Roundtable Discussion Series-2025
Keynote Paper of Roundtable Discussion of BIBM
Volume No. 10, Issue No. 3
2025

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

Dr. Shah Md. Ahsan Habib
Professor (Selection Grade), BIBM

Tofayel Ahmed
Assistant Professor, BIBM

Rahat Banu
Assistant Professor, BIBM

Rajib Kumar Das
Lecturer, BIBM

Md. Mokaddem Ahmed
Joint Director, Bangladesh Bank

ATM Nesarul Hoque
Executive Vice President, Mutual Trust Bank PLC

Bangladesh Institute of Bank Management (BIBM)
Section No. 2, Mirpur, Dhaka-1216

Roundtable Discussion Series-2025
Keynote Paper of Roundtable Discussion of BIBM
Volume No. 10, Issue No. 3

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

Shah Md. Ahsan Habib, Ph.D.
Professor (Selection Grade), BIBM

Tofayel Ahmed
Assistant Professor, BIBM

Rahat Banu
Assistant Professor, BIBM

Rajib Kumar Das
Lecturer, BIBM

Md. Mokaddem Ahmed
Joint Director, Bangladesh Bank

ATM Nesarul Hoque
Executive Vice President, Mutual Trust Bank PLC

Bangladesh Institute of Bank Management (BIBM)
Mirpur, Dhaka-1216, Bangladesh

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

Research Team	**Shah Md. Ahsan Habib, Ph.D.** *Professor (Selection Grade), BIBM* **Tofayel Ahmed** *Assistant Professor, BIBM* **Rahat Banu** *Assistant Professor, BIBM* **Rajib Kumar Das** *Lecturer, BIBM* **Md. Mokaddem Ahmed** *Joint Director, Bangladesh Bank* **ATM Nesarul Hoque** *Executive Vice President, Mutual Trust Bank PLC*
Editorial Advisor	**Md. Akhtaruzzaman, Ph.D.** *Director General, BIBM*
Editor	**Md. Shihab Uddin Khan** *Professor and Director (Research, Development & Consultancy), BIBM*
Support Team	***Research, Development and Consultancy Wing*** **Papon Tabassum,** Assistant Senior *Officer, BIBM* **Sk. Md. Azizur Rahman,** *Officer, BIBM* **Md. Awalad Hossain,** *Officer, BIBM* ***Publications-cum-Public Relations Section*** **Md. Al-Mamun Khan,** *Senior Officer, BIBM* **Md. Morshadur Rahman,** *Officer, BIBM*
Design & Illustration	**Md. Awalad Hossain,** *Officer, BIBM*

Published in May 2025

Published by Bangladesh Institute of Bank Management (BIBM)
Plot No. 4, Main Road No. 1 (South), Section No. 2
Mirpur, Dhaka-1216, Bangladesh.
PABX : +880-48032091-4, 48032097-8, 48032104 (Ext. 135)
+880-58051282
E-mail : bibmresearch@bibm.org.bd
Web : www.bibm.org.bd

Printed by ....

Foreword

As part of the ongoing dissemination of the BIBM research outputs, the present research monograph contains the findings of the research project titled "Trade Eco-System in Bangladesh to Enhance the Operational Efficiency in Trade Services by Banks". The keynote paper was presented in a roundtable discussion on 12th December, 2024.

As the world economy becomes increasingly interconnected, the dynamics of trade and the financing mechanisms that lubricate it are the lifeblood of growth and sustainable development. As we navigate a world marked by digital disruption, shifting geopolitical tensions, and the rise of new financial instruments, an understanding of the evolving trade and trade finance environment has never been more critical. This paper is a timely and insightful analysis of interdependencies, disruptions, and innovations transforming this critical sector.

Through a careful synthesis of global trends, institutional perspectives, and technological advancements, the authors illuminate the pathways through which trade and finance systems can become more inclusive, efficient, and resilient. Their analysis underscores the importance of collaboration among governments, financial institutions, technology providers, and multilateral organizations in building robust frameworks that support cross-border commerce.

It gives me immense pleasure to publish and distribute this research output to the practitioners of the banks as well as to the academics and common readers. I hope this roundtable discussion series will be a useful guide, especially for the bank employees working in the concerned departments.

We do encourage feedback from our esteemed readers on this issue which certainly would help us to improve upon our research activities in the years to come.

Md. Akhtaruzzaman, Ph.D.
Director General, BIBM

Acknowledgement

We have completed the roundtable discussion with extensive support from many people, especially from the executives of different banks.

We would extend our gratitude to Dr. Md. Akhtaruzzaman, Director General of BIBM for his helpful advice, observations, and thoughts on the advancement of the research work.

We are truly grateful to Mr. Md. Shihab Uddin Khan, Professor & Director (Research, Development & Consultancy), BIBM, for his opinion and observations about the paper.

We are happy to all the faculty colleagues for their comments and positive suggestions to carry out the research.
Our honest gratitude goes to the research assistants, who have facilitated us to collect very useful information related with the seminar paper.

Finally, we would like to thank all of those who extended their support to our teamwork.

Shah Md. Ahsan Habib, Ph.D.
Tofayel Ahmed
Rahat Banu
Rajib Kumar Das
Md. Mokaddem Ahamad
ATM Nesarul Hoque

Contents

Tables

Figures

Boxes

Boxes

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 Anit 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 late1990s 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.

