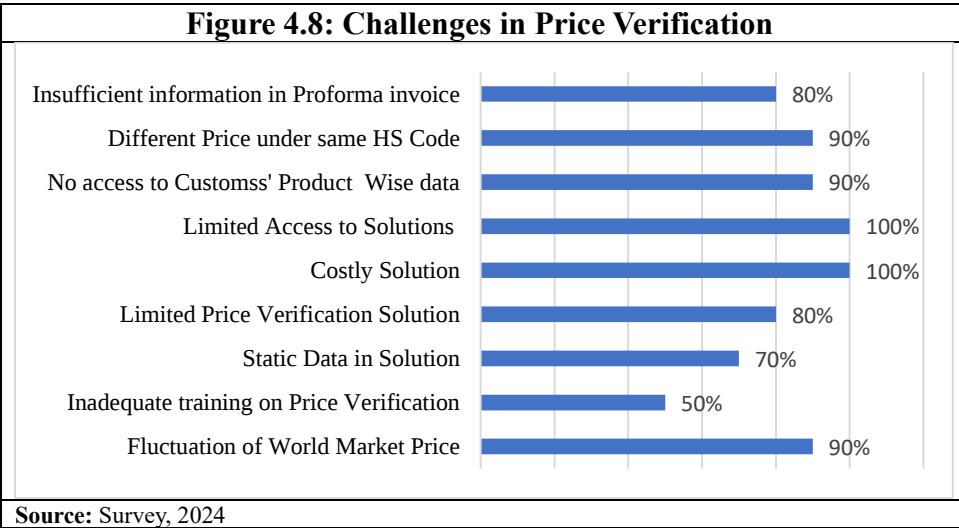
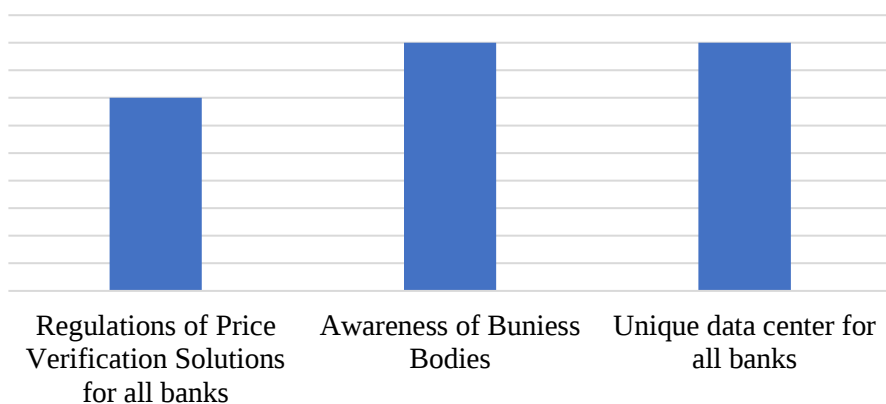


Figure 4.9: Suggestive Measures to Overcome Challenges in Price Verification Units



Source: Survey, 2024

Box 4.5: Expectations from Regulators by Banks

-Bankers are not product experts, and each year thousands of products are imported through banking channels. Without a defined set of guidelines, it is challenging to mitigate Trade-Based Money Laundering (TBML) risks effectively. A viable solution could be making customs assessment prices in public, providing greater transparency and consistency for all stakeholders involved.

-There is a need for clear guidelines on price verification sources, especially for general commodity items, capital machinery, spare parts, commercial LCs; Software. Having a standardized framework would help ensure consistency and accuracy in price validation processes.

-It has been observed that customs assess capital machinery prices by weight (in kg) rather than by unit (set/pc), even when importers declare items as sets or pieces. This method frequently results in discrepancies, with over-shipments noted in the bill of entry. Such discrepancies present significant risks to banks, as Bangladesh Bank audits often flag these issues and direct bank management to take corrective action against responsible officers. Additionally, various items commonly imported in units (such as shoes and sandals) are still assessed in kg by customs. Customs assesses price irrespective of countries. It would be beneficial for customs to review and update their item-specific assessment criteria to reduce these issues.

Source: Survey Data

4.9 Indicative Risk Matrix for Price Verification: The following table is an indicative risk score matrix for a few important imported and exported items. The market share of traded goods, the degree of difficulty in verifying prices for individual products, and mis-invoicing are all considered when creating the score matrix. This matrix's goal is to provide information on how resources should be allocated for product-wise price verification.

Table 4.9: Risk Matrix				
Tradable	Volume of Trade [% of Export/Import] [weight 0.5]	Difficulty Level in Price Verification [Weight 0.25]	Perception of Mis-Invoicing [Weight 0.25]	Total Risk Score
RMG (Export)	0.41	0.11	0.15	0.67
Raw Cotton & Yarn (Import)	0.05	0.08	0.20	0.33
Textile and its Related Articles (Import)	0.04	0.13	0.15	0.32
Iron, Steel and Other Base Metals (Import)	0.04	0.13	0.13	0.31
Chemicals (Import)	0.03	0.09	0.21	0.33
Capital machinery (Import)	0.02	0.13	0.20	0.35
Agriculture Products (Import)	0.01	0.06	0.13	0.20
Leather & Leather Products (Export)	0.01	0.12	0.15	0.28
Jute & Jute goods (Export)	0.01	0.12	0.20	0.33
Home Textile (Export)	0.01	0.12	0.18	0.31
Pharmaceuticals Products (Import)	0.01	0.11	0.20	0.32
Source: Authors' Calculation				

5. Issues and Recommendations for Improving Price Verification

Uniform Price Verification Template and Infrastructural Investment for Price Verification: Trade policies and other related circulars have directives to ensure the competitiveness of price for import and export, it had never gotten momentum before the guideline from the BFIU for the Prevention of Trade-Based Money Laundering in 2019. On price verification, the guideline recommends commercial banks to subscribe for publicly available online commodity pricing website, and (b) bank specific uniform price template. It has been observed that not all banks have fully implemented uniform template as directed by BFIU. In this regard, a separate unit for trade compliance independent from trade operation might be effective to combat mis-invoicing.

Central Price Verification Module: Banking community and business bodies very often demand central bank's initiative to give a price range or central price verification system. The key objective of their demand is to bring uniformity, transparency and accountability in price verification for all stake holders. However, because of numerous regulatory complications, the results of country experiences, like the Central Bank of Nigeria, were not effective for customs and business bodies. Given this evidence, banks' pricing verification obligations and the joint efforts of BB, BFIU, and customs should be expanded.

Circulation of Development of Regulators in Price Verification: Although BB directives for price verification should be followed by all ADs regardless of centralized or decentralized trade environment, each bank has different approach to follow the BB directives. Furthermore, BB also get new challenges on their own analysis on price verification. However, all the experience that respective ADs, and BB have been gaining, those experience are ends along with the transaction. In this regard, a periodical publications or white papers might be helpful for both the bank and BB to achieve regulators' expectations. Moreover, many of regulatory instructions

regarding price verification are verbal. Moreover, Statutory Regulatory Order of Customs plays significant role for bankers in determining price verification of around 400 importable items. However, the SRO is not updated annually on time and only covers limited number of items. Customs authority might think of publishing SRO half yearly more coverage of quantity, particularly capital machinery and assorted items.

Coordination among Regulatory Departments: It is obvious that current price verification efforts are targeted at bank level dealing with documents. However, Custom (NBR), are dealing with goods besides law enforcement agencies investigate cases related to trade-based money laundering, mainly focusing on tax evasion or avoidance and mis-declaration. All customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors are currently working with the unique objective to prevent trade-based money laundering via mis-invoicing. Without effective implementation of coordinated framework with effective inter-communication among the actors, the effort toward effective price verification might not be fully gained. A policy might be formed, so that Bangladesh Customs Shares product wise import and export price with Bangladesh Bank in certain interval, with will be centrally preserved by Bangladesh Bank and Bangladesh Bank might allow access to commercial banks in that database, to conduct price verification Import/Export from Bangladesh Customs data.

Structured Co-ordination among Stakeholders for Sharing of Price: Bangladesh Bank could initiate the creation of a publicly accessible database that catalogues the average prices of frequently traded goods. This resource would be available to businesses, regulatory authorities, and the general public, thereby promoting price comparisons and improving market transparency. Furthermore, Bangladesh should consider integrating its customs systems with international trade databases, such as those operated by the WTO or other regional trade organizations. This integration would enable the cross-referencing of prices and trends within the global market.

Additionally, Bangladesh might pursue agreements with neighbouring nations and international entities to establish mutual recognition of pricing standards and facilitate the exchange of pricing information. Lastly, it is advisable to implement a regulatory framework mandating that importers and exporters provide evidence of price verification from an independent third party, such as a certified valuation expert, who can supply verified transaction data for the purpose of price validation.

Awareness and Training for Bank Employees and Customers: Awareness on price verification is important for both levels, bank employees and traders. International trade involves multiparty transactions with different objectives in a complex trade ecosystem. For price verification to meet regulators' expectation, a number of internal and external sources are available in the market, some are open sources and others are paid sources, banks' employees must be well informed about those updated sources. In this regard, customs, BB, BIBM and banks' training institute might organize regular trainings to be designed for bank employees and traders.

Legally Enforceable Sales Purchase Contract: As repeated in several other earlier reviews and BIBM research, legally enforceable purchase/sale contract is a crucial need. It is an important risk management tool for all methods of payments. Further, it would offer protection to the fair parties associated with the Back-to- Back LCs issued against purchase/sale contracts. Alongside ratifying the UN Vienna Convention on Contract of Sale (CISG), there should be clear instructions regarding transactions with other non-ratifying countries by domestic traders. Moreover, UNIDROIT principles should be ratified as the soft law to handle trade finance-related disputes. It is to be mentioned here that most of the trading partners of Bangladesh are signatories of CISG and UNIDROIT principles.

This paper focuses on the global and local practices and challenges with the implementation of price verification in trade and service. However, this is

only one consideration as to the validity of a transaction and whether other risks occur needs to be assessed. Price checking in isolation is not currently an effective control to identify trade-based money laundering through price manipulation and firms should take a broader holistic approach to understanding customers' activities.

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Summary

Appendices

Appendix 1: Pro-forma Invoice/Sales Contract Analysis

Docudex Tracking No			
Applicant Name			
Amount			
Sl.	Risk Parameter	Yes/ No	Comments/ Justifications
1	Goods consistent with regulatory approval/CRM approval conditions.		
2	Country of Origin of Goods Acceptable.		
3	High risk country/product screening.		
4	Justification Is Acceptable If the Beneficiary Country, Country of Origin and Port of Shipment Is Different.		
5	Quantity of Consignment is Consistent with Importer Nature of Business.		
6	Price found competitive in GTT Software		
7	If Deviation of price is more than 20% from GTT Software than EDD is done on the basis of following:		
	a) Customer Clarification		
	b) Previously Open Bill of entry copy		
	c) Other /Same customer Price Checked of the same item from own database (Pricing Database)		
	d) Other customer Price Checked of the same item (Custom Assessment Sheet)		
	e) World Bank Commodity Price Checked		
	f) Price Checked from Different website		
Signed by Maker:		Signed by Checker (Based on above checking of the maker):	
Comments (if Any):		Comments (if Any):	

Appendix 2: Price Verification Tools Adapted by “India” for International Trade

Tools Name	Process
1. Customs Valuation Methods (Under Customs Act, 1962)	India follows the customs valuation rules outlined by the World Trade Organization's (WTO) & Agreement on Customs Valuation (ACV). There are several methods to verify the price of goods for customs purposes: Method 1- Transaction Value Method: This is the most commonly used method. The customs authorities check the invoice value of the goods declared by the importer. The price paid or payable for the goods is generally considered, provided there are no indications of undervaluation or fraud. Method 2- Transaction Value of Identical Goods: If the transaction value method is not applicable, India's customs authorities may verify the value based on identical goods (goods that are the same in all respects, including physical characteristics, quality, and reputation). Method 3- Transaction Value of Similar Goods: If identical goods cannot be found, customs authorities may use the price of similar goods that have the same commercial value and are traded in similar conditions. Method 4- Deductive Value Method: If the transaction value cannot be established, customs may use the price at which the imported goods are sold in India (or in other countries) after importation. The price is then adjusted for various costs such as transportation, commissions, and taxes. Method 5- Computed Value Method: If other methods are not applicable, the value can be based on the cost of production (e.g., materials, labor, overhead, and profit) in the country of export. Method 6- Fallback Method: As a last resort, customs may use reasonable means to arrive at the value, based on the available data and previous methods. This may involve a combination of methods or external databases. [Go to Google Scholar & Search Query for Google Scholar: 1. "Customs Valuation Methods under WTO India" 2. "Customs Act 1962 India WTO agreement customs valuation"]

Tools Name	Process
2. Customs Tariff Information System (TARIC) and Customs Duty Classification	❖ HS Codes: Customs officers check the HS code under which goods are classified. If the price of goods under a particular HS code seems abnormally low or high compared to historical import prices, it can trigger a review. ❖ Customs Duty Rates: Customs verifies that the declared price is consistent with the expected import duty based on the Customs Tariff for the specific HS code. India's Central Board of Indirect Taxes and Customs (CBIC) maintains a detailed tariff database, and officers can check the correct duty classification to verify price consistency. [Go to Google Scholar & Search Query for Google Scholar: 1. "Customs Tariff Information System India" 2. "HS Code classification India customs duty verification"]
3. Risk Management System (RMS)	India's Risk Management System (RMS) is an automated system used to facilitate the clearance of goods through customs. It helps in verifying the price of goods by evaluating the risk associated with the declared value. ❖ Automated Risk Profiling: RMS profiles consignments based on risk factors such as value discrepancies, HS code classifications, and country of origin. Goods with suspiciously low prices may be flagged for manual inspection. ❖ Risk-Based Targeting: RMS ensures that resources are directed to shipments that pose the highest risk, including incorrect price declarations. [Go to Google Scholar & Search Query for Google Scholar: 1. "Risk Management System RMS India customs" 2. "Automated risk profiling in Indian customs"]
4. Pre-Arrival Assessment Report (PAAR)	India introduced the Pre-Arrival Assessment Report (PAAR) system, which allows importers to get advance rulings regarding the customs duty and the classification of goods before the goods arrive at the port. Under PAAR, the customs authorities assess the declared price and classify the goods correctly based on the information submitted by the importer. The tool helps verify whether the price is in line with the customs tariff and international pricing standards. [Go to Google Scholar & Search Query for Google Scholar: 1. "Pre-Arrival Assessment Report PAAR India customs" 2. "Advance ruling PAAR system India"]

Tools Name	Process
5.Valuation Advance Ruling	Importers can seek a valuation advance ruling under Section 28H of the Customs Act to get an official decision from Indian Customs about the correct value of goods. This ruling is particularly useful for importers to ensure that their pricing is in compliance with the Customs Act and the WTO's Customs Valuation Agreement. ❖ Ruling Mechanism: If an importer has doubts about the customs valuation or price verification process, they can approach the Authority for Advance Rulings (AAR) for a binding decision regarding the value of goods being imported. [Go to Google Scholar & Search Query for Google Scholar: 1."Valuation advance ruling Section 28H Customs India" 2."India customs advance ruling mechanism"]
6. Customs Post-Clearance Audits (PCA)	India uses Post-Clearance Audits (PCA) to verify the correctness of price declarations after goods have been cleared by customs. PCA involves checking financial and accounting records to ensure that the prices declared on invoices align with the actual transaction prices. ❖ Verification of Invoices: Customs officers may request importers to provide original invoices, payment records, and shipping documents for inspection to ensure the price matches the value declared at the time of import. ❖ Audit of Payment Terms: The PCA may also involve reviewing the terms of payment (e.g., discounts, commissions, or other considerations) to verify whether they align with the declared customs value. [Go to Google Scholar & Search Query for Google Scholar: 1."Post-Clearance Audits PCA India customs" 2."Customs post-clearance audit verification India"]
7. Third-Party Verification (Pre-Shipment Inspection)	India uses third-party inspection agencies, especially for high-risk or complex goods, through the Pre-Shipment Inspection (PSI) mechanism. ❖ Inspection Agencies: Independent agencies like SGS and Bureau Veritas are often contracted to verify the price and quality of goods before shipment. These agencies inspect invoices and ensure that prices match market norms. ❖ Import Data Validation: PSI agents cross-check the price of the goods with global market prices to verify that the declared price is not artificially low or high. [Go to Google Scholar & Search Query for Google Scholar: 1."Pre-shipment inspection agencies India SGS Bureau Veritas" 2."Third-party inspection customs India"]

Tools Name	Process
8. E-Commerce and Digital Platforms	With the rise of e-commerce, India has started to focus more on digital tools for price verification, especially for cross-border e-commerce transactions. ❖ GST Invoices and Data Matching: Indian customs may match the GST invoices (Goods and Services Tax invoices) submitted by e-commerce sellers with the declared customs value. Discrepancies in declared values can lead to additional scrutiny. E-Commerce Guidelines: The Indian government has introduced specific rules to monitor and regulate e-commerce imports. [Go to Google Scholar & Search Query for Google Scholar: 1."E-commerce customs India GST verification" 2."Digital platforms cross-border trade India customs"]
9. Anti-Dumping and Countervailing Duty Investigations	India also uses price verification in the context of anti-dumping and countervailing duty investigations to check whether goods are being sold at artificially low prices (dumping). If goods are found to be underpriced, duties are imposed. ❖ Price Comparisons: In anti-dumping investigations, customs authorities compare the declared price with the normal value in the exporting country, adjusted for transportation costs, tariffs, and other factors. WTO Compliance: The Directorate General of Trade Remedies (DGTR) carries out investigations to ensure that goods are not being dumped into the Indian market at unfair prices. [Go to Google Scholar & Search Query for Google Scholar: 1."Anti-dumping investigations India customs" 2."Countervailing duties price verification India"]
10. Trade Data and Market Intelligence Tools	India also relies on market intelligence tools and trade data to verify the price of imported goods: ❖ DGFT (Directorate General of Foreign Trade) Database: Customs may use DGFT data to monitor trade trends and identify irregularities in pricing patterns for specific goods. Import and Export Price Indexes: Customs officers and other government agencies may use import/export price indexes and trade data reports from sources like DGCI&S (Directorate General of Commercial Intelligence and Statistics) to detect abnormal pricing. [Go to Google Scholar & Search Query for Google Scholar: 1."Trade data verification India DGFT" 2."India market intelligence customs verification"]

Appendix 3: Some Developing Countries Price Verification Tools for International Trade

Country Name	Tools
China	1. Customs Valuation Methods (Customs Law and WTO Valuation Agreement) 2. Customs Declaration and Risk Management System (RMS) 3. Customs Post-Clearance Audits (PCA): China's Customs Post-Clearance Audit (PCA) system reviews the price declarations made at the time of import or export. After goods are cleared through customs, authorities may perform audits on companies' books and records to verify that the transaction prices declared to customs match the actual prices paid or payable for the goods. 4. Advance Ruling System 5. Third-Party Verification (Pre-Shipment Inspection): These inspection agencies, such as SGS, Bureau Veritas, and Intertek, verify the value, quality, and quantity of goods being exported to China. 6. Price Indexing and Market Intelligence Tools: Chinese customs use a variety of market intelligence tools to monitor trade prices. This includes the use of price indexes, trade data, and databases from sources like the China Customs Statistical Yearbook and industry reports. Customs authorities use this data to detect inconsistencies or unusual pricing patterns. 7. Anti-Dumping and Countervailing Duties 8. Electronic Data Matching (Cross-Border E-commerce): With the rise of cross-border e-commerce, China has implemented digital tools to verify prices on online platforms. Chinese authorities match electronic data from e-commerce platforms (e.g., Alibaba, JD.com) with customs declarations to ensure prices are accurate and reflect the true market value. 9. Harmonized System (HS) Codes and Tariff Classification: Tariff Database: China's General Administration of Customs (GAC) maintains a comprehensive tariff database. Customs officers use this to cross-check the correct duty rate for the declared price of the goods.