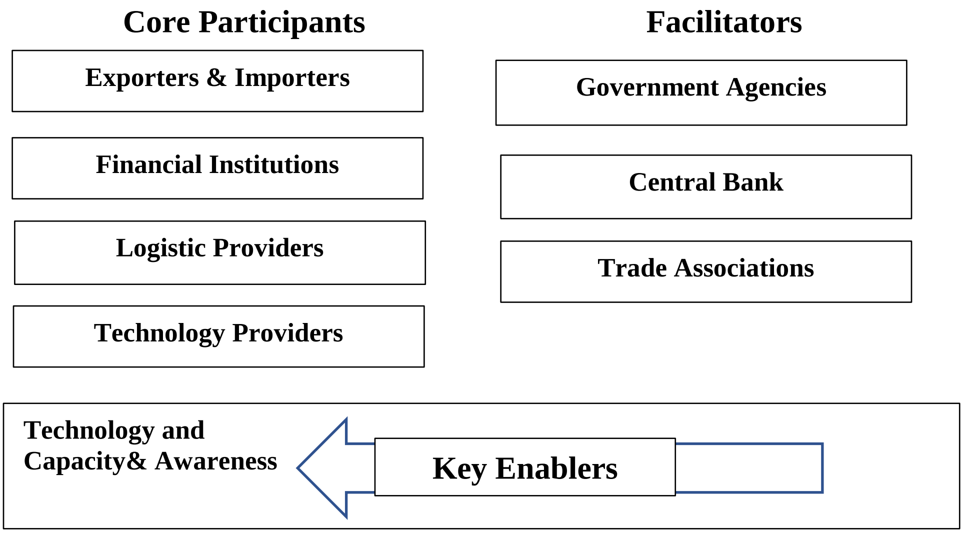
2. Trade and Trade Finance Eco-System in the Global Context: Literature Review

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 these[1]. 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 play an essential role in enabling trade through the establishment of policies

[1] 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).

and regulations, including trade organizations, governmental bodies, and regulatory authorities (McKinsey and ICC, 2021).

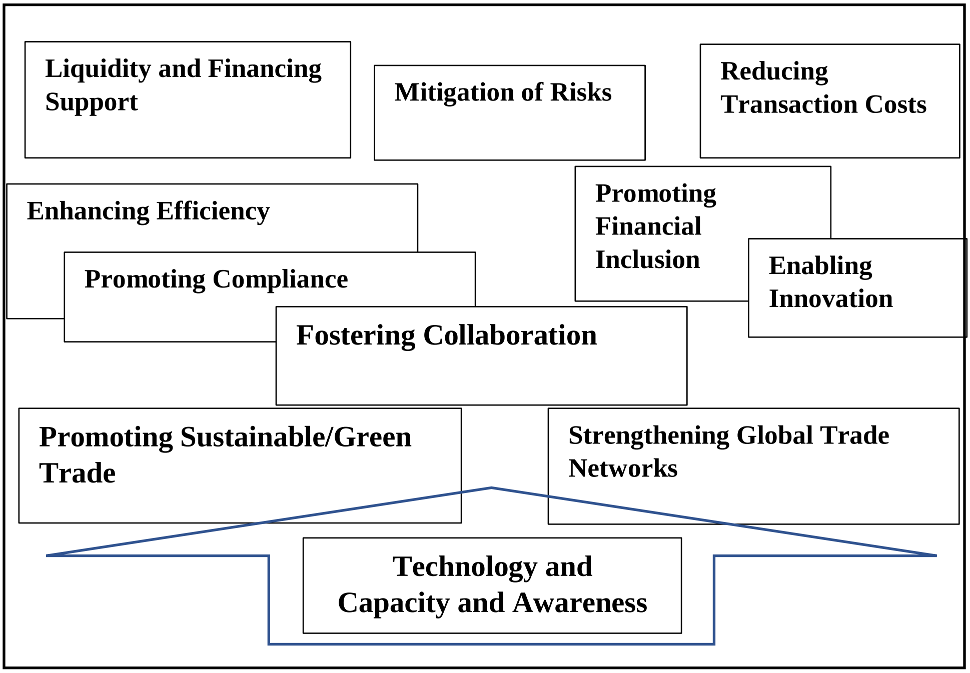
Table 2.1: Core Participants, Facilitators, and Enablers of Tarde Eco-system



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



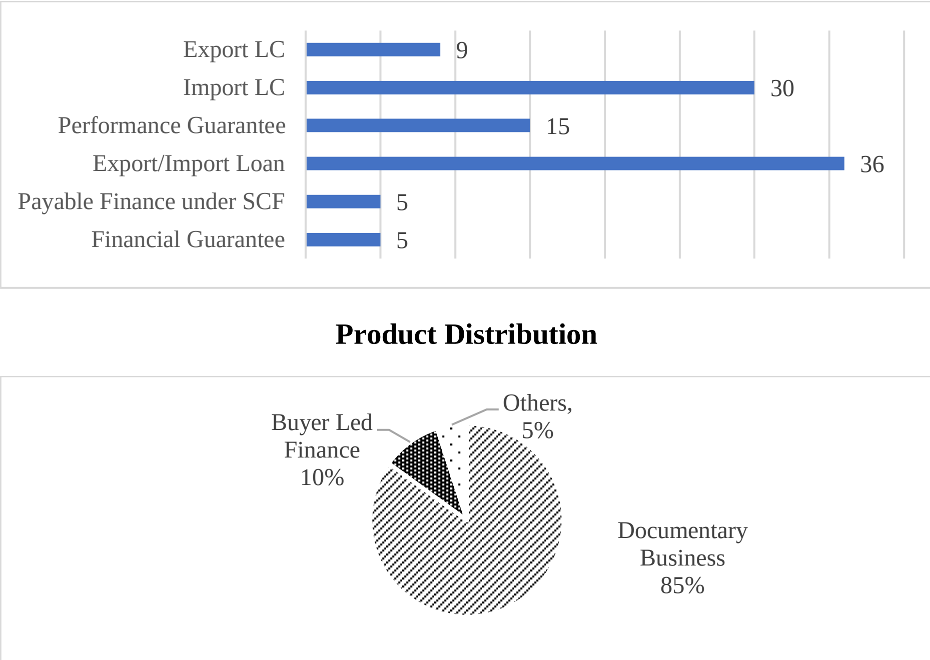
By providing the necessary tools to manage risk and financing, a trade ecosystem facilitates market expansion for companies, creates jobs and promote economic integration. Trade finance as part of trade eco-system provides the necessary financial tools to support cross-border transactions, and enables 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)