	[Go to Google Scholar & Search Query for Google Scholar: 1."China Customs Valuation System" 2."Customs Valuation Methods in China" 3."Risk Management System China Customs" 4."Post-Clearance Audit China Customs" 5."Anti-Dumping Investigations China" 6."Price Verification in International Trade China" 7."Cross-Border E-commerce China Customs"]
Vietnam	1. Customs Valuation Methods (Under the Customs Law and WTO Guidelines): Vietnam follows the customs valuation rules prescribed by the WTO's Customs Valuation Agreement and its own Customs Law (2014), which includes six primary methods for determining the correct customs value of goods. 2. Vietnam Customs Information System (VNACCS/VCIS) 3. Risk Management System (RMS) 4. Post-Clearance Audit (PCA) 5. Pre-Shipment Inspection (PSI): Third-party agencies like SGS and Bureau Veritas are commonly involved in pre-shipment inspection. These agencies provide an independent assessment of the goods' value and ensure that the price declared by the exporter aligns with the prevailing market prices. 6. Harmonized System (HS) Codes and Customs Tariff Database: Vietnam's General Department of Customs (GDC) uses HS codes to check whether the declared price is consistent with market norms for goods under the same classification. Customs authorities verify that goods are correctly classified according to the Vietnam Customs Tariff. If goods are misclassified, it can lead to discrepancies in the declared value and potential undervaluation. 7. Anti-Dumping and Countervailing Duty Investigations: Vietnam, like many other WTO member states, applies anti-dumping and countervailing duties to imports that are deemed to be unfairly priced (i.e., dumped or subsidized). Price verification plays a critical role in such investigations, particularly when prices are suspected to be artificially low. 8. E-Commerce and Digital Platforms: GST Invoices and E-Commerce Guidelines: Customs authorities

	verify Value-Added Tax (VAT) and Goods and Services Tax (GST) invoices submitted by e-commerce sellers to ensure consistency with the declared customs value. [Go to Google Scholar & Search Query for Google Scholar: 1."Vietnam customs valuation methods" 2."Vietnam Risk Management System VNACCS" 3."Customs valuation WTO Vietnam" 4."post-clearance audit Vietnam customs" 5."Pre-shipment inspection Vietnam customs"]
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Appendix 4: Some Developed Countries Price Verification Tools for International Trade

Country Name	Tools
Japan	1. Customs Valuation Methods (Under the Customs Act and WTO Guidelines): Japan adheres to the WTO Customs Valuation Agreement and the Customs Act of Japan (Act No. 61 of 1954), which provides guidelines for determining the customs value of imported goods. 2. Customs Valuation Database (Japan's Customs Data and Tariffs) 3. Risk Management System (RMS): Japan's Risk Management System (RMS) is an automated system that helps in detecting discrepancies in declared prices and targeting high-risk shipments for detailed inspection. 4. Post-Clearance Audit (PCA): Japan's Post-Clearance Audit (PCA) system plays a crucial role in verifying the accuracy of customs declarations after goods have been cleared through customs. 5. Pre-Shipment Inspection (PSI): Japan has a Pre-Shipment Inspection (PSI) program for certain high-risk goods. Third-party inspection agencies, such as SGS and Bureau Veritas, are often contracted to verify the quality, quantity, and price of goods before they are shipped. 6. Harmonized System (HS) Codes and Customs Tariff Database. 7. Anti-Dumping and Countervailing Duty Investigations: Japan uses price verification tools during anti-dumping and countervailing duty investigations. These investigations are designed to prevent unfair trade practices, such as the import of goods at artificially

	low prices (dumping). 8. Trade Data and Market Intelligence: Japan also uses trade data and market intelligence tools to verify the price of imported goods. 9. Advance Ruling System: Japan's Advance Ruling System allows importers to obtain binding rulings on the valuation, classification, and origin of goods before they are imported. 10.E-Commerce and Digital Platforms: With the rise of cross-border e-commerce, Japan has been focusing on ensuring that e-commerce imports are properly valued and that declared prices align with actual market prices. [Go to Google Scholar & Search Query for Google Scholar: 1."Japan customs valuation" 2."WTO customs valuation agreement Japan" 3."Japan price verification international trade" 4."Risk management system Japan customs" 5."Pre-shipment inspection Japan trade" 6."Japan anti-dumping duties and trade" 7."Customs tariff database Japan" 8."Harmonized system Japan customs" 9."post-clearance audit Japan"]
United Arab Emirates (UAE)	1. Customs Valuation Methods (Under the UAE Customs Law and WTO Guidelines): The UAE follows the World Trade Organization's (WTO) Customs Valuation Agreement, and the valuation rules prescribed under Federal Law No. 20 of 1992 (UAE Customs Law). 2. UAE Customs Electronic Systems (Automated Systems for Valuation and Inspection): The UAE has implemented several electronic systems that help automate and streamline customs processes. 3. Risk Management System (RMS): The Risk Management System (RMS) in the UAE is a crucial tool used to detect inconsistencies in declared prices. It helps flag high-risk shipments for further inspection. 4. Post-Clearance Audit (PCA): Post-Clearance Audits (PCA) are conducted by UAE Customs to verify the accuracy of price declarations after goods have been cleared and imported.

	5. Pre-Shipment Inspection (PSI): The UAE has a Pre-Shipment Inspection (PSI) program in place for certain categories of goods. Under this system, independent third-party inspection agencies verify the quality, quantity, and price of goods before shipment. 6. Harmonized System (HS) Codes and Tariff Database: UAE Customs uses the Harmonized System (HS) Codes to classify goods and determine applicable customs duties. This system helps customs verify that goods are classified correctly and that the price declared aligns with the expected value for goods under that classification. 7. Anti-Dumping and Countervailing Duty Investigations: The UAE is a member of the World Trade Organization (WTO) and has established mechanisms to investigate and apply anti-dumping and countervailing duties. These duties are imposed when goods are found to be sold at artificially low prices (dumping) or are subsidized by foreign governments. 8. Advance Ruling Mechanism: The UAE has an advance ruling mechanism where importers can request a binding decision from customs regarding the classification, valuation, and origin of goods before shipment. 9. E-Commerce and Digital Platforms: With the rise of e-commerce, UAE has focused on regulating cross-border e-commerce transactions to ensure proper valuation and prevent mis-invoicing in low-value shipments. [Go to Google Scholar & Search Query for Google Scholar: 1."UAE customs price verification" 2."UAE customs valuation tools" 3."Over-invoicing under-invoicing customs UAE" 4."Risk management system UAE customs" 5."Pre-shipment inspection UAE trade" 6."Customs law UAE WTO valuation"]
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Appendix 5: Global Price Verification Software Name

SL no.	Software	Uses	Key Features
1	Thomson Reuters ONESOURCE	• Transfers pricing and tax compliance • Helps companies manage pricing in cross-border transactions • Benchmarking analysis, regulatory reporting, and price validation tools for various regions	• Automated transfer pricing documentation, • Audit defence • Real-time data integration • Regulatory updates
2	SAP Global Trade Services (SAP GTS)	• Automates global trade processes • Helps businesses manage import/export compliance • Ensures proper customs valuation, • Verifies price align with market conditions	• Trade compliance management • Customs and tax processing • Real-time tracking of trade transactions • Trade agreement management
3	Amber Road (now E2open Global Trade Management)	• Automates trade compliance, including customs valuation and ensuring proper pricing in trade transactions	• Customs documentation • Product classification • Screening for trade restrictions • Ensuring competitive and accurate pricing
4	Oracle Global Trade Management (GTM)	• Trade compliance and customs management, including the verification of trade transaction prices against regulatory standards.	• Trade transaction monitoring, • Customs documentation, and pricing compliance.
5	Mitratesh's INSZoom	• Offers solutions for managing customs requirements, including price verification, in trade transactions.	• Compliance reporting • Pricing documentation • Trade activity monitoring.

6	Pricefx	• Optimizes pricing strategies • Ensures price align with global market benchmarks and trade regulations • Helps companies in developing countries maintain competitiveness	• Pricing optimization, • Market benchmarking, • Real-time price monitoring.
7	Informatica MDM – Product 360	• Helps companies manage product and pricing data across global markets • Includes functionality for price verification, • Ensuring that pricing aligns with customs and regulatory requirements in international trade	• Product and price data management, validation, and integration with global trade systems.
8	Descartes CustomsInfo	• Provides trade compliance and pricing tools to manage customs processes • Ensures accurate customs valuation and compliance with pricing regulations for international trade.	• Automated classification, • Tariff calculations, • Pricing validation for trade transactions.
9	Avalara for Cross-Border Compliance	• Provides automated solutions for tax compliance and customs • Helps businesses ensure that prices for imported/exported goods are compliant with local tax laws and customs regulations	• Customs documentation, • Tax compliance • Real-time price verification, and reporting.
10	Trax	• Offers solutions for trade finance and pricing validation in logistics and supply chain management • Includes tools to verify and ensure accurate pricing in global trade and supply chain operations	• Trade finance pricing validation • Shipment cost verification • Supply chain price analysis.

Appendix 6: The Countries and Banks/Companies Using the Global Price Verification Software

SL no.	Software	Used by countries	Name of Banks/Companies
1	Thomson Reuters ONESOURCE	United States, United Kingdom, Canada, Australia, and New Zealand.	HSBC, Barclays, Deloitte and PwC
2	SAP Global Trade Services (SAP GTS)	Germany, France, Brazil, China, and Japan	Deutsche Bank, Standard Chartered, Siemens
3	Amber Road (now E2open Global Trade Management)	United States, India, China, South Africa, Mexico	Citi (Global), DBS Bank, Toyota
4	Oracle Global Trade Management (GTM)	United States, Japan, Brazil, and European countries	Bank of America, BNP Paribas, GE (General Electric)
5	Mitratesh's INSZoom	United States, India, and the Philippines.	Bank of America, Wells Fargo, Infosys
6	Pricefx	European Union countries, Australia, the United States, and South Korea.	Vodafone, Hilti
7	Informatica MDM-Product 360	United States, Canada, Germany, Japan, and Australia.	ING Bank, Citigroup
8	Descartes CustomsInfo	The United States, UK, China, India, and Brazil	HSBC, JP Morgan, FedEx
9	Avalara for Cross-Border Compliance	United States, Canada, Mexico, Brazil, and the UK	Shopify, Etsy, Square (USA)
10	Trax	United States, India, Singapore, Brazil, and South Africa	DBS Bank, Maersk, Unilever

Appendix 7: Price Verification Tools or Software Used by Neighbouring Countries or Banks of Bangladesh

Sl.	Software Name	Used by Neighboring Countries	Name of Banks
1	SAP Global Trade Services (SAP GTS)	India, Sri Lanka, Nepal.	• State Bank of India (SBI) • HDFC Bank (India) • Commercial Bank of Ceylon (Sri Lanka)
2	Amber Road (now E2open Global Trade Management)	India, Sri Lanka, Pakistan.	• ICICI Bank (India) • National Bank of Pakistan (NBP) • Tata Consultancy Services (TCS) (India)
3	Oracle Global Trade Management (GTM)	India, Pakistan, Sri Lanka	• Bank of India (India) • Bank of Ceylon (Sri Lanka) • Reliance Industries (India)
4	Thomson Reuters ONESOURCE	India, Pakistan	• Axis Bank (India) • Reserve Bank of India (RBI) • Habib Bank Limited (HBL) (Pakistan)
5	Descartes Customs Info	India, Pakistan	• IndusInd Bank (India) • HDFC Bank (India)
6	Avalara for Cross-Border Compliance	India, Sri Lanka	• Standard Chartered Bank (Sri Lanka) • Flipkart (India)
7	Tally Solutions (Used Regionally)	India, Bangladesh, Nepal	• Bangladeshi small and medium enterprises (SMEs) • Indian SMEs and businesses
8	Pricefx	India	• Mahindra & Mahindra (India)
9	TradeStone Solutions	India, Bangladesh, Sri Lanka	• Aditya Birla Group (India)

Appendix 8: Central Bank Guidelines on Software Solutions for Price Verification in Combatting Trade-Based Money Laundering in South Asia

Country Name	Central Bank Name	Guidelines on Software Solutions
India	Reserve Bank of India (RBI)	RBI has not prescribed specific software for price verification but recommends the adoption of advanced AML solutions and trade monitoring systems.
Pakistan	State Bank of Pakistan (SBP)	SBP does not recommend a specific software for TBML detection but emphasizes the importance of using automated AML/CFT compliance systems.
Sri Lanka	Central Bank of Sri Lanka (CBSL)	CBSL supports the use of automated trade surveillance systems, although it does not recommend specific software.
Nepal	Nepal Rastra Bank (NRB)	While NRB does not directly endorse specific software, it encourages the use of automated AML monitoring systems to prevent TBML many Nepalese banks use systems like AMLOCK for compliance.

Appendix 9: Approaches to Price Verification in Trade Finance

Provide by “ICC”

1. Manual Review by Processing Staff:

A common method of price verification relies on transaction processing staff who use their judgment to flag unusual pricing. This approach leans on knowledge gained over time by staff, making it suitable for commonly traded items like footwear or household goods. However, complex goods, such as specialized machinery, often require more advanced evaluation methods beyond typical trade finance capabilities. Assessing service prices is also challenging, as they vary widely in quality, making manual verification difficult.

2. Market-Linked Price Checks:

For certain commodities with established market prices, such as energy and select non-energy goods, staff can verify pricing against market standards. Commodities are divided into categories like energy (e.g., coal, crude oil) and non-energy (e.g., agriculture, metals). However, with over 17,000 categories in global tariff schedules, price verification remains feasible for only a limited range of goods.

3. Historical Transaction Data:

Using historical data to set price ranges is limited by the level of detail recorded in trade transactions, such as descriptions, quantities, and associated costs. Additionally, data accuracy depends on the FI's previous transaction records and may be limited if data quality is inconsistent. Historical data may, however, provide insight into customer trading patterns.

4. Enhanced Due Diligence (EDD):

For high-risk transactions involving certain countries, customers, or goods with high manipulation risks or dual-use potential, Financial Institutions (FIs) may employ enhanced due diligence. This might involve further customer due diligence (CDD) to verify if the customer frequently trades in high-risk goods and may require ongoing monitoring.

In summary, manual checks, market prices, historical data, and enhanced due diligence are key approaches to price verification, though each has limitations based on data quality, product complexity, and risk factors in trade finance.

Paper Three

Trade Eco-System in Bangladesh to Enhance the Operational Efficiency in Trade Services by Banks

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List of Abbreviations

AI	Artificial Intelligence
AML	Anti-Money Laundering
APPG	All-Party Parliamentary Groups
BCG	Boston Consulting Group
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BPO	Bank Payment Obligation
CEAF	Certified Expert in Anti Money Laundering and Financial Crime
CETS	Certified Expert in Trade Services
CFT	Counter Financing of Terrorism
DC	Documentary Credit
DLT	Distributed Ledger Technology
DOCDEX	Documentary Instruments Dispute Resolution Expertise Rules
eBL	electronic Bill of Lading
ECAs	Export Credit Agencies
EGM	Export General, and Manifesto
ESG	Environmental, Social, and Governance
GTF	Green Transformation Fund
GTSF	Global Trade Supplier Finance
GTT	Global Trade Tracker
ICC	International Chamber of Commerce
ICT	Information and Communication Technologies
IGM	Import General Manifesto
ITFC	Islamic Trade Finance Corporation
KIIs	Key Informant Interviews
LCs	Letters of Credit
LDC	Least Developed Country
MIS	Management Information System
MLETR	Model Law on Electronic Transferable Records
MNCs	Multinational Corporations
MoC	Ministry of Commerce

NBR	National Board of Revenue
NSW	National Single Window
PGAs	Partner Government Agencies
REX	Registered Exporter
RMG	Ready-Made Garments
SCF	Supply Chain Products
SLLPs	Sustainability-Linked Loan Principles
SMEs	Small and Medium-sized Enterprises
TBL	Trade Board Ltd.
TFP	Trade Finance Products
URDG	Uniform Rules for Demand Guarantees
WCO	World Customs Organization

Executive Summary

The trade ecosystem is a complex and dynamic network involving various stakeholders and mechanisms designed to facilitate international trade by providing the necessary financial products, logistic and support services, and infrastructure. Efficient eco-system helps mitigate the risks associated with cross-border transactions, ensuring that both exporters and importers can complete deals securely and smoothly (Mckinsey and ICC, 2021).

As in other developing countries and emerging economies, trade ecosystem has notable implications for the efficiency of the banking operations in facilitating trade financing in Bangladesh. Broadly, the paper attempts to examine trade eco-system in Bangladesh to enhance the operational efficiency in trade services by banks. Specific objectives of the paper are: One, to discuss trade and trade finance eco-system in the global context; two, to examine participants, facilitators, and key elements in the context of trade and trade finance in Bangladesh; and three, to identify issues associated with trade eco-system of Bangladesh for improving efficiency of the trade services by banks.

Importance of ‘trade and trade finance’ ecosystem is a dynamic network that involves various stakeholders, processes, technologies, and regulations that collectively enable the movement of goods, services, and capital across borders. The ecosystem comprises various interconnected actors, such as businesses, financial institutions, trade bodies, technology providers, and regulatory bodies. These entities work together to facilitate international trade and finance, offering solutions that help mitigate risks, streamline processes, and enable businesses of all sizes to participate in global markets. Compliance Cost is a critical issue to address.

In trade eco-system, banking industry of Bangladesh has been facilitating trade payment, trade finance and risk management services to the traders, and thus, has been contributing in the growth process. Banks have considerable involvement in trade facilitation by engaging in relevant legal enforcements and commercial risk minimization. The regulatory provisions for international trade facilitation in the country expedite greater involvement of the trade services departments with greater risks and greater opportunities to earn.

In trade eco-system, Government and regulators play a vital role in promoting and achieving trade for sustainable economic development. In the context of Bangladesh, Ministry of Commerce sets two key trade policies-Export Policy (2024-2027) and Import Policy Order (2021-2024). Bangladesh Bank controls and guides all trade services activities in Bangladesh. ADs offer services as the agents or dealers of the central bank, and the central bank has also been playing role in ensuring coordination among stakeholders.

In trade ecosystem, handling financial crime and country risk is a matter of concern for regulators and bankers. According to recently published report of White Paper in the country, has also stressed on the impact of capital flight out of the country. Anti-Corruption Commission, Law enforcement agencies, BFIU, customs, NBR and banks are the key agencies to prevent financial crime. BFIU issued guidelines for the Prevention of Trade Based Money Laundering in 2019.

Based on the secondary literature and survey and KII outcomes, the study came up with the following recommended policy and operational approaches for discussions: One, Dynamic approach by the policymakers and bank managements are crucial for improving trade and trade finance eco-system of the country. Regulators should establish regular reviews and updates of trade finance regulations to keep pace with market changes, ensuring that banks understand regulatory expectations and can continue to manage operational risks effectively while maintaining compliance.

Two, in most instances, in Bangladesh, a ‘Sales-purchase contract’ is not a binding (mostly) agreement and is not legally enforceable. It is well-known that the issuance of back-to-back LC against purchase/sale contracts increased sharply. Open account might also get popularity in the near future when a binding contract is particularly essential. In such a situation, ratification of CISG and signing UNIDROIT Principles became necessary.

Three, Promoting awareness and usage of supply chain export finance instruments among SME exporters might be useful. Considering the country risk elements (TBML risk, etc.), ‘documentary collection’ might be another suitable option for SME traders. Regulatory incentives need to be designed to promote these products for supporting the growth of SME exporters tailored to their needs.

Four, Automation can help banks stay compliant through automated sanctions screening, identity verification, and AML transaction monitoring that ensure compliance while streamlining time investment and reducing costs.

Five, in the recent past, foreign exchange market instability and reserve inadequacy created huge difficulty in the trade and trade finance market in the country. Banks, traders, consumers confronted huge difficulty in addressing the challenges. The trade-centric foreign exchange market needs continuous policy support and monitoring.

Six, Sustainable trade finance products, such as green trade finance and sustainability-linked trade finance, require banks to assess environmental and social risks in addition to traditional financial risks. Risk assessment models should incorporate Environmental, Social, and Governance (ESG) criteria to ensure that the financing of trade transactions supports sustainable development while mitigating associated risks.

Seven, Enhanced coordination and integration between banks, regulators, trade facilitators, and insurers are essential for building a resilient trade finance system. Cross-industry collaborations and data-sharing initiatives can lead to more accurate risk assessments and smoother transaction processing.

Eight, Effective management of operational risks in trade finance hinges on the knowledge and capabilities of the individuals involved, including bankers, regulators, and traders. Alongside their ongoing efforts and initiatives of capacity development and minimizing information gap, regular workshops/discussion sessions on the 'Trade Finance Risk Management' may be useful with the participation of relevant government agencies, central bankers, bank executives, and traders.

Trade Eco-System in Bangladesh to Enhance the Operational Efficiency in Trade Services by Banks

1. Introduction

The trade ecosystem is a complex and dynamic network involving various stakeholders and mechanisms designed to facilitate international trade by providing the necessary financial products, logistic and support services, and infrastructure. Efficient eco-system helps mitigate the risks associated with cross-border transactions, ensuring that both exporters and importers can complete deals securely and smoothly (Mckinsey and ICC, 2021). Efficient trade finance is crucial element of a trade eco-system that helps businesses access capital and liquidity, especially in the context of international trade, where the requirement for financing is often substantial (ADB, 2023). Efficient trade ecosystem reduces non-payment challenges, country risks, and operational risks of banks and financial institutions.

Trade and trade ecosystem changed over decades. During the 1980s and early 1990s, the trade finance sector in developing countries was largely dependent on traditional banking systems, financial institutions in these countries, especially state-owned banks, faced challenges such as inefficiencies, mismanagement, and corruption. The absence of modern financial and logistic infrastructure and widespread illiteracy regarding trade and trade finance products often left businesses with limited options for financing their trade activities. There were however notable changes in the financial market structure and supportive arrangement during late 1990s and 2000s, the advent of economic liberalization, the globalization of markets, and the rise of private banking institutions, improved support services, and technological development provided new opportunities to traders and trade finance. However, access to trade finance remained a significant barrier for small and medium-sized enterprises (SMEs) in developing countries. According to the World Trade Organization (WTO), developing countries continued to face higher transaction costs in accessing

trade finance, particularly in the context of the capital- and information-intensive nature of international trade (Auboin, 2015).

Manual processes, mistakes in operations, and the need for skill development are significant obstacles to improving the effectiveness, openness, and accessibility of the trade and trade finance system. In recent years, advanced technologies, such as block chain, AI, and digital platforms, streamline processes, reduce fraud, and increase transaction speed, fostering global trade. Capacity enhancement guarantees that participants—including companies, financial entities, and regulatory bodies—have the essential expertise and understanding to manage changing tools and systems. This combination of technology and skill development aids in closing the disparities in access to trade finance, allowing Small and Medium-sized Enterprises (SMEs) to participate in global trade, thereby fostering economic growth and sustainable advancement (World Bank, 2019).

It is evident that growing financial crimes, money laundering, and trade frauds pose significant barriers in the trade and trade finance ecosystem. These illicit activities undermine trust, increase transaction costs, and create risks for businesses and financial institutions. Money laundering enables the concealment of illicit funds, while trade frauds distort market dynamics and disrupt legitimate trade. These are associated with the safety and security of traders, financial losses of financial institutions and country risks of the trading partners-particularly relevant for developing economies. These issues also strain regulatory bodies, which must enforce stricter compliance measures. To combat these threats, enhanced due diligence, advanced monitoring technologies, and stronger international cooperation are crucial in ensuring a secure, transparent, and efficient trade finance environment. Legal enforcement, efficient arbitration system, and awareness of the traders are decisive issues in this context.

Disintegrated approach and lack of collaboration has been amongst the key challenges. Collaboration and integration are essential for efficient compliance and risk management in the trade and trade finance ecosystem. By working together, stakeholders-such as banks, regulators, customs authorities, and businesses-can share real-time data and insights, ensuring that all parties stay informed about regulatory requirements, fraud prevention measures, and market conditions. Integration of systems and technologies enhances the automation of compliance checks, reduces human error, and speeds up processes, making them more efficient and secure. This collective approach helps identify and mitigate risks early, ensuring smoother transactions, enhancing trust, and promoting sustainable global trade growth.

As in other developing countries and emerging economies, trade ecosystem has notable implications for the efficiency of the banking operations in facilitating trade financing in Bangladesh. Broadly, the paper attempts to examine trade eco-system in Bangladesh to enhance the operational efficiency in trade services by banks. Specific objectives of the paper are: One, to discuss trade and trade finance eco-system in the global context; two, to examine participants, facilitators, and key elements in the context of trade and trade finance in Bangladesh; and three, to provide recommendations associated with trade eco-system of Bangladesh for improving efficiency of the trade services by banks.

The study is based on both primary and secondary information. Publications and reports on trade eco-system are the secondary sources. ICC documents, global trade-related reports on compliance in international trade were the major secondary data sources. A questionnaire survey was conducted to collect primary data that incorporated both open-ended and close-ended questions. The survey was administered in thirty banks. Sample banks include three SCBs, twenty-five PCBs of different generations, and two FCBs. Key Informant Interviews (KIIs) have been conducted with selected

bankers of different banks, regulators, and traders for data validation and drawing opinions on challenges and future course of actions.

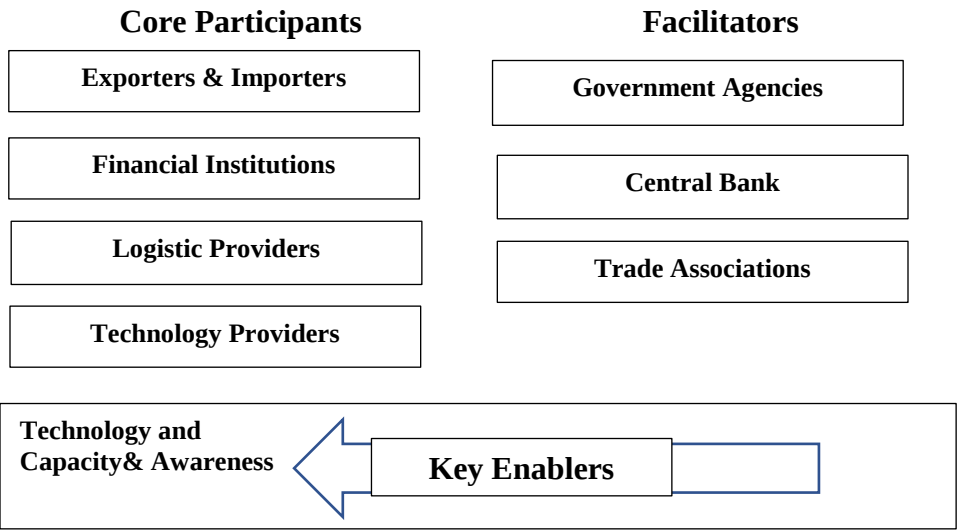
2. Trade and Trade Finance Eco-System in the Global Context: Literature Review

An ecosystem is typically made up of a diverse range of actors and interactions that may include traders, governments, technology, consumers, facilitators, and other stakeholders. These actors work together, often in a flexible or loosely coordinated manner, to create a value chain or community. The relationships between actors are often dynamic, with change and adaptation being key aspects of the ecosystem's evolution. Though sometimes, eco-system is pronounced as an alternative to the institutional framework, there is thin line between these²⁴. Ecosystems tend to be more flexible and adaptable that evolve based on market needs, technological advancements, and shifts in stakeholder behaviour; ecosystems often foster innovation and can quickly adapt to changes. Technology and capacity development are said to be crucial enablers in the trade and trade finance ecosystem that foster growth, streamline processes, improve efficiency and support businesses and financial institutions in navigating the complexities of global trade and finance. The global trade finance ecosystem encompasses a vast array of heterogeneous participants. Generally, these participants can be classified into two primary categories: Core participants are entities that actively engage in trade transactions, which encompass both the exchange of goods and the provision of financing. Core participants comprise enterprises and traders, financial institutions, technology providers, and logistics service providers. Facilitators are entities that do not engage directly in trade transactions but

²⁴ An institutional framework generally refers to the formal structure of rules, regulations, policies, and organizations that govern a specific domain or system, such as trade, finance, or governance; it is a more structured and defined system of rules and entities that guide behaviour and decision-making within an organization, country, or sector (Margaret and Ostrom, 2019).

play an essential role in enabling trade through the establishment of policies and regulations, including trade organizations, governmental bodies, and regulatory authorities (McKinsey and ICC, 2021).

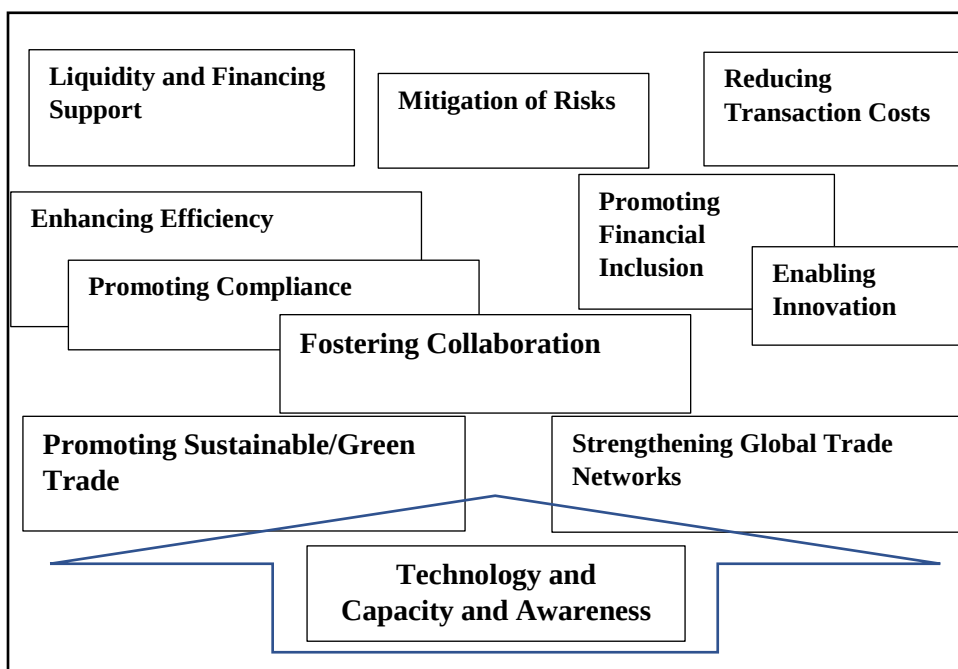
Table 2.1: Core Participants, Facilitators, and Enablers of Trade Eco-system



2.1 Trade Eco-system: Associated Issues and Outcomes

Importance of ‘trade and trade finance’ ecosystem is a dynamic network that involves various stakeholders, processes, technologies, and regulations that collectively enable the movement of goods, services, and capital across borders. The ecosystem comprises various interconnected actors, such as businesses, financial institutions, trade bodies, technology providers, and regulatory bodies. These entities work together to facilitate international trade and finance, offering solutions that help mitigate risks, streamline processes, and enable businesses of all sizes to participate in global markets. Trade ecosystem is associated with several services associated with efficient cross border trade (Box-2.1).

Box 2.1: Issues Associated with Trade Eco-System & Enablers



By providing the necessary tools to manage risk and financing, a trade ecosystem facilitates market expansion for companies, creates jobs and promote economic integration. Trade finance as part of trade eco-system provides the necessary financial tools to support cross-border transactions, and enables businesses to access the necessary liquidity to participate in global trade. Efficient trade eco-system is particularly relevant to the minimizations risks covering commercial and political, and fraud risks. Instruments, such as letter of credit, trade credit guarantee, and efficient technologies make international trade more predictable, transparent and less risky for exporters and importers (ADB, 2022). Trade finance ecosystem is connected with streamlining various processes involved in international trade, such as payment transfers, documentation, customs clearance that reduces administrative costs, errors, and delays, making cross-border transactions faster and more efficient. Use of modern technology has roles to play here. Ensuring compliance is particularly crucial, and by integrating compliance tools (e.g., Know Your Customer, Anti-Money Laundering)

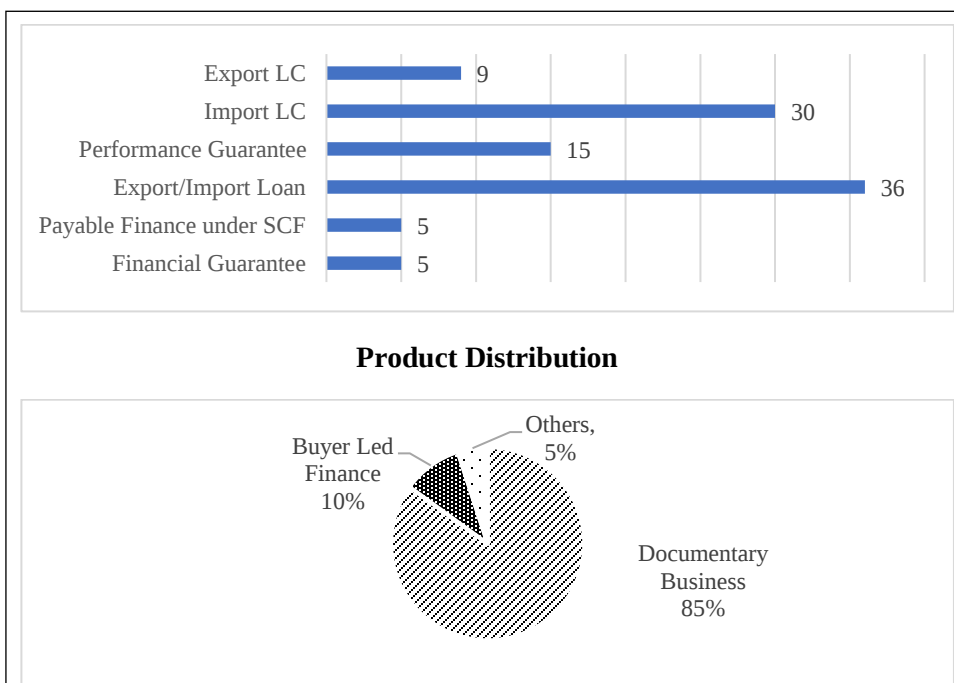
within the ecosystem, it ensures that businesses adhere to ethical and legal standards, reducing corruption and promoting fair trade. Trade finance ecosystem fosters collaboration among banks, regulators, technology companies, and others to develop innovative products and services tailored to the evolving needs of global trade. Especially, the rise of digital platforms in the trade finance ecosystem is helping transform traditional trade finance. In a relatively recent development, initiatives are being undertaken to encourage the development of financing solutions that support sustainable trade practices, such as green trade finance, which facilitates environmentally-friendly projects and products. As a long-term outcome, trade ecosystem builds trust between traders and financial institutions and helps connect markets for a stable environment for global trade (Box-2.1).

2.2 Global Trade Finance Market and Available Products

In order to reduce the risks associated with international trade, trade finance activity relies on a network of connections between different organizations. Although there is insufficient data on the precise number of trade finance products, traditional Trade Finance Products (TFP) continue to dominate the industry. According to the ICC survey (2021), Receivables discounting is regarded by clients as the most sought-after supply chain strategy among the many Supply Chain Products (SCF), followed by factoring, loans/advances secured by receivables, and payables finance.

Despite the growing popularity of SCF, the projections indicate possible dominance of TFPs even in the near future. LC remained the most widely used trade financing product. Another important aspect of the trade finance architecture linked to TFPs is the bank-to-bank interaction. Although bank-intermediated trade finance is more expensive and less flexible than open account trade finance, it is better for trade activities involving riskier clients or destinations since it provides more protection for suppliers.

Figure 2.1: Bank-Facilitated Finance (trillion USD) in the Globe



Source: ICC, 2021.

Default rates are important indicators that reflect the risks of trade finance instruments. During 2008–2023, default rates were 0.40% and 0.04% respectively for import and export letters of credit, while those for export/import loans were 0.72% over the same period. Even when defaults occur, recovery rates are fast and quite high: 83% and 83% for import and export letters of credit, and 77% for export/import loans over the same period (ICC, 2023).

Table 2.2: Default Scenario in Trade Finance

Financing Products	Default Rate	Recovery Rate
Import Letter of Credit	0.40	83%
Export Letter of Credit	0.04	83%
Loans for Import/Export	0.72	77%
Performance Guarantee	0.45	49%
Supply Chain Finance-Payable Finance	0.30	73%

Source: ICC Trade Registrar Dashboard (accessed on September 19, 2023)

In order to share the risk and boost commercial banks' incentives to finance trade transactions of otherwise excluded client segments, like SMEs, the public sector, represented by export-import banks or national Export Credit Agencies (ECAs), also provides trade credit insurance and/or guarantee programs. Governments occasionally serve as reinsurers for the national ECAs as well. In addition to insurance and guarantees, governments occasionally offer local or national banks a trade loan subsidy (Christian and Sreshtha, 2022).

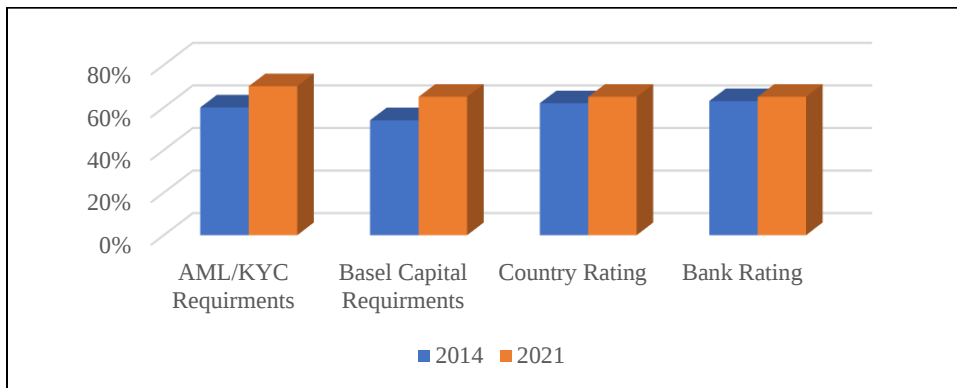
2.3 Balancing Business and Compliance in Trade Finance

Having a right kind of balance in trade finance business and the associated compliance is a critical challenge that are about complying with the expectations of the bank management-shareholders and regulators at the same time. The diversity of legal frameworks, regulatory requirements, and political considerations across countries makes compliance a complex and resource-intensive task that have notable implications for business approaches. Regulatory and management approaches for compliances vary in different countries, especially developing and developed country approaches are not same especially in the context of the origin and destination of the illicit fund flows.

Compliance Cost is a critical issue to address. Financial institutions must invest in specialized teams, training programs, and technology to meet AML, KYC, and other regulatory requirements. For example, conducting thorough CDD requires significant resources, including personnel to verify the legitimacy of transactions and monitor them for suspicious activity. These costs can add to the expense of trade finance services, potentially making them less competitive for businesses. Regulatory checks, such as sanctions screening or document verification, can slow down the transaction, especially when dealing with complex cross-border trades. In an environment where speed is often critical, these delays can be detrimental to businesses that rely on timely payments and shipments (Habib et.al, 2024). Practically, regulatory imposition and growing

compliance requirements are becoming gigantic and restricting trade finance (Figure-2.2).

Figure 2.2: Factors Restricting Trade Finance Transactions [2014-2021]



Finding and adopting solutions may help financial institutions achieve both operational efficiency and compliance in trade finance. Financial crime is a significant concern in trade finance, with TBML being a major threat. The FATF (2021) reports that TBM is a concerning issue, particularly with the rise of under- or over-invoicing and false documentation. Banks play a central role in preventing financial crime in trade finance by implementing rigorous compliance measures, monitoring transactions for suspicious activities, and reporting any irregularities to regulatory authorities. AML, CDD, and KYC are essential instruments for stopping trade-based fraud, but they also encourage banks to turn down less-bankable applications, particularly from smaller businesses. The availability of trade credit is also restricted by Basel capital requirements. Around 60% of banks mentioned Basel standards in 2021, and over 70% of institutions cited AML/KYC regulations as the largest obstacle to trade finance (Kim et al., 2021). The adoption of digital solutions and automation is crucial for improving efficiency while maintaining compliance. For example, automating document verification, transaction monitoring, and sanctions screening can reduce the time spent on manual processes, ensuring faster processing times and reducing errors.