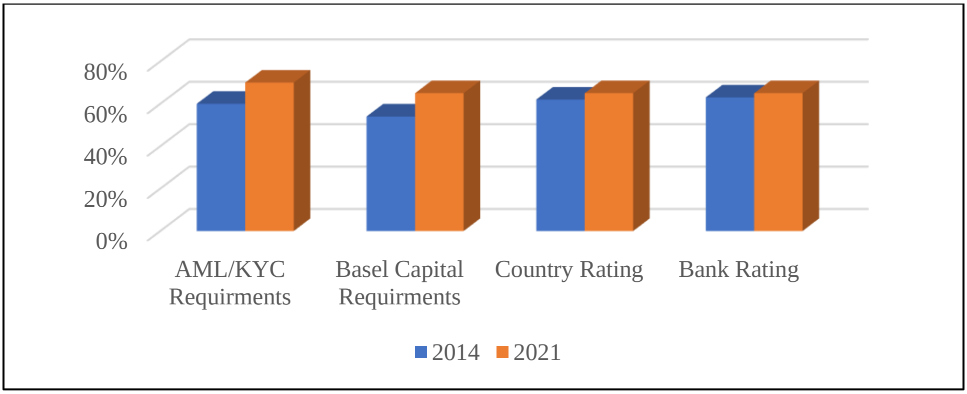
In order to share the risk and boost commercial banks' incentives to finance trade transactions of otherwise excluded client segments, like SMEs, the public sector, represented by export-import banks or national Export Credit Agencies (ECAs), also provides trade credit insurance and/or guarantee programs. 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.

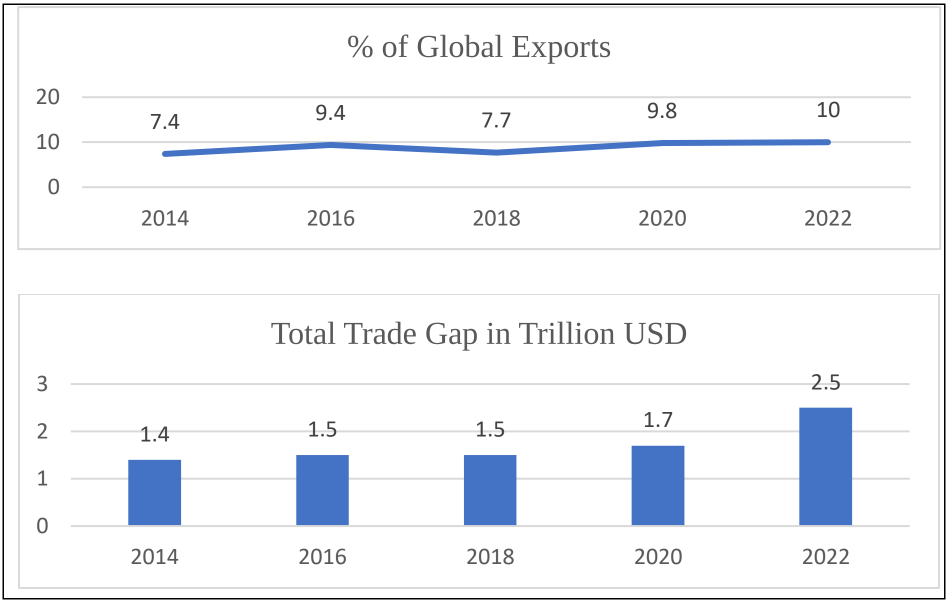
Balancing business objectives with compliance requirements in trade finance is a challenging but necessary task. Automation, digitalization, standardization, and collaboration with regulators can help streamline compliance processes, reduce operational costs, and enhance the efficiency of trade finance 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) survey[2], 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.

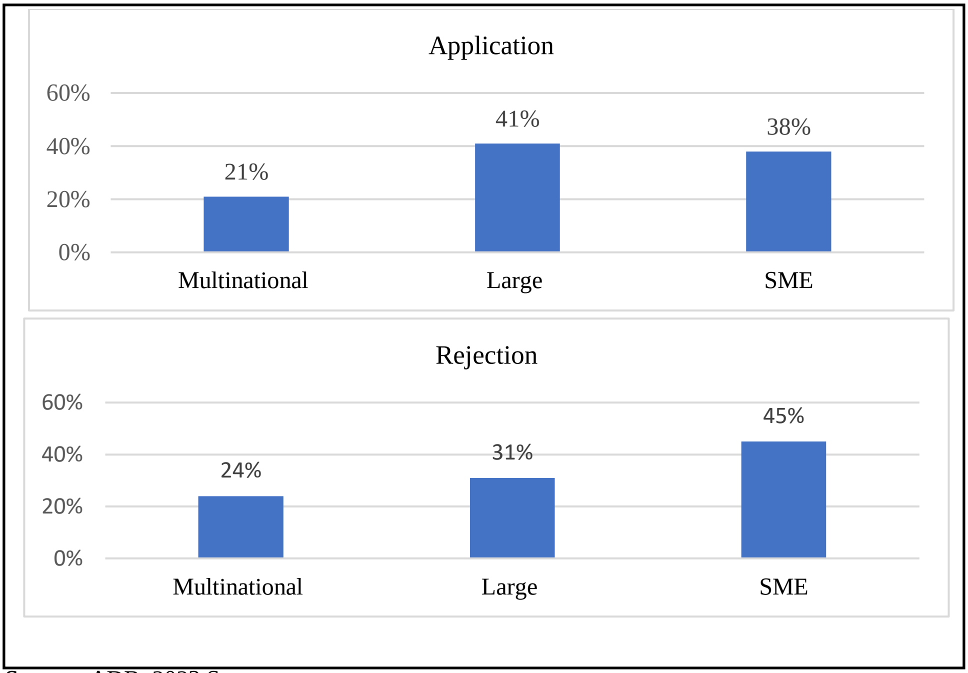
High trade finance gap is relevant both for developed and developing countries and across the region. SMEs are more self-rationed in the trade finance market than are large firms. Notable trade-finance gap is clearly visible in Asia-pacific region and other regions of the globe. The rejected applications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

[2]Findings 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 Tarde

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 transections 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).[3]

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

---

[3] 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 needs 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.

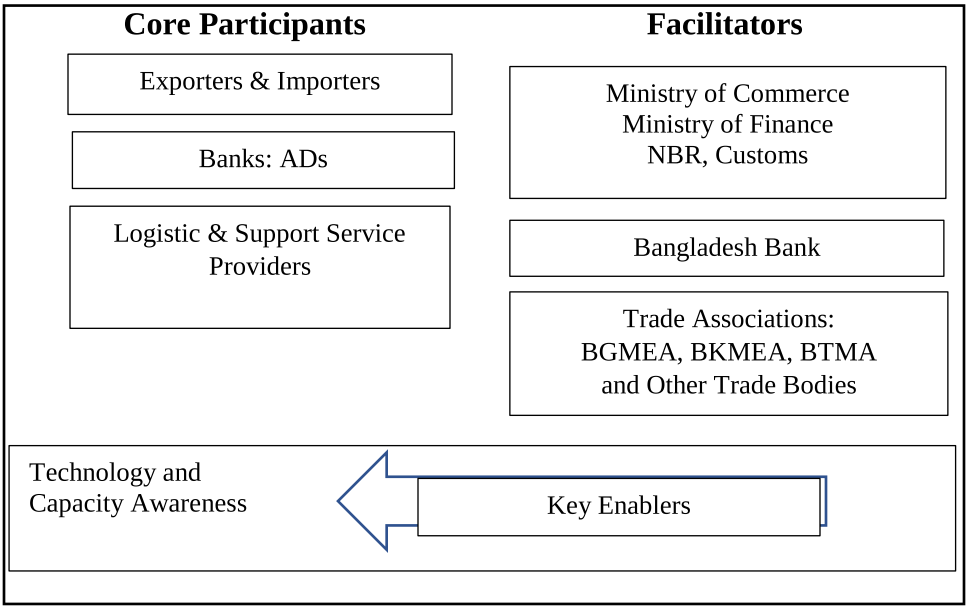
Facilitators, such as logistics providers, freight forwarders, and insurance companies, also require capacity development to ensure smooth trade operations. Their skill development events focus on customs regulations, international payment systems, and trade documentation. By enhancing the knowledge 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.

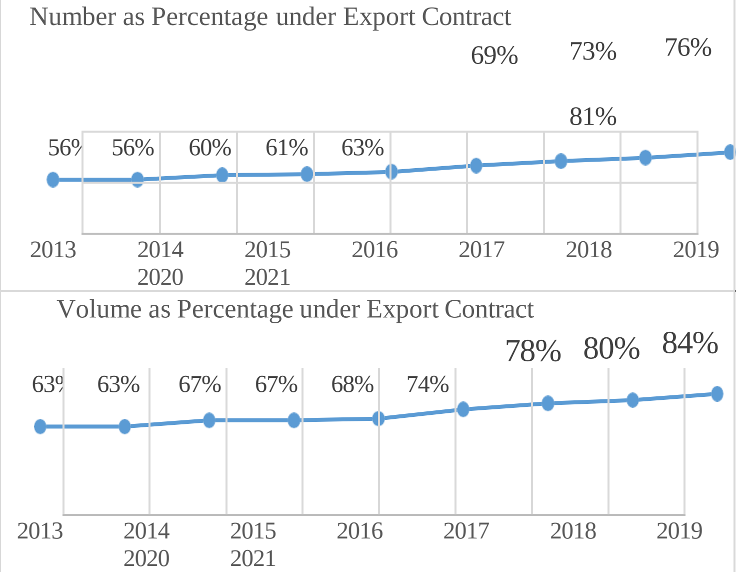
Table 3.2: Presence of Key Relevant Contract Clauses for Legal Enforceability in Bangladesh

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).

Figure 3.1: Proportion of Back-to-Back LC against Export Contracts during CY2013 to CY2021



Purchase/Sale Contract is the Guiding Document (alongside URC 522) and must be a binding and legally enforceable document for the protection of the exporter

Source: Habib et al. (2022)

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 kidswear 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 serval 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 bank[4]. 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 1969[5] 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.

[4] 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).