Trade finance banks must ensure that their staff is well-trained in both compliance and business processes. Providing continuous education on regulatory updates, new technologies, and best practices can help employees adapt to changing compliance requirements while still focusing on operational efficiency. Training programs that focus on risk management, fraud prevention, and compliance automation can empower staff to handle trade finance transactions more effectively, ensuring that business objectives are met without compromising on regulatory adherence.

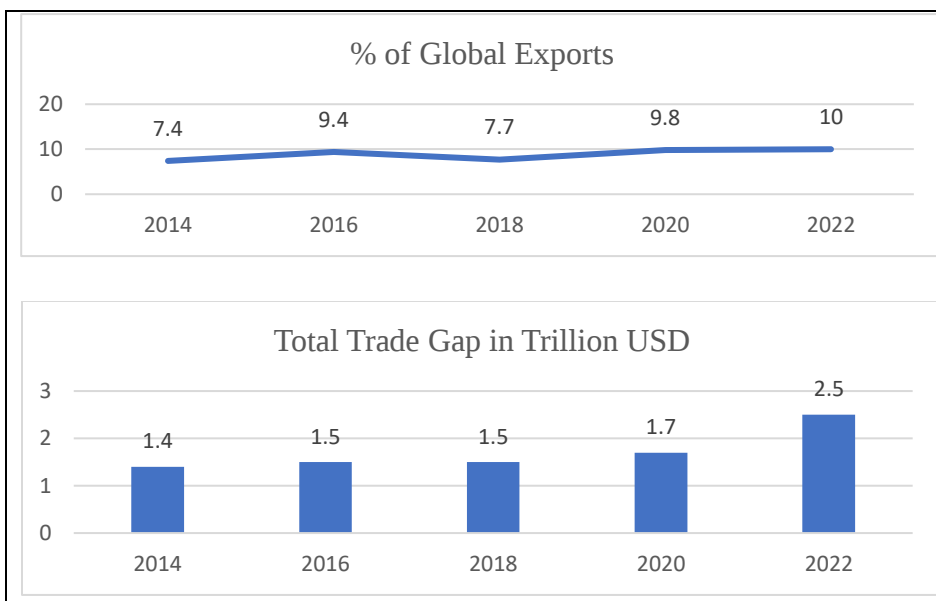
Balancing business objectives with compliance requirements in trade finance is a challenging but necessary task. Automation, digitalization, standardization, and collaboration with regulators can help streamline compliance processes, reduce operational costs, and enhance the efficiency of trade finance services. By embracing technological innovation and fostering a culture of collaboration, trade finance institutions can achieve a balance between ensuring compliance and meeting business objectives. This balance is key to ensuring the continued growth of global trade while safeguarding the integrity of the financial system (FATF, 2021).

2.4 Access to Trade Finance and Addressing the Need of SMEs

SMEs make up a significant portion of global trade; however, they face considerable barriers when accessing trade finance. The limited creditworthiness of SMEs, lack of collateral, and absence of well-established banking relationships often result in their exclusion from traditional trade finance solutions. According to the WTO, SMEs are responsible for around 40% of global trade but struggle to access financial services that large corporations enjoy (WTO, 2020). The trade finance ecosystem is generally more tailored to larger companies with established credit histories, which limits opportunities for SMEs to engage in cross-border trade. Firms in developing and emerging markets and SME suppliers face the greatest challenges in accessing trade financing (UN, 2024).

According to the ADB (2023) survey²⁵, the trade finance gap for the year 2022 was as high as USD 2.5 trillion which is around 10 percent of the total trade transactions of the globe. However, other estimates from the UK All-Party Parliamentary Groups (APPG) on trade finance put the current gap as high as USD3 trillion to USD5 trillion (Trade Finance Global, 2022). It means in terms of total global export transactions that may be even up to 20% (ADB, 2022).

Figure 2.3: Global Trade Finance Gap



Source: ADB, 2023 Survey.

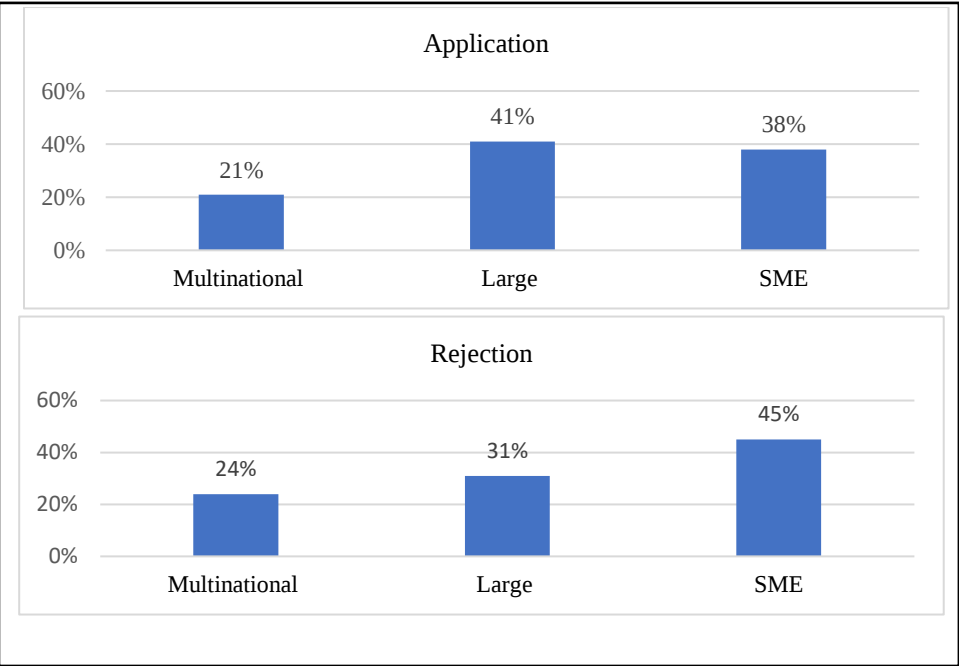
High trade finance gap is relevant both for developed and developing countries and across the region. SMEs are more self-rationed in the trade finance market than are large firms. Notable trade-finance gap is clearly visible in Asia-Pacific region and other regions of the globe. The rejected applications disproportionately affected SMEs compared to larger firms. In

²⁵Findings and recommendations in the 2023 survey are based on responses from 137 banks across 54 countries and 185 firms from 43 countries. The survey responses reflect over 60% of the global market for bank-intermediated trade financing. The survey responses were collected online from May 2023 to July 2023.

2022, while 38% of the applications received by banks were from SMEs, a larger share of rejections (45%) was attributed to these SMEs (Figure-2.2). In Africa, banks rejected about 40% of the trade finance facility applications received from SMEs in 2019 (AfDB-Afreximbank, 2020).

Female labour-intensive sectors face higher greater trade costs. ADB trade finance surveys in 2017 and 2019 reveal similar results-i.e., woman-owned firms faced higher rejection rates than male-owned firms (Kim et al. 2019). Studies (ADB, 2022; ADB, 2023) suggest that the most effective policy solution to address this is through digitalization policies.

Figure 2.4: Comparative Scenario of Trade Finance Application and Rejection



Source: ADB, 2023 Survey.

Understanding the reasons for growing trade-finance gap and such high rates of SME rejection is a crucial step on the path to closing the gap. According to the ADB survey (2022), the most commonly cited reason (72.4%) for SME rejection is the stringent AML and KYC requirements in

place today. Another factor may be the impact of time-consuming and manual onboarding processes on the profit that banks are able to make from SME clients. APPG reports that banks now face onboarding costs as high as USD80,000 for SME clients due to this cumbersome, redundant, and mostly manual bureaucracy (Tarde Finance Global, 2023). ‘Insufficient collateral’ has been identified as the primary reason for the rejection of the SMEs’ trade finance applications, as claimed by the SME entrepreneurs (AfDB-Afreximbank, 2020).

According to the 2021 survey of ADB, approximately 44% of loan offers were denied by banks due to incomplete information, insufficient collateral, and completely inappropriate applications (Tables-2.2 and 2.3). Smaller businesses are initially at a disadvantage since banks are reluctant to lend to them because they believe they have less collateral, particularly in developing nations where the legal framework supporting property registration and property rights enforcement is probably poor. Many SMEs behave differently while doing business with lending institutions because they are unaware of the standard necessary practice of information disclosure and documentation. To SMEs, KYC or AML requirements are hardly a reason to reject their trade finance applications -less than 1 percent of firms cited KYC/AML as a potential reason behind trade finance rejections in the ADB Survey 2022. SMEs also find banks’ application processes lengthy and bureaucratic. Alongside the unfriendly approach of banks, the lack of understanding of SMEs on banks’ KYC/AML requirements seems important challenge.

**Table 2.3: Reasons of Rejecting Trade Finance Applications
(Banks Perspective)**

Application was completely unsuitable for support	19%
Application lacked additional collateral	10%
Covid related concerns	11%
KYC/AML concerns	10%
Unprofitable Venture	10%
Insufficient Information	08%

Source: based on ADB survey (2022)

Table 2.4: Reasons for Rejecting [not Availing] Trade Finance Applications (Borrowers' Perspective)

Insufficient Collateral/Guarantee	36%
Very High fees/interest rates	18%
No previous transactions/relationship issue	17%
High risk rating	11%
Inability to fulfill Documentary Requirements	10%

Source: based on ADB survey (2022)

Rejected SMEs commonly have very limited options but to move to their own fund (36%) or to the much costlier informal sector. According to the ADB (2022) survey, 18 percent of SMEs did not find an alternative that must have had notable implications on their business and trade operations. Informal financing sources were business partners (32%), family members (23%), money lenders (19%), and informal saving groups (18%), etc.

Broadly, solution-oriented policy approaches to addressing the trade finance gap must be associated with the key challenges to internationalizing SMEs that commonly include one, a lack of business links with large multinationals; two, a lack of quality, competitive products, and low investment in research and development; three, a lack of business literacy and capacity; four weak regulatory compliance; and five limited access to finance (ADB 2021). Certain policy approaches and existing and potential market interventions need to be discussed to reflect the challenges and possible measures association with trade finance gap. These may be categorized into the following: Growing Compliance [KYC/AML]; Asymmetric Information; Spillover Effect of De-risking; and Common Regulatory and Policy Environment.

As part of de-risking strategies banks are much more likely to lend to larger corporations than to SMEs and over-conscious approach (Metzgen, McLean et al., 2018). Generally, SMEs are not always differently or specially treated while offering trade financing as KYC/AML compliance requirements are determined considering the associated risks. This is

particularly true in the context of developing economies that confront country risks associated with illicit fund outflows and TBML.

Digitalizing the trade ecosystem is widely seen as a key enabler to help streamline efficiency in the industry and close the trade finance gap. The Boston Consulting Group (BCG) predicts that, by 2025, 10%-15% of trade finance and 20%-25% of SME trade finance will be conducted via digital platforms. One of the major impediments are costs linked to the adoption of technology, lack of expertise and outdated legacy systems, which are incompatible with latest technologies. Consequently, most banks have adopted the 'wait and watch' approach (Ramachandran, 2019). ICC (2021) noted, paperless trade will reduce the cost and complexity of trade, tackle 50% of the global USD1.7 trillion trade finance gap and enable more SMEs to participate and drive the economic recovery and reduce fraud and criminal activity. Capacity development and awareness of SMEs is a critical enabler in this context. To improve operational efficiency for SMEs in trade finance, banks must create more flexible financing products (McKinsey & Company, 2021). SME Export Cluster might be another helping tool (Sousa and Bradley, 2009).

2.5 Technology and Reshaping of International Trade

Technological changes and digitalization have profoundly impacted trade trends since the early 2000s. Traditionally, trade finance processes have been paper-intensive, with documents like letters of credit, bills of lading, and invoices requiring manual verification and approval. This manual handling, while necessary for compliance, increases the time required to process trade transactions, making it difficult for banks to operate efficiently and meet customer demands for faster services. In the context of many developing countries, banks and businesses that do not have integrated systems struggle with data duplication, errors in documentation, and delayed payments due to the time spent reconciling different databases (FAO and UN, 2020). Digital technology's possible application in trade finance these fundamental issues can be resolved by automation and

digitization, which will enable more effective and convenient trade finance. (FAO and UN, 2020). By eliminating paper-based manual processes, digital technologies can help reduce costs through digital trade documents and automated processes (we.trade, 2019).

Technology plays a critical role in transforming trade and trade finance, enhancing efficiency, transparency, security, and accessibility in global commerce. Manual transactions and lack of efficient technology led to higher trade costs, playing as barriers to trade, as the volume of global trade rapidly increases. Paper is still widely used, for example, in documentary transactions such as letters of credit, with operational costs accounting for 50%–60% of the price charged to clients (World Economic Forum and Bain & Company 2018). Processing letters of credit may involve more than 20 parties with more than 100 pages of documentation for verification and information exchange (BCG 2018). Technology has a great to play in this front, and the evolution of these fields has been significantly influenced by innovations such as blockchain, Artificial Intelligence (AI), digital platforms, and data analytics (ADB, 2022).

The potential of export markets for digitally delivered services has so far mostly been realized by developed economies. The average increase in cross-border trade due to digitization is over 8% more than current projections (UN, 2024). According to ICC forecasting (undated), Current trade growth forecasts suggest that goods trade will be very flat across the G7 to 2026. Digitalising the trade ecosystem could increase trade across the G7 by nearly USD9 trillion or nearly 43% on 2019 values by 2026. UN (2024) found, digitally delivered services play a smaller role in the commercial services exports of developing countries.

Benefits of digitalization is well recognised now. The issues of information asymmetry, regulatory compliance, and inefficient processes in trade and trade financing transactions can all be resolved via digitization. Automation and electronic trade documents can increase process efficiency by accelerating transactions and lowering human error. Technologies like big data, distributed ledger technology, and artificial intelligence can assist in

confirming a company's identity and financial stability, allowing banks to more affordably meet regulatory standards like AML/KYC. This lowers the fixed operating expenses for banks and businesses that are digitally connected to one another, which can therefore make it easier for smaller enterprises and financial providers to participate (Kim et al., 2019).

Trade is also evolving with digitalization, and the market environment is forcing companies to embrace it. Businesses need to automate and streamline their value chains to improve productivity and profit, as evidenced by market competition and declining profit margins. It is also becoming ever harder to continue operating in the face of intricate supply chains without automation and digitization. Continuous monitoring should be utilized to quantify these demands with less human intervention (ADB, 2023).

Through minimized vehicle waiting time at crossings and improved emissions monitoring, such as by implementing automatic identification systems monitoring vessel movement, digitization has the ability to green trade. Completely digitalized end-to-end trade transactions could save up to 13 million tons of carbon dioxide in the Asia and Pacific region annually, the same as the carbon that 400 million trees absorb. This is in addition to the economic advantage of paperless trade facilitation, which is valued at USD 600 billion in terms of annual savings on trade costs. (Sirimanne and Adhikari, 2022).

Distributed Ledger Technology (DLT) is used for digitalizing the process for trade finance products like letters of credit. For example, Project Voltron's blockchain platform for letters of credit, built on R3 Corda, was utilized by HSBC and ING to facilitate a live trade finance transaction for Cargill to send a cargo of soybeans from Argentina to Malaysia, reducing the processing time for issuing a letter of credit from 5-10 days to 24 hours (Berminham, 2018). According to the Bank for International Settlements (BIS), blockchain could reduce transaction costs in trade finance by up to 10% by eliminating intermediaries and minimizing the risk of fraud (BIS, 2020). DLT has been estimated to reduce the operating costs in trade finance by 60-80 percent (Olsen et al., 2018). Moreover, machine learning can be

utilized to automatically detect and correct discrepancies in trade documents like bills of lading and packing lists by electronically scanning for consistency and compliance with regulations (ADB & ESCAP, 2019). In the context of developed countries, ICC survey (2021) forecasted that a fully digitalised trade ecosystem will result in an average 84% reduction in trade cost across the G7+ by 2026. Using electronic transferrable records across the G7+ countries could enable global trade to increase by 40% by 2026, on 2019 values. Digitalisation will reduce bureaucracy by: reducing time spent on cross-border trade by around 81% across the G7; cutting the number of days associated with border compliance from an average of 25 days to less than one day; reducing average compliance times from 2.3 days to less than half a day. Further, digitalisation could help promote sustainable trade – currently only \$1 in every \$5 trade dollars is associated with positive SDGs in the G7 (ICC Survey, 2021).

Adoption is low even though sophisticated technologies are being used and are highly known for their enormous advantages in business. Owing to the lack of legislation and technical compatibility that facilitates cross-border recognition, electronic bills of lading, for example, have a very low adoption rate: around 0.3% and 1.2% of bills of lading were electronic in 2020 and 2021, respectively (Bagge n.d.). It is also an observation that the use of digital technology solutions is minimal. While businesses utilize these technologies for digital record keeping and accounting, banks utilize them primarily for digital filing and transmission and electronic signatures (ADB, 2023).

Through reform of laws to electronically facilitate trade documents and placing legal frameworks in alignment with the UNCITRAL Model Law on Electronic Transferrable Records (MLETR), ICC invites governments to establish a modern digital trading environment. Paperless trade is facilitated by the regulatory framework established by the MLETR. It creates a global architecture for harmonizing national law and facilitating the authorized use of electronic transferable records both within and across borders. Further, to improve communication between consumers, container carriers,

regulators, financial institutions, and other industry stakeholders, the DCSA is spearheading the effort to create open-source standards for an electronic bill of lading (eBL).²⁶

National laws must accept all documents of trade in digital form, according to ICC (2021), and legal systems must be harmonized to articulate digital information interchange freely across frontiers and among interested parties like buyers, sellers, financiers, insurers, shippers, logistics, and customs. An efficient, interoperable, and user-friendly trading system—where trade occurs within hours and days rather than weeks and months—and where costs are reduced, particularly for SMEs—would be facilitated by such legal reform. Countries will be more appealing to digital foreign direct investment as a result, and increased speed of connectivity will boost the ability of businesses to trade globally and increase their digital competitiveness.

2.6 Sustainable Trade Finance-An Evolving Area to Address

The environmental impact of trade finance transactions is becoming an increasing concern, and financial institutions are under growing pressure to support sustainable practices in trade finance. In recent time, ICC (October 2024), in collaboration with Boston Consulting Group (BCG), industry experts, financial institutions, and corporates, has developed a sustainable trade finance framework that addresses four distinct types of trade finance products: Green Trade Finance (GTF); Sustainability-linked Trade Finance; Sustainability-linked Supply Chain Finance; and Social Trade Finance.

ICC refers GTF as products designed exclusively to finance or mitigate financial risk from activities where the use of proceeds is clearly and verifiably allocated to green purposes. ICC suggests fully implementable principles that provide a common language and set of processes for banks

²⁶ In 2019, the group launched a multiyear e-documentation initiative, aimed at delivering standards for end-to-end shipping container digital documentation, covering a variety of components, including industry blueprints, data and interfaces, the Internet of Things, and just-in-time port-of-call e-documentation and cybersecurity (eDocumentation: Creating a foundation for paperless trade,” DCSA, dcsa.org).

to utilise when conducting a use of proceeds-based assessment for green-labelled Trade Finance products. The Principles for Green Trade Finance evaluates sustainability across four core components of trade, and these components are graded along two sustainability dimensions: environmental sustainability, which includes factors such as climate change mitigation and biodiversity, and socioeconomic sustainability, which focuses on human rights, labour practices, and promoting sustainable economic development. ICC (2024) identified four key pillars of green trade finance: Use of Proceeds, evidencing, safeguarding and standardisation, and reporting.

ICC's guidance on Sustainability-linked Trade Finance provides tailored advice based on the principles set out in the Sustainability-Linked Loan Principles (SLLPs) for Trade Finance products. It's guidance on Sustainability-linked Supply Chain Finance provides additional clarity on ownership of KPIs in relation to Sustainability Linked Supply Chain Finance programmes. Principles for Social Trade Finance remain an area of focus for ICC, yet due to the nascence of Social Trade Finance within the market, it primarily set out ambition to develop a specific set of Principles for Social Trade Finance in near future (ICC, 2021). Technology adoption and minimization of paper use in trade facilitation is expected to have notable implications for environmental risk management in the in-house trade finance operations.