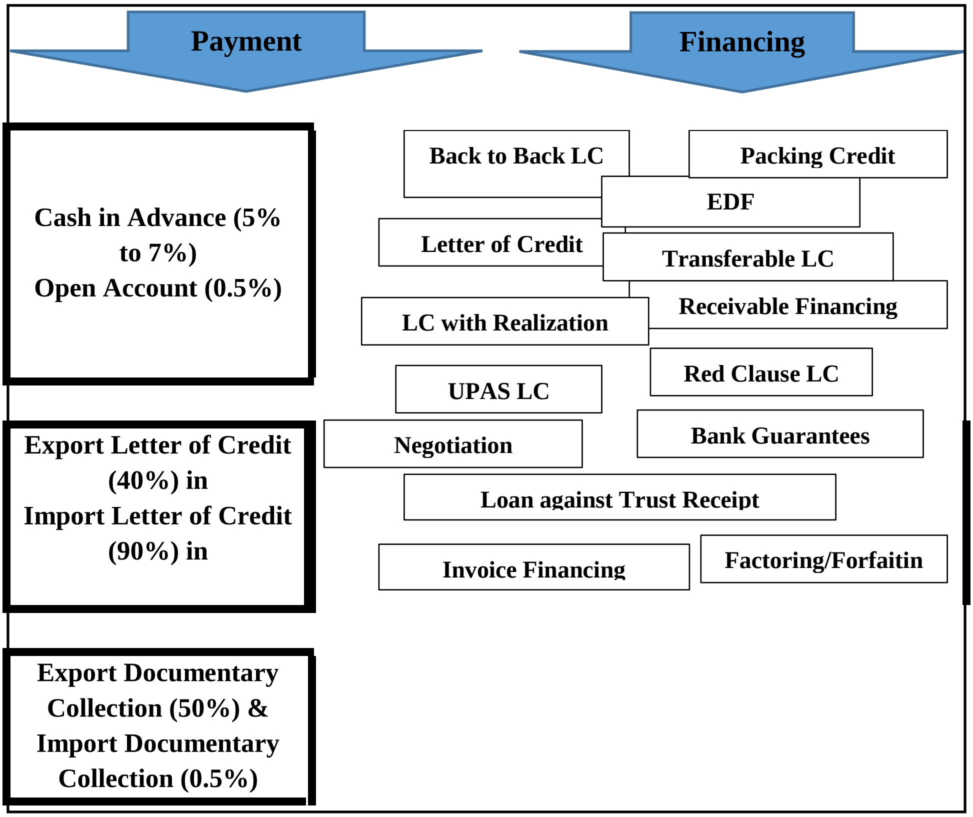
[5] Customs Act 1969 has consolidated the law relating to customs (the levy and collection of customs duties) and to provide for other allied matters. The Act has covered some issues connected with bill of entry and pre-shipment inspection that are related to trade services by banks.

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. Forfaiting is the name given to the acquisition of commitments for goods and services deliveries to be paid at a future time. Although forfaiting 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

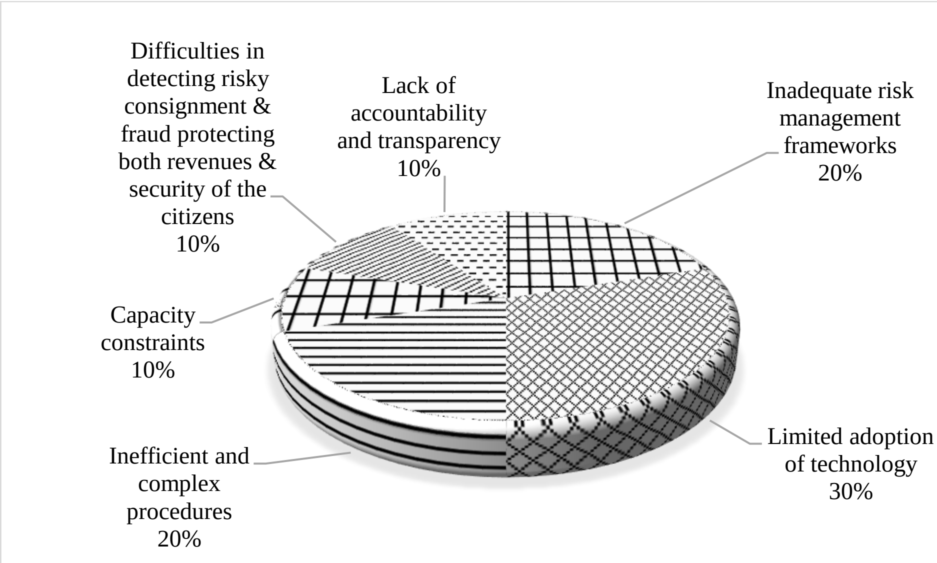
In trade eco-system, Government and regulators play a vital role in promoting and achieving trade for sustainable economic development. In the context of Bangladesh, Ministry of Commerce sets two key trade policies-Export Policy (2024-2027) and Import Policy Order (2021-2024). Bangladesh Bank governs 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

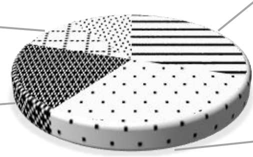


Source: Survey, 2024

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.

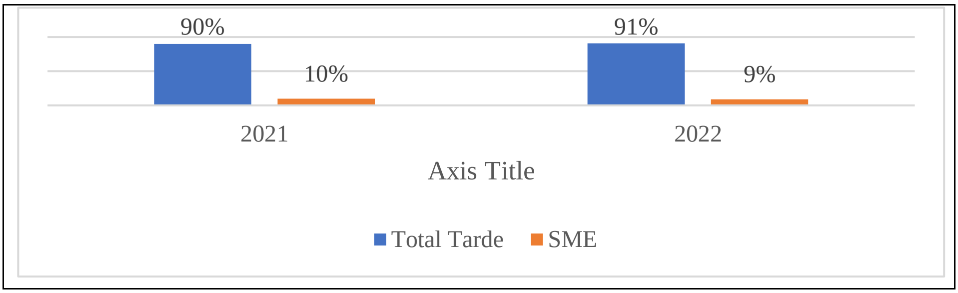
Box 3.5: Recent ease of reporting FX transactions

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

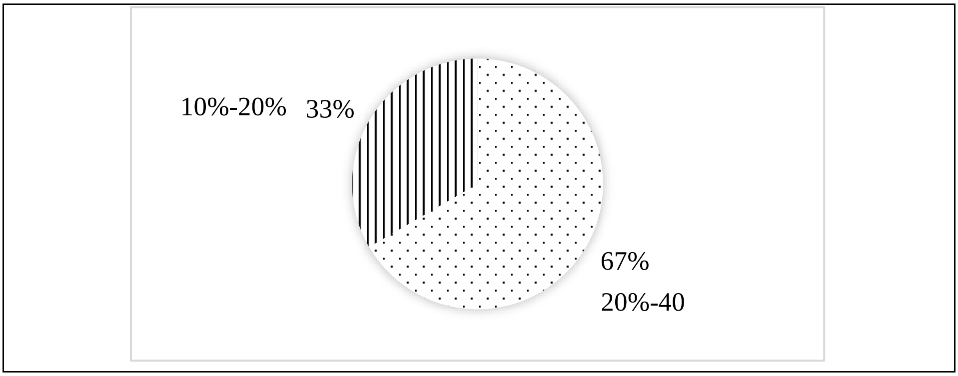


Source: Habib et al. (2023)

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.[6]

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

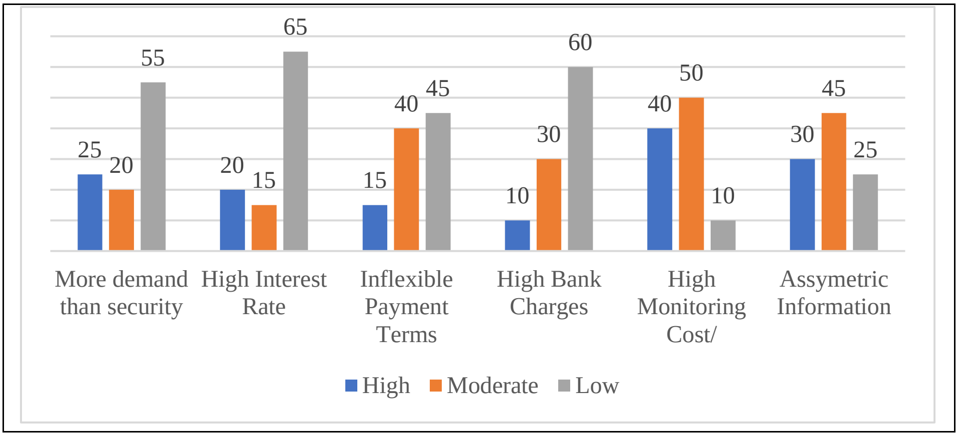


Source: Habib et al. (2023)

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.

[6] 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.[7] 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

[7] 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 misdeclaration. 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	-To handle international commercial dispute, government may establish a separate High Court Bench or a group of judges.
-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 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 relvent 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 Anit Money Laundering and Financial Crime (CEAF)’ and currently there are more than two hundred (200) graduates from CEAF.

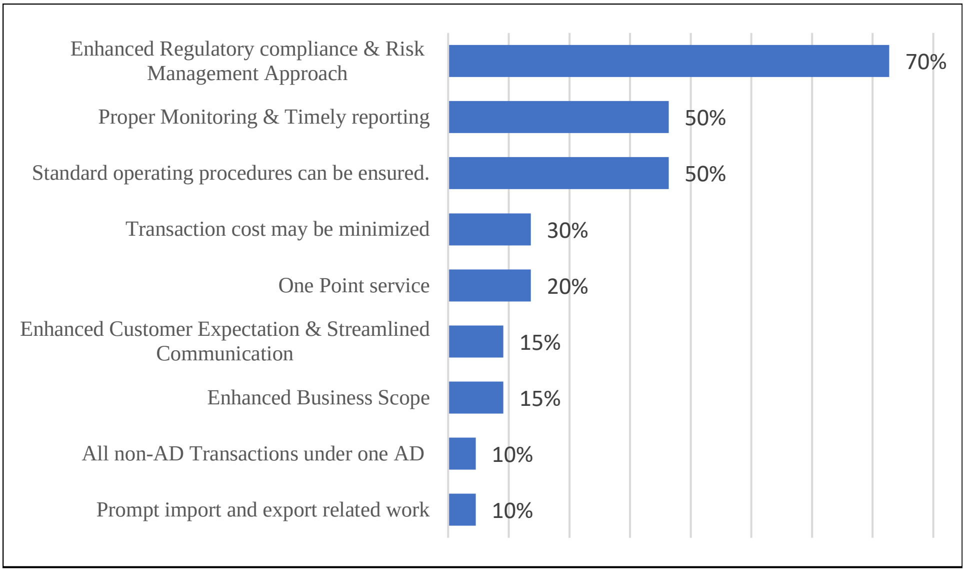
Institutions like BIBM, training institutes of different banks and financial institutions, ICC Bangladesh have been engaged in capacity development activities on trade financing of bank executives since long. Bangladesh Bank has separate training academy, and regulators have been taking part and attaining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