2.7 Collaboration, Coordination, and Integration Concerns

Inefficiencies in trade finance often arise due to a lack of coordination between key parties, resulting in delayed shipments, incorrect documentation, high risks and increased costs. According to the ICC (2021), fragmented communication channels and data silos contribute significantly to operational inefficiencies in trade finance. Collaboration among these stakeholders is crucial for improving the overall efficiency of trade transactions. The adoption of standardized digital platforms that enable real-time communication and document sharing among all parties can reduce transaction delays and ensure that all parties are aligned throughout the trade process.

Collaboration and integration in the trade and trade finance ecosystem require strong partnerships between businesses, financial institutions, technology providers, regulators, and governments. For efficient handling of compliance issues, collaboration with regulators is particularly crucial (Habib et.al., 2024). Cross-sector collaboration ensures the development of seamless platforms for trade transactions, secure payment systems, and efficient financing options. Integration of technology enables real-time tracking, transparency, and automation, reducing costs and risks. Financial institutions must work together with businesses to offer tailored trade finance solutions, while regulators must create harmonized policies to facilitate cross-border transactions. Effective collaboration fosters innovation, improves access to financing, and streamlines the entire trade process, benefiting all stakeholders.

According to United Nations (2023), in an attempt to greatly simplify, standardize, consolidate, coordinate, and automate regulatory information and document transmission among traders and the numerous Partner Government Agencies (PGAs) involved in the regulation of goods transfer across global borders, a Single Window for Trade was put in place. With the overall objective of saving time and money, it also helps the agencies to easily process and transfer this kind of information. The UN, WCO, and international financial institutions all acknowledge the Single Window concept as a very powerful tool for trade facilitation. (Box-2.2).

Box 2.2: Benefits from Using Single Window

For Trade • Reduction in the time and cost of complying with cross border regulatory processes • Simplification of regulatory procedures • Reduction in (or elimination of) paperwork and the need to travel to the various PGAs • Increased predictability and transparency • Automation of regulatory processes in line with other business processes • Electronic payment facilities • Online, real-time monitoring of consignment status.

For government • Reduction in cost • Enhanced efficiency of regulatory processes • Elimination of duplicated processes between agencies • Higher compliance levels with government regulations • Enhanced traceability and statistics • More accurate and often increased revenue yield for customs • Improved government services (and the perception thereof) • Greater economic competitiveness • Increased transparency • Improvement in world rankings for business competitiveness and efficiency.

The Single Window, ReSW, saved Rwanda's economy \$15-20 million as of 2015; and achieved a reduction in average time-release from 264 hours (11 days) in 2012 to 34 hours (1.5 days) in 2014. In Jamaica, Trade Board Ltd (TBL) used to take about 3 days to approve an import permit. With the Single Window, JSWIFT, permits are now approved within 24hrs after applications are submitted and fees paid. The digitized processing of licenses, permits, certificates and other documents now plays a pivotal role in expediting the overall release of goods and helps curb storage and demurrage expenses. As a result of the implementation of the Single Window, TileSW, the time required to obtain an import/export permit was reduced from 1 to 2 weeks to 1 or 2 days; and the amount of paper used for printed documents was reduced by around 80%.

An electronic single window initiative in Vanuatu shows that carbon dioxide emissions have been reduced by nearly 6,000 kilograms by reducing paperwork in the sanitary and phytosanitary certificate application process as well as cargo clearance. This also reduced paperwork by 95% and physical trips needed to comply with these processes by 86%.

Source: United Nations, 2023

2.8 Capacity and Awareness Development -A Key Enabler

Capacity development, training, and skill development are fundamental to enhancing the trade and trade finance ecosystem, particularly for regulators, policymakers, trade facilitators, trade finance providers, and traders, especially SMEs. These efforts enable the creation of a more efficient, inclusive, and sustainable trade environment.

Regulators and policymakers need a solid understanding of both the macroeconomic impact of trade and the role of finance in global commerce. Capacity development initiatives focus on improving their knowledge of international trade agreements, financial regulations, and trade finance structures. Empowering policymakers helps create a more conducive environment for businesses, ensuring smooth implementation of trade-related laws and regulations. Central bankers, officials of related ministries, and customs officials need continuous updating on the policy issues. Further, capacity development for regulators focuses on enhancing their understanding of global trade dynamics, risk management, and modern financial instruments. With increasing complexity in cross-border transactions, regulators need training in trade finance laws, AML measures, and trade-related digital technologies like blockchain (ADB, 2022).

According to PwC (2021), the lack of skilled personnel in trade finance, combined with outdated technology infrastructure, limits the capacity of banks to manage trade finance effectively. Developing specialized teams within banks that focus on trade finance, compliance, and risk management can improve operational efficiency. Capacity building initiatives focus on areas such as traditional trade finance, digital trade finance, supply chain financing, and innovative risk mitigation tools are particularly relevant. Training programs on trade financing help equip financial professionals with the necessary skills to assess risks, offer financing solutions, and integrate technologies like trade finance platforms and smart contracts. This supports faster, more secure access to trade finance for businesses.

Facilitators, such as logistics providers, freight forwarders, and insurance companies, also require capacity development to ensure smooth trade operations. Their skill development events focus on customs regulations, international payment systems, and trade documentation. By enhancing the knowledge and operational skills of facilitators, programs like the World Customs Organization's (WCO) Capacity Building Programme and regional trade workshops ensure that these intermediaries can support traders and finance providers efficiently. This training is essential for reducing delays, mitigating risks, and ensuring that transactions move smoothly across borders, which ultimately strengthens the entire trade ecosystem (Alassane et al., 2020).

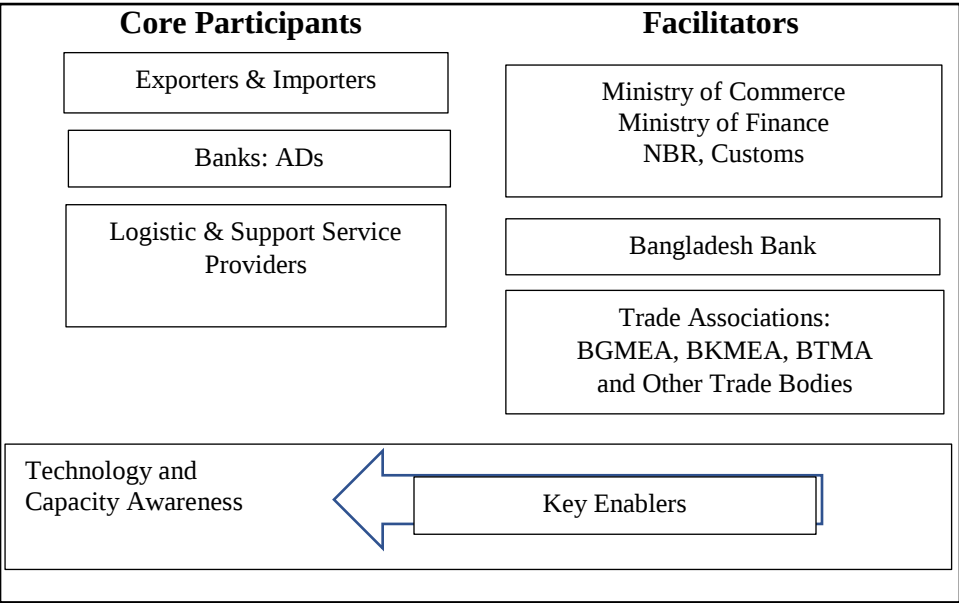
Traders, particularly SMEs, need training on how to navigate the complexities of international trade and finance. Capacity-building efforts for traders focus on providing knowledge about trade finance products like letters of credit, trade credit insurance, and factoring. Programs from organizations like the ICC and local trade associations help traders understand these financial instruments, the global regulatory environment, and how to use technology to reduce risks and increase market access. This development ensures that traders are better equipped to engage in global trade and take advantage of financing opportunities. Many SMEs are unaware of trade finance products that can help them mitigate risks and

improve cash flow. This initiative aims to raise awareness among SME traders about available financing options and how to leverage them for international trade (ADB, 2022).

3. Trade and Trade Finance Eco-system-Bangladesh Context

Based on the background and literature review, mapping of trade and trade finance eco-system in Bangladesh can be grouped into participants, facilitators and enablers. Participants of the trade eco-system mainly includes exporters, importers, logistic providers, and technology providers, who are directly involved in handling and facilitating trade services and finance (Table-3.1).

Table 3.1: Core participants, Facilitators, and Enablers of Tarde Eco-system



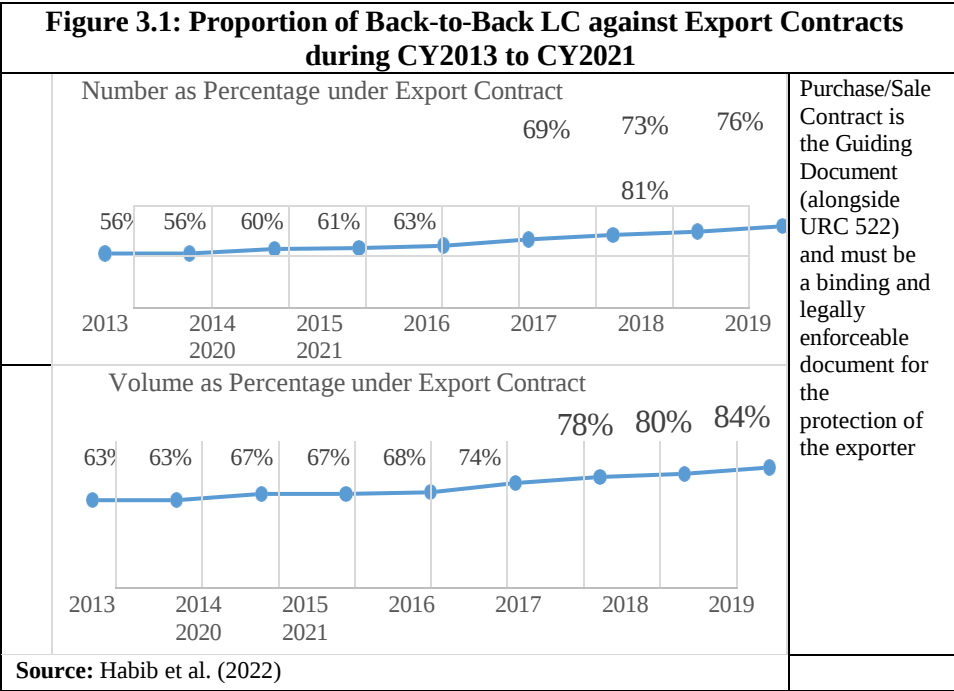
3.1 Core Participants

3.1.1 Exporters and Importers

In trade-ecosystem, the major parties are exporters and importers for all methods and payment. Engaged with a sales-purchase contract under which goods or services are delivered from the territory of one country to the territory of another country. To avoid disputes between buyers and sellers, it is better to have a legally binding agreement. Globally four trade payment methods are in use: cash in advance, open account, documentary collection, and documentary credit. Though purchase/sale contract is the starting point of international trade transactions, applicability of purchase/sale contract vary in different trade payment methods. Well-drafted and legally enforceable purchase/sale contract have differential implications for diverse extent of country risk, commercial risk, and money laundering risk associated with different trade payment methods.

Table 3.2: Presence of Key Relevant Contract Clauses for Legal Enforceability in Bangladesh	
Sales-Purchase Contract Clauses	Availability
Resolution of Disputes Clause	15%; available for contract of mainly scrap vessel import, and reputed buyers.
Arbitration Clause	13%; available for contract of scrap vessel import, and reputed buyers.
Force majeure Clause	Very Insignificant
Limitation of Liability Clause	Very Insignificant
Applicable Law and Guiding Principles	Very Insignificant
Note: Based on Collected Contract Documents	

Back-to-back LC against ‘Confirmed Contract’ was first referred by the Bangladesh Bank in the year 2001, and export and import policies also specifically referred to back-to-back LC against LC/contract as an important tool to the exporters of the country. The growing tendency of issuing back-to-back LC against contract shifted risk profile of this trade finance product comprehensively (Figure-3.1).



The popularity of documentary collection is increasing steadily mainly in exports. export and import policies also specifically referred to back-to-back LC against LC/contract as an important tool to the exporters of the country. For ensuring compliance, ADs shall maintain records of import through contracts with relevant information including dates of maturity and settlement. (FE Circular No. 24, 2024). Almost all the sales-purchase contract is not legally enforceable yet. Bangladesh is not a signatory or ratifying country of the CISG or URIDROIT Principles.

Challenges Associated with Sales-Purchase Contract: Bangladesh is not a signatory or ratifying country of the CISG or URIDROIT Principles. Concerning uniform rules for the contract and for ensuring legal enforceability, the major trading partners of Bangladesh like United States, members of the EU, China are among the signatory countries of ‘UN Vienna Convention’. Most of the trading partners of the country like USA, China, India, UK, members of EU are also amongst the signatories of ‘UNIDROIT

Principles’ However, Bangladesh is yet to sign the treaty and the principles, and the country also does not have recognised national regulation to cover cross-border purchase/sale contracts. Bangladesh has a domestic act to handle purchase/sale contract mainly targeting domestic concerns titled Contract Act, 1872. The Contract Act, 1872, was enacted in the 19th century and re-enacted by the Parliament of Bangladesh after the country’s independence. With the passage of time and with the growth of the volume of trade and the rise of mercantile activities certain changes were made. However, to be adopted by the international trade partners, and to support international trade related disputes and cases, unification of Contract Act 1972 with the globally recognized conventions like CISG and UNIDROIT Principles might serve better. Following cases (mini cases 3.1-3.3) reflect the necessity of having a binding and legally enforceable contract for the protection of the traders, trade finance banks, and to protect country risk and TBML risks in the context of Bangladesh.

Mini Case 3.1: Exporter Unable to Take Legal Support Due to Absence of Binding Contract with Legal Coverage
A Bangladeshi exporter got a purchase order worth USD 392000 from Turkey for jute yarn. The payment term was ‘document against acceptance’ under documentary collection in the order. The credit report of the foreign buyer was good. The exporter had timely shipped the yarn and send the documents to the importer. The documents were directly consigned to the name of foreign importer. The goods were collected by the importer on time. But after maturity, the Bangladeshi exporter was not getting payment. For the EXP overdue, the exporter was unable to avail of the cash incentives. The exporter’s bank urged help from central bank. BB promptly acted and tried to negotiate. But the importer was unable to capture in the negotiation loop as there was no clause regarding dispute settlement in the purchase order. After that, BB advised the exporter to file a case at Turkey court and the exporter did so. But the foreign court couldn’t help the export till now. It is not easy put pressure on the Turkey regulatory body due to the absence of binding contract with legal coverage.
Note: Bank source

Mini Case 3.2: Exporters are Facing Challenges due to Bankruptcy of Renowned Buyer and Weak Contract Clauses

In this Covid-19, Bangladeshi suppliers are facing difficulties due to the bankruptcy of Western retailers Debenhams and JC Penney as they have no idea when they would be getting the payments for the goods they have already shipped or manufactured. The garment exporters are owed upwards of \$56.87 million by the two companies, as claimed. A total of 964 export bills are already shipped to these two largest and most historic department store chains in the world. Around 28 banks are involved in trade financing in this. In the case of bankruptcy or liquidation, it is the salaries and rents that get paid first and then the administrators proceed to other liabilities such as loans. Now the Bangladeshi exporters need strong negotiation platform for their loss in this bankruptcy. But the major challenges according to BGMEA in negotiation are mainly the exporter worked under a weak sales/purchase contract and Bangladesh is not a signatory of any international convention for contract. Now suppliers are worried about non-availability of different facilities like cash incentives, EDF facilities etc.

Note: Bank source

Mini Case 3.3: Payment Fraud by Lilliput

In 2012, a group of 22 small Bangladeshi garment exporters fell victim to a significant fraud perpetrated by Indian kidsweat retailer Lilliput. The exporters had shipped goods worth \$5 million without securing Letters of Credit (LCs), a common practice in international trade to ensure payment. Lilliput, citing bankruptcy, failed to honor its financial obligations, leaving the Bangladeshi exporters with substantial losses. This incident highlighted the risks associated with exporting goods without adequate safeguards and underscored the importance of stringent credit and payment terms in international trade.

Source: Bank

Buyers and seller are also facing global supply chain disruption and foreign exchange market uncertainty that are affecting international trade Box-3.1.

Box 3.1: Global Supply Chain Disruption and Foreign Exchange Market uncertainty

In the new normal scenario, remarkable market interventions and operational support by the government and Bangladesh Bank brought relief to the trade service-providing banks, however, uncertainty remains and continues with the global political developments, conflicts, supply chain disruptions, and foreign exchange market instability. Stimulus and refinance schemes offered comfort to the traders and banks, and several short term goals were attained on the way to support international trade. However, the following development with consistent inflationary pressure became a key concern to the traders of the country. It is well-known that the country's foreign exchange market is basically trade centric and it has direct implications for exports and imports and the associated trade finance or trade services activities by banks. Central Bank has been intervening in the foreign exchange market to protect the country's foreign exchange reserve many of which are rightly connected to discouraging certain types of luxury and semi-luxury imports and supporting exports of the country. Higher margin requirements to discourage certain imports. The foreign exchange market fluctuations have led to a shortage of foreign currency in several instances, making it sometimes tough for businesses to import necessary goods and services. This has caused disruptions in the supply chain, increased the cost of production, and lowered the competitiveness of Bangladesh exports in some instances

Note: Habib et al. (2023)

3.1.2 Banks-Trade Services Providers

In trade eco-system, Bangladesh's banking sector has been supporting the country's economy to expand through provision of trade finance, trade payment, and risk management to businesses. Banks play a significant role in facilitating trade through engagement in the concerned legal enforcement and mitigation of business risk. The country's foreign trade facilitation regulations encourage trade services departments to become more engaged, take higher risks, and get more opportunities to earn profits.

All trade services operations in Bangladesh are controlled and regulated by Bangladesh Bank. The central bank has been playing the role of a coordinator among stakeholders, and ADs are agents or dealers of the

central bank²⁷. Banks facilitate trade services while conforming to national and foreign laws. For this purpose, the primary national legislation that regulates international trade, and foreign exchange business, is the Foreign Exchange Regulations (Amendment) Act 1947 [FERA 1947]. The regulation of trade by the Ministry of Commerce, which is applicable to banks, is in Bangladesh. The International Chamber of Commerce (ICC) guidelines are the most applicable to banks. The major relevant regulations followed in performing trade services activities in the country are shown in table 3.2 below.

Table 3.3: Regulatory Framework of International Trade Services in Bangladesh (Key Relevant Rules/Guidelines)	
Domestic Regulations/ Rules: Foreign Exchange Regulations Act 1947; Export Policy 2024-2027; Import Policy Order 2021-2024. Offshore Banking Act 2024 Bangladesh Export Processing Zones Authority Act 1980 [for the operations within EPZ]	International Guidelines/Rules: Uniform Customs and Practice for Documentary Credit (UCP 600); Uniform Rules for Collections (URC 522); Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR 725); International Standard Banking Practice (ISBP 821); Uniform Rules for Forfeiting (URF 800); International Commercial Terms 2020.

Other than the above-mentioned key rules/guidelines, some other domestic regulations/acts like Customs Act 1969²⁸ etc. are indirectly related. A few other ICC publications like International Standby Practices [ISP-98], Uniform Rules for Demand Guarantees [URDG 758], and Documentary Instruments Dispute Resolution Expertise Rules (DOCDEX) etc. are also relevant.

²⁷ Bangladesh Bank established AD Forum in September 2013. Under the forum both Bangladesh Bank and Commercial Bank’s (who have AD branches) officials sit together once in every quarter in a year. One Executive Director of Bangladesh Bank is Chairing the Forum. Every commercial bank has a representative in this forum. It is helping in reducing the communication gap between the central bank and the commercial banks (BB source).

²⁸ Customs Act 1969 has consolidated the law relating to customs (the levy and collection of customs duties) and to provide for other allied matters. The Act has covered some issues connected with bill of entry and pre-shipment inspection that are related to trade services by banks.