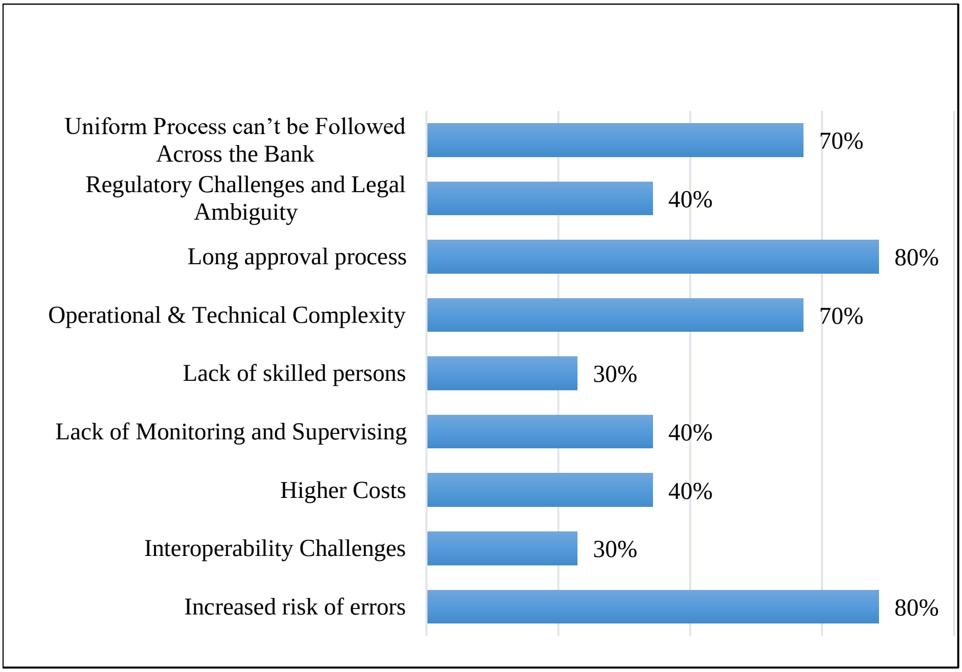
In trade ecosystem, banks are operating centralized and decentralized operations. Survey data indicate that around 50% banks have centralized banking operations. However, each mode of operations has some pros and cons. Figure-4.1 shows the advantage of centralized trade operations as opined by banks. 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

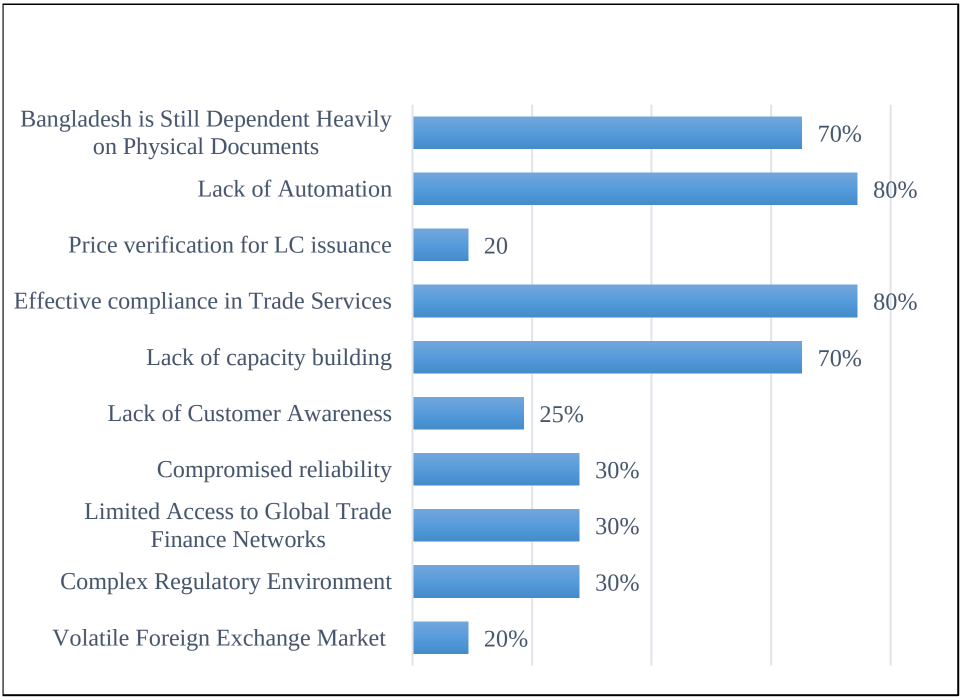
Figure 4.2: Major Challenges of Decentralized Trade System