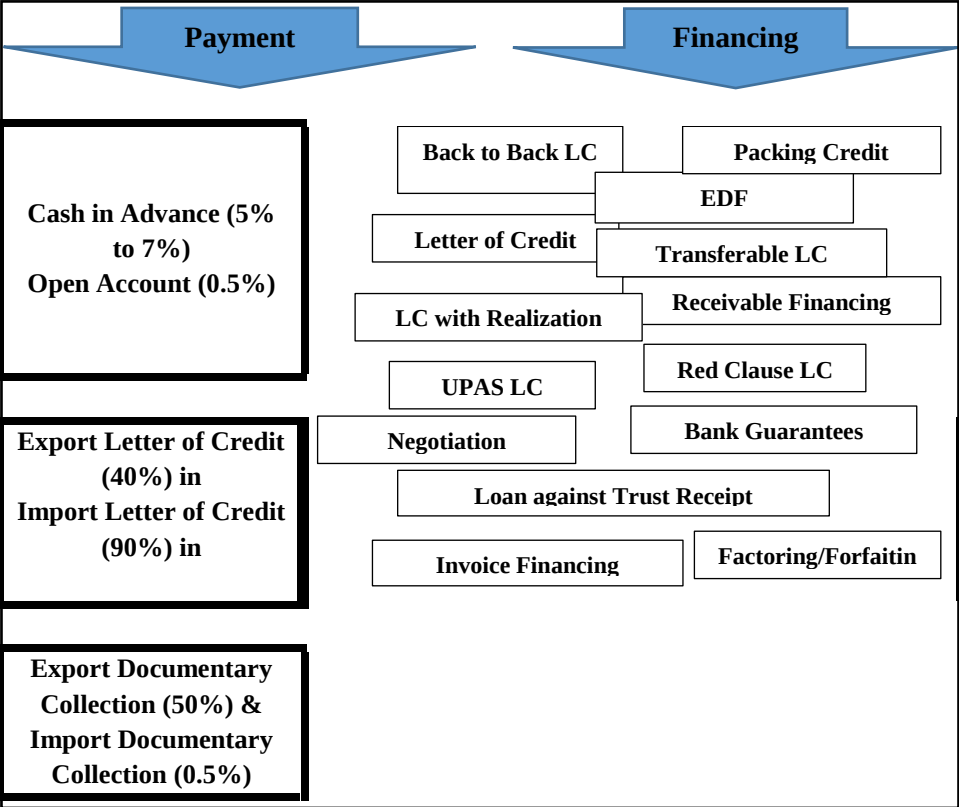
Trade Services/Finance Products and Market Trends in Trade Eco-system: The majority of export transactions are settled via a letter of credit after documented collection. Documentary credit is commonly used in import transactions. A form of buyer-seller arrangement "open account" allows for the production and delivery of goods before payment. In the majority of cases, sellers have great bargaining power when they are paid in advance. In terms of cash in advance, the buyer gives the seller (exporter) the money before the items are shipped, in line with the terms of the sales/purchase agreement. Bank involvement is typically minimal when it comes to cash in advance and open accounts, giving traders more flexibility to manage the process at a reasonable cost. Trade services offered by banks and financial institutions, such as Documentary Credit (DC), documentary collection, standby LC or other bank guarantees, bank payment obligations, factoring, and forfeiting, frequently aid international trade.

Banks are far more involved in trade services operations such as LC, bank guarantee, standby LC, and document collecting. Banks provide their clients with payment, lending, and risk management services through LC, in particular. It is a traditional method of trade facilitation that significantly minimizes risks for importers and exporters. Generally, it is a bank's commitment to pay the exporter a specified amount provided that the LC's documentary terms are met. In spite of their various structures, standby LCs are essentially the same as demand guarantees and foreign bank guarantees. An endless diversity of payment, performance, or non-performance obligations are only a few of the uses of international guarantees. Via "documents against payment" and "documents against acceptance" procedures, documentary collection is essentially a payment technique that gives the exporter a way of preventing the buyer from taking possession of the goods until it has either paid or given an undertaking.

Some of the trade services and financial products, such as Bank Payment Obligation (BPO) and supply chain finance solutions such as invoice financing, factoring, and forfaiting, are new. BPO is a payment instrument that provides a similar level of security as LC. According to ICC-approved standards, it is the irrevocable commitment of an obligor bank (usually

buyer's bank) to a beneficiary bank (usually seller's bank) to pay an amount on a specified date, if the successful matching of the data is achieved electronically. SCF is used by banks to offer technology and other services for enabling business supply chains with payment and finance. A platform to convene bank financial services including supply, warehousing, cross-border sales between buyers and sellers, distribution, and ultimate stage sales to customers is the aim of this platform. Short-term account receivable assignments in the event of foreign sales of goods or services is international factoring. The strategy has to do with managing open account trade risk. Forfeiting is the name given to the acquisition of commitments for goods and services deliveries to be paid at a future time. Although forfeiting funds capital goods export, factoring is appropriate for funding small claims for consumer goods.

Figure 3.2: Trade Services Product Mix 2024



3.1.3 Government Agencies and Regulators

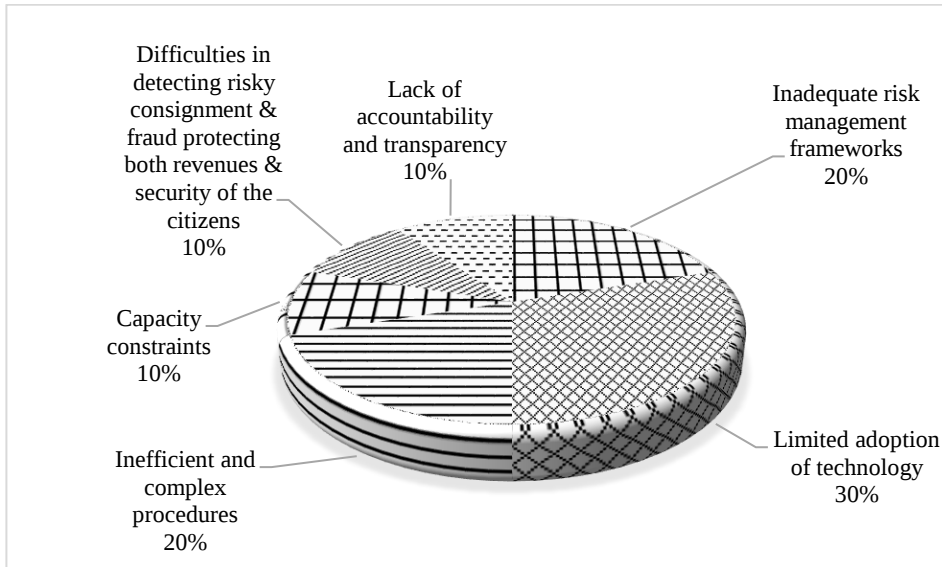
In trade eco-system, Government and regulators play a vital role in promoting and achieving trade for sustainable economic development. In the context of Bangladesh, Ministry of Commerce sets two key trade policies-Export Policy (2024-2027) and Import Policy Order (2021-2024). Bangladesh Bank governs and oversees all trade services business activities in Bangladesh. Except for the role of the central bank to encourage cooperation among stakeholders, ADs undertake the services as dealers or agents of the central bank. Banks conduct trade services under national and international legislation. Accordingly, the central Bangladesh law governing international trade, including foreign exchange business, is the Foreign Exchange Regulations (Amendment) Act 1947 [FERA 1947]. Customs and NBR are also key facilitators in international trade. However, coordination among the regulators have been a key role in overall efficiency in international trade.

Box 3.2: Lack of Structured Coordination among Regulators in Trade Eco-system

All departments of government, customs agencies, Bangladesh Bank, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors are working with the unique objective to trade facilitation with efficient use of resources. Trade different of governments, NBR, customs, Bangladesh Bank and other trade related regulators issue acts, polices, guidelines, and guidance notes for trade facilitation. However, lack of structured coordination among regulators in Trade Eco-system affects trade facilitation to businesses, and banks.

In trade eco system, Bangladesh Customs is the key frontline agency in international trade where all the logistics providers are connected to customs. However, banks face a number of challenges in facilitating traders

Figure 3.3: Banks' Challenges with Customs in Trade Facilitation

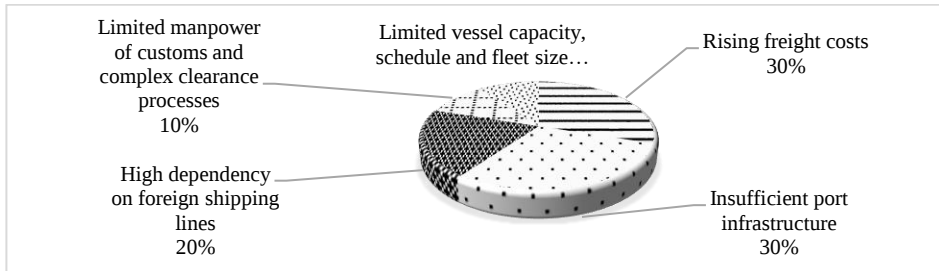


Source: Survey, 2024

3.1.4 Logistic and Support Service Providers

In trade eco-system, the success of businesses involved in national and international trade is significantly influenced by logistics service providers. They are crucial to gaining a competitive edge for companies who are directly engaged in international trade buying and selling. The primary goal of using logistics intermediates, like logistics service providers, is to make it easier for traders who deal with worldwide purchasing and selling to organize the shipping and/or delivery of goods. In the context of Bangladesh, shipping companies, freight forwarders and clearing and forwarding agents are the key logistics service providers. The following are the key challenges faced by banks with logistics service providers.

Figure 3.4: Challenges of Shipping Companies and C & F agent



Source: Survey

Trade Associations: In trade ecosystem, different trade associations in the country are working protecting and promoting the interests of the export and import industry to ensure a sustained growth in the foreign exchange earnings of the country. Major trade association in the country are BGMEA, BKMEA, and BTMA. For example, The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) is one of the largest trade associations in the country representing the readymade garment industry, particularly the woven garments, knitwear and sweater sub-sectors. Trade associations are playing a vital role in the following areas:

Box 3.3: Key areas of Trade Association to Flourish Export Earnings

- Competitive price and Backward linkage
- Quality of products and Employment Generation
- Setting up green industry
- New market access and Diversification of products

However, the trade associations are also facing several challenges from local and international market.

Box 3.4: Key Challenges of Trade Association in Export Industry

- Continuing policy support to maintain the competitiveness of exportable items
- Policy support to address the impacts of global economic situation on export industry along with LDC graduation and its implications
- Setting up minimum wage for garment workers amid rising prices of energy and raw materials.
- Reducing cash incentives on the shipment of exportable items

3. 2 Key Elements of Trade Eco-System in Bangladesh

3.2.1 Policy and Regulatory Dynamisms

In trade ecosystem, Bangladesh Bank is the key regulator in issuing circulars and circular letters related to foreign exchange transactions. For instance, thirty-eight years after introducing offshore banking, Bangladesh has finally gotten its first law to regulate the activity. The Parliament passed the Offshore Banking Act 2024 on 5 March, aiming to enhance the country's reserves of foreign currency and attract foreign investment. Ministry of Commerce issued Export Policy 2024-2027. This policy is a comprehensive strategic plan aimed at steering the country through the complex landscape of international trade, especially as it transitions from its status as a Least Developed Country (LDC). The policy sets an ambitious export target of \$110 billion by 2027, reflecting the country's aspirations to elevate its global trade presence.

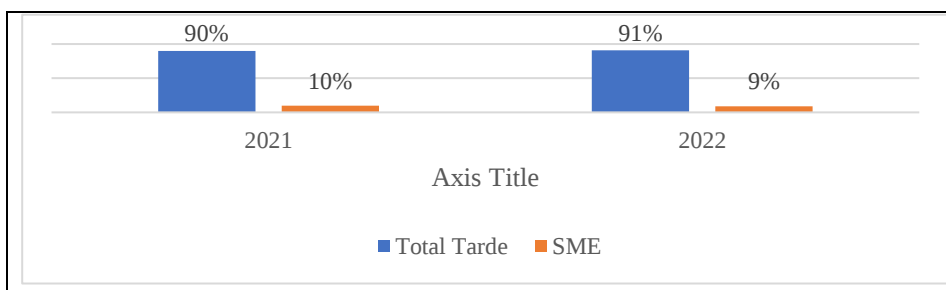
Box 3.5: Recent ease of reporting FX transactions

Obligation for documents submission against advance import payment has been phased out, AD banks should preserve the documents at their end (FE Cir 32, 19/11/2024). Meanwhile, all foreign exchange transactions to be reported with 8 working hours (FEOD Cir 03, 31/07/2024). Application for recording of refund against import payments are now placed through online ticketing module instead of e-mails (FE Cir letter 11, 16/07/2024). The 12-digit LC/Contract Harmonized Code list has been updated along with introduction of 04 new LC ID codes (31, 32, 33 and 34) for back-to-back contracts. (FEOD Cir Letter 01, 21/05/2024). Submission of monthly/quarterly statement for remittances of surplus earnings by foreign airlines and foreign shipping companies operating in Bangladesh has been simplified. (FEOD Cir 02, 20/05/2024). Hardcopy of overdue export bills related statements are discontinued and now retrieved directly from the dashboard data (FEOD Cir 01, 03/03/2024). Freight forwarder certificates for freight charges paid within Bangladesh are generated from EXP and IMP data reported in the dashboard (FEOD SPA Cir 03, 09/08/2023). Medium of transactions (POS, ATM, QR Code etc.) has been included in international card transactions reporting (FEOD Cir letter 01, 15/06/2023).

3.2.2 Financial Inclusion and Green Trade Finance

As per the current BB guidance, 25 percent of the total loan disbursement by the banks/NBFIs must be in the CMSME sector by 2024. Refinancing is an important source of funds for banks for CMSME financing by banks and NBFIs. In order to standardize industrial growth and provide financial assistance through banks, at least 15% of the entire BB refinance fund for Small and Medium-sized Enterprises (SMEs) has been set aside for women business owners. Though some banks do maintain data on all types of credit facilities to the SME or CMSMES by drawing information from different departments including Trade Services, Trade Finance/Trade Service departments of banks in the country generally do not consider SME as a distinctive group, and these vulnerable clients hardly get any special attention in the process of facilitating trade financing, as observed in the survey and in the FGDs. Banks generally have CMSME desks to address the special needs of SME clients in response to the BB's policy instructions, however, this is not generally the case with the trade financing.

Figure 3.5: Average CMSME Trade Finance out of Total Trade Financing

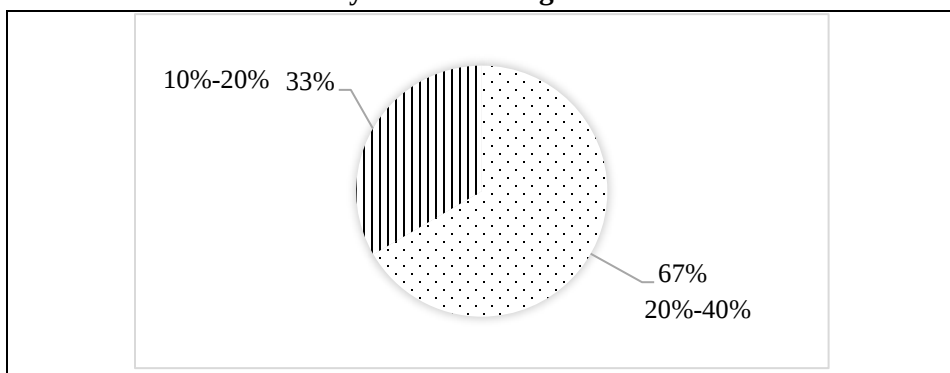


Source: Habib et al. (2023)

Rejection of applications is a very big challenge, especially for the SMEs in all developing economies including Bangladesh, and this is particularly true in the case of trade finance. Data inaccuracy is obvious on this front. According to the perceptions survey outcome, of the banks, 67% claimed rejection of SME application of 10%-20%; whereas 33% claimed to reject

20%-40% of the SME/CMSME application of trade finance during 2022 (Figure-3.6). The challenges of women appear to be even higher.²⁹

Figure 3.6: Overall Rejection Rates of SME Trade Finance Applications by Banks in Bangladesh

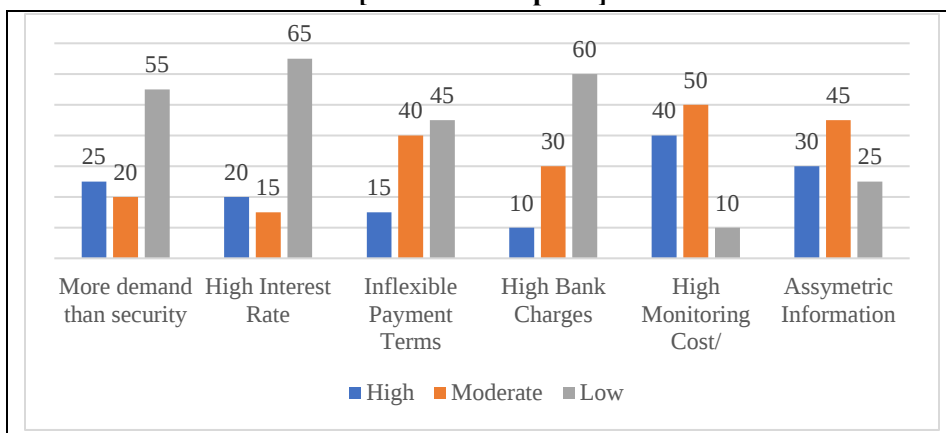


Source: Habib et al. (2023)

The reasons for rejections as identified by the bank respondents may be associated with banks' lending approaches and the limitations of the SME clients. According to the survey data and FGD, Inflexible payment periods, high monitoring costs, asymmetric information, and excessive funding costs for the particular business are all regarded by bankers as major supply-side issues. These show that banks have less faith in SMEs' ability to pay and are unsure about their repayment history.

²⁹ According to the study titled "Assessing the current ecosystem of financial products for women in Bangladesh", 40% to 50% of loan applications by women entrepreneurs in the country get rejected owing to a lack of required documents. The financial sector has a target of raising the ratio of CMSME loans to women entrepreneurs against the total CMSME loans to 15% by 2024, he mentioned. Also, a separate desk has been set up for women in each branch of banks (<https://www.tbsnews.net/economy/banking/40-50-loan-applications-women-get-rejected-lack-documents-study-502130>)

**Figure 3.7: Limitations of Trade Financing Banks in Addressing Trade Finance Needs of SMEs
[Banks' Perception]**



Source: Questionnaire Survey and FGD

In line with global trends towards sustainability, the Export Policy 2024-2027 incorporates elements of the 4th Industrial Revolution, emphasizing eco-friendly practices and the principles of the circular economy. This forward-looking approach not only aligns with international sustainability standards but also enhances the competitiveness of Bangladeshi products in global markets. By prioritizing environmentally sustainable practices, the policy positions Bangladesh as a responsible and forward-thinking player in the international trade arena. the Bangladesh Bank launched a BDT 5'000 crore (USD 487 million) Green Transformation Fund to finance the purchase of energy-efficient and environment-friendly machinery by manufacturing industries. (BB, 2022). The recent initiative by the central bank to foster sustainable finance involves the creation of the Green Transformation Fund (GTF). Initially focused on the export-driven textile, leather, and jute industries, the scope of the fund was subsequently broadened to include all export-oriented sectors, thereby supporting sustainable export growth as the country moves towards a greener economy. According to a report from Bangladesh Bank, disbursements from the Green Transformation Fund (GTF) reached USD 140.94 million across 47 projects and Euro 71.21 million across 30 projects by the end of FY22.

Additionally, by June 30, 2023, BDT 1778 million had been allocated to five clients from four banks through the local currency GTF fund. (BB, 2023).

Moreover, the \$1 billion short-term lending facility is the Global Trade Supplier Finance (GTSF) Program. Through purchasing and discounting bills accepted for payment by pre-approved participating buyers, GTSF offers competitively priced, highly scalable short-term lending to a client's supplier base. Beyond lending, GTSF can be an effective tool to incent suppliers to continuously enhance their social and environmental performance. With GTSF, customers can become part of the future that is more sustainable as they give incentives in the form of money to suppliers when these reach goals in areas like decarbonisation, gender equality, and environmental and social standards. Bangladesh will receive \$1 billion in financing from the Islamic Trade Finance Corporation (ITFC), a member institution of the Islamic Development Bank, to finance its fertilizer imports this fiscal year. (FY25) (The Business Standard, 2024).