Source: Survey, 2024

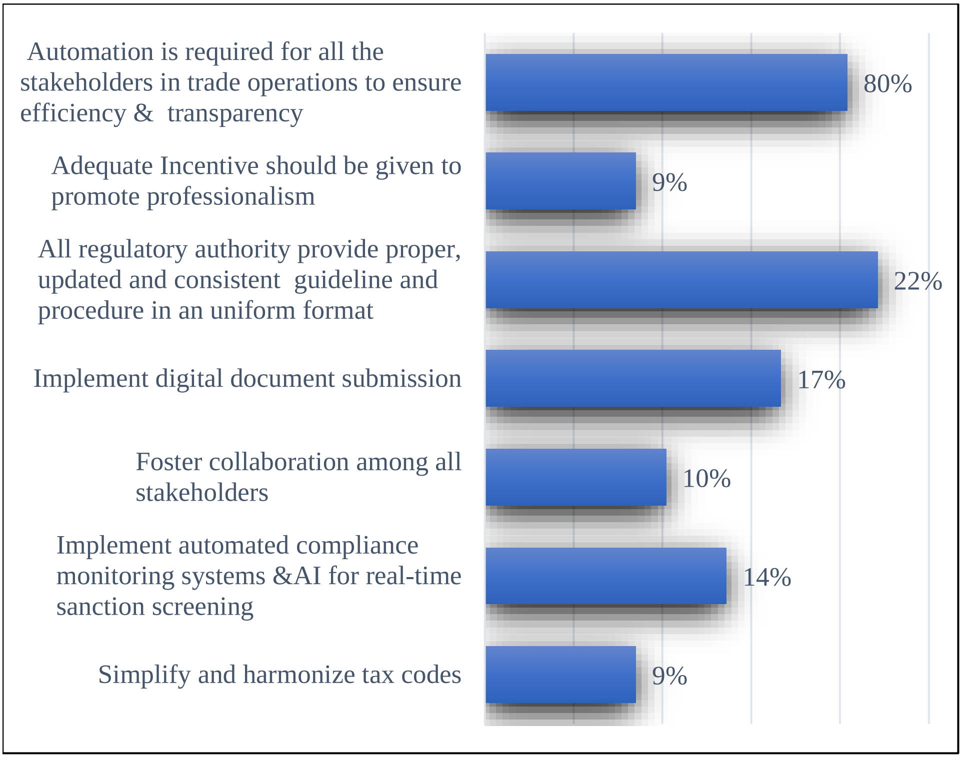
Figure-4.2 indicate that loan approval process is the main hindrance to decentralised trade operations.

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 Tarde. 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 'Tarde 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 or 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.

References

ADB & ESCAP (2019). Asia-Pacific trade facilitation report 2019: Bridging trade finance gaps through technology. Asian development bank and united nations economic and social commission for asia and the pacific.

Asian Development Bank (2020). Enhancing trade finance for SMEs in developing asia. Available at: https://www.adb.org/publications/enhancing-trade-finance-smes-developing-asia (Accessed: 11 December 2024).

Asian Development Bank (ADB) (2022). Towards inclusive trade finance: lessons from trade finance gap. Available at: https://www.adb.org/sites/default/files/publication/819856/inclusive-access-trade-finance.pdf (Accessed: 08 December 2024).

Auboin, M. (2015). Improving the availability of trade finance in developing countries: An assessment of remaining gaps. February 2015. WTO Manuscript, Switzerland.

Bank for International Settlements (2020). The role of technology in transforming trade finance.

Boston Consulting Group (BCG) (2018). Digital trade/plotting the path to transformation. In ICC Global Survey 2018.

FAO and United Nations (2020). Trade finance and digital technologies: facilitating access to international markets. FAO and United Nations.

Financial Action Task Force (2021). Trade-based money laundering.

ICC and Boston Consulting Group (2024). ICC principles for sustainable trade finance, October 2024. International Chamber of Commerce, Switzerland.

ICC United Kingdom (2021). G7: Creating a modern digital trade ecosystem cutting the cost and complexity of trade reforming laws and harmonising legal frameworks. ICC UK, ICC Germany, ICC France.

International Chamber of Commerce (ICC) (2021). Trade finance and digitalization: Transforming trade finance processes.

McKinsey & Company (2021). SMEs and trade finance: Unlocking the potential.

McKinsey and ICC (2021). Reconceiving the global trade finance ecosystem. Available at: iccwbo.org (Accessed: 11 December 2024).

Polski, M.M. and Ostrom, E. (2019). An institutional framework for policy analysis and design. Available at: https://ostromworkshop.indiana.edu/pdf/teaching/iad-for-policy-applications.pdf (Accessed: 11 December 2024).

PwC (2021). Trade finance: Bridging the gap between emerging markets and global trade.

United Nations (2023). Roadmap for building a trade single window. United Nations, Geneva.

United Nations (2024). Financing for sustainable development report 2024. Available at: https://desapublications.un.org/publications/financing-sustainable-development-report-2024 (Accessed: 11 December 2024).

United Nations Environment Programme (2020). The role of sustainable finance in global trade.

we.trade (2019). The platform we.trade. Available at: https://we-trade.com/ (Accessed: 11 December 2024).

World Bank (2019). Trade Finance Program: Bridging the Gap in Developing Countries. Available at: https://www.worldbank.org/en/ programs/trade-finance (Accessed: 11 December 2024).

World Economic Forum and Bain & Company (2018). Trade tech – A new age for trade and supply chain finance. Available at: http://www3.weforum.org/docs/WEF_White_Paper_Trade_Tech_.pdf (Accessed: 11 December 2024).

World Trade Organization (2020). Trade finance and the WTO: challenges and opportunities.

Yeo, A.D., Deng, A. and Nadiedjoa, T.Y. (2020). Trade facilitation effects on international trade: evidence from lower-middle and upper-middle-income countries, International Journal of Financial Research. Available at: http://ijfr.sciedupress.com/ (Accessed: 11 December 2024).

Zhang, L. (2021). The role of fintech in trade finance: opportunities for developing economies, Financial Times, 34(5), pp. 110-125. Available at: https://www.ft.com (Accessed: 11 December 2024).

Bangladesh Institute of Bank Management (BIBM)
Plot No.4, Main Road No. 1 (South), Section No. 2, Mirpur, Dhaka-1216
Tel: 48032091-4; 48032097-8, 48032104, E-mail: bibmresearch@bibm.org.bd; Web: www.bibm.org.bd

Price: BDT 300.00
USD 8.00