3.2.3 Innovation and International Adoption

Innovation and trade go together and are complementary. Trade helps in the spread of innovative technology across the globe, which is beneficial to more individuals and traders. For innovators and traders, trade innovation expands the market size for trade. Innovation in trade innovation mainly covers products, process, marketing and organization. In the context of Bangladesh, banks are engaging with supply chain products such as factoring, forfaiting, receivable discounting/invoice discounting, UPAS LC. In process innovation, more banks are adopting centralized trade operations. Moreover, in the era of 4th industrial revolution, different dynamic banking applications or web-based software are initiated to carry out the centralized operating processor. Now a day's centralized trade processing unit is a burning issue. It is responsible for processing all import and export activities of a bank on behalf of the AD and Non-AD branches under a single roof. It reduces the duplication of work, builds up close

relationships with stakeholders and able to establish international standard trade transaction.

In trade ecosystem, independent Price Verification is a crucial process requirement that is associated with handling TBML. In 2022, a special audit by the central bank revealed that some entities inflated prices by 20-200% more than the actual cost of the products, using a method called over-invoicing, which caused money laundering.³⁰ Many banks in Bangladesh are opting for services from some internationally reputed companies, such as Multi Route Trade Services, local agents of Global Trade Tracker (GTT) from Switzerland, and S&P Global Market Intelligence from Malaysia. These companies provide custom data of exporting countries. Currently, only a few banks use the GTT platform for price verification, and S&P Global Market Intelligence has yet to book any customers in Bangladesh. The Bangladesh Bank has issued a directive to authorized dealer banks to track vessel containers using a recognized tracking system to prevent money laundering under the guise of import and export activities. A few banks use the full version of a reputed software, including container tracking, trans shipment, and sanction area identification, among others. Other banks use various software solutions for vessel tracking.

Banks and traders are actively engaging with international financial institutions and professional bodies. For instance, banks are getting trade finance support from IFC and ADB. Banks are also establishing professional membership with some international bodies. For example, some banks have memberships with FCI to provide trade finance of exporters.

3.2.4 Country Risk and Financial Crime, and Handling of Disputes

In trade ecosystem, handling financial crime and country risk is a matter of concern for regulators and bankers. Financial crime causes capital flight which affects the growth of the economy and investment. According to recently published report of White Paper in the country, has also stressed

³⁰ Reportyed in The Daily Star on November 15, 2022

on the impact of capital flight out of the country. Anti-Corruption Commission, Law enforcement agencies, BFIU, customs, NBR and banks are the key agencies to prevent financial crime. BFIU issued guidelines for the Prevention of Trade Based Money Laundering in 2019. Consequently, it is impacting country rating. According to the guidelines, banks have to have infrastructural level TBML risk assessment, customer level risk assessment, transaction level TBML risk assessment and enterprise level TBML risk assessment.

Price verification is critical in handling TBML. Trade policies and other related circulars have directives to ensure the competitiveness of price for import and export, it had never gotten momentum before the guideline from the BFIU for the Prevention of Trade-Based Money Laundering in 2019. On price verification, the guideline recommends commercial banks to subscribe for publicly available online commodity pricing website, and (b) bank specific uniform price template. It has been observed that not all banks have fully implemented uniform template as directed by BFIU.

Although BB directives for price verification should be followed by all ADs regardless of centralized or decentralized trade environment, each bank has different approach to follow the BB directives. Furthermore, BB also get new challenges on their own analysis on price verification. However, all the experience that respective ADs, and BB have been gaining, those experience are ends along with the transaction. In this regard, a periodical publications or white papers might be helpful for both the bank and BB to achieve regulators' expectations. Moreover, many of regulatory instructions regarding price verification are verbal. Moreover, Statutory Regulatory Order of Customs plays significant role for bankers in determining price verification of around 400 importable items. However, the SRO is not updated annually on time and only covers limited number of items.

It is obvious that current price verification efforts are targeted at bank level dealing with documents. However, Custom (NBR), are dealing with goods besides law enforcement agencies investigate cases related to trade-based money laundering, mainly focusing on tax evasion or avoidance and mis-

declaration. All customs agencies, law enforcement agencies, financial intelligence units, tax authorities and banking supervisors are currently working with the unique objective to prevent trade-based money laundering via mis-invoicing. Without effective implementation of coordinated framework with effective inter-communication among the actors, the effort toward effective price verification might not be fully gained.

In some instances, global development offer disincentive to the local traders and financial service providers that may be linked with country's interests and risks (Box-3.6).

Box 3.6: BASEL AML Index and Country Rating

According to the latest BASEL AML Index 2024, Bangladesh ranked 59th out of 152 countries from 46th position in the previous year.

Moody's Ratings (Moody's) downgraded Bangladesh's long-term ratings to B2 from B1 and said the outlook has been changed to "negative" from "stable". Moody's also downgraded Bangladesh's banking sector to "very weak" from "weak", citing worsening client confidence, limited transparency and inadequate financial safeguards over the past year.

Risks and disputed associated with trade are expected to be handled through arbitration bodies. Arbitration Act 2021 is another legal machinery relevant for handling disputes related to purchase- sale contract. In Bangladesh, Arbitration Act 1940 was replaced by the current Arbitration Act 2001. Arbitration Act 2001 is largely based on UNCITRAL Model Law. Moreover, Civil Procedures inserted Mediation into the legal system in 2003. The current arbitration act attempted to overcome a limitation of the Arbitration Act 1940 like the Act of 1940 did not expressly mention foreign arbitral award.

The first international arbitration institution in the country, BIAC, was created in 2011 and is similar to SIAC, HKIAC, and others. In April 2012, BIAC released its Arbitration Rules, and in 2014, it released its Mediation Rules, both of which were amended in 2019. While adhering to the Bangladesh Arbitration Act 2001, these Rules encompass some of the most

recent advancements in domestic and international arbitration. Since 2011, BIAC has handled 54 arbitration matters, with only two being international commercial arbitration cases

Table 3.4: Challenges and Suggestions for Efficient Arbitration Practices in Bangladesh [Law Professionals' Perspective]

Challenges	Suggestions
-Arbitration is not managed centrally in the country -Current Arbitration Act does not require time frame to accomplish arbitration. Consequently, more powerful businesses influence the process of arbitration. -According to the Act 2001, an award may not be enforced if it is contrary to public policy of Bangladesh.	-To handle international commercial dispute, government may establish a separate High Court Bench or a group of judges. -To build up awareness among stakeholders and to promote ADR, universities in the country in their academic syllabus might include necessity, types and techniques to resolve international commercial contracts.
-Arbitration has become an expensive affair due to high legal fees, witness fees, venue fees, etc. Unlike the model law, the arbitration act does not allocate cost of arbitration between parties.	-Traders and related stakeholders can technology-based dispute resolution in cross border trades which will minimize costs.
-Due to absence of arbitral institution, awareness among traders and related stakeholders is a key concern for set rules related to arbitration.	-Government might form Institutional Arbitration Council to develop set of rules for institutional arbitration and adhoc arbitration.

Note: Based on LJC & LCLS, 2019; and LJC & LCLS, 2021

3.3 Key Enablers

3.3.1 Technology Adoption

In eco-system, trade digitalization involves the integration of modern Information and Communication Technologies (ICT) into processes associated with the movement of physical goods across international borders. Trade Compliance serves to safeguard businesses from expensive violations. It is essential for companies and individuals to adhere to applicable laws and regulations to prevent the adverse effects associated

with non-compliance. Such repercussions may encompass substantial financial penalties, civil sanctions, and the confiscation of shipments. The digitization of processes is a crucial element in the establishment and provision of verifiable information and enhancements in operational efficiency. Therefore, Trade Compliance must prioritize digitization, as the quality of work produced, and the level of effort exerted are intrinsically linked to the availability of precise, timely information and standardized procedures.

The journey of trade digitalization has been a part of banking operations and services for many years, especially after the introduction of SWIFT into trade operations. Documentary credit is commonly transmitted through SWIFT within a fraction of a second from one party to another. The speed of exchanging communication through numerous designated messages in a documentary credit cycle is fascinating. Although the transmission of credit was digitalized many years back, the trade documents remained analog. In the past, commercial actors worked hard to overcome legal barriers by following a lengthy and cumbersome contractual arrangement guided by the rule book to accept electronic bills of lading as valid transport documents in a centralized system. In the past, commercial actors faced legal barriers when trying to accept electronic bills of lading. The slow adoption rate of the centralized system failed to gain commercial traction. However, the emergence of Distributed Ledger Technology (DLT), or Blockchain, has revolutionized the way transactions are recorded (World Bank 2017). All data recorded in the chain are immutable in a decentralized system accessible to all permitted actors within the chain.

During the pandemic, physical goods reached their destinations, but physical documents remained at the source due to the shutdown of document carriers. Since then, many organizations have accelerated their digital efforts. Tech giants and leading banks formed various consortiums to drive trade digitalization faster. Although these initiatives brought enormous prospects at first glance, the lack of a legal framework and uniform standards for trade documents in the digital environment has

created a blockade in the trajectory of trade digitalization. Furthermore, the absence of standards makes ‘digital islands’ in the meantime which caused interoperability challenges among the system. Hence, there are three building blocks for trade digitalization: Regulations, Standards, and Interoperability.

All actors should take the initiative to upgrade their systems accordingly. Bangladesh is making progress towards establishing a National Single Window (NSW) as part of its efforts to develop an integrated paperless trade system. The e-custom system ASYCUDA is being used for various functions such as issuing bills of entry and export, online duty payment, submission of Import General Manifesto (IGM) and Export General, and Manifesto (EGM). The Ministry of Commerce (MoC) and the National Board of Revenue (NBR) are collaborating to implement a domestic paperless system (United Nations, 2022).

Apart from few multinational and local banks yet to adopt digitalization for trade processing. Bangladesh Bank has fully automated the submission of the report, payment system, CIB, etc. which is very commendable achievement. Digitalization can also play a vital role in preventing trade-based money laundering like automated sanction screening, price verification (Global Trade Traker), vessel tracking (Lloyd's List Intelligence), etc. Issuance and subsequent verification of different certificates. Permits should be digitalized. This can prevent fraud forgery and save time. Relevant stakeholders should come forward to ensure the implementation of digitalization.

It has been made mandatory by the European Union to get Registered Exporter (REX) system certification to export to Europe and retain the European Union's GSP. Because the exporters will be able to clarify the quality of their products by themselves through this certification. REX system to reduce time and cost of Bangladesh RMG exporters in the Europe market. CCI & E introduced the Online Licensing Module OLM system in July 2019 to ensure digital services for traders by providing export registration certificate, import registration certificate, and indenting.

According to the National Blockchain Strategy 2020 of Bangladesh, the uses of blockchain in banking, insurance, and finance are digital asset management, inter-bank settlement, trade finance, p2p lending, anti-money laundering, digital currency, credit rating, insurance, pension, payment, stock market, and so on. JP Morgan's use of blockchain technology extends beyond internal operations. The bank has explored blockchain solutions for cross-border payments, trade finance, and supply chain management. These applications offer increased transparency, reduced fraud, and faster transaction processing, benefiting both JP Morgan and its clients.

Contour has introduced its inaugural domestic initiative in Bangladesh—a trade finance network specifically tailored to enhance access to trade finance for Small and Medium-sized Enterprises (SMEs) within the nation. In alignment with its dedication to fostering social and economic inclusion, Contour's specialized network will enable SMEs in Bangladesh to optimize their working capital management by accelerating the processing times of Letters of Credit (LCs). The company aims to onboard over 50 corporations, with the backing of both Bangladeshi and international banks, within the upcoming six months. LCs are among the most widely utilized trade payment methods in Bangladesh, playing a crucial role in the country's economic development, particularly in domestic trade, where their use significantly mitigates the risk of non-payment for goods delivered. However, the conventional paper-based processes and systems that govern LCs are outdated, presenting considerable obstacles for SMEs aspiring to expand their trade activities in Bangladesh, thereby introducing unnecessary complexity, costs, and delays. Contour's fully digital, end-to-end trade service facilitates seamless connections among SMEs, Multinational Corporations (MNCs), financiers, and partners across both financial and physical supply chains. The newly established domestic network in Bangladesh has undergone extensive testing and has proven effective for both local and international transactions, demonstrating notable efficiency improvements for all parties involved. It also extends support to both local and foreign banking institutions.

Box 3.7: Examples of Technology Experimentation in Trade Finance in Bangladesh

-Standard Chartered Bank in Bangladesh efficiently accomplished the country's first-ever blockchain trade transaction under which LC is issued for Viyellatex Ltd, an export-oriented industry, over the Contour blockchain network. Contour provides a distributed trade network enabling an enhanced degree of collaboration across the main elements of trade with all participants leveraging the network to create and renew trade data in real-time.

-Prime Bank explored ways to optimize the benefits of digitization in trade frontiers in cooperation with HSBC. The experiment was an interbank blockchain LC transaction improving speed, efficiency and cost-effectiveness. The end-to-end process of pre-negotiation and drafting of LCs by Importer and Beneficiary, approval, issuance of LCs and presentation of documents were all concluded digitally through Contour's network. This is the first inter-bank Blockchain LC transaction for Bangladesh to simplify the process.

-Eastern Bank implemented a digital archiving process. They organized a team to work on converting physical papers to electronic documents and uploading them to the archive.

-Citi Bank Bangladesh successfully conducted a paperless trade transaction for Syngenta Bangladesh by utilizing an electronic Bill of Lading on the TradeLens platform. The transaction was supported by a Letter of Credit executed through the electronic Bill of Lading (eBL), enabling the import of agrochemical products from India to Bangladesh without the use of paper. This innovative approach resulted in a significant reduction in document processing times, decreasing from the anticipated 20 to 25 days by 10 days. Additionally, the transaction contributed to lower expenses associated with paperwork, postage, port demurrage, and transportation.

Source: FGD with Bank Officials

Challenges of Technology Experimentation in Trade Finance in Bangladesh: In recent years, the implementation of blockchain technology in Bangladesh has been limited to a small number of instances, primarily in pilot projects or isolated cases. Although several financial institutions have begun to explore this technology, its broader adoption remains absent within the nation. Key concerns include the potential impact on monetary policy and issues related to cybersecurity. Investment for technology is another key challenge in technology adoption in trade. Furthermore, a significant factor contributing to the cautious approach of banks and

government entities is the necessity for a departure from conventional financial frameworks, which could entail considerable risks if pursued hastily.

3.3.2 Capacity Building and Awareness

In trade ecosystem, capacity development and awareness of regulators, law enforcement agencies, traders and bankers are pre-requisites for smooth trade facilitation. International trade involves multiparty transactions with different objectives in a complex trade ecosystem. Bank executives working in the trade services departments of banks are generally trained either from their own training institutes or from BIBM. Currently a considerable number of trade finance providing bank employees are having recognised professional qualifications. As of 2023, the banking industry is having over 1500 CDCS holders. Bank executives are also increasingly pursuing professional courses like CSDG, CAMS, CITF, CTFP, CGSS etc. ICC Bangladesh has been active in offering relevant training courses. BIBM is also conducting a six-month long certification program named as “Certified Expert in Trade Services (CETS)” since 2018. As of 2023, more than five hundred (500) participants have completed BIBM’s CETS professional qualification. Since 2019, BIBM has introduced another program titled ‘Certified Expert in Anti Money Laundering and Financial Crime (CEAF)’ and currently there are more than two hundred (200) graduates from CEAF.

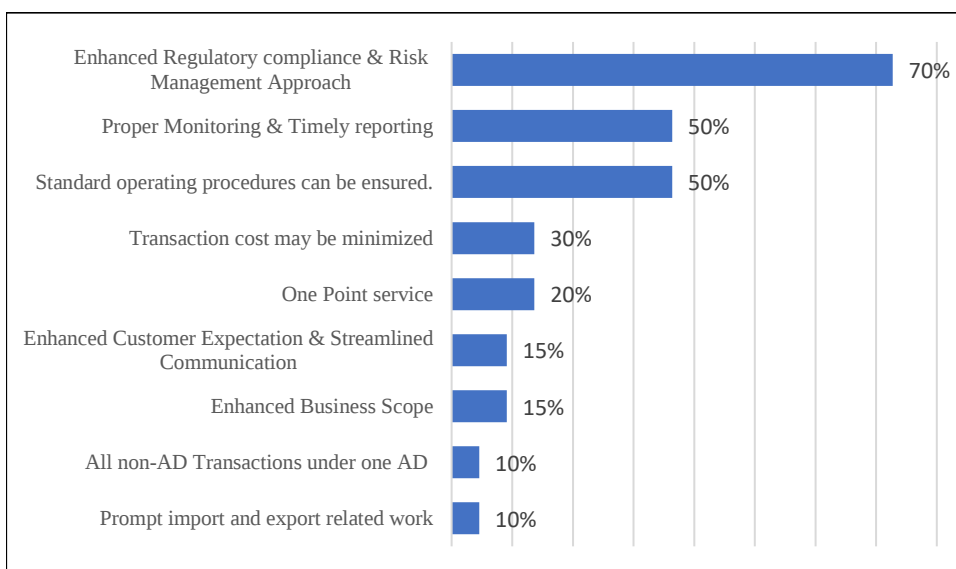
Institutions like BIBM, training institutes of different banks and financial institutions, ICC Bangladesh have been engaged in capacity development activities on trade financing of bank executives since long. Bangladesh Bank has separate training academy, and regulators have been taking part and attaining certifications offered by the international bodies on trade financing and compliance issues.

Though foreign commercial banks and a few local commercial banks are engaged in offering awareness and capacity development of the traders, in most instances local banks hardly invest in this front.

4. Policy and Operational Gap Analyses-Survey Outcome

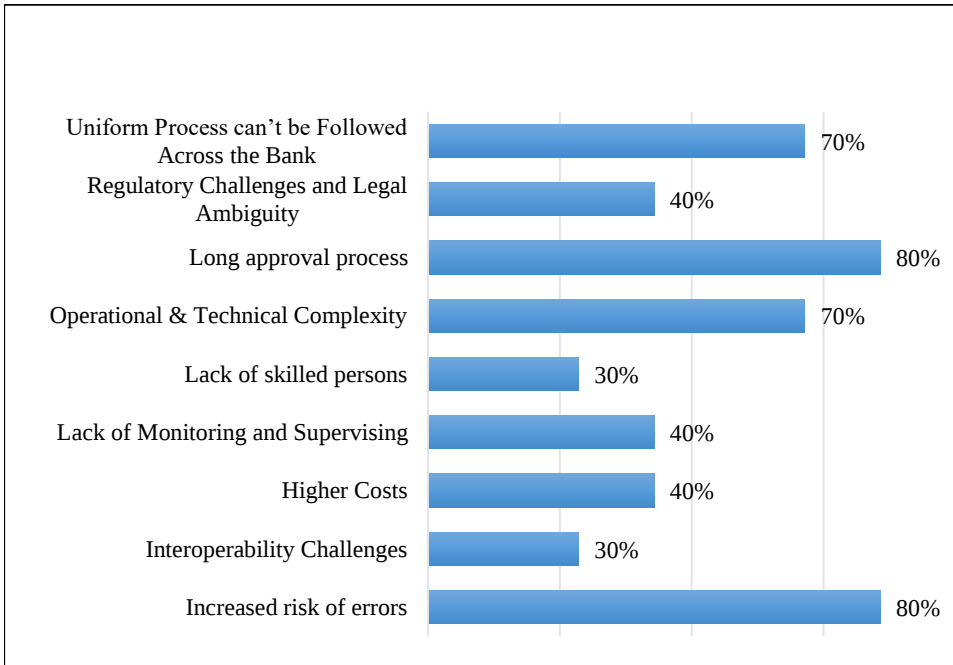
In trade ecosystem, banks are operating centralized and decentralized operations. Survey data indicate that around 50% banks have centralized banking operations. However, each mode of operations has some pros and cons. Figure-4.1 shows the advantage of centralized trade operations as opined by banks. The key advantage of centralized trade operation gives enhanced regulatory compliance and risk management at all levels.

Figure 4.1: Advantages of Centralized Trade System



Source: Survey, 2024

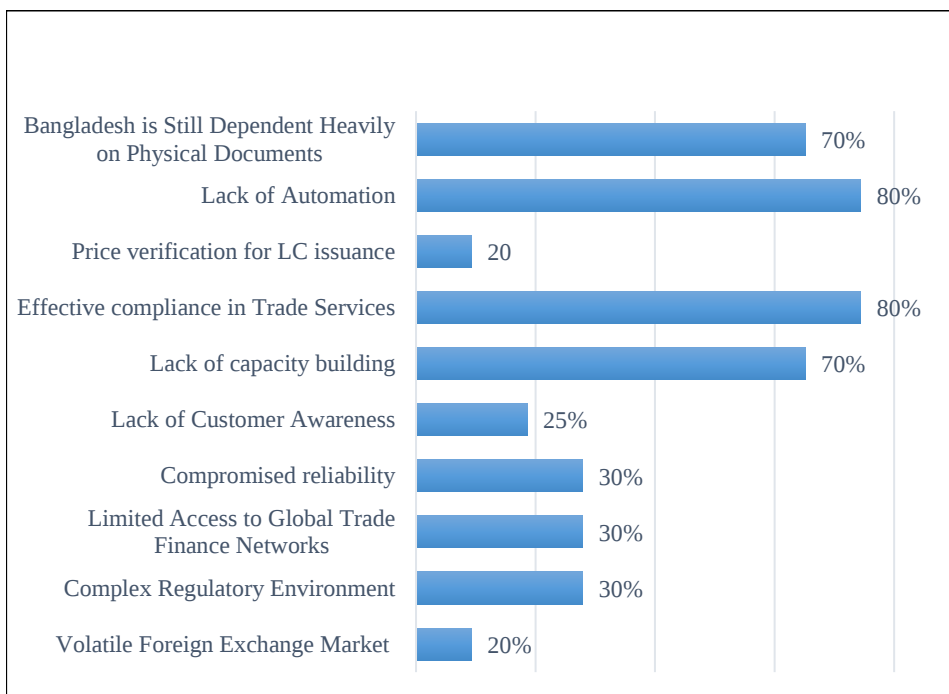
Figure 4.2: Major Challenges of Decentralized Trade System



Source: Survey, 2024

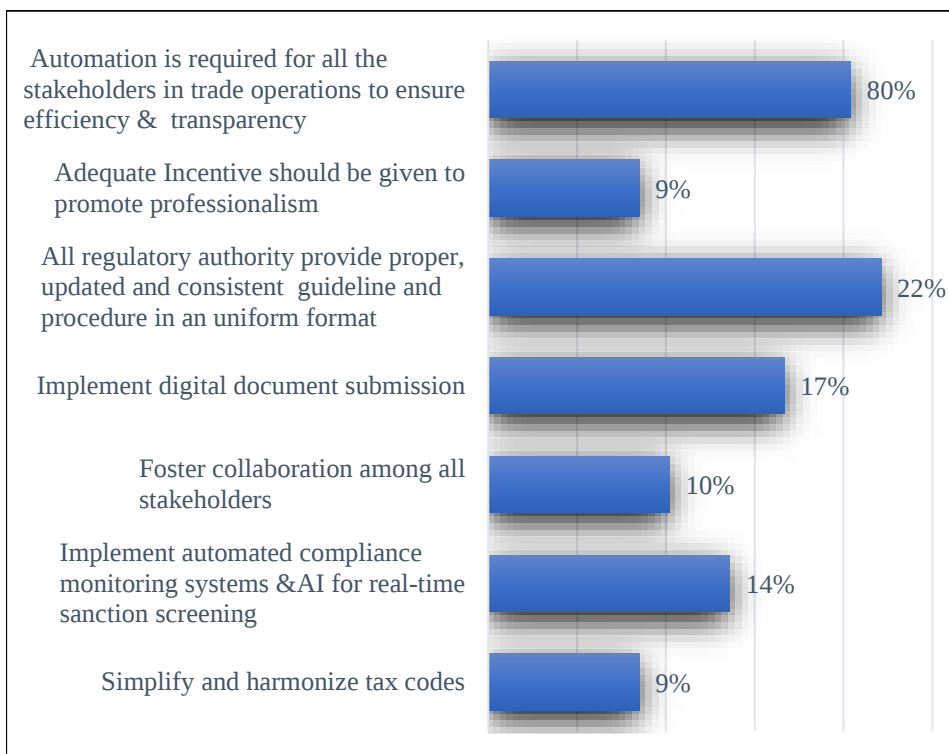
Figure-4.2 indicate that loan approval process is the main hindrance to decentralised trade operations.

Figure 4.3: Operational Challenges Found by the Banks to Facilitate International Trade



Source: Survey, 2024

Figure 4.4: Measures to Set-up Efficient Trade Ecosystem



Source: Survey, 2024

5. Policy and Operational Approaches for Improving Trade Finance Operations by Banks

The survey questionnaire included a question about the challenges faced by banks from regulators responded. They were also asked about policy gap from those regulators in policy gap.

Table 5.1: Banks' Challenges with Regulators and Policy Gap

Stakeholders	Challenges	Policy Gap
Bangladesh Bank	-Foreign reserve constraints -Foreign exchange volatility -Digital and technological deficiencies -Compliance with international standards	-Inconsistent policies on managing exchange rates -Bangladesh lacks comprehensive policies to support digital trade, cross-border e-commerce and supply chain financing
Ministry of Commerce	-Inadequate infrastructure for trade facilitation -Inefficient policy coordination -Limited export diversification -Trade negotiation challenges -Dependency on GSP benefits	-Lack of comprehensive trade facilitation measures, such as full adoption of a single-window system, automated customs clearance and improved port efficiency -Limited policy frameworks to negotiate bilateral and regional trade agreements effectively -Absence of strategic priorities for leveraging post-LDC graduation opportunities
Customs	-Corruption and informal practices -Inadequate infrastructure -Limited adoption of technology -Capacity constraints -Inefficient and complex procedures -Inadequate risk management frameworks	-Limited risk-based approaches -Absence of a comprehensive trade facilitation policy -Insufficient focus on technology integration -Weak coordination between agencies
NBR	-Corruption and informal practices -Revenue vs. facilitation conflict -Manual processes and limited automation -Complex and inefficient tax and tariff structures	-Absence of a comprehensive revenue and trade balance policy -Inadequate focus on digital transformation -Weak risk-based inspection policies

Table 5.2: Banks' Challenges with Stakeholders and Policy Gap

Stakeholders	Challenges	Policy Gap
Exporters	-Infrastructure deficiencies -Complex regulatory environment -Compliance and sustainability challenges -Limited market diversification -High logistics costs -Labor strikes	-Inadequate export diversification strategies -Weak infrastructure development policies -Insufficient support for compliance and sustainability -Lack of market diversification initiatives
Importers	-Complex and bureaucratic customs procedures -Volatile exchange rates -High tariffs and non-tariff barriers -Limited access to affordable financing -Inefficient port operations -Inconsistent government policies	-Inefficient customs and regulatory framework -High tariffs and lack of incentives -Inadequate trade facilitation infrastructure -Lack of diversified trade strategies
Shipping Companies	-Rising freight costs -Insufficient port infrastructure -High dependency on foreign shipping lines -Inefficient customs and clearance processes -Limited vessel capacity and fleet size	-Absence of a comprehensive maritime policy -Limited support for fleet expansion -Inadequate focus on port development -Limited digital transformation
C & F Agents	-Inefficient customs processes -Inadequate digital integration -Corruption and informal practices -Port congestion and delays -Lack of collaboration with other stakeholders	-Absence of a comprehensive trade facilitation policy -Limited focus on digital transformation -Inadequate oversight on corruption -Lack of infrastructure development -No incentives for compliance

Stakeholders	Challenges	Policy Gap
Bonded Warehouse	-Lengthy licensing and renewal procedures -Outdated policies geared toward RMG sector -Capacity constraints -Inefficient use of technology -Corruption and informal practice -Inflexible re-export deadlines	-Absence of digitized systems -Inadequate incentives for diversification -Weak infrastructure development policies -Rigid utilization rules -Weak oversight mechanisms
Buying House	-Competition from manufacturers -Lack of proper recognition and regulation -Compliance and quality control issues -Dependence on the Ready-Made Garments (RMG) sector -Branding and market positioning issues -Currency volatility and payment delays	-Absence of a defined regulatory framework -Limited support for diversification -Lack of trade promotion support -Weak mechanisms to resolve payment disputes

The following is the summary of FGDs with bankers on the issues of challenges of trade ecosystem in the country.

Box 5.1: Summary Outcome [Issues/Challenges] of Discussions with Bankers

- The automation process should be implemented for the sanctioning and oversight of trade finance products, ensuring compliance and risk assessment, while providing real-time visibility of each transaction's status through a centralized dashboard, along with a comprehensive Management Information System (MIS).
- It is essential to guarantee clarity, consistency, and up-to-date policies and guidelines for all stakeholders involved in trade. All stakeholder involved in the trade service operation must be fully digitalized in order to reap the benefits of digitalization. They must be interlinked as well to ensure transparency and smoothness of trade operations as well.
- The introduction of block can streamline and secure trade documentation, thereby minimizing fraud and delays. This technology has the potential to revolutionize various aspects of the current international trade process in Bangladesh, including customs procedures, trade document management, payment methods, transport documentation, certifications, and the fight against fraudulent activities.

- Port infrastructure should be modernized to reduce reliance on foreign carriers and to digitize shipping and customs processes.
- The lack of sufficient integration with platforms like ASYCUDA World and other digital trade systems hampers seamless trade operations.
- International trade frequently encounters difficulties in establishing and maintaining relationships with foreign correspondent banks due to heightened scrutiny under global Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) frameworks. A decline in correspondent banking relationships can restrict access to global trade finance and remittance services.
- A robust integration among Bangladesh Bank, scheduled banks, customs authorities, and port authorities is necessary to implement the concept of a digital bill of lading.
- There is a notable absence of a comprehensive revenue and trade balance policy, necessitating the simplification of tax and tariff structures to promote digital trade
- Financial institutions primarily handle documentation and may lack comprehensive knowledge of the various products involved in import and export activities.
- Strengthening oversight measures to prevent the improper use of bond licenses.

Box 5.2: Operational Challenges of Banks Dealing with Buying Houses

- Buying houses do not adhere to a standardized format for sales-purchase contracts; they simply accept the contracts provided by foreign counterparts and proceed accordingly.
- There exists a significant information gap and a lack of awareness among traders regarding the advantages of having binding contracts.
- Small manufacturers encounter difficulties in meeting certain contractual obligations, such as charges and discount rates.
- Both purchasing Buying Houses and business owners struggle with dispute resolution due to their limited understanding of the relevant procedures.
- Banks face extreme level of difficulty while dealing with transferable contract.

Box 5.3: Suggestive Measures to Improve Operational Challenges of Banks Dealing with Buying Houses

- Certain regulations and rules should be assigned for transferable contract.
- Most of the country's garment factories are dependent on buying houses. So, buying houses need to transform according to the need for time and government policy support is needed to save the important export sector
- Developing a formal regulatory framework & Promote digital transformation of buying house.
- Resolving payment and financial challenges of buying house and provide tax and financial incentives.
- -Most buying houses focus on the costing and price of the apparel. This pattern must be reformed and need to emphasis on product diversity, building design and development capabilities. specially to achieve the \$100 billion export target (Export Policy2024-27).

6. Policy Propositions to Improve Trade Eco-system

Based on the secondary literature and survey and KII outcomes, the study came up with the following recommended policy and operational approaches for discussions:

One, Dynamic approach by the policymakers and bank managements are crucial for improving trade and trade finance eco-system of the country. In the rapidly evolving global trade environment, policies and regulations must be agile and adaptive to accommodate new challenges, such as shifting trade patterns and products. A proactive regulatory approach is necessary to manage operational risks effectively. Regulators should establish regular reviews and updates of trade finance regulations to keep pace with market changes, ensuring that banks understand regulatory expectations and can continue to manage operational risks effectively while maintaining compliance. An arrangement of regular dialogue between the concerned departments (FEPD, FEOD, FEID, DFEI, and BFIU) of the central bank and trade services departments/compliance units of banks might contribute in this connection. Commercial and TBML risks must be carefully reviewed by the regulators and industry experts before moving to the open account. At this stage, open account may be tested for certain limited amount with

specific qualifications. However, for ensuring effective use of open account, ensuring legally enforceable contract would be a necessary supportive move. Considering high cost involvement in LC and high risk associated with open account, documentary collection might be a balanced solution and may be promoted through supportive policy approach. In the changed environment, and associated incentive arrangement, policy framework for Back-to-Back LC demand review for rewriting.

Two, Legal framework surrounding trade finance is critical in minimizing operational risks, particularly in cross-border transactions where legal systems and contract enforcement can vary significantly. In most instances, in Bangladesh, a ‘Sales-purchase contract’ is not a binding (mostly) agreement and is not legally enforceable. It is well-known that the issuance of back-to-back LC against purchase/sale contracts increased sharply. Open account might also get popularity in the near future when a binding contract is particularly essential. In such a situation, ratification of CISG and signing UNIDROIT Principles became necessary. Trading partners of Bangladesh are already signatory/members of any one of these. In this context, alignment of domestic (contract act) and international regulations (CISG) might offer useful comfort to the traders. One of the major impediments for trade digitalization is legal recognition of electronic transferable record (such as bill of lading, bill of exchange etc). Model Law on Electronic Transferable Records (MLETR) has now become base point for many countries to enact their own law for accepting electronic transferable record. Adoption of MLETR or similar law to accept electronic transferable record would be a founding step. This legal framework will help the private sector to drive their own digital trade initiatives. For ensuring safe and secured international trade, policymakers, trade associations, and arbitration bodies (like BIAC) need coordination and cooperation to popularise the importance of alternative dispute settlement in international Trade. It is about making arbitration more popular in terms of resolving commercial disputes and bringing more effective changes in the ADR and arbitration laws of Bangladesh.

Three, Trade finance gap and access to trade finance became increasingly challenging in the trade eco-system of the country, especially by the SMEs. ‘Trade Finance to SMEs’ must be treated differently and distinctively both on policy and operational fronts to handle SME access to trade finance-related challenges and struggles. It is also important to gather and disclose segregated data on the performance of banks in trade finance, and separately for SMEs. Costs associated with trade finance products have notable implications for SMEs. Supply chain finance (reverse factoring) might be good option for SME trade financing. Promoting awareness and usage of supply chain export finance instruments among SME exporters might be useful. Considering the country risk elements (TBML risk, etc.), ‘documentary collection’ might be another suitable option for SME traders. Regulatory incentives need to be designed to promote these products for supporting the growth of SME exporters tailored to their needs. Cluster development (with the required element of export clusters) and cluster financing approaches might be workable in minimizing all types of SME financing gaps including trade finance. Alongside policy support, banks and NBFIs need to invest to streamline their SME clusters to draw maximum benefits. Exiting credit guarantee arrangement is hardly working for SME exporters. Aligned with several other developing countries, setting up a ‘Credit Guarantee Corporation’ to support SMEs with specific guarantee/insurance products may be useful. Feasibility may be explored for setting up a ‘Credit Guarantee Corporation’. Multilateral agencies offer funds to support enterprises. However, they require strict compliance requirements on the part of banks. Banks need to enhance their internal policies and procedures to meet compliance standards. Additionally, banks need to invest in capacity building to comply with the stringent requirements of multilateral development entities.

Four, At the operational level, efficient risk management demands adequate strategic support from the board. It is thus crucial to place trade finance related operational risk as part of enterprise risk management where sound governance has a great role to play by strategizing long-run risk management approach by allocating investment with expected long-term

return. Investment in trade centralization and technology adoption are time-demanding needs for all banks of the country for effective operational risk management. Technology adoption and centralization are directly associated with operational risk management in trade financing. Centralized trade offers better outcomes, and banks need to invest more in the area with adequate policy support. Technology adoption offers comprehensive AML software that helps financial services enhance risk mitigation and monitor customers and accounts for suspicious activity. Automation can help banks stay compliant through automated sanctions screening, identity verification, and AML transaction monitoring that ensure compliance while streamlining time investment and reducing costs. Installing an automated screening system, a necessity today. Investment in technology is also essential for effective price verification. Investment in technology and automation is the need of the time for coming up with the level of expectations of clients, regulators, and correspondent banks. Technology adoption is critical in modernizing trade finance and reducing operational risks, especially as digital tools like blockchain, artificial intelligence (AI), and data analytics are increasingly used in trade finance operations. Banks may work as consortium for technology adoption to meet the expenses of Research and Development (R&D).

Five, Ensuring stability in the foreign exchange market is crucial for fostering a robust trade and trade finance ecosystem. Governments and central banks must implement sound monetary policies, maintain sufficient foreign currency reserves, and ensure transparent market operations to prevent volatility. In the recent past, foreign exchange market instability and reserve inadequacy created huge difficulty in the trade and trade finance market in the country. Banks, traders, consumers confronted huge difficulty in addressing the challenges. The situation sometimes created incentives for the illegal foreign currency transactions and under-invoicing. The trade-centric foreign exchange market needs continuous policy support and monitoring. Effective enforcement of Offshore Banking Act 2024 might help drawing foreign currency. Local banks should assess the feasibility of

deciding on the expansion of their offshore banking activities as part of their efficient use of resources/investment. Options for alternative currency use alongside USD, currency Swap Agreements and counter trades with global major trading partners are options to minimize pressure on the demand of USD.

Six, As global trade moves toward sustainability, green trade finance is becoming an increasingly important area for banks to address operational risks. Sustainable trade finance products, such as green trade finance and sustainability-linked trade finance, require banks to assess environmental and social risks in addition to traditional financial risks. Banks should integrate sustainability considerations into their risk management processes by developing green trade finance products and aligning them with international standards. Risk assessment models should incorporate Environmental, Social, and Governance (ESG) criteria to ensure that the financing of trade transactions supports sustainable development while mitigating associated risks. Environmental concerns and associated premiums would be tagged with trade transactions in near future and all trade financing products like documentary credit, documentary collection, international bank guarantees, and supply chain finance. Environmental and social risks received notable impetus in the ‘Sustainable Finance Policy’ and ‘Environmental and Social Risk Management Guidelines’ that are associated with mainly credit other than trade finance. Bangladesh Bank needs initiatives on this front.

Seven, A fragmented trade finance ecosystem can increase operational risks due to inefficiencies and miscommunications between stakeholders. Enhanced coordination and integration between banks, regulators, trade facilitators, and insurers are essential for building a resilient trade finance system. Cross-industry collaborations and data-sharing initiatives can lead to more accurate risk assessments and smoother transaction processing. Governments and international trade bodies should work together to create integrated platforms that streamline trade finance operations and provide

real-time risk updates to participants in the trade ecosystem. Despite improvement, technology driven integration and further collaborations are needed amongst central bank, customs, trade bodies, and other key stakeholders.

Eight, Effective management of operational risks in trade finance hinges on the knowledge and capabilities of the individuals involved, including bankers, regulators, and traders. Policymakers and regulators must always have adequate market information and knowledge to undertake right policy decision. Alongside their ongoing efforts and initiatives of capacity development and minimizing information gap, regular workshops/discussion sessions on the 'Trade Finance Risk Management' may be useful with the participation of relevant government agencies, central bankers, bank executives, and traders. Bank management must be aware of regulatory and compliance requirements of trade finance, operational issues, and customers' requirements and needs to ensure efficient trade services. Most of the training/workshop and capacity development programs are designed for mid and junior-level bank executives. Senior and top management need clear understanding and orientation on regulatory compliance and risk issues of trade finance. Traders are found to be the most critical vulnerable group in terms of capacity and information gap. Exports and importers need adequate understanding and information on contracts, regulatory and compliance requirements, risk involvement in trade and trade financing, documentary requirements, etc. The asymmetric information challenge is a key challenge associated with SMEs that causes greater rejection of their loan drives. SME training and capacity development contents hardly cover trade finance products, processes, documentation, and associated risks and requirements. SME traders must have reasonably good understanding of the KYC and AML requirements to get access to trade finance. Bank executives who handle SME entrepreneurs must know all types of SME financing needs including trade finance products and services. Policymakers, banks, and trade associations need to contribute to handle this.

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